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**PREFILED TESTIMONY OF
CHRISTOPHER P.N. WOODCOCK**

4 Q: Please state your name and business address?

5 A: My name is Christopher P.N. Woodcock, and my business address is 18 Increase
6 Ward Drive, Northborough, Massachusetts 01532.

7
8 Q: By whom are you employed and in what capacity?

9 A: I am the President of Woodcock & Associates, Inc., a consulting firm specializing in
10 water and wastewater rate and financial studies.

11
12 **Prior Experience**

13 Q: Please describe your qualifications and experience.

14 A: I have undergraduate degrees in Economics and Civil Engineering from Tufts Uni-
15 versity in Medford, Massachusetts. After graduating in 1974, I was employed by
16 the environmental consulting firm of Camp, Dresser and McKee Inc. For approxi-
17 mately 18 months I worked in the firm's environmental engineering group, perform-
18 ing such tasks as designing water distribution and transmission pipes, sewer collec-
19 tion and interception systems, pumping facilities and portions of a wastewater
20 treatment facility. From approximately January 1976, I worked in the firm's man-
21 agement and financial consulting services group, gaining increasing responsibility.
22 At the time of my resignation, I was a corporate Vice President and the leader of
23 the group overseeing all rate and financial studies. In my career, I have worked on
24 more than 300 water and wastewater rate and financial studies, primarily in the
25 United States, but also for government agencies overseas. I have also worked on a
26 number of engineering and financial feasibility studies in support of revenue bond
27 issues, as well as several valuation studies, capital improvement financing analyses
28 and management audits of public works agencies. In addition to my professional

1 experience, I have held elected and appointed positions on municipal boards over-
2 seeing public works functions in my hometown.

3

4 Q: Have you previously testified before state regulatory commissions or courts on rate
5 related matters?

6 A: Yes, I have provided testimony on rates related matters before utility commissions
7 in Rhode Island, Maine, Connecticut, New York, New Hampshire, Texas, and Al-
8 berta, Canada. I have also been retained as an expert witness on utility rate re-
9 lated matters in proceedings in state courts in Massachusetts, Michigan, New Jer-
10 sey, Maryland, Pennsylvania, and Florida, as well as the Federal Court in Michigan.
11 I have been selected to several arbitration panels related to disputes over water
12 rates and charges, I have provided testimony on rate related matters to the Michi-
13 gan and Massachusetts legislatures, and I have provided testimony at administra-
14 tive hearings on a number of occasions.

15

16 Q: Do you belong to any professional organizations or committees?

17 A: Yes, I am a member of the Water Environment Federation, the Rhode Island Water
18 Works Association, the Massachusetts Water Works Association, the New England
19 Water Works Association, and the American Water Works Association. For the
20 Water Environment Federation, I am a member of the committee that is preparing
21 an update to the manual on Wastewater Rates and Financing. For the New Eng-
22 land Water Works Association, I am a member of the Conservation Committee and
23 the co-chairman of the Financial Management Committee. I am the Assistant
24 Treasurer and I also sit on the Board of Directors for the New England Water
25 Works Association, as well as several other administrative committees. I am past
26 chairman of the Financial Management Committee and the Rates and Charges
27 Committee of the American Water Works Association. In that capacity, I have
28 helped prepare manuals on Revenue Requirements, Water Rates, Alternative Rate

1 Structures, and Water Rates and Related Charges. I have been reappointed to
2 and am currently a member of the Rates & Charges Committee.

3
4 Q: Have you prepared any articles on rates related matters?

5 A: Yes, I have had a number of articles published and am frequently asked to speak at
6 conventions sponsored by national and local utility associations on matters related
7 to water and wastewater rates.

8
9 **Overview**

10 Q: Please describe your role in this proceeding.

11 A: The Portsmouth Water & Fire District (Portsmouth) retained me to review Newport
12 Water's rate filing in Docket 3578. I also worked with Portsmouth in Newport's last
13 rate filing. Working with Mr. McGlenn of Portsmouth, I provided information and
14 comments to Mr. Harold Smith before Newport filed of the present case.

15
16 Q: Can you provide a brief summary of your findings with respect to Newport's rate fil-
17 ing?

18 A: I found it very difficult to assess the data that Newport used to support its request
19 for rate increases. In the last docket, the Commission ordered Newport to under-
20 take studies and adopt procedures that will allow ratepayers, like Portsmouth, to
21 assess Newport's capital and operating expenses. Newport's failure to follow those
22 orders, some of which are more than ten years old, makes it nearly impossible to
23 determine what increases, if any, are justifiable. The information is simply not
24 there. Portsmouth is not opposed to paying its fair share for the efficient delivery of
25 clean water to its residents; it is, however, opposed to rate increases that are based
26 upon data founded on guesswork and unsound methodology. In short, Newport's
27 rate filing is based on information that is unreliable. Newport's consistent failure to
28 follow the Commission's orders has again led to proposed rate increases that are
29 neither fair nor predictable.

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Portsmouth and the Division invested substantial amounts in the last docket to help arrive at a fair, albeit imperfect, rate schedule in the absence of critical information. Newport has again failed to (a) conduct the studies that the Commission ordered it to conduct, (b) restrict the funds the Commission ordered restricted, (c) spend the restricted funds on the capital program they proposed, (d) present a capital program that would address the concerns Portsmouth raised about water quality, and (e) present a cost allocation study that accounted numerous issues presented in the prior docket. It is not fair to expect the Division and Portsmouth again to try to fill in the voids created by Newport's non-compliance with the Commission's Orders.

Q: Can you please describe the key shortcomings in Newport's current rate filing?

A: Yes. The biggest problems with this rate filing are:

- Newport failed to conduct the demand study that the Commission acknowledged in its Report and Order as an integral and missing part in the prior docket. As the Commission is well aware it has been looking for an acceptable cost of service study for well over a decade. Newport's failure to do this in Docket No. 2029 (June 1992) led to a generic docket (# 2049) on cost of service that led to Commission Order #14216 in June 1993. The decision in Docket No. 2029 (Order 13947, appended hereto) adds some perspective on this issue. In short, for more than a decade, Newport has filed rate cases that are not grounded in a reliable cost of service study. This rate case is no different, and the Commission, the Division, and Portsmouth are left to assess Newport's filing in a factual vacuum.
- The cost allocation study presented in this filing uses a methodology that the Commission specifically rejected in Docket No. 2985. In that Docket, Portsmouth and the Division developed a makeshift set of

1 guidelines to assess Newport's case. The Commission rejected those
2 guidelines then, and it should do so now. Newport simply has not
3 complied with the Commission's orders to produce an acceptable cost
4 of service study. Newport's failure is tied directly to its conscious deci-
5 sions not to collect the data and information that is required to develop
6 a proper cost allocation study. In the absence of the required data,
7 Newport falls back on the last rate hearing and presents what is es-
8 sentially a copy of the makeshift attempts that were made by Ports-
9 mouth and the Division in the last Docket to create a fair rate schedule
10 in the absence of critical information. It is interesting to note that the
11 Commission's Report and Order in Docket No. 2985 stated "Although
12 Newport Water argues for a Portsmouth rate based on the results of
13 the Division's COS study, we do not feel the record supports that pro-
14 posal. The Study was developed by Mr. Mierzwa, who testified that,
15 "The Division's cost of service study presents an initial indication of the
16 costs associated with various services provided by Newport Water."
17 The Division represents that the results of its study essentially provide
18 no more than a reasonable indication of the costs to serve the rate
19 classes. Therefore, we will not adopt the Division's exact cost alloca-
20 tion to determine the Portsmouth rate." (pgs. 32-33) Despite this ex-
21 plicit language and "specific directions" provided by the Commission,
22 Newport has done little more than duplicate the Division's study from
23 the last docket.

- 24 • The Commission's Rules of Practice and Procedure state that "(w)here
25 a rate year is filed for a period that is different than the test year, sup-
26 porting schedules or work papers shall be filed to disclose the manner
27 in which the rate year amounts were calculated. The adjustments to
28 the test year shall be fully explained in written testimony, and the
29 source of the data in support of the adjustments shall be presented, or

1 disclosed, as appropriate.” In this case the rate year is totally inde-
2 pendent of the test year; the rate year is simply the current budget and
3 the adjustments are simply a mathematical subtraction of the test year.
4 As a result, the test year in this filing is totally irrelevant. Because
5 Newport failed to follow the Commission’s rules regarding test and rate
6 years, the Division and Portsmouth have had to spend considerable
7 time and effort in discovery to gather information that Newport, as the
8 applicant, was obligated to file in its initial case.

- 9 • There appear to be a number of one-time expenses that have been
10 presented as ongoing or recurring expenses. These should be classi-
11 fied as capital expenses or amortized over several years.
- 12 • Newport apparently failed to fund restricted accounts as ordered by
13 the Commission in Docket 2985. Newport then “borrowed” funds from
14 the City catch up, and is now looking for ratepayers to pay back the
15 City for its own failures. Newport was provided revenues that were
16 sufficient to fund these accounts. Where has that money gone? To
17 date, I have seen little that would justify the funding of this request.

18 **Revenue Requirements**

19 Q: Have you reviewed the increase in revenues proposed by Newport Water?

20 A: Yes. As I indicated in my introductory remarks, I am concerned about the “adjust-
21 ments” to the test year expenses. Analyzing all these is rather time consuming, de-
22 spite the numerous data requests on this matter. In an attempt to keep costs down
23 for Portsmouth, I have looked at some of the larger and more obvious items. I have
24 not looked into many other items in detail. Rather, Portsmouth will rely on the Divi-
25 sion’s analysis of claimed expenses, and I expect to have further comments after
26 seeing these. In addition, at the time this was prepared we still had some data re-
27 sponses outstanding, so I would like to reserve final comments until such time as I
28 can review the Division’s analysis, all data responses, testimony from the Navy, and
29 Newport’s rebuttal testimony.

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Q: Are there some issues you would like to address at this time?

A: Yes. There are some claimed expenses that I do not agree with. These include:

- The reimbursement to the City due to Newport's failure to fund the restricted accounts and file for new rates in a timely manner.
- One time or non-recurring costs such as the rate case expenses, lagoon cleaning, tank maintenance, and the vulnerability assessment expenses.
- Debt service where the claimed amount is overstated due to the use of a prior year in deriving an average
- Some \$85,000 of customer service revenues that would reduce the needed increase.

Q: Can you address the repayment to the City?

A: Newport Water claims that it owes the City General Fund some \$2.5 million. It proposes to pay \$500,000 per year in this filing, with \$250,000 per year coming from rate revenues and \$250,000 per year transferred from its restricted debt service account. This plan would continue for five years.

In Docket 2985, the Commission ordered Newport to restrict certain funds and provided the funds for the restricted accounts. Newport failed to fund those restricted accounts. They should not be rewarded by getting additional funding to compensate them for their neglect. They were provided sufficient funds in Docket 2985. Despite repeated questions from Portsmouth and the Division, they have yet to disclose how the \$2.5 million debt was derived and what happened to the revenues that were supposed to be restricted. Despite all the protestations of new staff that did not know, the responsibility remains that of the City.

1 Through data requests we have been trying to determine how this occurred and
2 where the claimed amounts came from. Based on the responses to Division 3-16
3 and 3-17, the City has no idea what it spent. It also appears that they funded the
4 accounts for a full year with no accounting of money that should have been spent
5 from those accounts. Based on the response to PWFD 1-15, Newport has not
6 spent anything on debt, chemicals, or capital. From the information provided, it ap-
7 pears that actual revenues in FY 2002 and FY 2003 equaled or may even have ex-
8 ceeded those provided in Docket 2985. Despite repeated requests, we cannot de-
9 termine what happened to the funds that the Commission provided in docket 2985.
10 In short, the Commission should not reward Newport's failure to fund restricted ac-
11 counts or to monitor its expenditures by allowing Newport to use this rate case to
12 remedy deliberate violations of the Commission's orders.

13
14 I am also concerned by Newport's request to pay the City from funds in its restricted
15 accounts. We believe that there are significant funds that are needed for capital
16 work. We don't believe that diverting \$250,000 per year from the debt service ac-
17 count makes much sense for the water users.

18
19 This problem was caused by the City in its failure to comply with the Commission's
20 orders and, perhaps to some extent, by its own failure to file for new rates in a
21 timely manner. If the funding that Newport has requested is provided, it seems to
22 send a message to Newport and the other utilities in Rhode Island that compliance
23 with Commission orders is optional, and if you fail, there will be no consequences;
24 simply borrow from the City what the Commission doesn't authorize and get it back
25 later.

26
27 Q: City Manger Smith suggests that it is unfair to have the City absorb the loss, that all
28 customers should share some responsibility. How do you feel about that position?

1 A: The City Manager obviously wants to spread the cost of Newport's mistakes to
2 keep the cost to his constituents down. Nevertheless, in this case the fault lies to-
3 tally with the City of Newport. Portsmouth, Middletown, and the Navy had no way
4 of knowing that Newport was not complying with the Commission's orders.

5

6 If the Commission believes that some refunding to the City is appropriate, I urge the
7 Commission to fund any repayments exclusively from retail rates charged to New-
8 port customers only. This could be in the form of an added surcharge to the base
9 or service charge. With some 50,000 retail accounts, an added charge of less than
10 \$1.00 per month (\$4 per tertiary bill) would provide \$500,000 per year; if a lesser
11 repayment is deemed appropriate, the surcharge would be even less. This is not
12 an extraordinary amount, nor should it place any true hardship on Newport's resi-
13 dents and businesses. By placing such a surcharge for a distinct time frame, the
14 Commission can help ensure that the revenues go to the City and can be removed
15 once the repayment is complete. In only the customers in Newport must pay this,
16 perhaps the customers will demand that those in responsible positions in the City
17 pay some attention to the water utility and the orders of the Public Utilities Commis-
18 sion. I would also suggest that the Commission require at least quarterly reports on
19 any repayment activity, and make any surcharges conditional upon timely filing of
20 these reports. Should Newport fail to file a report on time, the Commission could
21 suspend the charges.

22

23 Q: Does payment of the \$2.5 million to the City constitute retroactive ratemaking?

24 A: I believe that it does. In this case, Newport was well aware of its deficit long before
25 it filed this case November 28, 2003. The testimony seems to suggest that the City
26 was aware of this in late 2002 - a full year earlier. There is no evidence in this pro-
27 ceeding that the shortfall was due to an unexpected shortfall in revenue; rather, the
28 shortfall appears to be due to the City's own failure to fund the restricted accounts
29 and its own failure to file for a rate increase in a timely manner.

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Q: What is your recommendation regarding the repayment to the City.

A: Considering the lack of backup or substantiation, failure to follow Commission orders, the element of retroactive ratemaking, and the City's failure to file in a timely manner, I recommend that this be disallowed all together. It is my understanding that the proposed \$500,000 per year repayment to the City is included as an increase of \$250,000 per year from revenues (for debt) plus \$250,000 per year to be deducted from the restricted debt account. I recommend that the Commission (a) disallow the proposed transfer from the existing restricted debt account and (b) reduce the annual revenue requirement by **\$250,000**.

Q: You also indicated a concern with the City's request to fund one-time expenses. Will you address that?

A: I believe that there are a number of items that Newport has included as annual operating costs that are really one-time or infrequent expenses. As such, Newport should not be provided annual funding for these items.

The first item I'd like to address is the rate case expenses. As shown on RFC 1-A, Newport is seeking \$200,000 in consultant fees that are related to this rate case. While RFC 1-A shows a request for \$200,000 in consultant fees, it is unclear from the data responses what is being claimed in this docket. In response to PWFD 1-41, Newport says that \$200,000 has been budgeted for this filing. However, item 2.9 (m) (the subject of PWFD's data request) indicates expenses of more than \$100,000 in FY 2001 and FY 2002. Item 2.9(m) in the Commission's Rules of Practice and Procedure deal with expenses "related to the instant rate filing". Newport's title to the information they filed to meet 2.9(m) says "Newport Water Department Current rate filing Expenses" (emphasis added) and the total for all three years says, "Total for this rate filing". Based on the response to PWFD 1-41, it is unclear what Newport has spent and where the funds have come from.

1

2 In Docket 2985 the Commission did not authorize the full level of rate case expense
3 incurred by Newport for numerous reasons, some of which appear to be continued
4 in this case. It is unclear if Newport's expenses in FY 2001 and FY 2002 were for
5 the prior docket (where expenses were disallowed) or for this docket. It is also un-
6 clear if the expenses that were incurred in FY 2001 and FY 2002 contributed to the
7 deficit that caused borrowings from the City.

8

9 While Newport may very well have spent a considerable amount on this docket, I
10 don't believe that the filing meets the requirements imposed by the Commission,
11 and I certainly do not believe that Newport should be provided \$200,000 per year
12 for rate filings. Newport's last rate filing was on May 28, 1999 – more than four
13 years prior to this filing. Prior to that, Newport filed for rates in June 1992. In more
14 than eleven years, Newport has only filed two rate cases with the PUC, despite the
15 fact that in both Docket 2029 (1992 filing) and Docket 2985 the Commission or-
16 dered Newport to file cases at much sooner intervals. In this case, Newport has
17 presented expenses that go out to June 2008. It would seem clear that Newport (a)
18 does not have a history of frequent filings (even when so ordered) and (b) filed this
19 case to reflect expenses through fiscal year 2008. To remedy Newport's failure to
20 file its rate cases in a timely manner, I believe that the Commission should establish
21 a restricted rate case account, similar to what it has done with Woonsocket. Fur-
22 ther, I recommend that the rate case costs be spread over at least four years, given
23 Newport's failure to comply with past orders and its history of filing for rates at ap-
24 proximately five year intervals. Accordingly, I recommend that the Commission re-
25 duce the funding of the rate case costs (Consultant Fees in the Administrative
26 Category item 220) by **\$150,000**, allowing an annual expense of \$50,000 (to be re-
27 stricted for rate cases).

28

29 Q: You mentioned other one-time items. Can you discuss these?

1 A: Newport has included an annual expense of \$50,000 for depth surveys of its reser-
2 voirs (Source of Supply Island – Consultant Fees item 220). As they have said in
3 response to Div 1-15, a depth survey “has not been conducted in excess of 20
4 years.” Clearly, this is not an annual expense, and should not be funded as such
5 with other recurring operating costs. I have no reason to doubt the need for this
6 survey. My concern is not the need for the survey, but the method of funding. I
7 recommend that it be funded through the restricted capital account as a one-time
8 capital cost and that the operating costs be reduced by **\$50,000**.

