

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: CITY OF NEWPORT WATER :
DIVISION APPLICATION TO : DOCKET NO. 3675
CHANGE RATE SCHEDULES :

REPORT AND ORDER

I. Introduction

On April 22, 2005, the City of Newport, Utilities Department, Water Division (“Newport Water” or “Water Department”), a municipal utility, filed with the Public Utilities Commission (“Commission”) a rate application pursuant to R.I.G.L. § 39-3-11. In its filing, Newport Water requested a total revenue increase of 22%, to collect an additional \$1,709,839 for operating revenues, for a total revenue requirement of \$9,542,139. The impact of this request on the typical residential customer’s bill with annual consumption 55,200 gallons annually, if granted, would result in an increase of \$33.84 per year or 15.91%. On May 5, 2005, the Commission suspended the effective date of Newport Water’s requested rate increase in order to conduct a full investigation and to hold public hearings. The parties to the docket were the Division of Public Utilities and Carriers (“Division”) on behalf of the ratepayers, Portsmouth Water and Fire District (“PWFD”), a wholesale customer, and the United States Navy (“Navy”), the utility’s largest single customer.

On August 5, 2005, Newport Water revised its filing seeking approval to implement new rates designed to collect additional revenues in the amount of \$1,852,451 or 23.3% to support total revenue requirement in the amount of \$9,801,199. The impact of this request on a typical residential customer’s bill with annual consumption of 55,200

gallons would be an increase of \$35.04 per year or 15.95%. The impact on all other customers would vary based on customer classification and consumption level.

On October 7, 2005, after reviewing the direct testimony of the other parties and reviewing its own numbers, Newport Water filed rebuttal testimony seeking to collect additional operating revenue in the amount of \$1,765,269, or an increase of 23.89%.

The instant general rate case filing represents Newport Water's fourth such filing in the last fifteen years. The following table provides a brief history:

Docket No.	Filing Date	Amount Requested	Amount Allowed	% Increase
2029	9/30/91	\$2,588,360	\$1,548,065	6.23%
2985	5/28/99	\$1,893,179	\$ 449,419	27.50%
3578	11/28/03	\$ 606,662	\$ 0	0.00%
3675	04/15/05	\$1,852,451	\$1,513,407	20.48%

II. Settlement

On November 4, 2005, following the filing of pre-filed testimony by each of the parties, the parties filed a proposed Settlement Agreement ("Settlement") with the Commission. The Settlement allowed for the collection of additional operating revenue in the amount of \$1,513,407 to support a total cost of service of \$9,284,455, an increase of 20.48%. Retail customers will pay \$4.07 per thousand gallons, with an average residential customer, billed on a tertiary basis, experiencing a \$44.83 per year or 20.42%, from \$219.58 to \$264.41 annually. PWFD will experience an increase to \$2.00 per thousand gallons, or 20.48% and the Navy will experience an increase to \$2.51 per thousand gallons, or 20.48%.¹

¹ Joint Exhibit 1 (Settlement Agreement), p. 3. A copy of the Settlement is attached hereto as Appendix A.

The Settlement provided for Newport Water's Pollution Control division to recognize the benefits it receives from Newport Water's Customer Accounts division by making an annual payment to Newport Water in an amount equal to 50% (\$268,408) of the allowable revenue requirements for the Customer Accounts account annually beginning in FYE June 2007. Prior to that date, the Water Pollution Control shall make a payment in an amount equal to 25% (\$134,204) of the Customer Accounts cost.² The Settlement recognized that Newport Water pays \$210,000 annually to the Water Pollution Control division for sludge removal. In the event the Water Pollution Control division does not pay its share of the Customer Accounts costs to Newport Water, Newport Water will withhold its payment for sludge removal until such time as it receives payment from the Water Pollution Control division.³

Newport Water agreed to continue restricting each of the accounts restricted in the prior docket and to create two new restricted accounts to be funded monthly in amounts equal to one twelfth of the annual funding requirement for each account. The Accrued Benefits Buyout account shall be funded in the amount of \$70,000 annually and the Retiree Insurance account shall be funded in the amount of \$209,626 annually. Newport Water agreed to charge the cost of insurance for new retirees to the Retiree Insurance account at such time the Water Department begins to incur the cost of insurance for the employee that replaces that retiree.⁴

The parties agreed that Newport Water should be allowed to collect through rates \$285,005 to meet costs associated with services provided to the Water Department by Legal and Administrative departments of the City's General Fund. In addition, the

² Id. at 3-4.

³ Id. at 4.

⁴ Id.

parties agreed that Newport Water should be allowed to collect through rates \$189,994 for the costs associated with goods and services provided by the City's MIS Services Department. No party will be bound in future Newport Water rate cases to the methodology used to derive the amounts related to these items, nor will these amounts be precedent-setting on the parties to future rate cases.⁵

The Settlement contained a recital of positions by the parties regarding water quality issues and communications issues. The parties made various agreements which do not require Commission approval, but which the Commission allowed to remain in the Settlement.⁶

The parties agreed to continue the reporting requirements mandated by the Commission in its prior Order from Docket No. 3578. In addition, Newport Water agreed to provide new information, including monthly statements on an accrual basis covering a "statement of net assets-comparative," a "statement of revenues," a "statement of revenues, expenses, and changes in fund net assets," and a "statement of cash flows." Such new reports will be filed beginning within six months of the date Newport Water hires its Deputy Director of Finance. The Commission will decide the parameters of all such reports that Newport Water will be required to file.⁷

In addition, the City of Newport will be performing financial and management studies of various City departments, including the Water Department. The parties agreed that if the City of Newport does not issue a request for proposals to audit Newport Water by October 31, 2006, the Water Department will issue a request for proposals for an independent financial and management audit of Newport Water and will pay for such

⁵ Id. at 5.

