

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

**IN RE: CITY OF NEWPORT, UTILITIES DEPARTMENT, WATER DIVISION**

**DOCKET NO.: 3578**

**SETTLEMENT AGREEMENT**

The City of Newport, Utilities Department, Water Division (hereinafter “Newport Water” or “Newport”), the Division of Public Utilities and Carriers (hereinafter “Division”), the Portsmouth Water and Fire District (hereinafter “Portsmouth”), and the United States Department of the Navy (hereinafter “Navy”) have reached an agreement on Newport Water’s rate application filed on November 28, 2003 and jointly request the approval of this Settlement Agreement by the State of Rhode Island Public Utilities Commission (hereinafter the “Commission”).

**I. RECITALS**

1. On November 28, 2003, Newport Water filed a rate application pursuant to R.I.G.L § 39-3-11 and Part II of the Commission’s Rules of Practice and Procedure.
2. The application sought to collect additional operating revenue in the amount of \$606,662 to support total operating revenue requirements of \$8,173,251. The impact of this request would have resulted in an 8.01 % increase in normalized test year revenues for the rate year commencing July 1, 2003 and ending on June 30, 2004.

3. In addition, Newport Water filed a cost allocation study that proposed to change its current declining block rate structure to a flat rate commodity charge based on consumption.
4. In support of its application, Newport filed the direct testimony and schedules of Julia A. Forgue, P.E., Newport's Director of Public Works, Harold J. Smith of Raftelis Financial Consulting, and Newport's City Manager, James C. Smith. Ms. Forgue and Mr. Harold Smith also filed rebuttal testimony.
5. On January 13, 2004, Portsmouth filed a Motion to Intervene in this Docket, and the Navy filed a Motion to Intervene on February 9, 2004. Newport did not object to either motion.
6. Portsmouth submitted direct and surrebuttal testimony from William J. McGlenn, P.E. General Manager and Chief Engineer for Portsmouth, Christopher P.N. Woodcock of Woodcock & Associates, Inc. and Thomas B. Nicholson, P.E. of C&E Engineering Partners, Inc.
7. The Navy submitted direct and surrebuttal testimony of Ernest Harwig of Brubaker & Associates, Inc. and William Monaco, P.E., Drinking Water Manager, Naval Station Newport Environmental Office.
8. In response to Newport's filing, the Division conducted an investigation of the proposed rate request through data requests and with the assistance of its staff and an outside expert consultant, Thomas S. Catlin who filed direct and surrebuttal testimony.

9. On May 21, 2004 a settlement conference was held at the Division of Public Utilities and Carriers. All of the parties to this Docket, through their representatives, participated in this conference.
10. After due consideration of the testimony, exhibits, schedules, data requests, data responses, settlement discussions, and other documentation included in the filings of the parties in this Docket, Newport, the Division, Portsmouth and the Navy have now agreed to a comprehensive settlement which resolves all issues relating to Newport's application.
11. The parties to this Docket believe that this settlement, as a whole, constitutes a just and reasonable resolution of the issues in this proceeding, and jointly request its approval by the Commission.

## **II. TERMS OF SETTLEMENT**

### **Overview**

12. The parties agree that Newport's current rates provide more than sufficient revenues for the agreed upon rate year expenses. Rather than reduce Newport's rates, the parties have agreed that any revenues in excess of the agreed upon operating expenses and other restricted account needs should be added to the restricted capital amount. The settlement will result in Newport increasing its Operation and Maintenance (O&M) expenses by approximately 45% from \$3,516,979 set in Docket 2985 to \$5,104,396. In addition, Newport's contributions to its restricted accounts for Debt Service and Capital Outlay will decrease by approximately 36% from \$4,103,028 set in Docket 2985 to \$2,612,155.

13. The parties agree that Newport will begin charging a flat retail commodity rate of \$3.38 per thousand gallons. This flat rate will eliminate Newport's current declining block rate structure for retail customers on a revenue neutral basis. In addition, the rate charged to Portsmouth will remain \$1.658 per thousand gallons, and the rate charged to the Navy will remain \$2.0873 per thousand gallons, in accordance with the tariffs in Docket 2985.
14. Incorporated herein and attached hereto as Exhibit 1 are Schedules TSC-1-17 (revised 5/25/04). Newport agrees with these schedules as presented.
15. In addition to the settlement terms set forth in the attached schedules, specific issues raised by the parties, which are addressed in this settlement, are set forth herein below:

**Debt Service and Capital Outlay Restricted Accounts**

16. As set forth herein above, the parties agree that Newport's contributions to its restricted Debt Service and Capital Outlay accounts will be reduced. Contributions to the Debt Service account will be reduced from approximately \$2,701,874 annually to approximately \$1,521,815. Contributions to the Capital Account shall be reduced from approximately \$1,401,154 annually to approximately \$1,090,340. Despite these reductions Newport will be able to meet its debt service and capital needs. The parties request that the Commission's Report and Order establish that these reduced contributions be made effective at the beginning of the rate year – July 1, 2003.
17. A. The amount owed by the Water Department to the City of Newport for loans prior to July 1, 2003 shall be limited to the \$2.5 million dollars claimed in this Docket.