9

10 Newport has also requested \$105,000 for Regulatory Expenses in the Administra-
11 tion Division (item 282). Based on Ms. Forgue’s testimony, this item includes
12 \$85,000 for a Vulnerability Assessment and \$20,000 for Consumer Confidence re-
13 ports “and any required reporting.” Referring to the response to Division 1-17, the
14 \$85,000 for the Vulnerability Assessment is “a one-time effort”; accordingly I believe
15 it is a capital expense that should not be included as part of the annual operating
16 costs. By comparison, Newport has included the update to its IFR plan in the capi-
17 tal funding and this update or study is required every five years – not just one time.
18 This recommended adjustment reduces the claimed increase by **\$85,000**. I under-
19 stand that the City Council awarded this contract to Prism Environmental on Febru-
20 ary 25, 2004 for \$34,000. Accordingly, I have reflected that reduced amount on
21 PWFD Sch. 1.

22

23 Based on Newport’s response to PWFD 1-6, the \$20,000 for the Consumer Confi-
24 dence and other required reporting includes staff time for preparation and layout.
25 Because all salaries and wages are already included elsewhere, labor costs should
26 not be included in this line item as well. This would be double counting. The re-
27 sponse to PWFD 1-6 indicates that postage, copying, and mailing for the past two
28 years were \$5,559 and \$5,370. Allowing for increases in these costs, a reasonable

1 amount for the rate year should not exceed \$7,000. Accordingly, I believe the
2 \$20,000 should be reduced by some **\$13,000**.

3
4 Newport is seeking \$60,000 for a consultant to assist with repairs to its Reservoir
5 Road tank (Div 1-27). The advertising for the consultant is not scheduled until April
6 2004, so it is likely that no firm will even be selected in the rate year, and even less
7 likely that any payments will be due until well into the following year. In addition,
8 this is another item that is really a capital repair and should be included in New-
9 port's capital program. It is not an annual expense and should not be funded as
10 such. I recommend that the expense of **\$60,000** be removed from operating ex-
11 penses and added to the capital program, probably in FY 2005.

12
13 Q: Newport is seeking \$104,000 for new wastewater charges at the Lawton Valley
14 Treatment Plant. Will you comment on these?

15 A: Based on the response to Division 3-12, Newport does not anticipate completion of
16 the work to enable this discharge until "the end of 2005". This is at least eighteen
17 months beyond the rate year in this docket. The response indicates that numerous
18 permits and approvals are still required that might delay completion even longer.
19 While Newport should receive sufficient revenues to pay these charges, I do not be-
20 lieve Newport should be provided them at this time. By disallowing this expense,
21 the Commission can help ensure that Newport returns in a reasonable timeframe
22 with the analyses that were ordered in the prior docket and have some certainty of
23 when this cost may be incurred. I recommend that wastewater charges at the
24 Lawton Valley Treatment Plant (item 265) be reduced by **\$104,000**.

25
26 Q: Have you reviewed the claim for debt service in this case?

27 A: Yes I have. The claim for debt service is \$1,646,853 and reduced by \$35,000 as
28 an offset. The debt service claim is made up of the \$250,000 repayment to the City
29 (discussed earlier) plus \$1,396,853. The \$1,396,853 is based on the average an-

1 nual debt service from FY 2003 to FY 2008 (see RFC -11). The FY 2003 payment
2 was made long ago. Based on the response to PWFD 1-23, the FY 2003 amount
3 should not have been included in the calculation. Removing the FY 2003 amount
4 reduces the annual average by **\$90,038**, which should be removed from the reve-
5 nue requirement. As shown on the bond repayment schedule of RFC-11, the an-
6 nual debt service drops from some \$1.724 million in FY 2004 to \$1.115 million in
7 FY 2008. Providing the average annual amount (\$1,306,815) would not be suffi-
8 cient to make the rate year payment, however it is more than enough for all the fol-
9 lowing years. However, Newport can still make the FY 2004 payment using its debt
10 service restricted fund which had a balance of nearly \$2 million at the beginning of
11 the rate year. Providing the \$1.307 million I have suggested will be sufficient to pay
12 all the existing debt subsequent to FY 2005.

13
14 Q: Has Newport claimed other expenses that concern you?

15 A: I have briefly examined a number of other items, including chemical costs, and the
16 increased charges from the City for MIS and legal services. Because the items I
17 have quantified above exceed the requested increase in revenues of \$515,143, I
18 have not spent time looking into these other items in detail. As I indicated earlier, I
19 expect to examine the Division's findings and recommendations and can provide
20 more thought in my surrebuttal testimony.

21
22 Q: Have you reviewed the miscellaneous revenues that Newport has presented in this
23 case as an offset to the rate revenue requirements?

24 A: Yes. From the response to Div 2-1 it is apparent that Newport did not included
25 some **\$85,000** of customer service revenues that they have indicated should be re-
26 flected. Including these has the effect of reducing the revenue requirements by that
27 amount. Based on Newport's response to PWFD 1-20, I have some concern that
28 all City accounts may not be fully accounted for in the revenue estimates. How-

1 ever, at this point in the proceedings with the responses I have received to date, I
2 cannot provide a recommendation to the Commission on this matter.

3
4 Q: Have you prepared a summary of your revenue requirement recommendations?

5 A: Yes. PWFD Sch. 1 summarizes the adjustments that I have discussed. I again
6 caution that I have not looked at a number of items in detail and may have changes
7 to this based on a review of the Division's testimony and Newport's responses. In
8 short, this schedule and the testimony above suggest a reduction in rates of more
9 than \$370,000 rather than an increase of \$515,143. This schedule also presents
10 \$144,000 that I have suggested be transferred from an annual operating expense
11 to a capital outlay – items that should be funded under Newport's capital improve-
12 ment program.

13
14 Q: Are you suggesting that the Commission impose a rate decrease?

15 A: No. As I said at the outset of my testimony, Portsmouth wants to receive quality
16 drinking water at a fair and predictable price. While Newport may not have pre-
17 sented a case for an increase in revenues, I believe Newport does have capital
18 needs. I don't believe a rate decrease is in the best interests of any of Newport's
19 customers. Instead, I recommend that the Commission provide no rate increase at
20 this time, reduce the allowed operating costs as it deems appropriate, and require
21 Newport to deposit any excess in its restricted capital accounts for future use.

22 **Cost Allocation Issues**

23 Q: You have indicated that Portsmouth is concerned about finally establishing a fair
24 cost allocation basis. Do you believe that the cost allocation study presented in this
25 case presents a fair or reasonable basis for the development of rates and charges?

26 A: Unfortunately, I do not. Portsmouth incurred considerable expense in Docket 2985
27 to try to establish a reasonable outline for cost allocations and rate design. In that
28 docket not only Portsmouth, but also the Division and the Commission, noted a
29 number of deficiencies that had to be addressed and corrected. The Commission

1 provided specific instructions in its order; however, I do not believe we are much
2 closer than we were more than a decade ago. The deficiencies in Newport's filing
3 are due to a lack of reliable data. Had Newport followed the Commission's orders
4 in Dockets 2029 and 2985, we would all have that reliable data, which we could use
5 to fix reasonable, predictable rates.

6

7 Q: Can you summarize the issues that you believe still remain?

8 A: While I believe there are a number of issues associated with Newport's retail rates,
9 I will only address them briefly as they have little or no impact on Portsmouth. In-
10 stead, I will concentrate on the issues that impact the wholesale rate that Newport
11 charges Portsmouth.

- 12 • The labor and related costs associated with pumping are not reflected
13 or accounted for.
- 14 • The IFR costs must first be split between costs applicable to retail cus-
15 tomers and those applicable to all. These must then be recovered
16 only on the basis of water use.
- 17 • The derivation of peak factors uses averages of averages, not actual
18 peaks and is inconsistent with accepted methodology.
- 19 • The basis for deriving peak factors uses faulty or inaccurate informa-
20 tion.
- 21 • The treatment of unmetered or unaccounted-for water is faulty.
- 22 • The units of service including fire services and retail water use by class
23 are suspect and inadequate to provide any meaningful analysis.
- 24 • Rather than develop a model that conformed to the Commission's
25 guidelines, Newport made slight modifications to a model that was un-
26 acceptable in the prior docket.

27

28 Q: Can you address the allocation of treatment labor that you raised?

1 A: In the study we prepared in the last docket, pumping costs were identified as best
2 we could and assigned to retail customers only. As Newport has acknowledged,
3 Portsmouth does not use the pumping facilities and should not be assigned any of
4 the costs. In the current filing, Newport has allocated the electricity and repair costs
5 associated with pumping in such a manner that Portsmouth is not assigned any of
6 these costs. However, other costs associated with pumping are not identified and
7 are assigned incorrectly to Portsmouth. Labor is the best example. Clearly, a por-
8 tion of the labor costs is associated with pumping. At both plants some 80% of the
9 repair and maintenance costs are listed with pumping rather than treatment; office
10 furniture and trucks are assigned to pumping under Newport's proposed allocation
11 symbol I, yet we are led to believe that there are no employees to make those re-
12 pairs, drive the trucks, or use the furniture! This makes little intuitive sense. By
13 identifying (even by estimate) the labor associated with pumping and assigning it
14 only to the retail customers (where it belongs), Portsmouth would not be charged
15 for a service it does not use or need. Further, the administrative costs account for
16 20% of the total operating costs in this filing. These are assigned based on other
17 expenses that were directly allocated. Properly allocating the pumping labor not
18 only reduces the direct labor costs, but also the share of overhead that is assigned
19 to Portsmouth.

20
21 Mr. (Harold) Smith may have attempted to account for this as he has included a
22 pumping category in his cost allocation schedules, however he has not used these
23 as he apparently may have intended.

24
25 Q: Please describe your concerns with the allocation of IFR costs.

26 A: In the past, I have suggested to the Commission that IFR Costs do indeed relate to
27 metering and fire protection and ideally should be assigned to these functions or
28 charges. However, I also recognize that this horse was beaten to death many
29 dockets ago, and that the Commission is bound by the statutory language in the

1 Comprehensive Clean Water Infrastructure Act of 1993, which requires users to
2 pay “at a rate directly proportionate to the users’ water consumption.” Accordingly,
3 the Commission has long held that IFR costs cannot be recovered through meter
4 charges or fire protection charges; they can only be recovered through metered
5 rates. The IFR costs as presented in RFC-1 and the supporting schedules clearly
6 show that the IFR costs are assigned to meters and services, customer costs and
7 fire protection. Costs so allocated are proposed (by Newport) to be recovered
8 through the base or service charges and the public and private fire service charges.
9 These charges are not “directly proportionate to the users’ water consumption,” as
10 required by the Comprehensive Clean Water Infrastructure Act of 1993. Put differ-
11 ently, the IFR costs presented in this study are allocated and proposed to be recov-
12 ered in contravention to the Commission’s policies and statutory restrictions. I am
13 also concerned that the IFR costs are allocated based on a program that seems to
14 be in flux. Typically, the Commission has accepted allocations of IFR costs based
15 on the value of assets. This method recognizes that capital costs change over time
16 and helps minimize swings in allocations and rates from year to year. While this
17 change may add some costs to Portsmouth, it is proper and will help ensure some
18 continuity in the rates.

19
20 Q: Please discuss your concerns with the derivation and use of the peak factors.

21 A: As the Commission is aware, this was an issue in the last docket, and the Commis-
22 sion specifically ordered Newport to undertake and report on studies that would ad-
23 dress this problem. I don’t believe Newport has done what it was ordered to do
24 (see response to PWFD 1-2). Newport also failed to provide the semi-annual re-
25 ports on their progress even after they became aware of the requirement in May
26 2001 – not even an explanation on why they weren’t doing this. In October 2002 –
27 fully a year before this filing – the Commission sent a letter to Newport outlining
28 these requirements and asking about the progress (letter attached). Aside from re-

1 questioning this data from Portsmouth, it appears that Newport has done little to none
2 of what it was ordered to do.

3
4 Mr. (Harold) Smith has indeed tried to accomplish what the Commission asked for,
5 but with the exception of the data provided by Portsmouth, he seems to lack the
6 background information that the Commission had ordered Newport to gather. As a
7 result, he has had to resort to general information from the AWWA Rates Manual to
8 try to create what Newport failed to provide. Unfortunately, the AWWA Rates Man-
9 ual is quite clear that the information presented in the examples are *illustrative only*;
10 they should not just be used as a substitute for the information Newport should
11 have provided.

12
13 Q: How does this impact Portsmouth's rates?

14 A: Under the cost allocation method presented by Mr. Smith, it has no immediate im-
15 pact on Portsmouth (something that is rather ironic, given that the only data New-
16 port gathered is the peak demands by Portsmouth). The impacts are only relevant
17 on the retail and Navy rates. However, Portsmouth does want to go on record that
18 the peak demands that are assigned to various customers and customer classes
19 are incorrect and result in allocations and rates that are incorrect.

20
21 Q: Can you provide some examples?

22 A: Yes.

23 • In the case of Portsmouth, the maximum day demand is derived by
24 finding the maximum "monthly" use each year and dividing that by 30
25 days. Unfortunately, the interval between billings and readings were
26 not 30 days.

27 • In FY 2001, the maximum month was 55,918 thousand gallons
28 but it was 38 days between readings, giving a maximum daily

1 use of 1,472 tgd (thousand gallons per day) – not the 1,864 tgd
2 used by Newport.

3 • In FY 2002, the maximum month was 49,329 thousand gallons
4 but it was 37 days between readings, giving a maximum daily
5 use of 1,333 tgd (thousand gallons per day) – not the 1,644 tgd
6 used by Newport.

7 • In FY 2003, the maximum month was 65,000 thousand gallons
8 but it was 43 days between readings, giving a maximum daily
9 use of 1,893 tgd (thousand gallons per day) – not the 2,167 tgd
10 used by Newport.

11 • Newport then used an average of the averages to derive a
12 maximum day of 1,905 tgd, when an average of the actual
13 amounts was really 1,565, tgd – an amount that is some 20%
14 less than Newport's value.

15 • To derive the allocation factor for pumping, the maximum day was
16 based on the taking an average of maximum days in each month to
17 derive an annual average and then averaging three years worth of
18 these averages. This is not how a maximum day is supposed to be
19 derived. It is simply the maximum day over the study period, not an
20 average of averages. Based on the response to Div 2-9 that was pre-
21 pared by Ms. Forgue it is unclear who is making the determination as
22 to how the factors are to be determined.

23 • The maximum day factors for the retail customers is based, in part, on
24 meter readings every four months that are converted to monthly aver-
25 ages by dividing by four. It is absurd to believe that the water use was
26 the same in each of the four months, but that assumption forms the
27 basis of the calculation of retail peaking factors.

- 1 • The maximum day ratios (see RFC 5-D) are derived directly from the
2 AWWA Manual rather than actual data that applies to Newport. Again,
3 that Manual only provides examples for illustration.
4

5 Q: You also mentioned the treatment of “unaccounted for” water. Please discuss that.

6 A: In any water system, some water is “unaccounted for,” or water that is delivered to
7 the system but is not recorded on meters. Factors such as water used in fire fight-
8 ing, system use for cleaning and pressure tests, leaks in the system, and under-
9 registration of meters result in “lost” water. In the cost allocation process it is nec-
10 essary to determine which parties should be responsible for this water. Portsmouth
11 takes all its water from Newport, and some is lost in the Portsmouth system. How-
12 ever, Portsmouth, a wholesale customer, is currently paying for all that lost water,
13 because the losses occur after the master meter. In the case of retail service, there
14 is no master meter; however, the total water use should be reflected in the charges
15 to the retail customers in Newport.
16

17 Newport has tried to account for the lost water, but has done it incorrectly. As
18 shown on RFC 3-A, Newport has considered plant water use, and assigned it to
19 various customer classes. Based on the response to PWFD 1-14, any water used
20 in the treatment plants is taken out before the master meter – it is all part of the
21 treatment process and should not be assigned to anyone. The treatment plant
22 master meters reflect the full amount of production that enters the transmis-
23 sion/distribution system. By assigning this to everyone, it is in effect double
24 counted. The problem is made even worse, because Newport assigns this prior to
25 assigning the distribution losses. If the distribution losses were assigned to all cus-
26 tomers first (Portsmouth’s purchases include its own distribution losses, Newport’s
27 should as well), then the plant water use allocation would be fairer.
28

1 In fact the plant water use should be ignored, because we don't know how it is used
2 or if there is recycling involved. It need not be assigned to anyone and is simply a
3 cost like chemicals and power. This error has the effect of assigning too much of
4 the treatment and supply costs to Portsmouth.

5
6 Q: Why do you say the units of service and use by class are suspect?

7 A: In the response to PWFD 1-12, Newport has admitted that the classifications are
8 suspect and they admit that their conclusions about residential vs. non-residential
9 peaking factors is inconsistent with the norm. The information is so suspect that
10 Newport can't recommend rates by class.

11
12 In addition, Newport shows there are some 50 customers with 2" fire services (RFC
13 8-A), yet in response to Division 4-3 it says there are none. RFC 8-A shows only
14 one 6" private fire connection for the City, yet the information supplied in item 2.9(k)
15 shows 8" and 6" services. In the response to PWFD 1-20, it seems that the count
16 originally provided was wrong and that the problem lies in the City's billing data-
17 base. In response to PWFD 1-38, Newport claims that it hasn't changed the billing
18 to school because the use is apparently always the same. These inconsistencies
19 highlight the unreliable nature of the data Newport is using in this rate filing and re-
20 inforce the need for Newport to perform a proper cost allocation study founded on
21 reliable data.

22
23 Q: Lastly, you suggest that the cost allocation model that was submitted does not con-
24 form to the Commission's guidelines. Can you address this?

25 A: The model presented by Newport is merely a marked up version of the one Mr.
26 Mierzwa presented in the last docket (see response to PWFD 1-25). It even in-
27 cludes the same references to fire demands from the United Water case. Mr.
28 Mierzwa indicated that the model should not be relied on and the Commission ech-
29 oed this in its order. The model we have in this case has only slight modifications.

1 It does not address the real concerns raised in the last docket. I have discussed
2 the lack of demand data in some detail. However, this is not all that is lacking. The
3 asset data that is the basis for spreading some \$2.5 million, or about 30% of the
4 costs, is largely based on fixed assets as of June 30, 2001, nearly three years old!
5 Newport was also ordered to update this information for this rate filing. That does
6 not appear to have been done, and, if it was, it was apparently not used in this fil-
7 ing.

8

9 Q: Does the cost allocation study presented by Newport present a reasonable alloca-
10 tion of costs resulting in fair water rates and charges?

11 A: No. After more than a decade of dealing with this issue, one would hope we would
12 be there. Certainly Mr. (Harold) Smith has tried to get us closer to that goal, but I
13 am afraid he was limited in the information available to him. I must conclude that
14 we still do not have a reasonable allocation of costs and, therefore, the resulting
15 rates cannot be viewed as fair.

16

17 Q: Have you prepared a cost allocation study and proposed rate design as you did in
18 the last docket?

19 A: No, I have not. I advised Portsmouth that while I could do this again, I saw no rea-
20 son why Portsmouth's customers should have to pay me to do this and pay New-
21 port a share of their study. I believe the Portsmouth ratepayers have already paid
22 too much. It is not up to Portsmouth to "get it right" – that is Newport's obligation.