⁶ Id. at 6-7, 8-9.

⁷ Id. at 7-8.

audit from the Restricted Capital Fund, with an expected completion date of June 30, 2007.⁸

Finally, Newport Water will initiate a demand study within twelve months, presumably from the date of the decision in this docket, under the terms presented in the Docket No. 3578 Settlement Agreement as previously approved by the Commission.⁹ Following the completion of the Demand Study, Newport Water will present a fully allocated cost of service study in its next general rate filing using the guidelines set forth in *Principles of Water Rates, Fees, and Charges*, Manual M1, Fifth Edition, published by the American Water Works Association. However, Newport Water is not precluded from submitting any rate filing before the Commission prior to the completion of the studies.¹⁰

III. Hearing

Following notice, public hearings for the purposes of taking public comment were conducted at Newport City Hall and at the Commission. No members of the public appeared. Public hearings were also conducted on November 9, 2005 for the purpose of reviewing the final Settlement between the parties at the Commission's Offices, 89 Jefferson Boulevard, Warwick, Rhode Island. The following appearances were entered:

The following appearances were entered:

FOR NEWPORT WATER: Joseph Keough, Jr., Esq.

FOR NAVY: Audrey Van Dyke, Esq.

FOR PWFD: Brent Canning, Esq.

FOR DIVISION: Leo Wold, Esq.
Special Assistant Attorney General

⁸ *Id.* at 8.

⁹ The Settlement was not clear. The Commission interprets the provision in this manner.

¹⁰ Settlement, pp. 10-11.

FOR COMMISSION: Cynthia G. Wilson-Frias, Esq.
Senior Legal Counsel

Newport Water presented Julia Forgue, Director of Public Works, and Harold Smith, its consultant, in support of the Settlement. PWFD presented Christopher Woodcock, its consultant, and William McGlinn, General Manager and Chief Engineer. The Navy did not present any witnesses. The Division presented Thomas Catlin, its consultant.

Mr. Catlin summarized the revenue requirement aspects of the Settlement, noting that the typical residential customer would experience an annual increase of \$45.42, or 20.69%. He also noted that this would be the first revenue increase allowed to the Company since 2000, or in almost six years.¹¹ Mr. Smith explained that even with the increase, due to billing lags and the fact that the Rate Year will be halfway over by the time the rates go into effect, the Company can still expect to be challenged in terms of meeting monthly expenses until such time as a full period of billing at the new rates is collected by the Company.¹²

Addressing the allocation of City Services expenses, the parties agreed that the costs of customer billing will be split 50/50 with the Water Pollution Control Division. However, for purposes of ratemaking, that figure will be set at \$268,000 per year until the next rate change approved by the Commission.¹³ Likewise, the financial and management audit which is expected to be conducted by the City of Newport would be split between Newport Water and the Water Pollution Control Department.¹⁴ A consistent methodology was utilized for other City Services as well. The percentage

¹¹ Tr. 11/9/05, pp. 11-12.

¹² Id. at 83.

¹³ Id. at 16-17.

¹⁴ Id. at 76.

allocated to Newport Water was utilized to develop a specific dollar amount which will be paid to the City of Newport until the next rate case.¹⁵ Further discussing City support, Ms. Forgue testified that because the Company had hired a Deputy Director of Finance, Newport Water could lessen its reliance on the City Finance Director.¹⁶ Specifically addressing how this reliance would be reduced, Ms. Forgue explained that the Deputy Director of Finance will be responsible for preparing all of the reports required by the Commission, overseeing the billing functions from the Water Division, preparing the budget, including for the CIP, monitoring the budget, and assuring that spending is in accordance with the budget, and tracking accounts receivable and collections.¹⁷ She explained that the Deputy Director of Finance will have access to all computer programs and information she needs in order to provide the various reports required by the Commission. The official allocation of time for the Deputy Director of Finance is a 60/40 split between Newport Water (60%) and the Pollution Control Division (40%).¹⁸ Mr. Smith testified that the reduced reliance on the City Finance Director through the creation of the new position of Deputy Director of Finance was factored in to the calculation of City Service expense.¹⁹

Addressing the continuation of current Commission reporting requirements, the parties had no objection to allowing Ms. Forgue to discontinue submitting her time allocation between the Water Division and the Pollution Control Division.²⁰ Mr. Smith then addressed a technical difficulty which had arisen with the monthly and quarterly

¹⁵ Id. at 88-92.

¹⁶ Id. at 79.

¹⁷ Id. at 86-87.

¹⁸ Id. at 80-81.

¹⁹ Id. at 87-88.

²⁰ Id. at 71-72.

reports. The computer system upon which the Company had been relying was not allocating revenues between the customer/billing charge and the usage charges. Therefore, in the reports to the Commission, it appeared no billing charges were being collected. However, Mr. Smith testified that the problem had been rectified and would be reported correctly no later than the December 2005 report.²¹ Referring to a new reporting requirement suggested by the parties for the purposes of creating accrual accounting reports, the parties agreed that the first reports would be due in May 2006 and that the Commission would review and approve the proposed format of the report prior to the first filing.²²

With regard to new reporting requirements related to Water Quality Issues, Communications Issues and various studies, the parties agreed that they were not intending for Commission approval of any voluntary reporting requirements between the parties to be used in an attempt to put the Commission in the position of seeking jurisdiction over the Rhode Island Department of Health (“RIDOH”). Ms. Forgue discussed the processes currently being undertaken by Newport Water in order to comply with the Environmental Protection Agency and RIDOH requirements. Mr. McGlenn testified that it was his belief that the PWFD and the Navy would be entitled to attend meetings and the agreements to that effect contained in the Settlement were to ensure the parties would have adequate notice of any such proceedings with RIDOH. Ms. Forgue explained that the associated costs would be paid for out of the Capital Fund. She

²¹ Id. at 84-86.