The parties agree that Newport Water may repay this \$2.5 million dollars advanced by the City of Newport. Repayment shall be made out of the debt service fund at the rate of \$500,000 per year for a period of five years. The parties have allocated revenue of \$250,000 to be paid into the debt service fund specifically to offset a portion of this repayment to the City. Therefore, if the Commission approves the request to make the change in restricted account funding effective July 1, 2003 as proposed in Paragraph 16, the initial installment of the repayment will take place in the rate year ending June 30, 2004. This repayment shall be without interest. Newport Water further agrees that it will not seek to recover in rates any additional monies that it may borrow from the City of Newport up through and including June 30, 2005. Newport Water agrees that should the City of Newport loan money to Newport Water after June 30, 2005, said loan shall be reflected by appropriate documentation and Newport Water shall have the duty to monitor and track its costs and properly account for how the loan proceeds are applied.

B. In addition, to the extent that the Commission agrees to re-set the required contributions to the Debt Service account and to the Capital Account as requested in Paragraph 16, the parties agree that Newport Water may return to the City money that the City loaned to Newport Water to fund these accounts for the rate year July 1, 2003 to June 30, 2004, but only to the extent that there are funds in these accounts that exceed the new levels agreed to by the parties to this agreement, and provided Newport Water verifies the amounts when this agreement is presented to the Commission.

**Private Fire Charges**

18. Newport will be allowed to establish two new private fire charges, which will be incorporated into its tariffs. These charges shall be \$46.00 per annum for each 2-inch connection, and \$11 per annum for any connection smaller than 2 inches. These charges will have no effect on the revenue in this Docket as no such connections presently exist.

**Conferences and Training Cost**

19. The parties have agreed to Newport's claim for Conferences and Training Costs, as they believe that funding for these expenses is important. However, the parties wish to ensure that Newport spends these funds solely for their intended purpose. Therefore, Newport will provide updates on its Conference and Training Costs in its semi-annual reports.

**Commission Reports**

20. The parties agree that Newport will provide Portsmouth and the Navy with copies of reports filed with the Commission.

**Restricted Accounts**

21. In addition to Newport's current restricted accounts – Debt Service, Capital and Chemicals – Newport shall establish a restricted account for the Electricity Expenses agreed to by the parties.

**Rate Case Expense**

22. The parties have agreed that the rate case expense for this case is \$181,624. This includes Newport's costs of \$145,565 and the Division's and Commission's costs of \$38,059. These costs are to be amortized over a two-year period. The parties agree

that if Newport does not file a further rate case before July 1, 2005, the money included in the annual revenue requirement for rate case expense will be placed into a restricted account after July 1, 2005.

**Cost Allocation Study**

23. The parties agree that Newport's cost allocation study in this Docket does not seek to charge Portsmouth with transmission, distribution or peak costs associated with supply or treatment. However, should Newport seek to charge Portsmouth with such charges in future rate cases, Newport shall be required to submit a demand study with any cost allocation study. The requirements of the demand study shall be established by the experts for the four parties in this Docket. These requirements of the required demand study as agreed to by the parties are incorporated herein and attached hereto as Exhibit 2.

**Water Quality Issues**

24. The parties agree to take certain steps to address concerns raised in this Docket regarding water quality issues.

A. Newport, Portsmouth and the Navy agree to participate in a joint study that will examine the most efficient way to address on an island-wide basis the Total Trihalomethanes ("THM") issues facing Newport, Portsmouth and the Navy.

B. The study shall be paid for from the Capital Account, and the cost shall not exceed \$125,000.

C. Newport, Portsmouth and the Navy shall cooperate in drafting the Scope of Work (SOW) for the study's Request For Proposal (RFP). The SOW will direct the consultant to investigate and to determine the most efficient treatment method or

methods on a island-wide basis to address the THM concerns, both long-term and short-term, facing the users in Newport, Portsmouth and the areas serviced by the Navy. The consultant will also consider the impact of treatment methods on residual chlorine at the end of the respective distribution systems.

D. Newport, Portsmouth and the Navy agree that they will use their best efforts to complete the SOW within 45 days from the approval of this agreement, and will use their best efforts to complete the study within twelve months from the approval of this agreement.

E. The study shall be performed by an engineering firm agreed to by Newport, Portsmouth and the Navy. Neither CDM, which prepared Newport's Compliance Evaluation Report, nor C&E Engineering Partners, Inc., which testified on behalf of Portsmouth in this Docket, shall be eligible to conduct this study.