23

24 Q: What do you propose the Commission do with rates?

25 A: As I have indicated, I do not believe that the evidence supports any increase in
26 rates. While Newport's retail rates are of no concern to Portsmouth, they clearly
27 are in violation of the Commission's rulings to phase out their declining block rates.
28 I suggest that a simple uniform retail rate be put in place by dividing the retail me-
29 tered rate revenue by the total retail sales. This would be revenue neutral and

1 eliminate what may be the last declining block rate under the Commission's jurisdic-
2 tion.

3

4 Q: Does this conclude your testimony?

5 A: As of this date I have not had an opportunity to review all the data responses from
6 Newport. I do expect to have further comments after seeing the Division's and the
7 Navy's testimony and Newport's responses.

8 **Attachments**

- 9 • PWFD Sch. 1 Summary of Recommended Adjustments
- 10 • Commission Order in Docket 2029
- 11 • Commission Data Requests October 1, 2002
- 12 • Division Data Requests: 1-15, 1-17, 1-27, 1-45, 2-1, 2-9, 3-12, 3-13, 3-16, 3-17, 4-3
- 13 • PWFD Data Requests: 1-2, 1-6, 1-12, 1-14, 1-15, 1-20, 1-23, 1-25, 1-30, 1-31, 1-41

CERTIFICATION

I hereby certify that I mailed a copy of the within Prefiled Testimony of Christopher P.N. Woodcock to all parties set forth on the attached Service List on the 12th day of March, 2004 and I hand delivered the original and nine copies to Luly E. Massero, Commission Clerk, Public Utilities Commission on the same date.



Kristy Tonsing

038210 / 121398

SERVICE LIST - RIPUC DOCKET NO. 3578
City of Newport Water Division – General Rate Filing
Page 1 of 2

Updated: 03/04/04

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TAB 1

PWFD Sch. 1

Recommended Adjustments to
Revenue Requirements Claimed by Newport Water

	Adjustment From O&M	Adjustment To Capital
<u>Recommended Expense Adjustments</u>		
Repay City	\$ (250,000)	
Rate Case Expense	\$ (150,000)	
Depth Surveys	\$ (50,000)	\$ 50,000
Vulnerability Assessment	\$ (85,000)	\$ 34,000
CCR & other	\$ (13,000)	
Reservoir Rd Tank	\$ (60,000)	\$ 60,000
Wastewater Charges (LV)	\$ (104,000)	
Debt Service	\$ (90,038)	
	-----	-----
Total Expenses	\$ (802,038)	\$ 144,000
<u>Additional Revenues</u>		
Customer Service Rev.	\$ 85,000	
Net Impact	\$ (887,038)	

TAB 2

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NEWPORT WATER DEPARTMENT :
PROPOSED CHANGES IN RATE SCHEDULES : DOCKET NO. 2029

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NEWPORT WATER DEPARTMENT : DOCKET NO. 2029
PROPOSED CHANGES IN RATE SCHEDULES :

REPORT AND ORDER

INTRODUCTION

On September 30, 1991 the Newport Water Department ("Newport" or "NWD") filed an application with the Public Utilities Commission ("Commission") seeking a general increase in its existing rate schedules. Newport's rate filing was offered for a November 1, 1991 effective date and was designed to generate total revenue in the amount of \$8,388,058. This request, if granted, would increase Newport's present revenue requirement by \$2,588,360 or approximately 46 percent.

The instant rate case filing represents NWD's sixth such filing in the last twelve years. The following table provides a brief history:

Docket No.	Filing Date	Amount Requested	Amount Allowed
1480	1/9/80	\$ 499,369	\$ 169,000
1581	5/18/81	592,391	378,147
1735	12/13/83	853,899	625,305
1848	2/26/86	751,651	540,426
1978	7/31/90	2,250,819	1,458,727
2029	9/30/91	2,588,360	----

The Commission suspended Newport's proposed rate increase for a period of five months beginning from November 1, 1991. This suspension was ordered pursuant to Rhode Island General Laws, Section 39-3-11 (Order No. 13774).

There were several requests by third parties to intervene in this proceeding. All motions to intervene were granted by the Commission. The United States Department of the Navy ("the Navy") moved to intervene on October 11, 1991; additionally the Conservation Law Foundation of New England, Inc., and the Audubon Society of Rhode Island (collectively the "CLF") jointly moved to intervene on November 27, 1991. These motions were subsequently granted by the Commission at open meetings held on October 29 and December 19, 1991, respectively.

There were five public hearings conducted in this docket. Four of the hearings were held at the Commission's offices at 100 Orange Street in Providence. These hearings were conducted on February 24 and 25, April 23 and May 22, 1992. There was also a public night hearing conducted in Newport's service territory on February 10, 1992 at the Newport City Hall, at which seventeen of Newport's ratepayers offered comment, infra. Additionally, public comments were received by six individuals during the February 24, 1992 hearing conducted in Providence, infra.

During the various hearings conducted in this docket the following counsel entered appearances:

FOR THE NEWPORT WATER DEPARTMENT	Robert Rahill, Sr., Esq.
FOR THE DIVISION OF PUBLIC UTILITIES AND CARRIERS ("DIVISION")	Thomas Palumbo, Esq. Special Assistant Attorney General
FOR THE CLF:	Peter Shelley, Esq.
FOR THE NAVY:	Anthony M. Dowdle, Esq.
FOR THE COMMISSION:	John Spirito, Jr., Esq.

Each of the parties in this proceeding filed direct cases in support of their respective initial positions. During the administrative process, however, two of the parties reached a collective agreement relative to an appropriate revenue requirement for Newport. This agreement was reduced to a written "Agreement and Settlement" which was filed with the Commission on May 8, 1992, infra. The remainder of this Report and Order contains an outline of the parties' initial positions; their rebuttal positions; the stipulation in summary form and attached in its entirety; and the Commission's findings and decisions thereon.

PROPOSED RATE INCREASE

i. Newport's Direct Case

Newport proffered the prefiled direct testimony of the following individuals in its direct case:

1. Roy B. Anderson, P.E.
Utilities Director, employed by the City of Newport
2. Robert W. Ekstrom, CPA
Accountant, employed by the City of Newport
3. Walter E. Edge, Jr., CPA
Accountant/Consultant
Parmelee, Bacon & Edge
One Worthington Road
Cranston, Rhode Island

Mr. Roy Anderson began his testimony by explaining that the two-step rate structure approved by the Commission for Newport in dockets 1848 and 1978 is also used in the proposed rate request.

He did note two changes, however, one in the revision of the service charge and one in the introduction of a water assessment charge.

The water assessment charge was described by the witness as a means of reserving monies for future expansion of Newport's facilities. Mr. Anderson related that the charge will be collected from all those newly connecting into the system. He reasoned that the fee is based on the fact that increased use of Newport's facilities hastens the day when existing facilities will be overtaxed thus requiring the development of additional capacity (Newport Exh. 1, p. 6).

Mr. Anderson further testified that Newport has been working with the CLF to evaluate and make recommendations relative to conservation and rate structure issues. He related that Newport and the CLF are particularly interested in supply and demand side options with an eye toward least cost planning for the NWD's future. Mr. Anderson explained that although this project is underway it will not benefit this rate filing. He did relate, however, that the recommendations generated from this cooperative effort will be used as a basis to factor into future rate filings (Id., p. 7). Also connected with Newport's conservation efforts, Mr. Anderson testified that the NWD is also surveying 20 percent of its system each year to find leaks. According to the witness, this program has been very successful.

Mr. Anderson went on to discuss Newport's policy of insuring that each class of customer pays a water rate that provides

sufficient revenues to cover the cost of service to that class.

There were five user classes identified:

- i. small users (less than 14,000 gals./mo.),
- ii. large users (greater than 14,000 gals./mo.),
- iii. public fire protection users,
- iv. private fire protection users, and
- v. bulk sale users.

Mr. Anderson testified that the present rate design is consistent with the NWD's rate policies.

The next topic addressed involved the NWD's needs for the additional revenues. Mr. Anderson described the proposed Sakonnet River pipeline crossing as the primary reason for the rate increase proposal. He related that two-thirds of the rate increase is associated with this project (2-24-92, T. 46). This pipeline, planned since 1984, is designed to convey water to Newport's water system from supplies owned and maintained by Newport in Tiverton and Little Compton. Mr. Anderson testified that 50 percent of Newport's current supply is coming from these areas via a twenty inch pipeline below the Sakonnet River. This existing pipeline was constructed by the Navy in 1942. According to the witness the new pipeline will take eighteen months to complete and provide back up for the existing pipeline while at the same time satisfy current and future demands for water, particularly during peak demands. The new project would further include an inspection and rehabilitation of the existing pipe. Mr. Anderson noted that this Sakonnet River crossing project, which includes a new pumping

station, was approved at a local referendum on November 7, 1989 and is supported by several local and statewide groups (Id., p. 9). He related that for purposes of this filing, an estimate of \$14.7 million is being projected for the construction cost connected to the project. Mr. Anderson explained that the projected cost is based on the bond approval for \$15.2 million minus \$500,000 already expended for engineering design work. Actual bids for the project were expected by March, 1992. Newport believed that the final construction cost would be close to this amount.¹

Mr. Anderson also provided the Commission with a description of the contractual relationships Newport maintains with the Navy and the Portsmouth Water and Fire District ("PWFD" or "Portsmouth"). As it relates to the Navy, the NWD and the Navy are operating under a continuation of a contract which was in existence during the last rate filing. This contract provides for a four-block rate structure and minimum charges for each meter size. Rates under this contract are designed to be modified to be consistent with Commission ordered rate changes for Newport's retail customers. Based on consumption figures for the test year ending June 30, 1991, this contract generates \$736,057 for the NWD. (Id., p. 12).

Newport and Portsmouth are currently operating under a contract which expires December 31, 1995. Revenues realized from this contract in the test year were \$215,513 (Id., p. 13). Mr.

¹ The actual bid came in at \$9,685,000 as reported by Newport on February 25, 1992 (T. 162).

Anderson described the PWFD as Newport's second largest customer. He also differentiated Portsmouth from other large users based on the fact that it owns and maintains its own distribution system and further that the contract establishes minimum annual and daily take provisions. Because of these characteristics, Newport has determined that its costs for serving Portsmouth are less than its costs for serving its retail customers. Mr. Anderson did explain, however, that because of the Sakonnet River pipeline project in the instant rate filing, a project which will substantially benefit Portsmouth, Newport will be seeking a comparable rate increase on Portsmouth's wholesale rates.

Lastly, pursuant to Rhode Island General Laws, Section 39-3-12.1, Mr. Anderson provided the Commission with supplementary rate filing data on the NWD's physical plant, maintenance policies, treatment chemicals and capital projects. The details of these specific information filings were contained in five attachments to Mr. Anderson's prefiled testimony (Id., pp. 15-17).

Mr. Robert Ekstrom identified himself as the Deputy Finance Director for the city of Newport. He described the NWD as a separate and distinct financial entity within the city of Newport. Mr. Ekstrom testified that the NWD is responsible for generating sufficient revenues to meet its own operating and capital needs.

Mr. Ekstrom indicated that it was he who prepared the test year data used to create the rate year cost of service. He explained that he chose the recently completed fiscal year ending June 30, 1991 as the test year. According to this witness, Newport

developed its rate year cost of service by using a test year which coincided with its fiscal year. This allowed the NWD to use audited data. Moreover, Mr. Ekstrom stated that because the test year incorporates the same calendar as Newport's projected rate year (ending June 30, 1993), it was easier to prepare known and measurable adjustments (Newport Exh. 2, p. 4).

Predicated on Newport's test year figures, Mr. Ekstrom related that the NWD's total cost of service exceeded revenues by \$5,435,702 for the year ending June 30, 1991 (Id., p. 5). He noted that \$4,750,000 of this amount was paid for with bond and debt proceeds. He attributed most of this deficit to the completion of Newport's new treatment plant and modifications to the Lawton Valley Treatment Plant. The witness also testified that the rate relief obtained in February 1991 through the NWD's last rate filing (Docket No. 1978) provided immediate relief but only sufficient relief through June, 1992.

Mr. Ekstrom next testified relative to the normalizing adjustment he made to the test year in order to use it as a true base from which to project rate year costs of service. He cited three major events which happened during the test year which had to be addressed in the normalization process. These events were identified as: the securing of \$3 million in additional financing to complete the NWD's treatment plants; the new treatment plant opened in March, 1991; and the coming on line of rate relief in February, 1991. Mr. Ekstrom provided the Commission with the details behind each of these normalizing adjustments (Id., pp. 7-

11).

Mr. Ekstrom also testified to the other adjustments contained in Newport's rate filing. These included adjustments for test year, capital improvements, personal service costs, regulatory expense, chemical treatments and electricity (Id., pp. 12-15). Mr. Ekstrom explained that after performing these adjustments, the test year cost of service is decreased by \$3,971,058. He stated that this leaves a normalized cost of service base of \$6,216,321 which is carried over to the pro-forma year. Lastly, Mr. Ekstrom testified that when compared to normalized test year revenues of \$5,576,305, the NWD realized a test year net revenue deficiency of \$640,016 (Id., p. 15).

The final area discussed by Mr. Ekstrom involved his efforts to assist Mr. Edge in projecting rate year personnel services and fringe benefit costs. He testified that personnel services and fringe benefit costs account for nearly one-fourth of the NWD's total rate year cost of service of \$8,249,634 (\$2,047,484). In support of these costs, Mr. Ekstrom provided the Commission with a detailed description of the factors which comprise these expenses. Several schedules were also proffered as additional supporting evidence (Id., pp. 16-24).

Mr. Walter Edge's testimony was presented by Newport to principally cover its rate year cost of service, revenue requirement and operating revenue allowance.

Mr. Edge prefaced his testimony by stating that despite the fact that Newport was granted rate relief only last year, the

instant filing is "needed to avoid significant revenue and cash shortfalls" (Newport Exh. 3, p. 5). He explained that several factors necessitate the proposed rate increase, but the most significant reason is the debt service costs related to the Sakonnet River pipeline project.

Mr. Edge testified that the Sakonnet River pipeline project debt service expense was anticipated by the NWD in the last rate case (Docket No. 1978). In fact, Mr. Edge alluded to his testimony in the last rate case wherein he stated that the NWD would have to file another rate case "almost immediately after this increase is granted" to pay for the financing associated with the referendum vote to construct the new pipeline (Id., p. 5). Mr. Edge related that consistent with that earlier prediction the NWD has filed the instant rate case and is seeking a \$2,588,360 or 45.74 percent revenue increase.

According to the witness, the NWD is proposing to apply the aforementioned rate increase on an across-the-board basis with one exception. Specifically, Mr. Edge explained that all rates except the customer charge will be increased by 47.3 percent. Customer charges would increase by 24.7 percent.

Mr. Edge's rate year testimony was divided into a discussion on pro-forma revenues and expense accounts. In his rate year revenue analysis, Mr. Edge identified eight revenue sources:

1. metered usage,
2. customer charge,
3. penalties,

4. fire protection,
5. service charges,
6. service installations,
7. water quality protection, and
8. investment income.

Mr. Edge related that metered usage is the largest revenue source and is comprised of both retail and wholesale consumption. To arrive at pro-forma revenues for this source, Mr. Edge used actual 1991 consumption data and made certain normalized adjustments. The resulting rate year meter usage revenue is \$4,686,349 (Id., p. 8). When the above remaining much less substantial revenue sources are added, the total rate year revenue at current rates was calculated as \$5,799,698 (Id., p. 12).

Mr. Edge next offered a breakdown of how he calculated expenses in the rate year. He explained that the majority of expense accounts fall into two major classifications: Personnel Services and Fringe Benefits; and those accounts which increase each year due to inflation. Both Mr. Edge and Mr. Ekstrom provided schedules reflecting these increases. Other expense categories were also reflected in Mr. Edge's testimony. These included: Contractual Services; Materials; Utilities; Equipment Costs; General and Administrative; and Capital Improvements. Costs to be incurred in these categories were quantified in several schedules attached to Mr. Edge's testimony. When tallied the resulting rate year total expenditures was identified as \$8,255,766. To this amount, Mr. Edge maintained that the Commission should allow the

NWD to continue collecting an additional 1.5 percent allowance on gross revenues for unforeseen expenses in the rate year. He noted that the Commission has approved this allowance in the last two NWD rate cases (Dockets 1848 and 1978). This allowance would, if approved, result in a total cost-of-service amount of \$8,388,058 for Newport (NWD Exh. 3a, Schedule A).

Moving to the topic of rate design, Mr. Edge related that two issues must be addressed in the instant docket. These issues involve Newport's proposed customer charge and water assessment charge.

Mr. Edge testified that the NWD has proposed to increase its customer charge by 24.7 percent in relation to its proposed across-the-board increase of 47.3 percent for all other tariffs. The rationale for this decision was explained as an attempt to avoid a cross-subsidization from occurring. Mr. Edge related that because this docket and docket no. 1978 were both needed for very large capital projects that have no impact on the costs related to the customer charge, the NWD decided to review its customer charge costs in this filing. Predicated on that review, it was determined that if customer charges were increased by the same percentage amount as other tariffs, customer charge revenues would exceed costs. From this analysis a 24.73 percent increase was found appropriate according to Mr. Edge (NWD Exh. 3, p. 21-22).

Mr. Edge also offered testimony in support of Newport's water assessment charge. He related that Newport reviewed the rate schedule of many water utilities in the State and found that they

included a charge for new services which is over and above the cost to connect the new customer. Mr. Edge called this extra charge a "tie-in" or "impact fee" (Id., p. 22). He also indicated that the fee is designed to provide the utility with a cash reserve to offset future water development costs (Id.). Mr. Edge opined that the proposed water assessment charge is appropriate for the following reason:

"The new customer receives the full benefit of the utility plant in service at the time they are connected, yet they did not pay the cost of the plant in previous years, nor will they pay the past cost of that plant in the future. However, they will receive the same benefit from that plant that every other customer receives. In addition, the new customer increases the overall demand on the system which brings the entire system closer to needing additional capacity." (Id., p. 23).

Mr. Edge further testified that his review of the other water utilities who charge impact fees shows that the fee ranges between \$400 and \$1100 per new connection. Newport has decided to split the difference and propose an impact fee of \$750 per new dwelling unit connection (Id., p. 24). He also proposed a fee of \$.50 per square foot for commercial buildings. Mr. Edge explained that this new rate will generate a cash reserve for the future and has no impact on the rate year revenue requested in the instant filing.