²² Id. at 73-74.

projected that the expected timeline for completing a chloramine conversion to address certain water quality issues extends into 2007.²³

Discussing the maintenance of Restricted Accounts, Mr. Catlin explained that Newport Water would maintain the same number of restricted accounts and would track each account in the same manner as was approved in the last rate case. However, for purposes of cash flow issues, Newport Water would be allowed to utilize funds from the Capital Fund in order to meet Debt Service expenditures. The cash expenditures and deposits to the two accounts would continue to be tracked separately.²⁴

With regard to the change in billing structure to Middletown for meter reading related to Middletown's responsibility for billing their sewer customers, Newport Water, Mr. Smith testified that within the upcoming months, Newport Water would be approaching Middletown to reach a compensation agreement for the meter reading service. Under the prior billing methodology, Middletown customers were indirectly charged for the service, but Newport Water will now seek a direct billing of Middletown to cover the actual costs.²⁵

IV. Commission Findings

At an Open Meeting on November 10, 2005, the Commission approved the Settlement with modifications which were conceded to by the parties at the hearing. The Commission notes that Newport Water has progressed significantly in its operations since the last rate case. While Newport Water still faces challenges and has significant work to do, it has been responsive to Commission Orders, has maintained a much higher level of

²³ Id. at 27-72. One typographical change was made to Paragraph 18(C) on page nine to clarify that Newport Water will be providing reports to Portsmouth, not to itself. Id. at 72.

²⁴ Id. at 19-20.

²⁵ Id. at 94-95.

communication with the Commission than in the past and is able to track its finances. The reduced volume of paper generated in this matter, compared to that which was generated in Docket No. 3578, is evidence that there are at least somewhat reduced levels of tension between the parties and questions were adequately answered the first time they were asked. This shows progress from all involved.

This is the first revenue increase allowed by the Commission since January 1, 2000. This is the equivalent of 3.4% per year. While Newport Water has struggled with its financial management, with its current ability to track its finances and this increase, hopefully the Company will progress to the point where collection of accounts receivable will better match accounts payable requirements within a reasonable period of time. Newport Water should continue to maintain a high level of communication with the Division, the Commission and the parties to the docket. This is particularly true where the Commission will allow Newport Water to utilize funds from the Capital Fund to meet cash flow issues associated with the Debt Service Account. Newport Water shall continue to track the accounts separately. In the next rate case, the Commission will review the continued appropriateness of combining these two accounts.

With regard to the additional requirements related to Communications Issues and Water Quality Issues, the Commission reiterates the fact that nothing contained in the Settlement nor this Order is intended in any way to supersede the authority of the RIDOH. The RIDOH is the primary authority over these issues while the Commission is the primary authority over rate setting. While the Commission and Division each have clear roles in ensuring reasonable rates for quality service and product, where another State Agency has the responsibility for overseeing a certain aspect of a utility's

operations, the Commission should not interfere as long as that Agency is meeting its oversight responsibilities. No evidence was presented in this matter to suggest the RIDOH is not fulfilling its statutory mandates.

According, it is hereby

(18580) ORDERED

1. The City of Newport, Utilities Department, Water Division's Application for a General Rate Increase, filed on April 22, 2005, is hereby denied and dismissed.
2. The Settlement Agreement filed by the City of Newport, Utilities Department, Water Division, the Division of Public Utilities and Carriers, Portsmouth Water and Fire District and the United States Navy is hereby approved. The rates contained in the Settlement Agreement are approved for consumption on and after November 11, 2005. The total cost of service is \$9,284,455.
3. City of Newport, Utilities Department, Water Division shall restrict \$3,942,684 annually, in the following manner: Debt Service - \$1,378,768; Capital - \$1,267,088; Chemicals - \$333,000; Electricity - \$434,202; Repayment to City of Newport \$250,000; Accrued Benefits Buyout - \$70,000; and Retiree Insurance - \$209,626.
4. City of Newport, Utilities Department, Water Division shall fund its Restricted Accounts monthly at the dollar amounts allowed in the Settlement Agreement and not on a percentage of collections basis.

5. City of Newport, Utilities Department, Water Division shall comply with the following periodic reporting requirements:
 - (a) City of Newport, Utilities Department, Water Division shall continue providing a reconciliation of each restricted account on a quarterly basis within 30 days of the end of the quarter.
 - (b) City of Newport, Utilities Department, Water Division shall continue providing a balance sheet, income statement and cash flow statement on a quarterly basis within 30 days of the end of the quarter.
 - (c) Newport shall provide updates on its Conference and Training Costs in its quarterly reports within 30 days of the end of the quarter.
 - (d) On a monthly basis, City of Newport, Utilities Department, Water Division shall continue providing a monthly cash reconciliation to include cash inflow and cash outflows within 15 days of the end of the month. Inflows and outflows should be compared to budget with an explanation of any deviation from the budget by more than 10%, on a quarterly basis within 15 days of the end of the quarter.
 - (e) Commencing May 31, 2006, City of Newport, Utilities Department, Water Division shall provide monthly statements on an accrual basis consistent with a format and due date to be approved by the Public Utilities Commission.
6. City of Newport, Utilities Department, Water Division shall, on May 30th of each year, file a report with the Commission showing that it has complied with each of the reporting requirements of the Commission prior

to making that year's payment in the amount of \$500,000 to the City of Newport against the debt accrued to the City of Newport during the period prior to FY 2004. In the event the Commission finds City of Newport, Utilities Department in non-compliance with any Commission's Order issued since September 24, 2003, the Commission reserves the right to deny repayment of any or all of the installment.