F. Newport, Portsmouth, and the Navy will share equal responsibility for coordinating all aspects of the joint THM study, including the SOW, selection of the consultant or engineering firm, and completion of the study. If the parties deadlock on one or more issues concerning the study, they agree that the Division of Public Utilities shall have binding and final authority to resolve the issue after conferring with all three parties.

G. Neither Newport, Portsmouth or the Navy shall be under any obligation to comply with any recommendation made in the study. Each party reserves the right to pursue any course of action suggested by the study, or otherwise.

H. Further, Newport may proceed with the short-term improvements suggested in the 2004 CDM Compliance Evaluation Report.



I. Newport agrees to notify Portsmouth and the Navy of the occurrence of certain events that might affect water quality. Those events are listed on Exhibit 3. The parties agree that informal notification through email or phone calls is both permitted and encouraged.

### **III. Effect of Settlement**

25. This Settlement Agreement is the result of a negotiated settlement. The discussions which have produced this Settlement Agreement have been conducted with the explicit understanding that all offers of settlement and discussion relating thereto are and shall be privileged, shall be without prejudice to the position of any party or participant presenting such offer or participating in any such discussion, and are not to be used in any manner in connection with these or other proceedings.
26. The agreement by any party to the terms of this Settlement Agreement shall not be construed as an agreement as to any matter of fact or law beyond the terms thereof. By entering into this Settlement Agreement, matters or issues other than those explicitly identified in this agreement have not been settled upon or conceded by any party to this Settlement Agreement, and nothing in this agreement shall preclude any party from taking any position in any future proceeding regarding such unsettled matters.
27. In the event that the Commission rejects this Settlement Agreement, or modifies this agreement or any provision therein, then this agreement shall be deemed withdrawn and shall be null and void in all respects.

IN WITNESS WHEREOF, the Parties agree that this Settlement Agreement is reasonable, in the public interest and in accordance with law and regulatory policy, and

have caused this agreement to be executed by their respective representatives, each being authorized to do so.

Dated at Warwick, RI this \_\_\_\_ day of \_\_\_\_\_, 2004.

CITY OF NEWPORT,  
UTILITIES DEPARTMENT,  
WATER DIVISION  
By its Attorney,

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DIVISION OF PUBLIC UTILITIES  
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By its Attorney,

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PORTSMOUTH WATER AND FIRE DISTRICT  
By its Attorney,

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UNITED STATES  
DEPARTMENT OF THE NAVY  
By its Attorney,

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**Exhibit 1**

Docket No. 3578  
Schedule TSC-1  
Revised 5/25/2004

CITY OF NEWPORT--WATER DIVISION

Summary of Revenues and Expenses at  
Present and Proposed Rates  
Rate Year Ended June 30, 2004

	Revised Rate Year Amount Per Newport	Updated Division Adjustments	Rate Year at Present Rates	Allowable Revenue Increase	Rate Year at Proposed Rates
<b>Revenue</b>					
Customer Charge	\$ 556,555	\$ -	\$ 556,555		\$ 556,555
Retail Consumption	4,693,428	(56,503)	4,636,925		4,636,925
Wholesale/Bulk Sales	1,553,875	55,235	1,609,110		1,609,110
Fire Protection	765,610	-	765,610		765,610
Miscellaneous	246,100	18,000	264,100		264,100
Total Revenue	<u>\$ 7,815,568</u>	<u>\$ 16,732</u>	<u>\$ 7,832,300</u>	<u>\$ -</u>	<u>\$ 7,832,300</u>
<b>Expenses</b>					
Water Administration	1,154,298	(9,590)	1,144,708	-	1,144,708
Customer Accounts	477,945	953	478,898	-	478,898
Source of Supply-Island	398,015	(21,152)	376,863	-	376,863
Source of Supply-Mainland	79,500	18,850	98,350	-	98,350
Treatment & Pumping-Newport Plant	1,188,960	(37,694)	1,151,266	-	1,151,266
Treatment & Pumping-Lawton Valley	959,855	(86,916)	872,939	-	872,939
Water Laboratory	199,347	(310)	199,037	-	199,037
Transmission & Distribution Maintenance	771,613	(3,278)	768,335	-	768,335
Fire Protection	14,000	-	14,000	-	14,000
Subtotal	<u>\$ 5,243,533</u>	<u>\$ (139,137)</u>	<u>\$ 5,104,396</u>	<u>\$ -</u>	<u>\$ 5,104,396</u>
Payment to City General Fund-Net	250,000	\$ -	250,000	-	250,000
Debt Service	1,271,815		1,271,815	-	1,271,815
Capital Outlays	941,667	148,673	1,090,340	-	1,090,340
Total Expenses	<u>\$ 7,707,015</u>	<u>\$ 9,536</u>	<u>\$ 7,716,551</u>	<u>\$ -</u>	<u>\$ 7,716,551</u>
Operating Reserve	115,605	143	115,748	-	115,748
Total Cost of Service	<u>\$ 7,822,620</u>	<u>\$ 9,680</u>	<u>\$ 7,832,300</u>	<u>\$ -</u>	<u>\$ 7,832,300</u>
Revenue Surplus/(Deficiency)	(\$7,052)	\$7,052	\$0	\$ -	\$0