As a final comment, Mr. Edge informed the Commission during the February 25th hearing that Newport had just received the final bid on the Sakonnet River pipeline project. He related that the bid came in at \$9,685,000, which according to the witness, was much lower than expected (2-25-92, T. 162).

ii. THE DIVISION'S DIRECT CASE

The Division proffered the prefiled direct testimony of the following individuals in its direct case:

1. Mr. Leo H. Fox, CPA
Accountant/Consultant
174 Armistice Boulevard
Pawtucket, Rhode Island
2. Mr. Thomas S. Catlin
Consulting Economist
Exeter Associates, Inc.
10801 Lockwood Drive
Silver Spring, Maryland
3. Mr. John A. Milano
Water Engineering Specialist
Division of Public Utilities and Carriers
100 Orange Street
Providence, Rhode Island

Mr. Leo Fox testified that he was retained by the Division to review the NWD filing now before the Commission. Mr. Fox related that based on his review of Newport's prefiled testimony, analysis of the financial records and discussions with NWD officials, he can not agree with the proposed increase sought by the NWD. He instead recommended an increase of \$1,521,162 or 26.87 percent over current rates (Division Exh. 1, p. 3).

Mr. Fox related that he reviewed Newport's revenue estimates for the test year and rate year as provided through Mr. Edge's testimony and schedules. He concluded that both revenue estimates appeared reasonable. Mr. Fox did, however, propose several adjustments to Newport's operating expenditures.

This witness explained that he analyzed all significant cost categories and reviewed the supporting data of certain minor

categories provided by Newport in response to data requests and on detailed trial balances. Predicated on this analysis, Mr. Fox related that the following adjustments would be appropriate:

1.	Holiday Pay	-	(\$ 3,356)
2.	Temporary Employees	-	(\$ 27,059)
3.	Contractual Services	-	(\$ 6,549)
4.	Chemicals	-	(\$113,829)
5.	Granular Activated Carbon	-	(\$ 91,087)
6.	Materials and Supplies	-	(\$ 31,856)
7.	Utilities	-	(\$130,919)
8.	Equipment Costs	-	(\$ 45,124)
9.	General and Administration	-	(\$ 20,945)
10.	Debt Principal Cost	-	(\$185,000)
11.	Interest Expense	-	(\$240,500)

Mr. Fox also testified in opposition to Newport's proposed 1.5 percent contingency reserve. He maintained that the NWD "has no need for more cash than will be generated by current operations and the interest they will earn on the Sakonnet project bonds pending payments to contractors" (Id., p. 21). Mr. Fox concluded that any operating subsidy to Newport ought to be based upon a lead lag study. Consequently, he proposed a further adjustment of (\$125,821) to Newport's cost-of-service. Total adjustments proposed by Mr. Fox equal (\$1,067,535) (Division Exh. 2, Schedule LHF-1).²

² Mr. Fox supported each of his proposed adjustments with testimony and schedules.

Mr. Thomas Catlin provided the Commission with an overview of cost of service methodologies. He also recommended and detailed the development of a water utility cost of service study which he suggests Newport use in its next rate filing.

Mr. Catlin testified that a utility experiences different costs in providing service to different customer classes due to differences in class usage and service characteristics. He asserted that the rates charged by a utility should reflect these differences in the cost of providing service (Division Exh. 4, p. 4). Because the NWD has failed to perform a cost-of-service study in support of its present rate increase request, Mr. Catlin stated that one should be performed by Newport as part of its next rate case.

Toward this end, Mr. Catlin testified that Newport should submit with its next rate filing a class cost-of-service study. Additionally, he opined that this study generally reflect the base-extra capacity method as described in the American Water Works Association ("AWWA") Water Rates manual. Mr. Catlin explained that under the base-extra capacity method, investment and costs are first classified into four primary functional cost categories: base or average capacity, extra capacity, customer, and direct fire protection. He indicated that customer costs are further divided between meter and service related and account or bill related costs. Pursuant to this method, once investments and costs are classified to these functional categories, they are then allocated to customer classes, according to Mr. Catlin. He noted further

that when this is accomplished, base costs are allocated according to average water use, and extra capacity costs are allocated on the basis of the excess of peak demands over average demands (Id., p. 5). He added that meter and service related customer costs would be allocated on the basis of relative meter and service investment; and account related customer costs would be allocated in proportion to the number of customers or the number of bills (Id.).

Mr. Catlin next testified that for Newport to begin the process of developing a cost-of-service study utilizing the base-extra capacity method, it must determine its net utility investment by cost component. When this is done the operation and maintenance expenses by cost component should be similarly developed. Mr. Catlin explained that after this is accomplished, the investment and expenses in each category should be classified into the functional components of base or average capacity, extra capacity, customer and direct fire protection. According to the witness, after the functionalization of investment, and operation and maintenance expenses, costs would be allocated to Newport's various customer classes.

In closing, Mr. Catlin related that the costs associated with each cost function are allocated to customer classes based on each class' contribution to the cost causative factor for that cost function (Id., p. 10). He did note however, that there are special concerns which should be considered in allocating costs to customer classes. An example would be, not allocating the costs associated with Newport's local distribution system to Newport's wholesale and

contract customers. Mr. Catlin reasoned that because the Navy and the PWFD have their own distribution systems, this allocation would be improper (Id., p. 11).

Mr. John Milano focused his testimony on the issue of whether there are less costly alternatives to the Sakonnet River Project as proposed by Newport. As a prelude to his conclusions, Mr. Milano related that he examined both the population and projected demand assumptions shown in a 1990 engineering report relied upon by the NWD in its determination that the proposed pipeline is needed.³ Mr. Milano testified that he compared the report findings with actual 1990 values for population, consumption and demand. He explained that he used 1990 census data to assist in the population comparison. Mr. Milano reached the following findings:

1. That for the year 2020 the report projects a total service territory population of 76,236. Mr. Milano stated that census data shows a total population of 73,803; and
2. The report predicts growth in water demand from 1988 through 2020 at 41.55 percent. Mr. Milano calculated actual growth in consumption between the years 1982 and 1991 at 12.7 percent.

On the issue of need for the Sakonnet Project, Mr. Milano related that the report states the existing system has adequate supply to meet the average day demand up to the year 2020. It does

³ The report was prepared by Metcalf & Eddy in May, 1990 and is entitled "The Report on Water Supply Management Study for City of Newport, Rhode Island Water Department" (Newport Exh. 11).

not, however, explain whether increased supply facilities will be necessary. In addressing this project, Mr. Milano maintained that the underwater portion of the Sakonnet Project along with the Nonquit Pump Station and connecting Pipeline is necessary for system redundancy. He did question however, the need for the replacement of the existing 20 inch cast iron pipe between the west side of the Sakonnet River and St. Mary's Pond (Id., p. 6). He queried whether this pipe segment could be cleaned and lined instead. Mr. Milano contended that Newport ought to reassess this portion of the project in view of the current economic climate, the possible inaccuracy of its prior population and demand projections, and the effects State mandated water conservation may have on projected demand (Id., p. 7).

iii. THE NAVY'S DIRECT CASE

The Navy proffered the prefilled direct testimony of Mr. Ernest Harwig in its direct case. Mr. Harwig introduced himself as a public utility regulation consultant with the consulting firm of Drazen-Brubaker & Associates, Inc., 12312 Olive Boulevard, St. Louis, Missouri. Mr. Harwig related that his testimony addresses class cost of service, revenue allocation and rate design issues.

Mr. Harwig began his testimony by stating that the Navy is Newport's largest water customer. He related that the Navy's annual water bill at present rates is \$881,803. He added that at the proposed rates this amount would increase 47.19 percent to

\$1,297,896. Mr. Harwig testified that the NWD is basing its proposed Navy water rate increase on its interpretation of a 1959 contract, which governs the terms, conditions, and rates for water service between the NWD and the Navy. According to this witness, the NWD construes the terms of the contract as providing for a "pass-through" of rate increases granted by the Commission (Navy Exh. 1, p. 2). This is why Newport is proposing to raise Navy rates by the same percentage as it's proposing for its retail customers, approximately 47 percent, according to the witness. Mr. Harwig testified that this interpretation is fallacious. He offered the following contract excerpt in support of his position:

". . .If during the term of this contract the regulatory authority having jurisdiction shall approve, after filing in the authorized manner, rates, terms, or conditions of service, which are other than those stipulated herein for like classes of service, the Contractor agrees to continue to furnish service as stipulated herein and the Government agrees to accept such service under the rates, terms, and conditions of service so approved."

Mr. Harwig underscored the words "like classes of service" to support his contention that the Navy should not be treated as an ordinary retail customer for purposes of rate relief. Instead, he asserted that the Navy must be treated with like customers for ratemaking purposes. According to Mr. Harwig, Newport may only exact rates from the Navy that are equal to the rates charged the Portsmouth Water and Fire District. He considers the PWFD as the Navy's only like customer. Mr. Harwig offered a comparison of the two water customers. He related that both are wholesale customers because both purchase water in bulk at relatively few locations and then subsequently distribute that water to their own customers.

He related that the Navy consumes approximately 23 percent of all water sold by Newport. The PWFD consumes about 10 percent of Newport's total output. He testified further that the remainder of Newport's output is dedicated to retail water customers and fire protection (Id., p. 4).

Mr. Harwig also distinguished the Navy from Newport's large retail customers. He explained that the Navy consumes water at a more even rate of use during the year than do retail customers. He also noted that the Navy takes water service primarily from 12-inch and 24-inch connections to Newport's bulk transmission system. He emphasized that the Navy does not utilize the extensive grid of smaller distribution mains through which Newport provides retail service. Mr. Harwig reasoned that the investment and operating expenses associated with these mains are not required to provide service to the Navy.

Mr. Harwig testified that despite the fact that the Navy and the PWFD are Newport's only two wholesale customers, the rates between the two, for like services, are much different. He indicated that if the proposed rate increase were to go into effect, the Navy would be paying nearly twice as much for water as the PWFD (Id., pp. 5-6). He also maintained that this rate differential can not be justified on a cost of service basis.

Mr. Harwig proffered the Commission a fully-allocated cost of service study to show the relative cost of providing water to the Navy, the PWFD and Newport's retail water customers. For comparison purposes, he based the cost-of-service study on the

NWD's requested level of revenues. He also noted that the study utilizes the base-extra capacity method (previously described and recommended in Mr. Catlin's testimony). Predicated on the study, Mr. Harwig testified that at proposed rates, the NWD is undercollecting \$185,391 from the PWFD and overcollecting \$97,786 from the Navy (Id., pp. 7-8). This disparity is derived from a comparison of unit cost of service between the Navy and the PWFD, \$2.26 and \$2.52, respectively. Because of the study's findings, Mr. Harwig contends that the Commission should approve a per unit water rate for the Navy that is no greater than that established for the PWFD in this proceeding. (Id., pp. 8-9). Mr. Harwig alternatively contended that in the event the Commission orders an across-the-board rate increase for the Navy, the overall percent increase ought to apply and not the percent increase associated with Newport's commodity charges.

Lastly, Mr. Harwig testified that Newport is planning a study to evaluate and make recommendations relative to conservation and rate structure issues. Mr. Harwig related that in conducting such a study, it is important to assure that demand-side expenditures be subject to the same standards of prudence and used or useful criteria as are supply-side expenditures. He also suggested that demand-side costs be recovered in the same way that other utility expenditures are recovered (Id., pp. 10-12).

iv. NEWPORT'S REBUTTAL CASE

Newport recalled Messrs. Roy B. Anderson and Robert W. Ekstrom to testify as rebuttal witnesses. Each witness filed prefiled rebuttal testimony in conformance with the schedule established in this docket.

Mr. Roy Anderson's rebuttal testimony focused on concerns relative to the Navy/Newport relationship and the Sakonnet River pipeline crossing project.

Mr. Anderson testified that the NWD has always treated the Navy as falling into the higher of the two rate classes established by the Commission (14,000 or more gallons per year vs. less than 14,000 gallons per year). He related that the Navy was unable to persuade the Commission to create a new rate class for the Navy in Docket No. 1848. He noted that the Navy never appealed that Commission decision. Mr. Anderson maintained that under the current rate structure there is no provision to treat the Navy as a unique customer. Despite this, Mr. Anderson admits that the NWD has made efforts to mitigate rate increases for the Navy. However, Mr. Anderson rejects the Navy's contention that it is PWFD-like customer (Newport Exh. 12). The witness added that "if the Navy has a problem with the rates they should seek to renegotiate the contract" (Id., p. 5).

Mr. Anderson also reiterated his support for the Sakonnet River pipeline project. He related that the project is necessary in order to provide protection through redundancy. He also

explained that the design life of the existing pipe has been reached and consequently, Newport's consulting engineer believes the pipe must be replaced. Lastly, as for the existing 20" above-ground segment of pipe, Mr. Anderson opined that it ought to be replaced, as proposed, despite the Division's concerns. He explained that if the 20" pipe is rehabilitated and connected to the new 24" pipe (which runs under the river), flow capacities will be adversely affected (Id., pp. 7-9).

Mr. Robert Ekstrom was recalled to rebut Mr. Fox's adjustments, to update certain rate year costs of service based on data acquired after the rate filing, and to sponsor and offer data responses to Division queries generated after initial hearings in this docket.

Mr. Ekstrom testified in opposition to most of Mr. Fox's adjustments. Out of Mr. Fox's total proposed adjustments of \$1,067,535, Mr. Ekstrom indicated that he could concur with \$648,854 of them (Newport Exh. 14, p. 31). As for the balance, the witness proffered detailed testimony in opposition to Mr. Fox's assumptions and conclusions.

Mr. Ekstrom next offered revised figures for six cost categories predicated on actual data which became available only after the rate case was filed. Each of these revisions was detailed in his prefiled rebuttal testimony (Id., pp. 32-46).

In closing, Mr. Ekstrom provided the Commission with written answers to data requests made by the parties during Mr. Ekstrom's direct testimony. The responses were placed on the record as part

of the witness' rebuttal testimony (Id., pp. 47-48).

v. THE DIVISION'S SURREBUTTAL CASE

The Division recalled Messrs. Leo H. Fox and John A. Milano to testify as surrebuttal witnesses. Each witness filed prefiled surrebuttal testimony in conformance with the schedule established in this docket.

Mr. Leo Fox was recalled to address the rebuttal testimony of Mr. Ekstrom. He offered a detailed response to most of the adjustment comments espoused in Mr. Ekstrom's rebuttal testimony. In sum, Mr. Fox remained resolute on his initial position of allowing only a 26.86 percent revenue increase for Newport (Division Exh. 17).

Mr. John Milano was recalled to address Newport's water demand projections. Specifically, Mr. Milano took exception to a statement made by Mr. Anderson that sewer charges have no effect on water demands. Mr. Milano opined that there "will be a continuing effect of sewer charges on water demands" (Division Exh. 16, p. 1). He illustrated his conclusion with data obtained from the Narragansett Bay Water Quality District Commission, relative to the effects of sewer charges on water consumption in Providence, North Providence and Johnson. The data showed a reduction in water usage as sewer charges increased (Id., pp. 1-2). By virtue of this information, Mr. Milano contends that conservation would affect projected water demands. He also stated that he does not feel

Newport included the potential of conservation in its water demand projections.

During his surrebuttal testimony, Mr. Milano changed his earlier recommendation regarding the Sakonnet River pipeline project. He related that in his prefiled direct testimony he had taken a position in opposition to the above-ground portion of the proposed Sakonnet pipeline. The cost of this project was of paramount concern, according to the witness. Now, however, based on newly acquired engineering and economic data, Mr. Milano stated that it appears that this facet of the project will only represent 10 percent of the total cost. Mr. Milano conjectured that delaying this segment of the project may result in a higher individual bid cost in the future. He, therefore, recommended that the pipeline be built as proposed (Id., p. 4).

vi. THE NAVY'S SURREBUTTAL CASE

The Navy recalled Mr. Ernest Harwig to testify as a surrebuttal witness. Mr. Harwig filed prefiled surrebuttal testimony in conformance with the schedule established in this docket.

Mr. Harwig was recalled to address statements made by Mr. Roy Anderson in his rebuttal testimony. He also explained some proposed modifications to the cost of service study presented by the Navy in his earlier testimony.

Mr. Harwig testified that many of the statements made by Mr.

Anderson in his rebuttal testimony were misleading. Mr. Harwig made references to the Navy's position in Docket No. 1848 in particular. After offering the Navy's rendition of post-Docket No. 1848 events between the Navy and Newport, Mr. Harwig took exception to Mr. Anderson's statement that only two classes of customers may exist for ratemaking purposes. Mr. Harwig related that the Navy and the NWD have had a special water purchase relationship for fifty years. He noted that "the Navy has never paid for water service under the retail tariff" used by Newport (Navy Exh. 4, p. 6). Mr. Harwig reasoned that the tariff is not properly applicable to the Navy on cost of service grounds (Id.). Mr. Harwig related that the NWD accepts this premise as evidenced by its commission of a cost of service study after Docket No. 1848 in order to support "a reasonable bulk rate in its dealings with the Navy" (Id.).

Mr. Harwig next addressed the matter of the Navy's decision not to appeal the Commission's decision in Docket No. 1848. He testified that this decision not to appeal was based on the Navy's position that it would continue to adhere to the 1959 contract's terms and conditions, as amended, and not on agreeing to purchase water under Newport's retail rates.

STIPULATED AGREEMENTS

Newport filed its rebuttal case and the Division filed its surrebuttal case on March 20 and April 3, 1992, respectively. A

hearing on these filings was conducted by the Commission on April 23, 1992. On the day of the April 23rd hearing, the Division and the NWD jointly sponsored a "Partial Settlement Agreement" (Joint Exh. 1). This agreement was jointly filed by the two parties to convey to the Commission that they had reached a settlement relative to three previously disputed issues. Under this agreement, Newport eliminated its proposed impact fee from its rate filing request; the billing charge increase would be capped at \$11.00; and that payment in lieu of property taxes amount be set at \$150,000.

Subsequently, on May 22, 1992, the Division and Newport jointly filed a final "Settlement Agreement", which incorporated their earlier partial settlement agreement, and offered a resolution to all other outstanding disputed matters (Joint Exh. 3). This settlement agreement has been attached to this report and order as "Appendix 1" and shall be incorporated by reference. In summary form, the stipulation offered the following agreements between the NWD and the Division:

1. That a revenue requirement of \$7,333,817 be approved. This represents an increase of \$1,698,065 or 30.1 percent.
2. That the billing charge increase be limited to \$11.00 and that other tariffs be increased on an across-the-board basis;
3. That the increase go into effect on July 1, 1992;
4. That funds for capital improvements, and debt principal

and interest be restricted;

5. A mutually agreed to debt service schedule for Newport's 1993, 1994 and 1995 fiscal years; and
6. A mutually agreed to set of revenue and expenditure schedules.

This stipulation was also provided to the Navy and the CLF for comment. Neither the Navy nor the CLF took exception to any provision of the aforementioned Division/Newport agreements (5/22/92 T. 22 and 76; and Navy "Opening Brief", p. 2).