7. City of Newport, Utilities Department, Water Division shall provide the parties to the docket with a copy of all reports made to the Commission in compliance with this Order.
8. City of Newport, Utilities Department, Water Division shall file reports regarding Capital Improvement Projects on a semi-annual basis, with the report for the period ending December 2005 due in January 2006. Each subsequent report shall be due within 30 days of the end of the previous six-month period.
9. City of Newport, Utilities Department, Water Division's Tariffs, filed on November 18, 2005 are hereby approved.
10. City of Newport, Utilities Department, Water Division shall comply with all other findings and instructions as contained in this Report and Order and with all terms of the Settlement Agreement incorporated herein.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO OPEN
MEETING DECISIONS ON NOVEMBER 10, 2005 AND NOVEMBER 30, 2005.
WRITTEN ORDER ISSUED APRIL 26, 2006.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Robert B. Holbrook, Commissioner

Mary E. Bray, Commissioner

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

In re: City of Newport, Utilities Department, Water Division

Docket No. 3675

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 April 15, 2005 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 April 15, 2005, 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 originally sought to collect additional operating revenue in the amount of \$1,297,187, or a 15.73% increase in rates across all classes. A supplemental filing was submitted on August 5, 2005, which sought to collect additional operating revenue in the amount of \$1,726,291, or a 22.67% increase in rates across all classes. Newport filed rebuttal testimony on October 7, 2005 to collect additional operating revenue in the amount of \$1,765,269, or a 23.89% increase in rates across all classes.

3. 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. Ms. Forgue and Mr. Smith also submitted rebuttal testimony.
4. On May 19, 2005 the Navy filed a Motion to Intervene in this Docket and submitted direct and surrebuttal testimony of Ernest Harwig of Brubaker & Associates and William Monaco, P.E., Drinking Water Program Manager, Naval Station Newport.
5. Portsmouth filed a Motion to Intervene in this Docket on May 27, 2005 and submitted direct testimony of Philip Driscoll, Clerk of the Administrative Board of Portsmouth, William J. McGlinn, P.E., General Manager and Chief Engineer for Portsmouth, Christopher P.N. Woodcock of Woodcock & Associates, Inc.. Messrs. Driscoll, McGlinn, and Woodcock filed surrebuttal testimony.
6. 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.
7. A telephonic settlement conference among the parties was held on Friday October 21, 2005 and the parties met at the Division of Public Utilities and Carriers on Wednesday, October 26, 2005 to hold a further settlement conference. All of the parties to this Docket, through their representatives, participated in this conference.
8. 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.

9. 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

Revenue Requirement

10. Incorporated herein and attached hereto as Exhibit 1 are Schedules TSC-1-10 (updated 10/21/05). The parties agree with these schedules as presented.
11. As set forth in these schedules, Newport's rates are designed to allow for the collection of additional operating revenue in the amount of \$1,513,407 to support total cost of service of \$9,284,455. The impact of this request will result in a 20.48% increase in total cost of service. For a typical residential customer, the impact of this request will result in an increase of \$45.42 per year or 20.69%. In addition, the volumetric rate charged to Portsmouth will increase by 20.48% to \$2.00 per thousand gallons, and the volumetric rate charged to the Navy will increase by 20.48% to \$2.51 per thousand gallons. The billing charge assessed to all customers will also increase by 20.48% to \$13.25 per bill.
12. The parties agree that Newport's Water Pollution Control division should recognize the benefit it receives from Newport Water's Customer Accounts division by making an annual payment to Newport Water in an amount equal to 50% (\$268,408) of the allowable revenue requirements for the Customer Accounts account. However, in recognition that almost half of the rate year has passed and that it will take some time

to increase sewer rates such that the appropriate payment to Newport Water can be recovered through sewer rates, the rates agreed to in this settlement only include a payment from Water Pollution Control in an amount equal to 25% (\$134,204) of the Customer Accounts cost. The parties also agree that beginning in fiscal year ending June 2007 and thereafter, the Water Pollution Control division will be obligated to pay Newport Water an amount equal to 50% of the Customer Accounts costs.

13. Newport Water pays \$210,000 per year to Water Pollution Control Division for sludge removal. To the extent the Water Pollution Control Division does not pay the Water Division the \$268,000 per year for the Customer Accounts costs, the Water Division will withhold its payment for sludge removal until such time as it receives payment from the Water Pollution Control Division for the Customer Accounts costs.
14. The parties agree that in addition to the restricted accounts established as a result of previous dockets, Newport Water will establish a restricted account for Accrued Benefits Buyout costs and a restricted account for Retiree Insurance costs. Newport Water shall be obligated to fund the Accrued Benefits Buyout account in the amount of \$70,000 annually and the Retiree Insurance account in the amount of \$209,626. All of Newport Water's obligations for Accrued Benefits Buyout and Retiree Insurance, and only those obligations, shall be funded from these accounts. The costs of insurance for new retirees shall only be charged to the Retiree Insurance account at such time as Newport Water begins to incur the cost of insurance for the employee that replaces that retiree. Newport Water shall make contributions to these accounts on a monthly basis with each monthly contribution being an amount equal to one twelfth of the annual funding requirement for each account.

15. The parties agree that Newport Water's rates should be set to recover \$285,005 to cover the costs associated with services provided to Newport Water by various Legal and Administrative departments of the City of Newport's General Fund. Additionally, the parties agree that Newport Water should be allowed to recover through rates an amount of \$189,994 for costs associated with goods and services provided by the City of Newport's MIS Services Department. The increases in amounts allowed for City Services shall become effective when the rates approved in this Docket take effect.
16. The parties agree, and Newport Water acknowledges that the amounts for Legal & Administrative Services and MIS Services agreed to by the parties in this Docket are for the purposes of this Docket only and the methods used to arrive at these amounts shall not set precedent on the amounts allowed for similar costs in future rate cases.

