

1                                   **RHODE ISLAND PUBLIC UTILITIES COMMISSION**

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3                                   **DOCKET NO. 3675**

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5                                   **NEWPORT WATER DEPARTMENT**

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7                                   **PREFILED SURREBUTTAL TESTIMONY OF**

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9                                   **CHRISTOPHER P.N. WOODCOCK**

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11                                   **ON BEHALF OF**

12                                   **PORTSMOUTH WATER & FIRE DISTRICT**

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1 **Q: Please state your name.**

2 A: My name is Christopher P.N. Woodcock and I submitted prefiled direct testimony in  
3 this docket earlier.

4 **Summary**

5 **Q: Would you summarize your testimony?**

6 A: There are several issues that have been brought up in Newport's rebuttal testimony  
7 that I will address. They include:

- 8 • The percentage of Water Fund to total General Fund costs used to allo-  
9 cate many City Service Functions
- 10 • City Solicitor cost allocation
- 11 • City Clerk cost allocation
- 12 • City Assessor cost allocation
- 13 • Finance Department cost allocation
- 14 • MIS cost allocation
- 15 • Sewer Billing
- 16 • Cost Allocation

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18 **Q: Do you agree with the percentages used by Mr. Smith (Schedule RFC C Re-  
19 buttal) to assign a number of the City Service expenses to the Water Fund?**

20 A: I do not. Mr. Smith's Schedule RFC C Rebuttal shows the Water Department  
21 budget at \$9,603,274 for the Legal and Administrative allocations and \$10,078,49  
22 as the Water Budget for the Data Processing allocations. However, his rebuttal  
23 Schedule RFC 1 shows claimed Water Department revenue requirements of only  
24 \$9,412,674. I believe that the "Water Budget" that should be used in these calcula-  
25 tions should be consistent and should be based on the approved revenue require-  
26 ments in this docket.

27  
28 In his rebuttal testimony (Page 9, line 7), Mr Smith appears to agree that "the Water  
29 Department Budget should be revised to equal the total revenue requirements re-  
30 quested." However, the amounts presented by Mr. Smith on RFC C for the Water

1 Fund "Budget" and his recommend revenue requirement on RFC 1 are quite differ-  
2 ent. By simply changing the Water Budget to the requested amount and revising  
3 the total of all budgets to reflect this change, Newport's Legal and Administrative al-  
4 location drops by \$4,536 and the Data Processing allocation drops by \$4,557.

5  
6 I continue to recommend that the Commission use what ever amount is approved in  
7 this docket as a basis for the percentages used to allocate some City Services.

8  
9 **Q: In your direct testimony you indicated that you believed that the School and**  
10 **Library budgets should also be reflected in some of the calculated percent-**  
11 **ages to derive charges from various departments. Did Mr. Smith address this**  
12 **matter?**

13 A: In my direct testimony I noted from "Newport's testimony and data responses that  
14 the schools and library provide many services internally; however, the Water De-  
15 partment also provides many of these services and has a layer of administration or  
16 management from the Public Works Department that is already allocated to the  
17 Water Department. The Administration costs presented in Schedule RFC 1 Sup-  
18 plemental is nearly 1/3 of the total operating costs – this is not a trivial amount. By  
19 comparison, the administrative costs in Pawtucket and Kent County's recent filing  
20 were just over ¼ the operating costs." Mr. Smith's only response (page 9, line 9) is  
21 that the various City Departments do not provide services to the schools and librar-  
22 ies.

23  
24 I believe there are really two issues: (a) do the schools and libraries get no service  
25 from various departments and (b) does the Water Fund get a significantly different  
26 level of service than the schools and library. While it is difficult for me to ascertain  
27 this, I did several checks on the City's website. A review of the City Council min-  
28 utes for 2005 shows numerous discussions involving the school department (the  
29 vast majority of the minutes having some reference or discussion of the school de-  
30 partment) and some discussions involving the library. A search of those same min-  
31 utes showed fewer discussions of the Water Department, with nearly all of those

1 being simple approval of various bids. From this quick review, I could see no evi-  
2 dence that General City Management (City Council/Manager/Mayor) had more in-  
3 volvement with the Water Department than the schools. As discussed later under  
4 the City Clerk, I also believe that minimal services are provided by that department  
5 to the Water Fund.