PUBLIC COMMENTS

On February 10, 1992 the Commission traveled to the Council Chambers at Newport City Hall for the purpose of eliciting public comment from the NWD's ratepayers regarding the instant rate request. Further, on February 24, 1992 the Commission, while conducting its first hearing on the propriety of the rate filing, allowed additional public testimony in this docket. Both hearings were publicly noticed. The tenor of public opinion was recorded as follows:

- that the proposed increase far exceeds increases in salaries and retirement benefits;
- that consumption should be the sole basis for billing and that minimum billing charges are unfair when no water has been consumed;
- that conservation only leads to increased commodity charges;
- that a desalinization plant ought to be considered in lieu of a new pipeline under the Sakonnet River;

- that the revenue bond rates associated with the Sakonnet Pipeline project appear excessive;
- that the NWD should not be given funds for a contingency reserve;
- that Newport should not make payments to itself in the form of "payments in lieu of taxes", or alternatively, property taxes within the City of Newport ought to be decreased commensurately;
- that Newport's proposed impact fee is inappropriate as it will discourage new business in Newport's service territory;
- that rehabilitating the existing distribution system ought to be considered before building a new Sakonnet River pipeline;
- that both sewer rates and water rates are too high;
- that albeit the infrastructure of the NWD requires upgrading, a 46 percent increase seems excessive;
- that Newport residents are currently overburdened with taxes;
- that a detailed cost of service study ought to be performed before any rate increases are approved;
- that the Sakonnet Pipeline expense ought to be borne to a greater extent by Middletown and Portsmouth residents;
- that the NWD ought to start practicing good management and stop "its reckless spending";
- that any more rate increases will adversely impact existing businesses in Newport's service territory;
- that there have been too many rate increases in recent years; and
- that the rates are excessive in view of the poor tasting water being provided by the NWD (2-10-92, T. 6-60; and 2-24-92; T. 4-43).

COMMISSION FINDINGS

The Commission has carefully examined the record in this case.

Fundamentally, this case consists of two issues. The first issue relates to Newport's rate year revenue requirements. The parties have reached a consensus on this question. The remaining issue involves rate design and the cost of providing water service to the Navy.

i. REVENUE REQUIREMENTS ISSUE

The Division and Newport have offered for Commission consideration, a recommendation which would establish new rate year revenues for the NWD. This revenue requirement was agreed to after the two parties settled and reconciled their respective positions on Newport's cost of service. The recommendation is for total revenues of \$7,333,817. This amount represents an increase of \$1,698,065 or 30.1 percent over current revenues. Neither the Navy nor the CLF disagreed with this proposal.

The Commission considered the aforementioned recommendation and finds it reasonable and in the best interests of Newport's ratepayers, with one exception. The parties have agreed to include in Newport's cost of service an expense entitled "payment in lieu of taxes." This expense was defended by Mr. Eskstrom as evidenced in the following record excerpt:

Q. (Chairman Malachowski:) "...why should the Water Department be paying taxes to the City of Newport?"

A. (Mr. Ekstrom:) "We feel in order to get a true cost of producing water we would have to have all the costs associated with producing water. It seems kind of

arbitrary that a treatment plant that happens to be located within the border of Newport is not charged a tax. Initially we were concerned about a cross-subsidization because Newport taxpayers were not getting the benefit of that treatment plant on its roles and thereby were subsidizing the water users. And those are not the same population; because, obviously, Newport taxpayers are people who own property in Newport. However, the Water Department serves a good portion of Aquidneck Island, including Middletown and Portsmouth. We felt that it would be a fairer way to do it accounting-wise and the fairer way to handle it for the taxpayers in the City of Newport and water ratepayers." (5/22/92, T. 30-31).

This expense, despite Newport's argument, is not appropriate in the opinion of this Commission. We can not philosophically or regulatorily accept the notion of the City of Newport taxing its own water department. The City of Newport does not tax itself on its City Hall and should therefore not tax its own water department.

Furthermore, the addition of a payment in lieu of taxes to the cost of service is an element of expense which this Commission has not previously allowed in rates. We note that the argument cited above has some merit, but we feel that it is outweighed by other considerations.

This Commission has consistently allowed, in rates, an expense to cover payments from municipally-owned water companies to their municipality's general fund for services provided by the municipality. This expense has been historically allowed to prevent any subsidy of services by the parent-municipality (taxpayers) which should be borne by water ratepayers instead. In this filing, the amount allowed the NWD is \$100,357, which covers administrative cost and data processing charges due the City of

Newport (Newport Exh. 3A, Sch. K). In light of this allowance, the addition of a payment in lieu of taxes to cover general municipal services would in effect overcompensate the City of Newport. This would be tantamount to two "bites of the apple" and inappropriate in the opinion of this Commission.

This Commission closely followed ratepayer sentiment during this docket. We are cognizant that Newport's water rates have significantly increased over the last ten years. We are also aware that sewer rates and property taxes have similarly increased. The Commission must emphasize, however, that these latter two expenses are beyond the purview of this tribunal. Newport's ratepayers/taxpayers ought to raise these concerns with their local government representatives. As for the water rates, we strongly believe that the capital improvements which have resulted from these rate increases are in the best interests of Newport's water ratepayers. Newport has witnessed the construction of a new treatment plant and the replacement of many miles of antiquated pipe. The proposed Sakonnet River pipeline project, approved previously by Newport's voters in 1989, proves to be a state-of-the-art supply conduit that will provide water service for many years to come. This Commission's decision to provide debt service revenues for this project is a response to the public's demand for a modern water system. We sincerely believe that the capital projects approved by this Commission, both in the past and for the future, through this rate increase, are in the best interests of Newport's water customers. Predicated on this finding, the

Commission shall approve the jointly recommended revenue requirement of \$7,333,817 less the identified payment in lieu of taxes amount of \$150,000.

ii. NAVY RATE DESIGN/COST-OF-SERVICE ISSUE

During this case, the Navy has asserted that it ought to be compared with the Portsmouth Water and Fire District for ratemaking purposes, and not Newport's retail water customers. To buttress this contention, the Navy proffered a cost of service study which holds that its rate ought to be lower than Portsmouth's.

Mr. Ernest Harwig was the Navy's witness for rate design. Mr. Harwig developed the aforementioned cost of service study in support of his rate recommendations (Navy Exhs. 1 and 2). As the proceeding evolved, Mr. Harwig amended his study to reflect updated data on the classification of Newport's large transmission mains, the number of meters serving the Navy, and certain transmission costs allocated to Portsmouth. The Navy's cost of service study reached the following conclusions:

- i. The study produces a Navy responsibility of approximately \$1.18 million, compared to the \$1.3 million produced by Newport's originally proposed rates;
- ii. The study produces a Portsmouth responsibility of \$531,000, compared to approximately \$387,000 which would be collected under Newport's originally proposed rates; and

iii. The study shows that the per unit cost to serve the Navy (excluding customer costs) is about \$2.24, and the corresponding unit cost to serve Portsmouth is approximately \$2.33 (Navy Exh. 4, p. 11).

Mr. Harwig explained that the Navy is seeking the rate that Newport is charging Portsmouth for water. He bases this demand on language that is contained in the water service contract currently in effect between the Navy and Newport. This language, contained in the 1959 contract, as amended, supra, provides that the rate must be based upon "like classes of service". Mr. Harwig maintains that only Newport's wholesale customer--Portsmouth, is in a class like the Navy. He argues that because of the similarities between the Navy and Portsmouth, which differ greatly from Newport's retail customers, the NWD must treat Portsmouth and the Navy alike for ratemaking purposes (Navy Exhs. 1 and 4). Mr. Harwig submits his cost of service study to support this position.

Both the Division and the NWD took exception to the findings and conclusions in the Navy's cost-of-service study. The NWD faulted the methodology used (base-extra capacity method) as being inconsistent with State policy on setting rates for water companies. Newport also criticized the Navy for using estimated data on maximum day and hour requirements instead of more exacting information. The Division, albeit in favor of the methodology employed, voiced concern with the data used by the Navy to derive its final cost figures. The Division additionally opted to reject the Navy's cost-of-service study due to the fact that it was filed

without notice and simultaneously with the Division's direct case in this docket. The Division indicated that this resulted in insufficient time to fully address the study. Both the Division and Newport agreed that the instant rate increase be applied across-the-board. The Division also urges the Commission to require that Newport file a fully allocated class cost-of-service study with its next rate filing or, alternatively, within three years, whichever comes first.

This Commission is mindful that the issue of Commission authority over rate design has continually manifested itself in Newport's rate filings. In this decision we reaffirm our charge to develop an appropriate cost-of-service and the framework to provide rates which recover the revenue requirement fairly.

Predicated on the record before us, we find that the cost of service study provided by the Navy persuasively depicts deficiencies in Newport's existing rate design. We believe that the current rate design, now approximately ten years old, must be revised. However, we do not find the Navy's cost-of-service study is fully adequate to conclude this rate design revision in the context of this docket. We find that the concerns voiced by the Division and Newport relative to the data used in the Navy's study are valid. We further find that the de facto study methodology must be more fully explored before specific application is mandated.

For the above reasons, the Commission shall require that Newport file with its next rate case or within three (3) years,

whichever comes first, a fully allocated class cost of service study. This new study will assist the Commission as it considers rate design issues. Moreover, because we are aware that the appropriate type of cost-of-service study is in issue, we shall open, through this report and order, a generic cost-of-service methodology docket for the purpose of exploring this issue. The newly created generic docket shall be designated Docket No. 2049 and will exist to seek out an appropriate cost-of-service methodology that may be applied to all of the Commission's regulated water utilities.

We stated above that we found the Navy's cost-of-service study persuasive. From the record, we take notice that the Navy ought to be recognized as a customer class distinct from the retail class. We cannot, however, put the Navy in the same class as Portsmouth. There are noticeable differences between Portsmouth and the Navy in the number of delivery points, transmission services provided, and the types of distribution systems used. Further, Portsmouth is defined as a wholesale customer which by statute is only limitedly within the Commission's purview (R.I.G.L. § 39-3-38). Nevertheless, we do find that the Navy is a bulk customer, with noticeable differences from retail customers, and therefore entitled to some rate relief.

Consequently, for purposes of setting revenue allocations, taking into consideration our recognition of the Navy's cost-of-service study and the cost-of-service study we have ordered herein, we shall order that the revenue requirements be raised by applying

only one-half of the overall revenue increase to the Navy (approximately 14 percent). Furthermore, we direct Newport, as we did previously in Docket No. 1848, to compress the Navy's rate design into the two blocks to raise their overall revenue obligations.

iii. STIPULATIONS

The Commission has examined the components of the stipulations identified herein, which have not already been discussed, and find them reasonable and in the best interest of Newport's ratepayers. They shall be adopted in toto.

Accordingly, it is

(13947) ORDERED:

1. That the tariff filing made by Newport on September 30, 1991, is hereby denied and dismissed;
2. Newport is hereby ordered to file with the Commission within thirty (30) days of the effective date of this Report and Order, new rates and charges designed to recover additional annual revenues of \$1,548,065 for a total cost-of-service in the amount of \$7,183,817 as specified in this order. This represents an increase of 27.5 percent over current rates;
3. That the stipulations filed in this docket by the Division and Newport are hereby approved and adopted by

the Commission with the following two exceptions:

i. That the agreed to revenue requirement be reduced by \$150,000 in order to excise the "payment in lieu of taxes" expense which has been rejected by the Commission. The new revenues approved in ordered paragraph 2, above, reflects this adjustment.

ii. That the rate increase shall not be applied across-the-board as proposed but rather shall be implemented in accordance with the next ordered paragraph;

4. That the revenue requirement approved through this order, constituting a 27.5 percent increase over current rates, shall be raised and apportioned by applying the following overall percentage revenue increase formula:

i. The Navy rates shall be increased by 13.75 percent;

ii. Rates for retail, government and fire protection customers shall be increased by approximately 32 percent; and

iii. Rates for Portsmouth shall be negotiated, in conformance with wholesale contract provisions, and be reflective of the cost-of-service and revenue requirements approved herein.

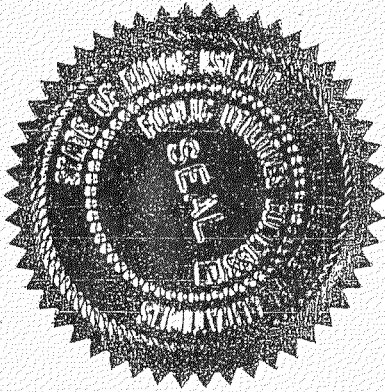
5. That Newport is hereby ordered to file with its next rate case or within three (3) years, whichever comes first,

a fully allocated class cost of service study. The methodology to be employed by this study shall be ordered by the Commission in the near future in accordance with the Commission's findings in Docket No. 2049; and

6. That the herein approved rate increase shall go into effect on July 1, 1992.

EFFECTIVE AT PROVIDENCE, RHODE ISLAND ON JUNE 4, 1992, PURSUANT TO AN OPEN MEETING DECISION. WRITTEN ORDER ISSUE ON JUNE 19, 1992.

PUBLIC UTILITIES COMMISSION



James J. Malachowski
James J. Malachowski, CHAIRMAN

Lila M. Sapinsely
Lila M. Sapinsely, Commissioner

Paul E. Hanaway
Paul E. Hanaway, Commissioner

RECEIVED

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

92 MAY -6 PM 2:22

IN RE: THE NEWPORT WATER DEPARTMENT
APPLICATION FOR CHANGE IN RATES.

DOCKET NO. 2029

SETTLEMENT AGREEMENT

This offer of settlement ("agreement") is entered into by the Newport Water Department ("Newport") and the Division of Public Utilities and Carriers ("Division") on this 8th day of May, 1992, in order to resolve issues pending between them in the above-captioned proceeding. Newport initiated the proceeding on September 30, 1991 by filing an application requesting an increase in annual revenues of \$2,588,360 which would provide total rate year revenues of \$8,388,058, an increase of 44.6% in total revenues.

The Division of Public Utilities has retained an expert witness and has conducted a thorough and complete investigation of Newport's proposal. On February 18, 1992, the Division filed testimony recommending that the appropriate amount of rate year revenues should be \$7,320,523, an increase of \$1,520,826 or 26.2% in total rate year revenues.

In its rebuttal testimony filed on March 23, 1992, Newport lowered its requested revenue increase to \$2,045,256. This results in total rate year revenues of \$7,674,810. The amended request reflected, among other revised items, a reduced debt service requirement due to lower than previously anticipated construction costs associated with the Sakonnet River Crossing Project. On April 9, 1992, the Division filed surrebuttal testimony which amended its original filed position to an increase

of \$1,474,933 for total revenues of \$7,104,487.

On March 20, 1992, the Newport Water Department and the Division entered into a stipulation which has been filed with the Public Utilities Commission, labeled the Partial Settlement Agreement (Joint Exhibit 1), which resolved certain issues raised in the filing. These issues pertained to the proposed impact fee, the billing charge, and the payment in lieu of property taxes. That Partial Settlement Agreement is hereby incorporated as part of this Agreement.

The parties to this agreement have engaged in further settlement discussions with respect to Newport's revenue requirements. As a result of these discussions, the undersigned parties have reached a settlement and stipulate as follows:

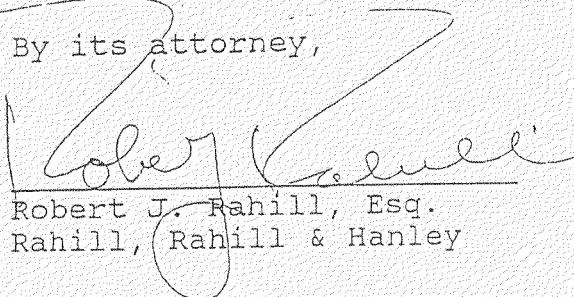
1. The Newport Water Department shall implement new rates designed to collect annual revenues of \$7,333,817 which is an increase of \$1,698,065 over the revenues the present rates would provide, as indicated in the accounting schedules attached hereto as Appendix A. The stipulated revenue requirement represents an increase of 30.1% in total revenues.
2. The billing charge increase shall be limited to \$11.00 in accordance with the Partial Settlement Agreement. Other tariffs will be increased on an across-the-board basis.
3. The effective date of the rate increase agreed to shall be for consumption on and after July 1, 1992.
4. It is understood that funds received for capital

improvements and debt principal and interest should be dedicated and restricted for those purposes. When the Newport Water Department next files for a general rate increase, any positive balance in the accounts will be credited to the benefit of customers. Any negative balance will be assumed to have been funded from current rates, and will not be charged against customers in the filing.

5. The debt service requirements, which comprise a significant amount of Newport's annual cost of service, have been calculated based on the average annual debt service needs for Newport's 1993, 1994, and 1995 fiscal years. A revised debt service schedule is attached hereto as Appendix B.
6. The previously executed Partial Settlement Agreement is incorporated into this agreement and is attached hereto as Appendix C.
7. This settlement agreement is the product of negotiation and compromise. The making of this agreement establishes no principles or precedents. This agreement shall not be deemed to foreclose any party from making any contention in any future proceeding or investigation.
8. The acceptance of this agreement by the Commission shall not in any respect constitute a determination by the Commission as to the merits of any issue in any subsequent rate proceeding.

CITY OF NEWPORT
WATER DEPARTMENT

By its attorney,

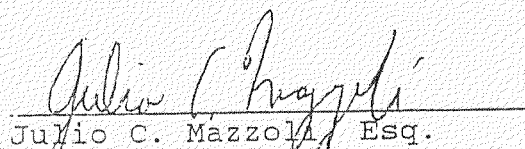

Robert J. Rahill, Esq.
Rahill, Rahill & Hanley

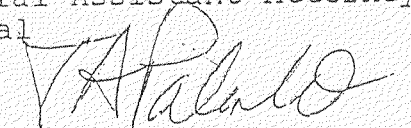
DATED: May 8, 1992

Respectfully submitted,

DIVISION OF PUBLIC UTILITIES
AND CARRIERS

By its attorney,


Julio C. Mazzola, Esq.
Special Assistant Attorney
General


SP ASST ATTY GEN.