Water Quality Issues

17. Portsmouth and the Navy have raised a number of concerns in this and the prior Docket regarding water quality issues. It is the collective position of Portsmouth and the Navy that these concerns originated in the Newport system, are a problem for the island water supply generally, and are most effectively and efficiently dealt with at the Newport water plants. These concerns include the variable pH output and the corrosion control practices at the Lawton Valley Water Treatment Plant, the age of the water supplied to Portsmouth, and excessive levels of disinfection by-products, and are further explained and identified in the Maguire Island-wide study. This study, agreed to as part of the Settlement Agreement in Docket # 3578, was in addition to the CDM Comprehensive Evaluation of Newport Water's Treatment

Facility completed in February, 2004. These water quality concerns are public health issues as determined by the US EPA and as testified to by Portsmouth and the Navy in this and the prior docket. Portsmouth has exceeded the Action Level for Lead on two reporting periods during the last four years and has been in violation of the Maximum Contaminant Level for TTHMs on three quarters in the last three years. The Navy has been in violation of the Maximum Contaminant Level for TTHMs on four quarters in the last two years. Newport Water has been working to address the water quality concerns and issues beginning with authorizing the Comprehensive WTP Compliance Evaluation in May 2003 and will continue to address these water quality concerns for all its customers.

18. As such, the parties agree to take the following steps:

- A. Newport agrees to provide Portsmouth and the Navy with monthly reports that identify the daily results of the plant effluent pH tests performed by Newport during the preceding month at the Lawton Valley Water Treatment Plant.
- B. Newport agrees to develop and submit to Portsmouth, the Navy, the Division, and the Commission a plan by March 1, 2006 with the goal of stabilizing pH output at the Lawton Valley Water Treatment Plant. Newport agrees to meet with Portsmouth, the Navy, the Division, and the Commission by March 31, 2006 to discuss the plan and address questions and concerns and to implement the plan as soon as possible, with the goal of achieving stabilized pH output by July 15, 2006.
- C. Newport agrees to amend the current contract with CDM as necessary to include an analysis of the water age issue in order to identify and evaluate the possible options and feasibility of providing Portsmouth with water of the same age as that

provided to Newport and the Navy. Newport agrees to use its best efforts to work with CDM to complete the additional analysis by May 1, 2006. Before the analysis is completed, Newport shall circulate a draft report of the analysis to Portsmouth and the Navy for review and comment and agrees to meet with Portsmouth and the Navy at a mutually agreeable date to address questions and concerns. The final report of the analysis shall be provided to Portsmouth, the Navy, the Division, and the Commission. Newport agrees to meet with CDM and Portsmouth, the Navy, and the Division to discuss the final report in the event there are any issues raised by the final report that were not addressed by the parties in their meeting to review the draft report.

Financial and Management Issues

19. Portsmouth and the Navy have expressed concerns in this and prior dockets about financial and system management issues. To continue to address these concerns the parties agree to take the following steps:
 - A. Newport agrees to continue to comply with all reporting requirements set forth in Docket 3578, which are adopted and incorporated as part of this agreement.
 - B. Portsmouth has requested that Newport provide the parties with certain financial information, including monthly statements on an accrual basis that include Newport's "statement of net assets-comparative," "statement of revenues, expenses, and changes in fund net assets," and "statement of cash flows" beginning within six months of the date that Newport hires its Deputy Director of Finance. Newport has offered to provide monthly trial balance and a monthly statement of operations on an accrual basis. As a result, the parties have agreed to let the Commission decide the parameters

of the financial reporting that Newport must supply. These monthly statements shall be in addition to the reports currently prepared per Docket #3578.

C. Newport Water, Portsmouth, and the Navy acknowledge that the City of Newport is currently performing financial and management studies of its various departments and that Newport Water is expected to undergo such an audit that will be completed by the end of FY-07. Newport Water, Portsmouth, the Navy, and the Division agree that in the event the City of Newport does not issue a request for proposals for a financial and management audit of Newport Water by October 31, 2006, Newport Water will issue a request for proposals for an independent financial and management audit of Newport Water by October 30, 2006. In that event, the report shall be conducted with funds from its Restricted Capital Fund and shall be conducted by an independent financial and management consulting firm that has not performed services for Newport Water within the past three years. The report shall be completed by June 30, 2007. A copy shall be provided to Portsmouth, the Navy, the Commission, and the Division.

Communication Issues

20. Portsmouth and the Navy, as public water suppliers and Newport's largest customers, depend heavily on receiving comprehensive and accurate information from Newport in order to manage their respective water systems and to ensure that the water they supply to their customers is safe. Portsmouth and the Navy have expressed concerns in this and the prior Docket about their need for more information from Newport regarding its water quality and its current and proposed treatment system. Newport's cooperation on this

matter is essential to the wholesale water suppliers. To continue to address these concerns the parties agree to take the following steps:

- A. Newport agrees to continue to comply with all communications requirements set forth in Docket 3578, which are adopted and incorporated as part of this agreement.
- B. Newport agrees to meet a minimum of three times per year with Portsmouth and the Navy on mutually agreed-to dates to discuss water quality issues and all treatment studies, testing results and designs.
- C. Newport agrees to provide Newport and the Navy with written reports every two months regarding the status, including findings and decisions, and schedule of the chloramines conversion studies, testing results, and designs.
- D. Portsmouth and the Navy shall be notified of and invited to attend all meetings between Newport and CDM, in which technical issues relating chloramines conversion studies, testing results, and designs are discussed. Newport shall provide Portsmouth and the Navy with notice by fax, e-mail, telephone or other means, as soon as reasonably possible after such meetings are scheduled. Such meetings may be scheduled at Newport's discretion based upon the availability of Newport and CDM. The inability of Portsmouth or the Navy to attend such meetings shall not prevent the meetings from going forward.
- E. Portsmouth and the Navy will be copied on all correspondence submitted to or received from the RIDOH related to the chloramine conversion.
- F. Newport, Portsmouth and the Navy agree to provide each other with copies of all correspondence to the RIDOH responding to violations of drinking water standards.