6  
7 As I had discussed in my direct testimony, the Water Department has significant  
8 Administrative costs compared to many other departments and may indeed provide  
9 much of their own support internally like the schools and library. Newport has sim-  
10 ply not addressed these two issues that we raised. I believe the evidence in this  
11 docket supports my contention for reduced charges from the various City Depart-  
12 ments and does not support Newport's contentions.

13  
14 **Q: Mr. Smith has agreed that the allocation for the City Solicitor's office should**  
15 **be reduced, but only by \$41,000. Do you agree with that adjustment?**

16 A: No I do not. As discussed in my direct testimony, the Water Department receives  
17 substantial outside legal assistance. Mr. Smith's proposal is to only reduce the City  
18 Solicitor's budget from \$360,705 by \$41,000. That is a reduction in the amount al-  
19 located to the Water Department of only \$5,807 based on Mr. Smith's 14.16% allo-  
20 cation. Through a data request we are trying to determine the basis for Mr. Smith's  
21 proposed adjustment, and may have additional testimony on this matter. At this  
22 time, I believe the adjustment I had proposed initially -- including about 5% of the to-  
23 tal office costs or about \$18,000 -- is appropriate.

24  
25 **Q: Mr. Smith has proposed a reduction to the Clerk's Office as well. Do you**  
26 **agree with that?**

27 A: I do not. I addressed this in the response to Newport's data request 1-11 to  
28 PWFD. The City's web pages says "The City Clerk is the ex-officio head of the de-  
29 partment of public records and serves as the recorder of deeds; registrar of births,  
30 marriages and deaths; clerk of the probate court and clerk of the city council. The  
31 City Clerk gives notices of the meetings of the council, keeps a journal of its pro-

1       ceedings and certifies all actions of the council. The City Clerk is responsible for  
2       processing all business registrations and licenses in accordance with established  
3       city ordinances or state law and performs such other duties as required by the City  
4       Charter or by law or ordinance. It is the goal of the City Clerk's Office to provide the  
5       highest quality of customer service to the general public with the timely completion  
6       of city council meeting minutes, the recording and issuance of birth, marriage and  
7       death certificates; the timely processing of requests for licenses in the most con-  
8       venient manner possible; the proper dissemination of information in accordance  
9       with the requirements of state law and the preservation of some temporary and all  
10      permanent records.”

11  
12      In response to Div 1-17, Newport asserts that the Clerks Office processes agendas  
13      and actions, records and disseminates decisions, stores contracts, and provides  
14      assistance to customers requesting information and copies of Water Fund resolu-  
15      tions, ordinances and contracts. As with the City Clerk, I suspect that at least some  
16      of these actions are also provided on behalf of the Schools and Library (official City  
17      records are typically held by the Clerk), where the NWD has stated that “no func-  
18      tions” are provided.

19  
20      Recognizing that there may be some minimal functions associated with the Water  
21      Department I allocated 1% or \$4,590 to the Water Department. In preparing the  
22      response to Newport's data request I telephoned the City Clerk's Office in Newport  
23      and asked for several documents (a copy of the water rates, a copy of the recent  
24      rate filing with the PUC, and a copy of the recent engineering contract with  
25      Maguire). In each case I was politely referred to the Water Department to get this  
26      information. In light of this response to my request for official records and docu-  
27      ments I am comfortable that the 1% or \$4,590 allocation for the Clerk's Office is  
28      sufficient. Newport's proposed allocation of \$36,858 to the Water Fund is exces-  
29      sive and not supported.

30

1 **Q: Please address the issue with the proposed allocation of the City Assessor's**  
2 **office.**

3 A: Newport initially proposed an allocation of \$42,511 that was revised to \$38,370 in  
4 Mr. Smith's rebuttal schedules. This was based simply on Newport's calculation of  
5 the Water budget vs. the total City budget excluding schools and the library. I have  
6 proposed an allocation of only 1% of the Assessor's budget. As stated in my re-  
7 sponse to Newport's data request 1-11:

8 "From Newport's data responses, it appears that these two departments  
9 (Assessors and Clerk) provide very little, if any real service to the Water  
10 Department. The property assessment for the Water Department ap-  
11 pears to be no different than that provided to the schools, where Newport  
12 asserts there are essentially no services provided. Subsequent to the  
13 submission of Mr. Woodcock's testimony, Newport asserted in rebuttal  
14 testimony that the Assessor's office provides various reports and analyses  
15 on behalf of the Water Department, attends some hearings, and provides  
16 tangible property reports to towns. In a data request (PWFD 4-2) we have  
17 asked for more information on these activities to determine the extent of  
18 involvement over the past 24 months. Depending on the response to that  
19 data request, our position on the appropriate allocation for this department  
20 may change. At this point we believe that there is evidence of minimal in-  
21 volvement in Water Department activities and have assigned 1% or  
22 \$2,709 for the activities that support the Water Department."