Rebated Costs of Service
Newport Water Division

	Normalized 6/30/91	Estimated 6/30/92	Prelim Rate Year 6/30/93	Known & Meas Adj 6/30/93	Final Rate Year 6/30/93	Pro-Forma Adjst	Pro-Forma Year	
Revenues:								
Metered Usage	4,475,819	4,460,717	4,522,559		4,522,559	1,449,842	5,972,401	Schedule B
Customer Charge	399,283	399,596	402,818		402,818	67,564	470,382	Schedule C
Penalties	15,384	18,735	18,995		18,995	6,092	25,086	0.4% of Metered Usage
Private Fire Protecti	116,996	144,471	148,461		148,461	47,719	196,180	Schedule C
Public Fire Protectio	350,797	386,772	386,782		386,782	121,275	508,057	Schedule C
Service Charges	7,617	12,377	16,761		16,761	5,573	22,334	Schedule C
Taxiff Revenues	5,365,896	5,422,669	5,496,376	0	5,496,376	1,688,065	7,184,441	
Cost-based Charges	15,833	14,200	12,020		12,020		12,020	Schedule C
Service Installations	32,442	97,520	103,537		103,537		103,537	Schedule G
Water Quality Protect	14,452	13,652	13,819		13,819		13,819	\$0.01 per 1,000 Res & Conn gal
INVESTMENT INCOME	6,000	6,000	10,000		10,000		10,000	Estimated annual average
Total Revenues	5,434,623	5,555,841	5,635,752	0	5,635,752	1,688,065	7,323,817	
Operating Expenditures:								
Personnel Services	1,200,299	1,397,850	1,422,156		1,422,156	0	1,422,156	Schedule A-1
Fringe Benefits	518,872	501,551	637,013		637,013	0	637,013	Schedule A-1
Contracted Services	38,966	35,232	33,441		33,441	0	33,441	Schedule A-1
Materials & Supplies	524,529	455,143	305,730		305,730	0	305,730	Schedule A-1
Utilities	533,880	627,221	584,296		584,296	0	584,296	Schedule A-1
Equipment Costs	130,060	181,884	205,211		205,211	0	205,211	Schedule A-1
Depreciat & Maint	285,213	330,274	513,732		513,732	0	513,732	Schedule A-1
Debt Service	2,526,724	2,450,480	2,088,621		2,088,621	0	2,088,621	Schedule A
Capital Improvements	374,110	450,044	363,610		363,610	0	363,610	Schedule A-1
Total Expenditures	6,204,651	6,513,798	7,223,810	0	7,223,810	25,471	7,249,281	
Contingencies Reserve			64,536		64,536		110,007	1.50% of Revenues
Total Costs of Ser	6,204,651	6,513,798	7,305,346	0	7,305,346	25,471	7,330,817	
Surplus (Deficit)	(770,028)	(958,757)	(1,672,594)	0	(1,672,594)	1,672,594	0	

Feb. Schedule A-1
Revised 6/30/92

Rebulet's Expenditure Detail
Report Year: Division

	Normalized 6/30/92	Estimated 6/30/92	Fiscal Rate Year 6/30/93	Knoen & Rate Year 6/30/93	Final Rate Year 6/30/93	Pro-Tortia Adjust	Pro-Tortia Year	Notes & References
1. Services:								
Salaries & Wages	531,555	1,134,823	1,134,823	1,134,823	1,134,823		Schedule D	
Travel	85,547	110,668	110,668	110,668	110,668		Schedule D	
Office Exp	11,801	15,213	15,213	15,213	15,213		Schedule D	
Printing	5,335	25,286	25,286	25,286	25,286		Schedule D	
Phone	4,000	4,000	4,000	4,000	4,000		1,200 for retirees + \$166.67/mo	
Office & Equip. Lease	152,889	160,846	160,846	160,846	160,846		Schedule D	
Utilities (Electric)	3,120	3,120	3,120	3,120	3,120		Class X (16); 17 (9)	
Copy	5,326	6,248	6,248	6,248	6,248		Two employees + \$60/week	
Office Exp	73,425	4,631	28,666	28,666	28,666		Schedule D	
Total	1,282,285	1,357,850	1,492,156	1,492,156	1,492,156	0	1,492,156	
Benefits:								
Ret. Plan	105,597	102,655	114,743	114,743	114,743		Schedule B	
Life Insurance	468	2,162	1,588	1,588	1,588		1,588	
Medical Insurance	22,105	26,800	26,800	26,800	26,800		26,800 per quarter plus \$8,000 fee	
Health Insurance	167,504	230,551	230,551	230,551	230,551		Schedule B	
Life Insurance	24,081	33,231	33,231	33,231	33,231		Schedule B	
Life Insurance	4,842	4,382	4,382	4,382	4,382		Schedule B	
Life Insurance	143,095	132,460	282,518	282,518	282,518		Schedule B	
Total	544,232	570,011	637,013	637,013	637,013	0	637,013	
Other Services:								
Advertising	4,654	10,300	2,000	3,000	3,000		Schedule O	
Printing	4,305	6,212	6,883	6,883	6,883		Schedule O	
Telephone	232	1,100	1,196	1,196	1,196		Schedule P	
Travel	14,880	20,600	19,600	19,600	19,600		Schedule O	
Utilities	133	160	159	159	159		Schedule T	
Other Services	14,257	600	600	600	600		Schedule O	
Total	38,258	38,572	31,441	31,441	31,441	0	31,441	
Other Supplies:								
Printing	84	675	539	539	539		Schedule P	
Office Supplies	452,821	372,115	274,725	274,725	274,725		Schedule T	
Printing	1,312	1,460	1,600	1,600	1,600		Schedule T	
Office Supplies	28,262	46,316	44,358	44,358	44,358		Schedule G	
Office Supplies	5,123	10,743	11,657	11,657	11,657		Schedule G	
Office Supplies	27,747	22,885	22,858	22,858	22,858		Schedule F	
Total	524,575	455,112	385,730	385,730	385,730	0	385,730	

Rebuttal Expenditure Detail
Keypoint Water Division

Rebuttal Expenditure Detail
Keypoint Water Division

Rebuttal Expenditure Detail
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Rebuttal Expenditure Detail
Keypoint Water Division

Account	Normalized 6/30/91	Estimated 6/30/92	Prelim Rate Year 6/30/93	Known & Meas Adj 6/30/93	Final Rate Year 6/30/93	Pro-Forma Adjst	Pro-Forma Year	Notes & References
Utilities	353,851	488,261	418,538	0	418,538	0	418,538	Schedule H
Electric	21,158	4,104	2,518	0	2,518	0	2,518	Schedule I
Gas	33,631	37,847	33,253	0	33,253	0	33,253	Schedule I
Water	58,616	56,618	122,576	0	122,576	0	122,576	Rebuttal Testimony, Page 35
Other	7,341	7,341	7,411	0	7,411	0	7,411	Schedule P
Total	533,688	627,271	584,796	0	584,796	0	584,796	

Account	Normalized 6/30/91	Estimated 6/30/92	Prelim Rate Year 6/30/93	Known & Meas Adj 6/30/93	Final Rate Year 6/30/93	Pro-Forma Adjst	Pro-Forma Year	Notes & References
Utilities	130,800	181,884	249,211	0	249,211	0	249,211	
Electric	84,311	84,311	84,311	0	84,311	0	84,311	Schedule K
Gas	5,581	5,581	5,581	0	5,581	0	5,581	Stipulation with DTIC
Water	2,872	2,872	2,872	0	2,872	0	2,872	Schedule P
Other	16,046	16,046	16,046	0	16,046	0	16,046	Schedule L
Total	108,810	108,810	108,810	0	108,810	0	108,810	

Account	Normalized 6/30/91	Estimated 6/30/92	Prelim Rate Year 6/30/93	Known & Meas Adj 6/30/93	Final Rate Year 6/30/93	Pro-Forma Adjst	Pro-Forma Year	Notes & References
Utilities	21,853	38,682	45,936	0	45,936	0	45,936	Schedule M
Electric	3,440	3,440	3,440	0	3,440	0	3,440	Schedule N
Gas	150,000	150,000	150,000	0	150,000	0	150,000	Schedule O
Water	124,381	124,381	124,381	0	124,381	0	124,381	Schedule P
Other	74,032	74,032	74,032	0	74,032	0	74,032	Schedule Q
Total	283,211	336,274	513,732	0	513,732	0	513,732	

Account	Normalized 6/30/91	Estimated 6/30/92	Prelim Rate Year 6/30/93	Known & Meas Adj 6/30/93	Final Rate Year 6/30/93	Pro-Forma Adjst	Pro-Forma Year	Notes & References
Utilities	17,500	36,000	0	0	0	0	0	Per Docket 1978 Commission Order
Electric	45,610	45,610	45,610	0	45,610	0	45,610	Average of Five Year C.I.P.
Gas	25,000	25,000	25,000	0	25,000	0	25,000	Schedule G
Water	100,000	100,000	100,000	0	100,000	0	100,000	Average of Five Year C.I.P.
Other	100,000	100,000	100,000	0	100,000	0	100,000	Schedule G
Total	361,110	361,110	361,110	0	361,110	0	361,110	Average of Five Year C.I.P.

Account	Normalized 6/30/91	Estimated 6/30/92	Prelim Rate Year 6/30/93	Known & Meas Adj 6/30/93	Final Rate Year 6/30/93	Pro-Forma Adjst	Pro-Forma Year	Notes & References
Utilities	374,110	361,110	361,110	0	361,110	0	361,110	
Electric	45,610	45,610	45,610	0	45,610	0	45,610	Average of Five Year C.I.P.
Gas	25,000	25,000	25,000	0	25,000	0	25,000	Schedule G
Water	100,000	100,000	100,000	0	100,000	0	100,000	Average of Five Year C.I.P.
Other	100,000	100,000	100,000	0	100,000	0	100,000	Schedule G
Total	674,110	674,110	674,110	0	674,110	0	674,110	Average of Five Year C.I.P.

Account	Normalized 6/30/91	Estimated 6/30/92	Prelim Rate Year 6/30/93	Known & Meas Adj 6/30/93	Final Rate Year 6/30/93	Pro-Forma Adjst	Pro-Forma Year	Notes & References
Utilities	108,810	108,810	108,810	0	108,810	0	108,810	
Electric	84,311	84,311	84,311	0	84,311	0	84,311	Schedule K
Gas	5,581	5,581	5,581	0	5,581	0	5,581	Stipulation with DTIC
Water	2,872	2,872	2,872	0	2,872	0	2,872	Schedule P
Other	16,046	16,046	16,046	0	16,046	0	16,046	Schedule L
Total	108,810	108,810	108,810	0	108,810	0	108,810	

Account	Normalized 6/30/91	Estimated 6/30/92	Prelim Rate Year 6/30/93	Known & Meas Adj 6/30/93	Final Rate Year 6/30/93	Pro-Forma Adjst	Pro-Forma Year	Notes & References
Utilities	21,853	38,682	45,936	0	45,936	0	45,936	Schedule M
Electric	3,440	3,440	3,440	0	3,440	0	3,440	Schedule N
Gas	150,000	150,000	150,000	0	150,000	0	150,000	Schedule O
Water	124,381	124,381	124,381	0	124,381	0	124,381	Schedule P
Other	74,032	74,032	74,032	0	74,032	0	74,032	Schedule Q
Total	283,211	336,274	513,732	0	513,732	0	513,732	

Account	Normalized 6/30/91	Estimated 6/30/92	Prelim Rate Year 6/30/93	Known & Meas Adj 6/30/93	Final Rate Year 6/30/93	Pro-Forma Adjst	Pro-Forma Year	Notes & References
Utilities	17,500	36,000	0	0	0	0	0	Per Docket 1978 Commission Order
Electric	45,610	45,610	45,610	0	45,610	0	45,610	Average of Five Year C.I.P.
Gas	25,000	25,000	25,000	0	25,000	0	25,000	Schedule G
Water	100,000	100,000	100,000	0	100,000	0	100,000	Average of Five Year C.I.P.
Other	100,000	100,000	100,000	0	100,000	0	100,000	Schedule G
Total	361,110	361,110	361,110	0	361,110	0	361,110	Average of Five Year C.I.P.

Account	Normalized 6/30/91	Estimated 6/30/92	Prelim Rate Year 6/30/93	Known & Meas Adj 6/30/93	Final Rate Year 6/30/93	Pro-Forma Adjst	Pro-Forma Year	Notes & References
Utilities	374,110	361,110	361,110	0	361,110	0	361,110	
Electric	45,610	45,610	45,610	0	45,610	0	45,610	Average of Five Year C.I.P.
Gas	25,000	25,000	25,000	0	25,000	0	25,000	Schedule G
Water	100,000	100,000	100,000	0	100,000	0	100,000	Average of Five Year C.I.P.
Other	100,000	100,000	100,000	0	100,000	0	100,000	Schedule G
Total	674,110	674,110	674,110	0	674,110	0	674,110	Average of Five Year C.I.P.

Debt Service
Report Water Division

RI FR	CP	DATE ISSUED	LENDER / AGENT	DESCRIPTION	Original Issue	True Interest	Pay Terms	Year Ended 6/30/91		Year Ended 6/30/92		Year Ended 6/30/93	
								Principal	Interest	Principal	Interest	Principal	Interest
64	46	8/01/59	Fleet National Bank	System Improvements	700,000	4.0000%	36 Yr Ser	30,000	5,700	30,000	4,500	30,000	2,600
64	46	6/01/68	Fleet National Bank	System Improvements	1,800,000	4.6000%	27 Yr Ser	75,000	16,963	75,000	13,513	75,000	6,900
64	165	1/15/72	Fleet National Bank	System Improvements	1,500,000	4.8750%	22 Yr Ser	100,000	17,266	100,000	17,391	66,667	4,875
82	106	6/15/84	RI Hospital Trust	System Improvements	1,800,000	9.6307%	15 Yr Ser	121,395	103,012	121,395	91,601	0	0
85	514	8/15/86	RI Hospital Trust	Belleuve Water Line	600,000	7.1200%	20 Yr Ser	33,054	33,649	33,054	31,178	33,054	27,467
		12/07/87	Bank of New England	Lease Pur - Dump Truck	37,287	6.5300%	5 Yr Amort	6,641	999	7,003	555	1,239	41
86	357	4/01/89	Bank of New England	Water Treatment Plant	5,000,000	7.2500%	15 Yr Ser	350,000	330,944	350,000	305,569	341,667	261,163
		5/02/89	Bank of New England	Lease Pur - Tractor	38,698	8.2500%	5 Yr Amort	7,092	2,412	7,689	1,807	5,792	609
86	357	4/15/90	Dean Witter & Assoc	Water Treatment Plant	6,400,000	6.9325%	20 Yr Ser	320,000	453,660	320,000	427,460	320,000	380,160
88	176	4/15/90	Dean Witter & Assoc	Sakonnet Crossing	500,000	6.9325%	20 Yr Ser	25,000	35,458	25,000	33,335	25,000	29,700
		7/16/90	Fleet National Bank	Lease Pur - EOP Equip	39,200	6.5300%	5 Yr Ser	0	2,436	8,000	2,004	8,000	1,528
		4/01/91	City of Newport	Water Treatment Plant	2,700,000	7.0000%	10 Yr Amort	0	64,855	193,710	180,599	223,306	156,644
		4/01/91	City of Newport	Water Treatment Plant	300,000	6.5000%	5 Yr Amort	0	0	50,448	24,450	59,724	15,176
87	106	4/15/92	Citizen's Bank	6/15/84 Refunding	1,800,000	6.0629%	11 Yr Ser	0	0	0	0	80,539	53,420
89	176	4/15/92	Citizen's Bank	Sakonnet Crossing	4,300,000	6.1715%	20 Yr Ser	0	0	0	0	225,000	244,836
89	176	1/15/93	To Be Determined	Sakonnet Crossing	5,225,000	6.1715%	20 Yr Ser	0	0	0	0	174,167	234,352
Total Loans - Total Debt								1,068,153	1,067,554	1,321,300	1,129,100	1,669,154	1,419,468
								2,125,736	2,450,480	3,088,621			

STATE OF RHODE ISLAND
PROVIDENCE, SC.

PUBLIC UTILITIES COMMISSI

IN RE: THE NEWPORT WATER DEPARTMENT
APPLICATION FOR CHANGE IN RATES

DOCKET NO 2029

PARTIAL SETTLEMENT AGREEMENT

This offer of partial settlement ("agreement") is entered into by the Newport Water Department ("Newport") and the Division of Public Utilities and Carriers ("Division") on this twentieth day of March, 1992, in order to resolve certain issues pending between them in the above-captioned proceeding. Newport initiated the proceeding on September 30, 1991 by filing an application requesting rate relief in the form of a general 45.74% increase in annual revenues which would provide total rate year revenues of \$8,388,058.

The following issues were included as part of Newport's filing:

1) a proposed impact fee of \$750 for new customers; 2) a proposed increase in the billing charge from \$9.42 to \$11.75; and 3) a proposed payment in lieu of property taxes of \$195,490.

The parties to this agreement have engaged in settlement discussions with respect to the three issues listed above. As a result of these discussions, the undersigned parties have reached agreement on these three issues.

Accordingly, the parties stipulate as follows:

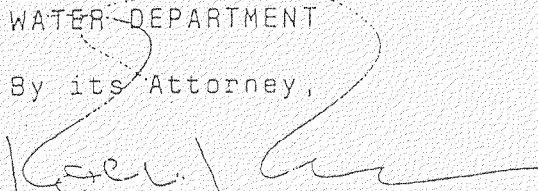
1. Newport agrees to eliminate the proposed impact fee from its rate filing request.
2. The billing charge increase would be limited to \$11.00

assuming the overall increase ultimately granted by the Public Utilities Commission could support said increase.

3. A payment in lieu of property taxes at a level of \$150,000 was agreed upon, subject to the condition that this amount actually be paid by the Water Department to the City of Newport.
4. This partial settlement agreement is the product of negotiation and compromise. The making of this agreement establishes no principles or precedents. This agreement shall not be deemed to foreclose any party from making any contention in any future proceeding or investigation.
5. The acceptance of this agreement by the Commission shall not in any respect constitute a determination by the Commission as to the merits of any issue in any subsequent rate proceeding.

CITY OF NEWPORT
WATER DEPARTMENT


By its Attorney,


ROBERT J. RAHILL, ESQ.
Rahill, Rahill & Hanley

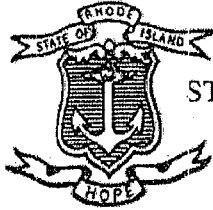
Respectfully submitted,

DIVISION OF PUBLIC UTILITIES
AND CARRIERS

By its Attorney


THOMAS A. PALOMERO, ESQ.
Special Assistant Attorney
General

TAB 3



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION
89 Jefferson Blvd.
Warwick RI 02888
(401) 941-4500

Chairman Elia Germani
Commissioner Kate F. Racine
Commissioner Brenda K. Gaynor

October 1, 2002

Francis X. Flaherty, Esq.
Flaherty, Orton & Flaherty
Attorneys at Law
20 Centerville Road
Warwick, RI 02886

RE: Newport Water Department, Flat rate filing; Docket 3457;
First data request of the Commission

Dear Mr. Flaherty:

Enclosed is the first data request of the Commission in this docket. The questions pertain to the flat rate design filing order by the Commission in Docket 2985 and filed by Newport on September 12, 2002.

If there are any questions regarding the requests, I may be reached at 401-941-4500, extension 106.

Sincerely,

Thomas Massaro
Fiscal Analyst, RI PUC

cc: L. Massaro, clerk
Service list

First data request of the Commission.