CITY OF NEWPORT--WATER DIVISION

Summary of Division Adjustments to  
 Rate Year Revenues and Expenses at Present Rates  
 Rate Year Ending December 31, 2004

<u>Description</u>	<u>Amount</u>	<u>Source</u>
Fire Service Revenue	\$ -	Schedule TSC-3
Miscellaneous Charges	18,000	Schedule TSC-4
Water Sales Revenue	(1,268)	Schedule TSC-17
Total Revenue Adjustments	\$ 16,732	
Benefits Expense	(48,903)	Schedule TSC-5
Rate Case Expense	(9,188)	Schedule TSC-6
Regulatory Reporting Expense	-	Schedule TSC-7
Electricity	(50,646)	Schedule TSC-8
Chemical Costs	(30,400)	Schedule TSC-9
Sewer Charges	-	Schedule TSC-10
Conferences & Training Expense	-	Schedule TSC-11
Telephone & Communications	-	Schedule TSC-12
Costs to be Charged to Restricted Fund	-	Schedule TSC-13
Payment to City	-	Schedule TSC-15
Capital Outlay Restricted Funding	148,673	Schedule TSC-1
Operating Reserve	143	See Note (1)
Total Expense Adjustments	\$ 9,680	
Total Adjustment to Revenue Deficiency	(7,052)	

Note:

(1) Based on 1.5% of total expenses as reflected on Schedule TSC-1.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Fire Service Revenues to Reflect  
 Increase in Numbers of Services and Hydrants  
 Rate Year Ending June 30, 2004

	<u>Number (1)</u>	<u>Current Rate</u>	<u>Annual Revenue</u>
<b>Private Fire Services</b>			
5/8-Inch	-	\$ -	\$ -
2-Inch	-	-	-
4-Inch	43	285	12,255
6-Inch	229	570	130,530
8-Inch	58	1,305	75,690
10-Inch	1	2,155	2,155
12-Inch	1	3,460	3,460
Total	<u>332</u>		<u>\$ 224,090</u>
<b>Public Fire Hydrants</b>	967	560	<u>541,520</u>
Total Fire Service Revenue			\$ 765,610
Amount Per Newport (2)			<u>765,610</u>
Adjustment to Revenue			<u><u>\$ -</u></u>

Notes:

(1) Number of Private Fire Services as of December 31, 2003 and number of Public Fire Hydrants as of January 2004 per response to DIV 3-14.

(3) Reflects rebuttal claim per Revised Schedule RFC 6.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Miscellaneous Revenue  
Rate Year Ending June 30, 2004

<b>Investment Interest Income</b>	
Estimate Based on Actuals through 12/31/03 (1)	\$ 38,000
Amount per Filing (2)	<u>20,000</u>
Increase	\$ 18,000
 <b>Customer Services Revenue</b>	
Estimated Revenue (2)	\$ 85,000
Amount per Filing (3)	<u>85,000</u>
Increase	\$ -
 Total Increase in Miscellaneous Revenue	 <u><u>\$ 18,000</u></u>

Notes:

- (1) Reflects \$19,002 of interest income through 12/31/03 per response to DIV 2-3.
- (2) Per Schedule RFC-2.
- (3) Reflects rebuttal claim per Revised Schedule RFC 1-A.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Budgeted Benefits Expense  
 To Reflect Actual Costs Incurred  
 Rate Year Ending June 30, 2004

	Benefits Expense per Filing (1)	Annualized Based on Actuals (2)	Adjustment
Administration	\$ 46,475	\$ 46,886	\$ 411
Administration-Retiree	153,758	152,972	(786)
Administration-Workers' Compensation	36,400	36,400	-
Customer Service	108,472	109,425	953
Supply-Island	87,681	70,289	(17,392)
Supply-Mainland	2,000	-	(2,000)
Treatment-Newport	160,228	153,071	(7,157)
Treatment-Lawton Valley	159,353	137,011	(22,342)
Laboratory	37,739	37,429	(310)
Transmission & Distribution	145,099	144,819	(280)
Total Amount	<u>\$ 937,205</u>	<u>\$ 888,302</u>	<u>\$ (48,903)</u>

Notes:

(1) Per Schedule RFC 1-A.

(2) Per schedule included under Tab 11 accompanying rebuttal testimony of Julia Forge.



CITY OF NEWPORT--WATER DIVISION

Adjustment to Rate Case Expense  
Rate Year Ending June 30, 2004

	<u>Total</u>
Adjusted Rate Case Costs (1)	\$ 181,624
Amortization Period	<u>2 Years</u>
Annual Expense Allowance per Division (1)	\$ 90,812
Annual Expense per Newport (2)	<u>\$ 100,000</u>
Adjustment to Expense	<u><u>\$ (9,188)</u></u>

Notes:

(1) Updated to include \$143,565 for Newport and \$38,059 for the Division.