23

24 Based on Ms. Forgue's rebuttal testimony on this matter, we have asked Newport  
25 for some quantitative information on the services provided by the Assessor's Office.  
26 With the information now available, I believe that the 1% or \$2,709 I have proposed  
27 is still appropriate.

28

1 **Q: Mr. Smith has agreed to reduce the allocation of the Finance Department to ½**  
2 **of that for other departments, contingent on the funding for the Deputy Direc-**  
3 **tor - Finance. Do you agree with this?**

4 A: In general I do and that is the position I presented in my direct testimony. I do not  
5 agree with the percentage proposed by Mr. Smith. I maintain that the general fund  
6 portion of the school and library budget should be included in the derivation of the  
7 raw percentage. I understand that like the Water Fund, the School Department has  
8 internal financial administration. However, like the Water Fund, it appears from the  
9 City Council minutes that the School budget is as much of an issue to the total City  
10 finances (and perhaps more) than the water budget. I believe the general fund con-  
11 tributions to the schools and library budgets should be included in deriving the raw  
12 percentage of costs to be allocated, and (like Mr. Smith) that only half that percent-  
13 age be used to allocate the Finance Department costs.

14

15 I should also note that the portion of the school budget recovered from the general  
16 fund is only a portion of the school budget – not the entire school budget. I am only  
17 recommending that the General Fund portion of the School budget be recognized in  
18 determining a percentage of costs to be assigned to the Water Fund.

19

20 **Q: Mr. Smith has proposed a revision to the allocation for Management Informa-**  
21 **tion Systems, do you agree with it?**

22 A: No, I do not. All Mr. Smith has done is reduce the MIS budget of \$1,845,933 by  
23 \$50,000 “to recognize the minor degree to which the schools do rely on the MIS  
24 Department”. There is no basis presented for this adjustment. Mr. Smith says  
25 (page 15, line 6) that I have failed to recognize other MIS costs incurred on behalf  
26 of the Water Fund such as “computer hardware and software purchases, contract  
27 programming services, computer training and various other computer related sup-  
28 plies such as paper, toner and ink.” I believe these types of costs were already  
29 recognized as part of Newport Water’s operating costs. A review of Newport’s Re-  
30 buttal Schedule RFC C shows:

31

Administration Office Supplies

1	Everyday supplies paper, toner, pens pencils etc	\$11,519
2	Fax Software	7,000
3	HP Laser Color Network Printer	2,000
4	Copy Machine	3,500
5	Toner Cartridges and New Items Contract	2,000
6	Shredder	<u>5,000</u>
7	Subtotal	\$31,019
8	Customer Accts – Support Services	
9	List Perfect Labor Cost	\$10,000
10	Opal Maintenance Contract	4,500
11	Billing consultant for reporting Opal	<u>3,000</u>
12	Subtotal	\$17,500

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These items alone amount to nearly \$50,000. In addition, there is \$18,500 of billing software included in FY 2006 (RFC 4 Rebuttal). In light of these items, I don't believe that I have failed to recognize "computer hardware and software purchases, contract programming services, computer training and various other computer related supplies such as paper, toner and ink." Mr. Smith's proposed \$50,000 reduction for the School Department is less than the total of the items above. I believe the allocation of 5.5% of the MIS department costs or \$101,526 is sufficient and far more reasonable than the \$254,371 recommended by Newport. The 5.5% allocation not only reflects the proper allocation of time as reported by Newport, but also 5.5% of all other items listed by Mr. Smith – many of which Newport Water apparently incurs directly.