1. The Commission's order in Docket 2985 stated: "We expect Newport Water to study the characteristics of its retail rate class to appropriately classify customer into homogenous groupings. Newport Water will have to clearly support to the Commission its basis for developing the rate groups." (Order #16235, at page 34)

In the flat rate filing, Newport has not provided any explanation for its selection of the three retail classes –residential, commercial, and government. Provide full testimony to support the three retail classes selected; also, explain why there is no industrial or large metered class. Please fully describe the customers to be assigned to each class. (i.e.—will multi-dwelling units be residential or commercial? Will the government class reflect only municipal governmental entities? etc.)

2. Has Newport made a determination for their retail accounts to classify each account/customer to one of the three retail rate classes?

If the answer is yes, provide the number of customers for each class and provide any appropriate consumption data available for cost allocation purposes. This data could include monthly and annual use, monthly peak data, hourly peak data, average monthly and annual use, or any other data accumulated by class.

If the answer is no, explain when this will be done and how many accounts have been assigned a rate class classification to date.

3. Also. In docket 2985, the Commission stated:

"To provide a meaningful cost of service study, it is imperative that Newport Water develop the appropriate underlying data. Therefore, we direct Newport Water to immediately start accumulating the necessary data, such as average-day use and maximum –day use by rate classes, the net book value of assets by functional category, and the allocation of net plant values, etc. Newport Water shall report to the Commission and Division on its progress with rate design with each semi-annual fiscal report filed. We encourage Newport Water to work with the Division and other interested parties on an on-going basis to reach consensus on the type of data, acceptability of data, and sufficiency of data to be assembled." (Order 16235, at pages 34-35)

In the December 31, 2001 semi-annual report filed in February of 2002, Newport noted, "With respect to the base/extra capacity cost allocation study, the City is currently collecting data related to customer demand characteristics. This data will be used to help determine the appropriate allocation of revenue requirements to customer classes. It is anticipated that preliminary water rates based on the cost allocation study will be available in June, 2002."

Please specify what data has been accumulated and what data is still being accumulated. If any meaningful data for a cost allocation study / rate design has been accumulated, provide a copy of this data. Also, indicate what, if any of the data, was used the cost allocation study filed in docket 3457.

Questions relating to Support Schedule D

4. For the calculation of max month capacity factors:
 - (a) what was/were the data period(s) used for the calculation of each rate class' capacity factor for the 'average rate for max month' and 'annual average rate'?
 - (b) Provide and explain the supporting calculations for each factor for the average rate for max month and annual average rate.
 - (c) What were the data periods used for the calculation of the overall system max day demand, max-hour demand, max-month demand and system average day production?
 - (d) Provide the data and calculations in support of the overall system max day demand, max-hour demand, max-month demand and system average day production.

5. The weekly usage adjustments of 1.05 (residential), 1.17 (commercial and governmental), and 1.0 (wholesale) apparently are taken from the AWWA M-1 Manual. Explain why they are appropriate for Newport's retail and wholesale classes.

6. The maximum day capacity factors and estimated maximum-hour ratios on the second page of Support Schedule D are taken from the AWWA M-1 manual (at Appendix A) and compared to the results in the example in Chapter 8 of the AWWA M-1 manual.

How does this reasonableness test and system diversity test relate to Newport's rate classes when the max-day and max-hour factors apparently do not come from Newport specific data?

TAB 4

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Division of Public Utilities & Carriers' Data Requests
Set I

Div. 1-15: With regard to \$50,000 requested for depth surveys for all of the Newport's reservoirs:

- a. Please provide supporting documentation for this estimate.
- b. Please explain why funds are being sought for all reservoirs given Ms. Forgue's testimony supporting depth surveys only for the North and South Ponds at a cost of \$8,000 and \$10,000.
- c. Please identify the time period over which Newport expects to undertake the depth surveys for all reservoirs.

Responses:

- a. Initial estimate was calculated for North and South Ponds specifically due to their importance to the Newport WTP, their shallow depths, and receipt of silty storm runoff. Fees to survey the depths of North and South Ponds are estimated at \$200 per hour to include 4 field staff, rental equipment, and misc. expenses, for an approximate period of 40 hours. Additionally, the engineering firm would provide a report with profile views and volume calculations that would be based on the empirical data and cost no more than \$500. Costs are estimated at: 40 hrs x \$200/hr (\$8,000) plus \$500 for project documentation, or \$8,500. Adding a standard 15% allowance for unknown factors translates to a cost estimate of \$9,775 to survey North and South Ponds. Based on surface area, North and South Ponds comprise approximately 21%, or one-fifth of the area of all reservoirs. The estimated costs to survey all reservoirs would be $\$9,775 \times 5 = \$48,875$;
- b. Although North and South Ponds are priority locations for the depth surveys, all reservoirs should be investigated to ensure accurate tracking of available water supplies. A survey of this type has not been conducted in excess of 20 years. Since the reservoirs have been subjected to silty runoff for an extended period of time, it is expected that some capacity has been lost to sediment deposition. This lost capacity needs to be quantified. It is recommended that a baseline survey be completed to identify existing depths, to evaluate current depth measurement practices and to ensure best tracking of available supplies. The drought of 2002 was a warning as to the limitations of Newport Water's supplies;
- c. Newport Water anticipates undertaking these surveys between April 2004 and July 2004.

Prepared by: J. Forgue/A. Sylvia

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Division of Public Utilities & Carriers' Data Requests
Set I

Div. 1-17: With regard to the \$85,000 included for a Vulnerability Assessment in line item 282, Regulatory Expense:

- a. Please provide detailed supporting documentation for this cost estimate.
- b. Please state the frequency with which such an assessment will be prepared.
- c. Please state whether federal funding is available to help pay for such assessments and whether Newport has or will apply for this assistance. If not, explain why not.
- d. Please identify the actual amount incurred for Vulnerability Assessments or other similar security related work in FY 2002, the test year, and FY 2003. Identify in what budget line items any such costs are recognized.

Response:

- a. In addition to the attached project description, Newport Water offers the following reply. Although the costs for this project are unknown and have varied widely for other water suppliers, the requested budget is based on best available information regarding the requirements associated with completing the Vulnerability Assessment (VA), updating our Emergency Response Plans, tracking development of Federal and State funding programs, and experience with consultants. Assuredly, Newport Water plans to meet the requirements and propose to invest in feasible projects to protect our systems from attacks, develop reasonable projects to leverage existing system redundancies, and exert due diligence regarding public education. It should be noted that the anticipated fee proposals will be not-to-exceed fees, and that expenses will match actual services rendered. The systems that comprise Newport Water are quite extensive if not complex, and configured like no other water supplier in the State. Newport Water owns and maintains two water treatment plants, nine surface water reservoirs, multiple pump stations, 160 miles of distribution system in three pressure zones, and approximately 15,000 service connections. For this reason, fees to conduct a VA for Newport Water will likely be unique as compared to other water suppliers in the State, and probably have no correlation to another water supplier with similar number of service connections;
- b. The Public Health Security and Bioterrorism Preparedness and Response Act (Bioterrorism Act) of 2002 indicates this Vulnerability Assessment as a one-time effort. Newport Water anticipates that actions will be taken to address

Response to Division of Public
Utilities & Carriers' Data Requests
Set I

Div. 1-17
Page 2 of 2

vulnerabilities as prioritized and outlined in our Emergency Response Plan update, Capital Improvements Program and Infrastructure Replacement Plan update;

- c. Federal grant funding was made available to water suppliers serving 100,000 connections or more. For water suppliers serving 3,300 to 99,999 connections, the RIDOH has provided opportunities for training and education associated with complying with the Bioterrorism Act of 2002. Newport Water has taken advantage of the training opportunities and is prepared to comply with the Regulations with the assistance of a firm that remains to be selected. At this time the City is soliciting proposals from firms that specialize in water security. The RFP closes on January 23, 2004. While availability of grant funding is not known, low-interest loans may be available through the RI Clean Water Finance Agency to assist with improvements identified in the Vulnerability Assessment. Research will be undertaken, and financial opportunities will be leveraged as available;
- d. No expenses were incurred related to compliance with the Bioterrorism Act of 2002 during FY 2002, the test year, or FY 2003.

Attachment: Project Description to comply with the Bioterrorism Act

Prepared by: J. Forgue/A. Sylvia

PROJECT DESCRIPTION

Vulnerability Assessments and Emergency Response Plans – why are they necessary and what are their purposes?

Significantly catalyzed by the U.S. events of September 11, 2001, the Public Health Security and Bioterrorism Preparedness and Response Act became law on June 12, 2002. Title IV of the Bioterrorism Act, Public Law 107-188, requires drinking water facilities serving populations of more than 3,300 to perform Vulnerability Assessments (VA) and to prepare an Emergency Response Plan (ERP) that incorporates the results of the VA.

The Environmental Protection Agency (EPA) has defined six elements of the required VA, as follows:

1. Characterization of the water system, including its mission and objectives, an inventory of priority facilities, customers, and procedures;
2. Identification of adverse consequences to avoid, discussion of the disruptions that would adversely affect Newport Water's ability to provide a safe, reliable source of water, and the magnitude of the disruptions;
3. Determination of critical assets that might be subject to damaging, malevolent acts including physical, biological, radiological, or electronic;
4. Assessment of likelihood (qualitative probability) of such malevolent acts from historic and possible adversaries (e.g. terrorists, vandals);
5. Evaluation of existing countermeasures capable of detecting, deterring, delaying, and responding to threats or malevolent acts;
6. Assess current risks and develop a prioritized risk mitigation plan and development of a prioritized plan for risk reduction.

The EPA requires that the Newport Water submit this VA and a certification of its completion no later than June 30, 2004. The VA will serve as a guide for developing risk reduction options and associated capital and operating budgets for Newport Water. Within six (6) months of completing the VA, the City is also required to update its Emergency Response Plan (ERP) and certify its update to the EPA as well. Developing an ERP can take a lot of time and effort. It is important to note that the Water System ERP is a "living" document requiring periodic updates (i.e., at least annually or if there is a major change to the water utility system configuration). The Bioterrorism Act requires Newport Water to identify plans, procedures, and equipment that when implemented will defend against or mitigate the impact of a terrorist or other intentional attack on our infrastructure. The Bioterrorism Act also calls for coordination with Local Emergency Planning Committees, which include groups and programs internal and external to Newport Water.

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Division of Public Utilities & Carriers' Data Requests
Set I

Div. 1-27: Please provide workpapers and supporting documentation for the claimed increases in Repair and Maintenance – Equipment (line item 275) for each of the accounts.

Response: Attached for your review is a spreadsheet outlining the expenses associated with line item 275 for all water accounts from FY 2000 to FY 2004.

02200-0275 (Administration): This account was combined with the -274 (Repair & Maint/Property) account. The -274 was budgeted at \$500 in FY 2003 and the -275 was budgeted at \$300 in FY 2003. This account was increased to address expenses associated with maintenance of the Administrative facility at 70 Halsey Street, including repair of several exterior doors.

02209-0275 (Customer Accounts): This account is increased to enable maintenance, repair and replacement of aging meter reading guns. Repairs will be made to reduce costs where practical, as opposed to replacing a meter reading gun entirely. Additional prudence will be employed as the Department moves toward use of the new Opal customer billing software. The Advantage II Probe meter guns cost approximately \$1,500 and would be purchased from this account if repairs cannot be made. Please note that funds will not be spent to repair or purchase equipment that may not be usable with the new Opal billing software later in 2004. Magnitude of the increase was further anticipated due to the history where no major repairs have occurred to the meter reading equipment over the past several fiscal years, as evidenced by less than \$400 expense previously in this account.

02212-0275 Source of Supply – Island: This account is increased to enable maintenance and repairs to mowers, trimmers, and trailers used to maintain Source of Supply properties on Aquidneck Island. Minimal maintenance was needed in FY 2003. To date, 56% of the rate year budget has been spent on these types of repairs.

02213-0275 Source of Supply – Mainland: This account is increased to enable repairs associated with our Sakonnet Pump Station property and the equipment used to maintain those properties. A minimal increase was recommended as compared to the actual expenses in FY 2003 because no extraordinary projects are anticipated.

02222-0275 Newport WTP: This account was increased to enable corrective measures and improvements that will be identified in the Compliance Evaluations, as well as maintenance items comparable to historical expenses such as painting and general and seasonal housekeeping.

CITY OF NEWPORT
WATER DEPARTMENT
Docket No. 3578

Response to Division of Public
Utilities & Carriers' Data Requests
Set I

Div. 1-27
Page 2 of 2

02223-0275 Lawton Valley WTP: This account is increased to enable corrective measures and improvements that will be identified in the Compliance Evaluations, as well as maintenance items comparable to historical expenses such as painting and general and seasonal housekeeping.

02235-0275 Laboratory: This account was increased for expenses associated with repairing lab equipment, such as the sampler bath and lab dishwasher, by lab personnel. Expenses under this account will prevent expensive replacement of equipment.

02241-0275 Distribution: This account is increased to enable engaging of a consultant to assist with the planning and specifying a scope of work to make repairs the Reservoir Road Tank. Redundant systems will need to be activated and operated sequentially to maintain service. The major component of work is the repainting the interior and exterior surfaces of the tank.

02245-0275 Fire Protection: This account is increased due to the combining of 02241-0297 (Distribution-Hydrant Maintenance, \$1,500) and 02245-0297 (Fire Protection-Hydrant Maintenance, \$10,000), and will enable replacement of faulty, aging equipment during regular maintenance inspections. Expenses from this account will not be utilized for hydrants older than 1960, which are covered by the capital hydrant replacement program.

Prepared by: J. Forgue/ A. Sylvia

City of Newport Water Division Docket No. 3578

Data Response 1-27
 Repair & Maintenance (-0275)

Account	Actual 1999-2000	Actual 2000-2001	Actual 2001-2002	Actual 2002-2003	Adopted 2003-2004
2200 Administration	\$0	\$300	\$762	\$152	\$1,200
2209 Customer Accounts	\$309	\$326	\$0	\$0	\$6,000
2212 Source of Supply - Island	\$1,300	\$221	\$282	\$1,352	\$5,000
2213 Source of Supply - Mainland	\$800	\$800	\$0	\$737	\$1,000
2222 Newport WTP	\$34,477	\$33,947	\$34,881	\$33,122	\$45,000
2223 Lawton Valley WTP	\$14,652	\$10,860	\$35,813	\$40,175	\$60,000
2235 Laboratory	\$103	\$250	\$0	\$900	\$1,500
2241 Distribution	\$1,485	\$1,200	\$14,774	\$2,174	\$60,000
2245 Fire Protection **	\$5,485	\$515	\$5,784	\$165	\$14,000

** 02245 (FY 2003) includes \$105 from 02241-0297 (Distribution - Hydrant Maint) and \$60 from 02245-0275 (Fire Protection - Hydrant Maint), applicable as combined in FY 2004

CITY OF NEWPORT WATER DEPARTMENT
Docket No. 3578

Response to
Division of Public Utilities & Carriers' Data Requests
Set I

Div. 1-45: Please explain why the Water Division did not seek rate relief to avoid the shortfall which gave rise to the claimed balance owed to the City.

Response: The City was not able to close its books or file its audits for FY2001 and FY2002 until December 2002 and March 2003, respectively. Furthermore, the City did not fund the restricted accounts in accordance with the mandates set by RI. PUC in Docket No. 2985 until December of 2002. Therefore it was not apparent that there was a shortfall until 2003, by which time the City was preparing to file a rate request.

Prepared by: L. Sitrin

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Division of Public Utilities & Carriers' Data Requests
Set II

Div. 2-1: With regard to Customer Services Revenue shown on Schedule RFC-2:

- a. Please state whether it is correct that these revenues are amounts collected from customers for hook-ups, hydrants, materials, etc. If not explain what is included.*
- b. Please explain and provide supporting documentation for the projected reduction in Customer Services Revenues from the test year to the rate year.*
- c. Please explain why Customer Services Revenues are not recognized as an offset to revenue requirements and identify where they have been accounted for in the Rate Year.*

Response:

a. The Customer Service Revenue is generated from Newport Water's sundry billing to customers. These revenues are associated with charges to customers for a variety of reasons: billing for new meters, tapping services into the main distribution line, charges to contractors for parts associated with the distributions system. Newport Water also bills for hydrant meters, water sales, repairs to the distribution system done by others (contractors, etc), as well as seasonal maintenance of private hydrants. Newport Water also charges fees for seasonal activation and termination of water service, and lab testing services provided by the laboratory by request.

b. The \$85,000 projection for Customer Service revenues in the Rate Year is consistent with projections of Customer Service revenues in previous years and is also consistent with the amount of Customer Service revenues actually recovered in FY 00 (\$87,641) and FY 01 (\$64,909). The \$101,234 recovered in the Test Year appears to be anomalous, as such, it may have been more appropriate to make a normalizing adjustment; however, the net result would have been the same.

c. As described above the Customer Service Revenue does fit the characteristics of a revenue offset and should be reflected as such in Schedule RFC-2 of the rate model.

Prepared by: J. Forgue and H. Smith

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Division of Public Utilities & Carriers' Data Requests
Set II

Div. 2-9: Please explain why the general service maximum hour demand utilized in developing Symbol B was based on the average of the maximum hour demands in each month of the year rather than on the largest system maximum hour demand during the year.

Response:

The max hour data provided by Newport for FY 2000, FY 2001, and FY 2002 indicates a system maximum hour of 17.3 MGD in August 2000. Since this value is 2.0 MGD higher than the second largest max hour demand during the three year period it was considered to be anomalous and it was determined that allocations should not be based solely on such data. Instead a more conservative approach was taken that involved determining the average of all the system max hour demands for each month of the three year period to develop an allocation that better reflects the overall characteristics of system peak usage and not base the allocation symbol on one data point.

Prepared by: J. Forgue

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Division of Public Utilities & Carriers' Data Requests
Set III

Div. 3-12: With regard to the response to DIV 1-23, please identify the anticipated date for Lawton Valley to begin discharging sludge to the Newport sewer system.

Response: Completion of this project is anticipated by the end of 2005. Approximately 25% of the work was completed in 2003 as it related to the needs of the Town of Portsmouth. The remaining work is expected to continue in the summer of 2004 through completion in 2005. Land acquisition from RIDOT has been a lengthy process but is currently near completion. The City will require re-approval from the Portsmouth Zoning Board, and other approvals from RIDEM and the Town of Middletown. Applications will be submitted to RIDEM and the Portsmouth Zoning Board in March 2004. Newport continues to work to meet the requirements of the Town of Middletown, whose sanitary sewer system is planned to convey the Lawton Valley residuals to Newport's sanitary sewer system and Water Pollution Control Facility.

Prepared by: J. Forgue/ A. Sylvia

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Division of Public Utilities & Carriers' Data Requests
Set III

Div. 3-13: With regard to the response to DIV 1-27, please state whether proposals have been sought and/or a consultant selected for the work to make repairs to the Reservoir Road Tank. If yes, provide details regarding the bid costs.

Response: Proposals have not been sought to date. The City is preparing to advertise a Request for Proposals (RFP) for the engineering services associated with making repairs to the Reservoir Road Tank.. Advertisement of the RFP is scheduled for April 2004.