(2) Reflects rebuttal claim per Revised Schedule RFC 1-A.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Regulatory Reporting Expense  
Rate Year Ending June 30, 2004

	<u>Amount</u>
Regulatory Reporting Costs per books	
Consumer Confidence Report (1)	\$ 5,370
Turbidity Notice (2)	9,839
TOC Notice (2)	<u>6,772</u>
Total Test Year Expense	\$ 21,981
Normalization and Rate Year Adjustments (3)	
Postage	(12,494)
Support Services	(2,857)
Regulatory Reporting	<u>20,000</u>
Total Adjustments	\$ 4,649
Adjusted Expense included in Rate Year per Rebuttal	\$ 26,630
Required Annual Amount	<u>26,630</u>
Adjustment to Rate Year Expense	<u><u>\$ -</u></u>

Notes:

(1) Per response to DIV 1-18.

(2) Per response to DIV 3-7.

(3) Reflects rebuttal claim per Revised Schedule RFC 1-A. Amount for postage reflects decrease in expense in Customer Accounts net of increase in Administration for line item 238.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Budgeted Electricity Expense  
 To Reflect Actual Expense  
 Rate Year Ending June 30, 2004

	Budgeted Expense per Filing (1)	Annual Based on Last 24 Months (2)	Adjustment
Administration	\$ 3,600	\$ 3,573	\$ (27)
Supply-Island	10,300	6,540	(3,760)
Supply-Mainland (3)	23,000	43,850	20,850
Treatment-Newport	186,100	176,552	(9,548)
Treatment-Lawton Valley	142,000	86,837	(55,163)
Transmission & Distribution	14,000	11,002	(2,998)
 Total Amount	 <u>\$ 379,000</u>	 <u>\$ 328,354</u>	 <u>\$ (50,646)</u>

Notes:

- (1) Per Newport Water Schedule 1 included with rebuttal of Harold Smith.
- (2) Per responses to DIV 1-20 and 5-4. Amounts based on costs for 24 months ended March 2004. Excludes one time charge of \$1,572 in February 2004 related to change out to energy efficient light fixtures.
- (3) Includes \$8,000 contingency for dry weather pumping.

CITY OF NEWPORT--WATER DIVISION

Analysis of Average Annual Chemical Costs  
 at the Newport and Lawton Valley Water Treatment Plants  
 Rate Year Ended June 30, 2004

<u>Chemical</u>	FY 2002 Usage in Pounds (1)	FY 2003 Usage in Pounds (2)	TME 4/04 Usage in Pounds (3)	Maximum Annual Usage (4)	Current Cost Per Pound (5)	Annual Cost (6)
<b>Newport Water Treatment Plant</b>						
Alum	311,999	328,912	366,849	366,849	\$ 0.1079	39,574
Lime	184,043	166,541	199,264	199,264	0.0644	12,833
Chlorine	56,750	51,880	50,840	56,750	0.2450	13,904
Flouride	15,291	13,843	19,825	19,825	0.3000	5,948
Sodium Chlorite	77,556	93,334	77,849	93,334	0.5270	49,187
Polymer	1,000	1,300	1,250	1,300	4.8700	6,331
Subtotal						<u>\$ 127,776</u>
Granular Activated Carbon						<u>45,830</u>
Annual Cost Based on Maximum Usage						<u>\$ 173,606</u>
Amount per Newport Filing (2)						<u>\$ 194,595</u>
Adjustment to Chemicals Expense						<u>\$ (20,989)</u>
<b>Lawton Valley Water Treatment Plant</b>						
Alum	476,483	498,285	374,083	498,285	\$ 0.1079	53,752
Lime	233,900	235,000	185,450	235,000	0.0785	18,445
Chlorine	39,640	37,027	32,534	39,640	0.2450	9,712
Flouride	15,526	12,766	16,119	16,119	0.3000	4,836
Sodium Chlorite	95,103	80,219	67,141	95,103	0.5270	50,119
Annual Cost Based on Maximum Usage						<u>\$ 136,864</u>
Allowance for Additional Needs from Compliance Evaluation Study						<u>20,000</u>
Adjusted Annual Costs						<u>\$ 156,864</u>
Amount per Newport Filing (2)						<u>\$ 166,275</u>
Adjustment to Chemicals Expense						<u>\$ (9,411)</u>

Notes:

(1) All quantities and prices are per the response to DIV 5-6.