G. Portsmouth and the Navy will be notified in advance of meetings between the RIDOH and Newport in which the subject matter is chloramines conversion. Newport water retains the right as the manager of the utility as the primary participant in said meetings with the RIDOH in which the subject matter is chloramine conversion. Portsmouth and the Navy will not be notified of meetings between the RIDOH and Newport that do not directly involve chloramines conversion unless otherwise directed by the RIDOH.

H. Newport, Portsmouth and the Navy all agree to use their best efforts to address and resolve water quality concerns and issues and to use their best efforts to foster a spirit of cooperation in resolving these issues.

Fully Allocated Cost of Service Study

21. Newport agrees to initiate a demand study within 12 months under the terms presented in Exhibit 2 attached to the *Settlement Agreement* in Docket 3578. Upon completion of the demand study, Newport will present a fully allocated cost of service study in its next general rate filing. The cost of service study will generally follow the guidelines for conducting cost of service studies as set forth in *Principles of Water Rates, Fees, and Charges*, Manual M1, Fifth Edition, published by the American Water Works Association. The reasonably-incurred costs pursuant to conducting the customer demand study and the cost of service study, amortized over a reasonable number of years, shall be included in Newport's revenue requirement calculation in the rate case including the cost of service study. Nothing in this section shall prohibit Newport from submitting a general rate filing or filing

other request for rate relief before the Commission prior to the completion of the demand and cost of service study.

Effect of Settlement

22. 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.
23. 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.
24. 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 _____, 2005.

<p>CITY OF NEWPORT, UTILITIES DEPARTMENT, WATER DIVISION By its Attorney,</p> <hr/> <p>Joseph A. Keough, Jr. #4925 KEOUGH & SWEENEY, LTD. 100 Armistice Boulevard Pawtucket, RI 02860 Tel: (401)-724-3600</p>	<p>DIVISION OF PUBLIC UTILITIES AND CARRIERS, By its Attorney,</p> <hr/> <p>Leo J. Wold, # 3613 Special Assistant Attorney General 150 South Main Street Providence, RI 02903 Tel: 401-274-4400, ext. 2218</p>
<p>PORTSMOUTH WATER AND FIRE DISTRICT By its Attorney,</p> <hr/> <p>Gerald J. Petros, # 2931 Hinckley, Allen & Snyder, LLP 1500 Fleet Center Providence, RI 02903 Tel: 401-274-2000</p>	<p>UNITED STATES DEPARTMENT OF THE NAVY By its Attorney,</p> <hr/> <p>Audrey Van Dyke, # Counsel For the Secretary of the Navy Litigation Headquarters 1314 Harwood Street, Suite 412 Washington Navy Yard, DC 20374 Tel: 202-685-1931</p>

CITY OF NEWPORT--WATER DIVISION

Summary of Revenues and Expenses at
 Present and Proposed Rates
 Rate Year Ended June 30, 2006

	Rate Year Amount Per Newport	Division Adjustments	Rate Year at Present Rates	Proposed Rate Increase	Rate Year at Proposed Rates
Revenue					
Customer Charge	\$ 547,811	\$ -	\$ 547,811	\$ 112,052	\$ 659,863
Retail Consumption	4,475,333	-	4,475,333	913,603	5,388,936
Wholesale/Bulk Sales	1,578,395	-	1,578,395	322,320	1,900,715
Fire Protection	786,805		786,805	161,470	948,275
Miscellaneous	259,060	123,644	382,704	-	382,704
Total Revenue	\$ 7,647,404	\$ 123,644	\$ 7,771,048	\$ 1,509,446	\$ 9,280,494
Expenses					
Water Administration	1,844,385	(126,324)	1,718,061	-	1,718,061
Customer Accounts	536,815	-	536,815	-	536,815
Source of Supply-Island	455,087		455,087	-	455,087
Source of Supply-Mainland	95,663		95,663	-	95,663
Treatment & Pumping-Newport Plant	1,352,566		1,352,566	-	1,352,566
Treatment & Pumping-Lawton Valley	1,026,354		1,026,354	-	1,026,354
Water Laboratory	213,952		213,952	-	213,952
Transmission & Distribution Maintenance	838,893		838,893	-	838,893
Fire Protection	14,000		14,000	-	14,000
Subtotal	\$ 6,377,715	\$ (126,324)	\$ 6,251,391	\$ -	\$ 6,251,391
Payment to City General Fund	250,000		250,000	-	250,000
Debt Service	1,378,768		1,378,768	-	1,378,768
Capital Outlays	1,267,088		1,267,088	-	1,267,088
Total Expenses	\$ 9,273,571	\$ (126,324)	\$ 9,147,247	\$ -	\$ 9,147,247
Operating Reserve	139,104	(1,895)	137,209	-	137,209
Total Cost of Service	\$ 9,412,675	\$ (128,219)	\$ 9,284,455	\$ -	\$ 9,284,455
Revenue Surplus/(Deficiency)	(\$1,765,271)	\$251,863	(\$1,513,408)	\$ 1,509,446	(\$3,962)