Prepared by: J. Forgue/ A. Sylvia

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Division of Public Utilities & Carriers' Data Requests
Set III

Div. 3-16: Please explain how the amounts contributed to the debt service, IFR/capital spending, and chemicals restricted accounts in the first year following the Commission's approval of rates in Docket No. 2985 were determined. (For example, were the amounts based on the full annual amount approved for each type of spending or were the amounts prorated to reflect the lag from when rates were effective until revenues were billed and collected?)

Response: No documentation exists for how the accounts were funded prior to November 2002. At that time, we went back and determined what the balances should be from July 1, 2000 (that is, a full year of funding was used for FY2001) forward.

Prepared by: L. Sitrin

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Division of Public Utilities & Carriers' Data Requests
Set III

Div. 3-17: Please provide workpapers showing how the amount to be set aside in the restricted fund accounts as of June 30, 2001.

Response: No documentation exists for how the accounts were funded prior to November 2002. At that time, we went back and determined what the balances should be from July 1, 2000 (that is, a full year of funding was used for FY2001) forward.

Prepared by: L. Sitrin

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Division of Public Utilities & Carriers' Data Requests
Set IV

Div. 4-3: Please explain what rates private fire service customers with 5/8 inch and 2-inch connections are currently charged. If they are currently not charged, explain why not. If they are currently billed at the general water rate, please explain why the change is being proposed.

Response: The latest effective Order of the RIPUC does not include fees for fire services other than 4", 6", 8", 10", and 12". Newport Water charges accordingly. Rates for 5/8" and 2" fire services have been proposed under the current Filing as a matter of service flexibility. There are currently no 5/8" and 2" fire services in our system.

Prepared by: J. Forgue/ A. Sylvia

TAB 5

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Portsmouth Water and Fire District's Requests
Set I

PWFD. 1-2: (A) In the section on Prior Orders (Item 2.9 (o)), the customer demand study ordered by the Commission in Docket No. 2985 is not addressed ("We expect Newport Water to study the characteristics of its retail class to appropriately classify customers into homogeneous groups" and "we direct Newport Water to immediately start accumulating the necessary data, such as average -day use and maximum-day use by rate class..." pg 34 of Report and Order in Docket 2985). Please provide a copy of that study including the accumulated data.

(B) In that same Commission Report and Order, Newport water was also ordered to report on its progress in this matter "with each semi-annual report filed". Please provide copies of the relevant section of each semi-annual report since the Commission Order.

(C) Lastly Newport Water was encouraged to work with the Division and other interested parties "on the type of data, acceptability of data, and sufficiency of data to be assembled". Aside from requesting data from Portsmouth, please describe what work was done with the Division and/or any the intervenors in the last docket and provide copies of any correspondence related to this matter (aside from the semi-annual report excerpts requested in (B) above).

Response:

(A) The cost allocation study utilizing base extra capacity required by the Commission is included in the testimony of Harold Smith. However, some of the data referred to in the Commission's order was not specifically accumulated. As set forth in my pre-filed testimony, I did not become Director of Public Works until March 2001. As such, I did not participate in Docket 2985. Further, I did not immediately become aware of the requirements in the Order from Docket 2985 when I first began as Director of Public Works. It was not until approximately May 2001 that I became aware of the requirements set forth in the Orders.

As mentioned in my pre-filed testimony the Finance Director and the City Manager resigned in December 2001 and January 2002 respectively. As such, I became Director of Public Works at a time of great turmoil. When I began looking into the many issues raised by the Docket 2985 Order, I found that the City of Newport and The Water Division had not compiled the required data in the prior year.

In addition, it has been very difficult to develop data with our current computer system. The software we have been using is not compatible with the finance

department software. Newport Water is in the process of installing a new billing system that is compatible with the Finance Department system. We hope to conduct a parallel run with our current software this June. We believe that installation of this software will allow us to query data much better. However, some data referenced in the Docket 2985 Order is, and will remain, very difficult to develop. For instance, data on max-day use by rate class will be difficult to provide, as not all accounts are read at the same time.

Despite these limitations, The Newport Water Division, in consultation with its attorney and financial consultant decided to proceed with flat rate cost allocation study and this rate case in an effort to comply with Commissions order to develop flat retail commodity rates.

- (B) No reports have been included in the semi annual reports. See above.
- (C) No additional work was undertaken besides what is noted due to the compatibility issues with the billing system in place to collect data. See above.

Prepared by: J. Forgue

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Portsmouth Water and Fire District's Requests
Set I

PWFD 1-6: Regarding page 11, lines 4-15 of Ms. Forgue's testimony: Does the \$20,000 for the Consumer Confidence Report include for the in house Water Division staff? If so, how much? What are the other costs that make up the \$20,000?

Response: The testimony states that the \$20,000 is for the Consumer Confidence Report *and* any required reporting. The preparation and layout of the CCR is performed by Water Division Staff. Line item 282 funds costs associated with copying, postage, and mailing of the CCR. These costs were \$5,559 and \$5,370 for FY 2002 and FY 2003, respectively. The remaining funding is for any additional regulatory reporting required.

Prepared by: J. Forgue

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Portsmouth Water & Fire District's Data Requests
Set I

Div. 1-12: Regarding page 14, line 18 of Mr. Smith's testimony-please explain the comment that it was not possible to "distinguish between customer classes". How was usage derived by class if this distinction is not possible?

Response: The usage by class was determined based on the customer classifications that currently exist within the water billing system. However, as previously discussed with representatives of the PUC, analysis of the customer class demand characteristics raised questions regarding the accuracy of the existing customer classifications. For instance, the fact that the data showed that the group of customers classified as "Residential" had a lower peaking factor than those customers classified as "Commercial" indicated that some customers may have been misclassified since this relationship between Residential and Commercial class peaking factors is inconsistent with the relationship that would be expected and is experienced by most utilities where the peaking factors exhibited by the Residential class are higher than those of the Commercial class.

The questionable nature of the existing customer classifications became apparent during the initial development of a flat retail commodity rate structure and was discussed with representatives of the PUC. Based on these discussions, it was determined that due to the questionable nature of the classification information it was not appropriate to implement class specific commodity rates, but to instead implement a single commodity rate for all retail customers that is equal to the average of the rates calculated for each customer class.

Prepared by: H. Smith

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Portsmouth Water & Fire District's Data Requests
Set I

PWFD 1-14: Regarding RFC 3-A. Please explain if notation #2 related to plant use is correct. If so, explain where this is derived. If not, where were the amounts for each plant derived? Is water used in both treatment facilities taken after the metering of total plant production?

Response: Notation #2 is not related to plant use as shown on RFC 3-A and should not have been included. The data for water usage by each plant was obtained from Newport Water for FY 1999 through FY 2003 with an average flow calculated for this time period. According to Newport Water, water used in both treatment facilities is metered upstream of the meter that measures the effluent from each plant.

Prepared by: H. Smith

CITY OF NEWPORT WATER DEPARTMENT
Docket No. 3578

Response to
Portsmouth Water and Fire District
Set I

PWFD 1-15: Regarding RFC-12 balances in the restricted accounts for debt, capital spending and chemicals: Please provide a summary of activity by year (*since* Docket 2985) for each account showing the additions and deductions as well as beginning and ending balances through FY2003.

Response: Please see the attached schedule. Prepared by: L. Sitrin

CITY OF NEWPORT
 SCHEDULE OF FUNDING
 PUC RESTRICTED ACCOUNTS

	CHEMICALS	DEBT SERVICE	CAPITAL
Balance at 6/30/01	-	-	227,189.79
December 2001			556,573.89
February 2002	40,000.00	220,745.00	614,882.61
February 2002			(260,745.00)
June 2002			193,900.53
Fiscal Year Interest	207.91	1,181.65	12,936.82
Balance 6/30/02	40,207.91	221,926.65	1,344,738.44
November 2002	-	1,127,193.00	614,327.90
March 2003	-	619,808.99	499,276.94
Fiscal Year Interest	325.10	7,243.87	15,346.98
Balance at June 30, 2003	40,533.01	1,975,972.51	2,473,692.26 (Audited)
July 2003		17,509.31	289,132.76
November 2003		537,049.13	400,399.00

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Portsmouth Water and Fire District
Set I

PWFD 1-20: RFC 8-A indicate only one 6" private fire connection for the City of Newport, The attachments to Item 2.9K indicate charges (1305.00/yr.) for several 8" fire services(accts. 099-00900, 099-34600) and several 6" fire services (accounts 099-05500,099-05600). Please explain the apparent difference. Also, what is the source for the number fire services (public and private) in RFC-8A and as of what date?

Response: The Schedule RFC-8A information on fire service accounts is based on a database extracted from Newport Water Departments Billing Software system as of March 2002. Account # 99-34600 was incorrectly accounted for on the RFC-8A schedule as a 6" fire service and should have been listed as an 8" fire service. The difference between the services reflected on schedule RFC -8A and the attachments in section 2.9 K were due to the way the above referenced accounts were classified in the billing system. Schedule RFC-8A reflects the City of Newport as having one fire service in the system as of March 2002. We have reviewed several accounts in our Water Billing System and the changes are reflected on the revised Schedule KLG PWFD 20.1.

Prepared by: Karen LaMond Garcia

City of Newport Water Division
Public and Private Fire Protection Accounts Docket No. 3578

Schedule KLG PWFD

Public	June 30 2000	June 30 2001	June 30 2002	June 30 2003	Dec 31 2003
Newport	572	572	572	572	572
Middletown	369	369	371	371	371
Portsmouth	8	8	8	8	8
Tota	949	949	951	951	951

<u>Number of Accounts</u>	June 30 2000	June 30 2001	June 30 2002	June 30 2003	December 30 2003
Private					
Residential					
4" Hydrant					
6" Hydrant	13	13	13	14	14
8" Hydrant	1	1	1	1	1
12" Hydrant	1	1	1	1	1
4" Sprinkler	6	5	8	11	12
6" Sprinkler	11	11	15	15	17
8" Sprinkler	2	2	5	5	4
10" Sprinkler	1	1	1	1	1
	<hr/> 35	<hr/> 34	<hr/> 44	<hr/> 48	<hr/> 50
Commercial					
5/8" Meter	2	2	2	2	2
Estimated 2" Pending docket # 3578 decision					
4" Hydrant	2	2	2	2	2
6" Hydrant	9	9	9	9	9
8" Hydrant	16	16	15	15	15
4" Sprinkler	12	12	22	28	28
6" Sprinkler	135	135	171	178	181
8" Sprinkler	21	22	33	36	36
	<hr/> 197	<hr/> 198	<hr/> 254	<hr/> 270	<hr/> 273
Government - General					
4" Sprinkler	0	0	1	1	1
6" Sprinkler	5	5	5	5	1
8" Sprinkler	1	1	1	1	0
	<hr/> 6	<hr/> 6	<hr/> 7	<hr/> 7	<hr/> 2
Government - Navy					
6" Hydrant	2	2	2	2	2
6" Sprinkler	1	1	1	1	1
	<hr/> 3	<hr/> 3	<hr/> 3	<hr/> 3	<hr/> 3
Government - City Newport					
6" Sprinkler					2
8" Sprinkler	1	1	1	1	2
	<hr/> 1	<hr/> 1	<hr/> 1	<hr/> 1	<hr/> 4
Tota	<hr/> <hr/> 242	<hr/> <hr/> 242	<hr/> <hr/> 309	<hr/> <hr/> 329	<hr/> <hr/> 332

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Portsmouth Water & Fire District's Data Requests
Set I

PWFD 1-23: Please explain why the FY 2003 debt is used to derive the average annual debt? Isn't it higher than any of the subsequent years?

Response: The FY 2003 debt was originally used to calculate the average debt service from FY 2003 through FY 2008 prior to July 1, 2003. The calculation should have been updated to reflect this.

Prepared by: Harold Smith

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Portsmouth Water & Fire District's Data Requests
Set I

PWFD 1-25: Regarding the footnote to RFC-4, please explain which allocators were simply derived from the prior docket and which were derived independently by Mr. Smith.

Response: The allocations in RFC-4 that were derived directly as they appeared in the prior docket in both allocation percentages and name include Allocator A (Source of Supply) and Allocator M (Meters & Services). Those that were derived yet updated with current data from Newport Water include Allocator D (Transmission & Distribution Mains), Allocator H (Composite Expenses), Allocator I (Investment – Debt Service), and Allocator L (Labor). Allocator B (Pumping) was updated with data calculated from data provided by Newport Water but the value for fire service demand was directly from the prior docket. Allocator AB (Source of Supply and Pumping) was derived independently to account for line items that involved both treatment and pumping such as Specialized Agency Supplies-Treatment and Pumping and is a hybrid of Allocators A and B. Allocator E (Electricity) contains just raw data for electricity costs and was not refined to a point where it could be used as an allocator. Allocator J (Investment – IFR) was used from the prior docket but was derived independently.

Prepared by: H. Smith

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Portsmouth Water & Fire District's Data Requests
Set I

PWFD 1-30: Regarding the fixed assets on RFC 4-A-please provide the study, analysis or workpapers required in the Commission's Report and Order in Docket 2985 (pg. 34). Does Newport Water assert that the assets used to derive Allocation Symbol I reflect the appropriate underlying data ordered by the Commission? If not part of the study requested, please provide the books or records that indicate that pumping equipment is fully depreciated.

Response: Page 34 of the Order in Docket 2985 does not set out a particular study, analysis workpaper or categories of data as referred to in PWFD 1-30. Page 34 of the order also does not set forth the particular underlying data to be used in deriving Allocation Symbol I. Nevertheless, the assets used to derive the allocation symbol I are based on the same data that has been provided to Newport's auditors. The assets tracked by Newport are categorized in a way that they can be allocated to the functional categories as they were to derive allocation symbol I. Please see the attached regarding fixed assets.

Also, it is pumping machinery and not pumping equipment that has been fully depreciated as shown on RFC 4-A as of 6/30/01. See attached Schedule.

Prepared by: H. Smith

City of Newport - Water Fund
Fixed Assets
June 30, 2001

Acct No	Account Name	WIP Rel	Fixed Assets				Accumulated Depreciation		
			Balance @ 6/30/2000	Additions FY 2001	Retirements FY 2001	Balance @ 6/30/2001	Balance @ 6/30/2000	Deprec Exp FY 2001	Balance @ 6/30/2001
1600	Construction in Progress		312,987.20	313,589.87	-	626,477.07	-	-	-
4100	Land & Rights of Way		3,150,046.87	444,444.37	-	3,594,491.24	-	-	-
4121	Reservoirs		615,326.73	-	-	615,326.73	-	-	-
4122	Dams		271,108.19	-	-	271,108.19	-	-	-
4123	Road Bridge		4,929.36	-	-	4,929.36	-	-	-
4124	Lawton Valley Reservoirs		1,557,351.00	-	-	1,557,351.00	-	-	-
4160	Reservoir Equipment		36,173.40	8,922.00	-	45,095.40	-	-	-
4161	Source of Supply Mains		11,157,157.98	-	-	11,157,157.98	-	-	-
4210	Pumping Structures		329,070.04	-	-	329,070.04	-	-	-
4250	Pumping Equipment		640,380.88	-	-	640,380.88	-	-	-
4280	Pumping Machinery		566,808.99	-	-	566,808.99	-	-	-
4310	Treatment Structures		16,511,859.62	-	-	16,511,859.62	-	-	-
4380	Treatment Machinery		2,265,107.73	8,984.26	-	2,274,091.99	-	-	-
4420	Distribution Standpipes		1,050,990.22	-	-	1,050,990.22	-	-	-
4430	Distribution Mains & Gates		9,849,294.82	-	-	9,849,294.82	-	-	-
4450	Distribution Services		2,520,846.30	26,023.50	-	2,546,869.80	-	-	-
4480	Distribution Hydrants		360,465.38	15,660.00	-	376,125.38	-	-	-
4510	Plant Structures		94,632.99	10,668.00	-	105,300.99	-	-	-
4580	Plant Machinery		175,035.66	744,265.31	-	919,300.97	-	-	-
4810	Engineering Studies		80,432.48	9,686.31	-	90,118.79	-	-	-
4910	Office Furn & Fixtures		575,873.92	6,250.00	-	582,123.92	-	-	-
4920	Trucks & Autos		52,933.74	139,984.00	-	192,917.74	-	-	-
4940	Small Tools		118,176.23	-	-	118,176.23	-	-	-
4950	Laboratory Equipment		-	-	-	-	-	-	-
	Total		53,041,155.04	984,212.31	0.00	54,025,367.35	18,102,597.56	1,049,052.23	19,151,649.79
	Less Accum Depreciation		(18,102,597.56)	(1,049,052.23)	-	(19,151,649.79)	-	-	-
	Net Fixed Assets		34,938,557.48	(64,839.92)	0.00	34,873,717.56	-	-	-
	City of Newport - Water Fund								
	Fixed Assets								
	June 30, 2001								

Financial Statement Recaps:

	Total Cost	Accumulated Depreciation
Construction in Progress	626,477.07	-
Land & Rights of Way	3,594,491.24	-
Reservoirs	2,448,715.28	276,037.55
Buildings & Improvements	16,935,562.65	5,817,938.07
Transmission & Distrib Sys	24,980,438.20	8,548,322.38
Machinery & Equipment	3,969,873.37	3,469,564.38
Engineering Studies	753,951.62	494,583.93
Trucks & Autos	715,857.92	545,203.48
Totals	54,025,367.35	19,151,649.79

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Portsmouth Water & Fire District's Data Requests
Set I

PWFD 1-31: Please indicate how (or if) Mr. Smith used the actual sales data that was provided to Newport by the Portsmouth Water & Fire District to derive the maximum day values used for Portsmouth Water & Fire District.

Response: Sales, average day, and max day flow data for each month from FY 00 through FY 02 was requested and received from the Portsmouth Water & Fire District on June 27, 2002. The max day data was used to derive the Wholesale Max-Day Flow/Metered Max Month Ratio that was ultimately used to derive the max day capacity factor for Portsmouth as shown in RFC 5-D.

CITY OF NEWPORT - WATER DEPARTMENT
Docket No. 3578

Response to
Portsmouth Water and Fire District's Requests
Set I

PWFD. 1-41: Regarding item 2.9(m), is it Newport's position that it has spent nearly \$186,000 since June, 2001 to prepare the current rate filing? What is the estimated total rate case cost for this docket?

Response: The expenses presented in Item 2.9 (m) are associated with work to address items in Docket Order 2985 which were not previously addressed and for providing financial services associate with preparing the current rate filing.

\$200,000 was budgeted for consulting fees directly associated with this rate filing for FY 2004. The time period for recovery is 7/01/03 through 6/30/04 except for attorney fees where the time period begins May 2003. Raftelis Financial Consulting, PA and Keough & Sweeney have been retained by the City for financial and legal assistance, respectively.

Prepared by: J. Forgue