(2) Reflects rebuttal claim per Revised Schedule RFC 1-A.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Newport Sewer Charges  
Rate Year Ending June 30, 2004

	<u>Total</u>
Lawton Valley Sewer Charges per Filing (1)	\$ -
Rate Year Amount per Division (2)	<u>-</u>
Adjustment to Expense	<u><u>\$ -</u></u>

Notes:

- (1) Reflects rebuttal claim per Revised Schedule RFC 1-A.
- (2) Recognizes that Lawton Valley is not anticipated to begin discharging waste to Newport sewer system before December 2005.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Reflect Average  
Conferences & Training Expense  
Rate Year Ending June 30, 2004

	<u>Amount per Filing (1)</u>	<u>Amount per Amount per Division</u>	<u>Adjustment</u>
Administration	\$ 2,000	\$ 2,000	\$ -
Treatment-Newport	2,500	2,500	-
Treatment-Lawton Valley	3,500	3,500	-
Transmission & Distribution	# <u>4,000</u>	<u>4,000</u>	<u>-</u>
Total Amount	<u>\$ 12,000</u>	<u>\$ 12,000</u>	<u>\$ -</u>

Notes:

(1) Per Schedule RFC 1-A.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Telephone & Communications Expense  
Rate Year Ending June 30, 2004

Telephone & Communications Expense per Filing (1)	\$ 10,200
Annualized Expense based on Current Services (2)	<u>\$ 10,200</u>
Adjustment to Rate Year Cost of Service	<u><u>\$ -</u></u>

Notes:

- (1) Reflects rebuttal claim per Revised Schedule RFC 1-A.
- (2) Reflects acceptance of revised claim.

CITY OF NEWPORT--WATER DIVISION

Adjustment to O&M Expense to Remove Capital Items  
Rate Year Ending June 30, 2004

<u>Description</u>	<u>Amount</u>
Depth Surveys (1)	\$ 50,000
Vulnerability Assessment (2)	85,000
Reservoir Road Tank Repairs (3)	<u>40,000</u>
Total to be Paid from Restricted Fund	\$ 175,000
Amount Removed from O&M by Newport (4)	<u>\$ 175,000</u>
Adjustment to Rate Year O&M Expense	<u><u>\$ -</u></u>

Notes:

- (1) Per response to DIV 1-15.
- (2) Per response to DIV 1-17.
- (3) Per response to DIV 1-27.
- (4) Reflects rebuttal claim per Revised Schedule RFC 1-A.



CITY OF NEWPORT--WATER DIVISION

Analysis of Revenues and  
 Restricted Account Funding for FY 2001-FY 2003 (3)  
 Rate Year Ending June 30, 2004

	<u>FY 2001</u>	<u>FY2002</u>	<u>FY 2003</u>
Billed Revenue Per Books (1)	\$ 7,644,448	\$ 6,928,286	\$ 7,464,619
Change in Customer Accounts Receivable (1)	<u>96,649</u>	<u>(69,951)</u>	<u>286,211</u>
Audited Revenue	\$ 8,316,871	\$ 7,079,648	\$ 7,805,427
Authorized Revenue In Docket No. 2985	<u>\$ 7,658,108</u>	<u>\$ 7,658,108</u>	<u>\$ 7,658,108</u>
Percent of Authorized Revenues Collected	<u>108.60%</u>	<u>92.45%</u>	<u>101.92%</u>
Restricted Funding Requirement (2)	\$ 4,395,214	\$ 4,395,214	\$ 4,395,214
Amount Available Based on Percent Collected	<u>4,773,298</u>	<u>4,063,219</u>	<u>4,479,765</u>
Difference Between Requirement and Available	\$ 378,084	\$ (331,995)	\$ 84,551
Total Difference FY 2001-FY2003			<u>\$ 130,639</u>

Notes:

(1) Per schedule included under Tab 8 accompanying rebuttal testimony of Julia Forge.

(2) Based on following amounts from Docket No. 2985:

Chemicals	\$ 292,186
Debt Service	2,701,874
Capital Outlays	<u>1,401,154</u>
Total	\$ 4,395,214

(3) Schedule has been updated to be consistent with Newport rebuttal regarding revenues and shows revenue shortfalls were not cause of need for City to advance funds.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Eliminate Repayment to City  
Rate Year Ending June 30, 2004

	<u>Total</u>
Repayment Included as Current Expense (1)	\$ 250,000
Rate Year Amount per Division	<u>250,000</u>
Adjustment to Expense	<u><u>\$ -</u></u>

Note:

(1) Per Schedule RFC 12.

(2) Reflects acceptance of Water Division claim based on rebuttal testimony.