CITY OF NEWPORT--WATER DIVISION

Summary of Division Adjustments to
 Rate Year Revenues and Expenses at Present Rates
 Rate Year Ending June 30, 2006

<u>Description</u>	<u>Amount</u>	<u>Source</u>
Customer Billing Charge	-	Schedule TSC-3
Miscellaneous Charges	123,644	Schedule TSC-9
Total Revenue Adjustments	<u>123,644</u>	
Employee Vacancies	-	Schedule TSC-4
Accumulated Benefits Buyout	-	Schedule TSC-5
Retiree Insurance Costs	-	Schedule TSC-6
City Legal & Administrative Services	(61,947)	Schedule TSC-7
City Data Processing Services	(64,378)	Schedule TSC-8
Operating Reserve	<u>(1,895)</u>	See Note (1)
Total Expense Adjustments	<u>\$ (128,219)</u>	
Total Adjustment to Revenue Deficiency	<u>\$ (251,863)</u>	

Note:

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

CITY OF NEWPORT--WATER DIVISION

Adjustment to Customer Charge Revenue
at Existing Rates
Rate Year Ending June 30, 2006

Number or Bills in FY 2005 (1)	49,801
Current Customer Charge Per Bill	<u>\$ 11.00</u>
Customer Charge Revenue per Division	\$ 547,811
Customer Charge Revenue per Newport Water (2)	<u>547,811</u>
Increase in Customer Charge Revenue	<u><u>\$ -</u></u>

Notes:

(1) Per update to Div. 2-4.

(2) Per Schedule RFC-5 Rebuttal.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Wages and Benefits
To Reflect Employee Turnover
Rate Year Ending June 30, 2006

	<u>Adjustment</u>
Compensation Per Employee (1)	
Average Salary and Wages	\$ 40,674
Average Employee Insurance	<u>18,123</u>
Total Compensation per Employee	\$ 58,797
Average Employee Vacancies (2)	<u>-</u>
Total Adjustment to Wages and Benefits	<u><u>\$ -</u></u>

Notes:

- (1) Based on total rate year amounts per Schedule RFC 2 less amounts for Administrative personnel divided by 43 employees.
- (2) Based on response to informal request.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Accrued Benefits Buyout Expense
Rate Year Ending June 30, 2006

	<u>Total</u>
Funding Allowance for Accumulated Benefits Buyout Restricted Account per Division (1)	\$ 70,000
Annual Expense per Filing (2)	<u>\$ 70,000</u>
Adjustment to Expense	<u><u>\$ -</u></u>

Notes:

(1) Refer to testimony.

(2) Per Schedule RFC C Rebuttal.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Retiree Insurance Expense
Rate Year Ending June 30, 2006

	<u>Amount</u>
Rate Year Insurance Costs for Existing Retirees	
Updated Estimate (1)	\$ 183,326
Amount per Newport Water (2)	<u>183,326</u>
Adjustment for Existing Retirees	\$ -
Allowance for New Retirees	
Division Allowance to Fund Reserve Account	26,300
As Filed allowance (2)	<u>26,300</u>
Total Adjustments	\$ -
Adjustment to Rate Year Expense	<u><u>\$ -</u></u>

Note:

(1) Per Response to Div. 1-8.

(2) Per Schedule RFC C Rebuttal.

CITY OF NEWPORT--WATER DIVISION

Adjustment to City Legal and Administrative Services Expense
Rate Year Ending June 30, 2006

	Allocable FY 2006 Budget Per Newport (1)	Division Exclusions (2)	Allocable FY 2006 Budget Per Division	Allocation Factor	Allocated Cost
City Council	\$ 79,268	\$ -	\$ 79,268	10.098%	8,004
City Manager	296,918	-	296,918	10.098%	29,982
City Solicitor	319,705	(139,353)	180,353	13.758%	24,813
City Clerk	258,300	-	258,300	10.098%	26,083
Finance Administration	164,666	-	164,666	13.758%	22,655
Assessment	270,906	(89,399)	181,507	13.758%	24,972
Collections	263,286	-	263,286	13.758%	36,223
Administrative Services	134,628	-	134,628	13.758%	18,522
Facilities Maintenance (4)	-	-	-		
Balance Subject to Allocation	<u>\$ 1,787,677</u>	<u>\$ (228,751)</u>	<u>\$ 1,558,926</u>		<u>\$ 191,255</u>
Including Schools & Library					
Newport Water Budget	\$ 9,603,274	\$ (318,819)	\$ 9,284,455		
Total City Budget (3)	<u>67,801,797</u>	<u>24,143,728</u>	<u>91,945,525</u>		
Allocation Factor	<u>14.164%</u>		<u>10.098%</u>		
Excluding Schools & Library					
Newport Water Budget	\$ 9,603,274	\$ (318,819)	\$ 9,284,455		
Total City Budget (3)	<u>67,801,797</u>	<u>(318,819)</u>	<u>67,482,978</u>		
Allocation Factor	<u>14.164%</u>		<u>13.758%</u>		
Newport Water Allocation	\$ 253,202		\$ 191,255		
Facilities Maintenance (4)	30,106		30,106		
Human Resources	13,440	-	13,440		
Accounting	36,785	-	36,785		
Purchasing	<u>13,419</u>	-	<u>13,419</u>		
Total Legal & Administrative Services	<u>\$ 346,952</u>		<u>\$ 285,005</u>		
Division Adjustment			<u>\$ (61,947)</u>		

Notes:

- (1) Per Schedule RFC C Rebuttal.
- (2) Refer to Surrebuttal Testimony of Thomas S. Catlin for explanation of adjustments.
- (3) Per Schedule RFC C Rebuttal. Excludes Schools and Library general fund amounts.
- (4) Pursuant to Newport Water Rebuttal filing, 5% of Facilities Maintenance costs are considered allocable to Newport Water and are included as a separate line item.