27 **Sewer Billing**

28 **Q: On page 16, line 21, Mr. Smith apparently recognized that WPC customers**  
 29 **should pay their fair share of customer accounts costs, yet he contends that**  
 30 **allocating these costs would result in an inequity between customers in New-**  
 31 **port and Middletown. Will you comment on this?**

32 **A:** First, I think it is important to note that Newport agrees that the WPC customers are  
 33 benefiting from the services provided by the Water Department and paid for by the  
 34 water customers. It is also noteworthy that Newport agrees that the WPC custom-  
 35 ers should pay their fair share. Mr. Smith is concerned about the inequity between

1 customers in Newport and Middletown. Because the proposed rates are an across  
2 the board increase, I am concerned about the inequity it causes to Portsmouth. In-  
3 creasing the miscellaneous or offset revenues by the amount I have suggested will  
4 reduce the increase requested in Newport's rebuttal testimony by nearly 13%. This  
5 is significant to Portsmouth.

6  
7 There is an acknowledged inequity that has a rather simple fix. Newport can  
8 charge its own WPC Department as I have suggested and they can charge Middle-  
9 town an appropriate amount for the information they provide. Charging Middletown  
10 an appropriate share of the billing costs would benefit everyone. In light of Mr.  
11 Smith's concern, I believe the Commission should increase this revenue offset and  
12 order Newport Water to charge both Newport and Middletown 50% of the customer  
13 service costs. This will eliminate the inequities that both Mr. Smith and I are con-  
14 cerned about.

15  
16 **Q: Mr. Smith has expressed concern that an allocation for billing costs is not in-**  
17 **cluded in the Sewer Department budget or rates. Will you comment on this?**

18 **A:** Mr. Smith seems to suggest that because these charges are not included in the  
19 WPC budget or sewer rates that Newport's WPC will not pay the increased as-  
20 sessment. I suspect there are other items that were not anticipated in setting the  
21 Sewer Department budget or rates, such as \$3/gallon gasoline. Newport has uni-  
22 lateral control over its sewer rates. I believe the current sewer rates were adopted  
23 in 2003 under Ord. 2003-30 § 1. If so, it has been two years since those rates were  
24 adopted. They did not reflect the initial \$10,560 suggested by Newport Water in  
25 this case. Newport can increase its sewer rates at any time to reflect this increase  
26 in expenses.

27  
28 If there is a concern that the City of Newport (through the WPC) will simply not pay  
29 the increased cost leaving Newport Water short of income, I recommend that the  
30 Commission order that the billing assessment be transferred from the restricted  
31 Due to The City Account and that the next \$500,000 payment to the City be simi-

1 larly reduced. Alternatively, the Commission could make any payment to the City  
2 General Fund contingent upon payment by the WPC of the billing charge. If the  
3 WPC does not pay, Newport Water can reduce the amounts paid for City Services  
4 by a like amount. Clearly there are methods that the Commission can impose and  
5 enforce if the City will not make this transfer or payment.  
6

### 7 **Cost Allocation Study**

8 **Q: You raised some issues regarding the cost allocation study in your direct tes-**  
9 **timony. Have Mr. Smith's responses addressed your concerns?**

10 A: Yes they have, and I appreciate his comments to clear this up on the record.  
11

12 **Q: On behalf of the Navy, Mr. Harwig has raised concerns about the cost alloca-**  
13 **tion study and the allocation of transmission and distribution costs in viola-**  
14 **tion of last docket's settlement agreement. Will you discuss these?**

15 A: Mr. Harwig raises an interesting issue – that the across the board increase pro-  
16 posed by Newport results in transmission and distribution costs allocated to Ports-  
17 mouth. Mr. Smith's response essentially says that no cost allocation was done so  
18 we just don't know. This doesn't really answer Mr. Harwig's concern. With an  
19 across the board increase it is indeed possible, and perhaps likely, that Portsmouth  
20 is being charged for some transmission and distribution costs. Certainly Newport  
21 could have performed the required studies; however, we understand the required  
22 data for such a study is not available at this point. In this case we are more con-  
23 cerned that Newport gets sufficient rates in place to support the Water Fund so it  
24 can move forward. We are somewhat disappointed that a large percentage of the  
25 increase is proposed to go out of the Water Fund and back to the City, but believe  
26 we have addressed these concerns sufficiently.  
27

28 **Q: Does this conclude your testimony?**

29 A: Aside from new information in the outstanding data requests, yes it does.  
30