CITY OF NEWPORT--WATER DIVISION

Analysis of Restricted Account Balances for FY 2004-FY 2008  
 Based on Proposed Funding and Current Cost Estimates  
 Rate Year Ending June 30, 2004

	<i>Fiscal Year Ending June 30</i>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b><u>Debt Service Account</u></b>					
<b>Beginning Cash Balance</b>	\$ 1,975,973	\$ 1,304,416	\$ 1,069,033	\$ 604,611	\$ 191,577
<b><u>Additions</u></b>					
Debt Service Funding Contribution	\$ 1,521,815	\$ 1,521,815	\$ 1,521,815	\$ 1,521,815	\$ 1,521,815
Interest Income	30,141	32,804	23,734	16,736	7,962
<b>Total Additions</b>	<u>\$ 1,551,956</u>	<u>\$ 1,554,619</u>	<u>\$ 1,545,549</u>	<u>\$ 1,538,551</u>	<u>\$ 1,529,777</u>
<b><u>Deductions</u></b>					
Existing Debt Service	1,723,513	1,290,002	1,232,054	1,173,667	1,114,840
SRF Loan Principal	-	-	133,093	133,093	133,093
SRF Loan Interest	-	-	144,825	144,825	144,825
Return Excess Contributions FY 2001-2003	500,000	500,000	500,000	500,000	500,000
<b>Total Deductions</b>	<u>2,223,513</u>	<u>1,790,002</u>	<u>2,009,972</u>	<u>1,951,585</u>	<u>1,892,758</u>
<b>Ending Cash Balance</b>	<u>\$ 1,304,416</u>	<u>\$ 1,069,033</u>	<u>\$ 604,611</u>	<u>\$ 191,577</u>	<u>\$ (171,403)</u>
<b><u>Capital Spending Account</u></b>					
<b>Beginning Cash Balance</b>	\$ 2,473,692	\$ 1,465,780	\$ 730,101	\$ 392,400	\$ 597,965
<b><u>Additions</u></b>					
Capital Outlays Funding Contribution	\$ 1,090,340	\$ 1,090,340	\$ 1,090,340	\$ 1,090,340	\$ 1,090,340
Interest income	41,333	39,395	21,959	11,225	9,904
<b>Total Additions</b>	<u>\$ 1,131,673</u>	<u>\$ 1,129,735</u>	<u>\$ 1,112,299</u>	<u>\$ 1,101,565</u>	<u>\$ 1,100,244</u>
<b><u>Deductions</u></b>					
Capital Outlays per Newport Filing	1,964,586	1,865,414	1,450,000	896,000	896,000
Capital Items Removed from O&M	175,000	-	-	-	-
<b>Total Deductions</b>	<u>2,139,586</u>	<u>1,865,414</u>	<u>1,450,000</u>	<u>896,000</u>	<u>896,000</u>
<b>Ending Cash Balance</b>	<u>\$ 1,465,780</u>	<u>\$ 730,101</u>	<u>\$ 392,400</u>	<u>\$ 597,965</u>	<u>\$ 802,209</u>

CITY OF NEWPORT--WATER DIVISION

Adjustment to Sales Volumes  
 and Revenues at Present Rates  
 Rate Year Ending December 31, 2004

	<u>Sales Volumes (1000 gallons)</u>	<u>Adjustment to Revenue</u>
<b><u>Portsmouth</u></b>		
FY 2000	438,179	
FY 2001	442,582	
FY 2002	455,142	
FY 2003	<u>451,723</u>	
Average Volume	446,907	
System Compound Growth Rate	<u>1.0068</u>	
Adjusted Rate Year Volume	449,945	
Current Wholesale Rate	<u>\$ 1.658</u>	
Adjusted Revenue	\$ 746,010	
Revenue per Newport Rebuttal	<u>695,494</u>	
Adjustment to Revenue at Present Rates		\$ 50,516
<b><u>U.S. Navy</u></b>		
Rate Year Volume per Newport	413,501	
Current Rate to Navy	<u>\$ 2.0873</u>	
Adjusted Revenue	863,101	
Revenue per Newport Rebuttal	<u>858,381</u>	
Adjustment to Revenue at Present Rates		\$ 4,720
<b><u>Retail Sales</u></b>		
Projected Rate Year Volumes	1,370,476	
Volumes Utilized for Revenue at Present Rates	<u>1,387,176</u>	
Ratio of Rate Year to Present Rate Volumes	98.80%	
Revenue at Present Rates per Newport Filing	<u>\$ 4,693,428</u>	
Corrected Revenue based on Rate year Volumes	\$ 4,636,925	
Adjustment to Revenue at Present Rates		<u>\$ (56,503)</u>
<b>Total Adjustment to Revenue at Present Rates</b>		<u><u>\$ (1,268)</u></u>

## **Exhibit 2**

### **Newport Water Demand Study**

#### Purpose

The Water Demand Study is intended to satisfy the requirements imposed by the RI PUC in Docket 2985. The purpose of the water demand study will be to gather data with respect to the water demand characteristics of the different customer classes that are served by Newport Water to better allocate the costs associated with meeting peak demand to the customers responsible for the peaks.