CITY OF NEWPORT--WATER DIVISION

Adjustment to City Data Processing Services Expense
 Rate Year Ending June 30, 2006

	Allocable FY 2006 Budget Per Newport (1)	Division Adjustments (2)	Allocable FY 2006 Budget Per Division
Management Information Systems	\$ 1,795,933	\$ 50,000	1,845,933
Newport Water Budget	\$ 9,603,274	(318,819)	9,284,455
Total City Budget	<u>67,801,797</u>	22,403,759	<u>90,205,556</u>
Allocation Factor	<u>14.164%</u>		<u>10.293%</u>
 Newport Water Allocation	 <u>\$ 254,371</u>		 <u>\$ 189,994</u>
 Division Adjustment			 <u>\$ (64,378)</u>

Notes:

(1) Per Schedule RFC C Rebuttal.

(2) Refer to Surrebuttal Testimony of Thomas S. Catlin for explanation of adjustments. Amount is based on full budget and allocation factor reflects inclusion of transfer to Schools from General Fund of \$23,041,396.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Sewer Billing Service Revenue
Rate Year Ending June 30, 2006

	<u>Total</u>
Customer Accounts O&M Costs (1)	\$ 536,815
Percent Allocable to Sewer Billings (2)	<u>25.00%</u>
Costs Billable to Water Pollution Control Division	\$ 134,204
Amount per Newport Water (2)	<u>10,560</u>
Adjustment to Miscellaneous Revenue	<u><u>\$ 123,644</u></u>

Notes:

(1) Per Schedule TSC-1.

(2) Reflects 2 year phase-in of cost sharing between water and sewer customers, including Middletown.

CITY OF NEWPORT--WATER DIVISION

Calculation of Uniform Percentage Increase in Rates
 Required to Generate Additional Revenues
 Rate Year Ending June 30, 2006

<u>Customer Class</u>	<u>Existing Rate</u>	<u>Rate Year Sales (1) (1,000 gals)</u>	<u>Rate Year Revenues at Existing Rates</u>
Retail	\$ 3.38	1,324,063	\$ 4,475,333
Navy	2.0873	415,093	866,424
Portsmouth	1.658	429,416	<u>711,972</u>
Metered Sales Revenues at Existing Rates			\$ 6,053,728
<u>Type of Charge</u>	<u>Existing Charge</u>	<u>Number Billed (2)</u>	<u>Rate Year Revenues at Existing Rates</u>
Billing Charge (2)	\$ 11.00	49,801	547,811
Fire Protection Charges (Public)	\$ 560.00	982	549,920
Fire Protection Charges (Private)			
less than 2"	\$ 11.00	-	-
2"	46.00	-	-
4"	285.00	55	15,675
6"	570.00	234	133,380
8"	1,305.00	62	80,910
10"	2,155.00	-	-
12"	3,460.00	2	<u>6,920</u>
Total Private Fire Service			\$ 236,885
Total Rate Year Revenues from Existing Rates and Charges			<u>\$ 7,388,344</u>
Net Rate Year Revenue Requirements (3)			<u>\$ 8,901,752</u>
Additional Revenue Needed			\$ 1,513,407
% Revenue Increase Required			<u>20.48%</u>

Notes:

- (1) Per Schedule RFC 5 Rebuttal.
- (2) Per Schedule TSC-4 Updated 10/20/2005.
- (3) Per Schedule TSC-1 Updated 10/20/2005.

CITY OF NEWPORT--WATER DIVISION

Calculation of Proposed Rates and
Proof of Revenue at Proposed Rates
Rate Year Ending June 30, 2006

<u>Customer Class</u>	<u>Existing Rate</u>	<u>Percent Increase (1)</u>	<u>Proposed Rate</u>	<u>Rate Year Sales (2) (1,000 gals)</u>	<u>Rate Year Revenues at Proposed Rates</u>
Retail	\$ 3.38	20.48%	\$ 4.070	1,324,063	\$ 5,388,936
Navy	2.0873	20.48%	\$ 2.510	415,093	1,041,883
Portsmouth	1.658	20.48%	\$ 2.000	429,416	858,832
Metered Sales Revenues at Proposed Rates					\$ 7,289,652
<u>Type of Charge</u>	<u>Existing Charge</u>	<u>Percent Increase (1)</u>	<u>Existing Charge</u>	<u>Number Billed</u>	<u>Rate Year Revenues at Proposed Rates</u>
Billing Charge (3)	\$ 11.00	20.48%	\$ 13.25	49,801	659,863
Fire Protection Charges (Public)	\$ 560.00	20.48%	\$ 675.00	982	662,850
Fire Protection Charges (Private)					
less than 2"	\$ 11.00	20.48%	\$ 13.25	-	-
2"	46.00	20.48%	55.00	-	-
4"	285.00	20.48%	343.00	55	18,865
6"	570.00	20.48%	687.00	234	160,758
8"	1,305.00	20.48%	1,572.00	62	97,464
10"	2,155.00	20.48%	2,596.00	-	-
12"	3,460.00	20.48%	4,169.00	2	8,338
Total Private Fire Service					\$ 285,425
Total Rate Year Revenues from Proposed Rates and Charges					\$ 8,897,790
Net Rate Year Revenue Requirements (4)					\$ 8,901,752
Difference					\$ (3,962)

Notes:

- (1) Per page 1 of this schedule.
- (2) Per Schedule RFC 5 Rebuttal.
- (3) Per Schedule TSC-4 Updated 10/21/2005.
- (4) Per Schedule TSC-1 Updated 10/21/2005.