#### Methodology

Once it has been determined that the Demand Study is necessary, Newport Water will propose a methodology to each of the parties in this docket for review and comment. It is expected that it may be necessary to gather data on a daily basis from the meters used to measure consumption by each of Newport's wholesale customers and from statistically representative samples of each of Newport's retail customer classes. :

**Retail** – Newport may gather daily demand data from a statistically representative sample of customers from each of its retail customer classes or may determine the peak demands of the retail class through some other agreed upon method. This data can be gathered either by using remote meter reading capabilities or by direct daily reading of meters without remote read capabilities. It is anticipated that these data collection efforts would focus on those periods of the year or years in which peak demands are expected to occur and therefore would not necessarily continue during the course of an entire year(s).

**Portsmouth** – Newport may utilize daily demand data for Portsmouth that is collected by Portsmouth's SCADA system.

**Navy** – It is anticipated that daily demand data for the Navy can be gathered by reading the meters used to serve the Navy on a daily basis during the portion of the year(s) in which peak demands are expected to occur.

The maximum cost for the study should be limited to \$75,000 unless it can be demonstrated that a study of that magnitude will not yield the necessary information.

**EXHIBIT 3**  
**NEWPORT WATER DEPARTMENT**  
**NOTIFICATION TO THE UNITED STATES NAVY AND THE**  
**PORSTMOUTH WATER AND FIRE DISTRICT**

Pursuant to the Settlement Agreement reached in Docket 3578, Newport Water agrees to notify Portsmouth and the Navy of the occurrence of certain events that might affect water quality. Further, Portsmouth and the Navy agree to provide notice to Newport of certain events as well. Those events are listed on herein, and the parties agree that informal notification through email or phone calls is both permitted and encouraged.

**I. CHANGES IN TREATMENT PROCESSES**

**1. (Notification within 24 hours)**

- a) Changes in the type or form of treatment chemicals.
- b) Changes in the application point(s) of treatment chemicals.
- c) Discontinuation or reinstatement of chemicals normally used in the treatment process, e.g. chlorine dioxide, if discontinued for over fours hours.
- d) Treatment plant repairs that take whole or partial process units out of service for over fours hours.
- e) Changes in point of treatment (disinfection) application.

**II. MISCELLANEOUS CHANGES AFFECTIING WATER QUALITY**

**1. (Notification within 24 hours)**

- a) Manganese problem at WTP.
- b) Any other known problems or circumstances in the reservoirs or treatment plant that may impact treated water taste, odor or color.
- c) Any total coliform positive microbiological repeat-sample or any fecal coliform positive sample.
- d) Known violations of Rhode Island or EPA Rules and Regulations Pertaining to Public Drinking Water Safe Drinking Water Act at either plant or in the distribution system.

**2. (Notification within 48 Hours, or next business day following a weekend or holiday)**

- a) Turn-on or turn-off of Sakonnet River Pipeline.
- b) Application of copper sulfate to any reservoir.
- c) Use of Watson Pond

### **3. (Notification as soon as possible, no later than 30 days)**

Chlorite and Chlorine Dioxide, when elevated levels require testing within distribution system. Notify as soon as possible but not to exceed 30 days after elevated level is known

### **4. Miscellaneous Notifications**

- a) Navy to be notified of flushing schedules as soon as available so that the Navy can set up a schedule to piggy back flushing efforts.
- b) Water main breaks near Navy entry points within 24 hrs or next business day.
- c) Provide copies of compliance sample results for coliform, TTHM , and Lead & Copper, including all special purpose samples related to compliance samples at the same time compliance samples are submitted to the required regulatory agency.

### **III. NOTIFICATION TO NEWPORT**

Newport requests notification of the following events:

- a) Notification of violations of Rhode Island or EPA Rules and Regulations Pertaining to Public Drinking Water Safe Drinking Water Act in the distribution system within 24 hours.(Portsmouth & Navy)
- b) Any total coliform positive microbiological repeat-sample or fecal coliform positive sample within 24 hours. (Portsmouth & Navy)
- c) Notification of maintenance on any storage facilities that creates a significant /unusual demand, with explanation within 24 hours or next business day following holiday or weekend. (Navy & Portsmouth)
- d) Notification when the Navy implements chlorine or any chemical addition into their system within 24 hours or next business day following holiday or weekend.
- e) Notification of any restrictions, with explanation, imposed on the use of water in distribution system, including any currently in place, within 24 hours or next business day following holiday or weekend. (Navy)
- f) Provide copies of compliance sample results for coliform, TTHM , and Lead & Copper, including all special purpose samples related to compliance samples at the same time compliance samples are submitted to the required regulatory agency. (Portsmouth & Navy).
- g) Notification of sudden main breaks on pipes 8-inches and larger in the distribution system within 24 hours. Newport Water has staff on duty 24/7 to answer calls at 847-0154. (Portsmouth & Navy)
- h) Notification of any alteration of valves at the metering points to the Newport system within 24 hours or next business day following holiday or weekend. (Navy).
- i) Notification of flushing schedule as soon as available. (Portsmouth & Navy)