

**DIRECT TESTIMONY OF
WALTER E. EDGE Jr. MBA CPA, PRESIDENT
B&E CONSULTING LLC**

**for
PROVIDENCE WATER SUPPLY BOARD**

ABBREVIATED FILING

DOCKET # _____

JUNE 2005

1 **Providence Water Supply Board**

2
3 PRE-FILED DIRECT TESTIMONY
4 OF WALTER E. EDGE Jr. MBA, CPA
5

6 **Q. Good morning Mr. Edge. Would you please give your name and business**
7 **address for the record?**

8 A. My name is Walter Edward Edge Jr. MBA CPA and I am the President of B&E
9 Consulting LLC at 21 Dryden Lane, Providence R. I. 02904.
10

11 **Q. What is B&E Consulting LLC?**

12 A. B&E Consulting LLC (B&E) is a full service business, public utility, and education
13 consulting firm that specializes in providing accounting and consulting services to small
14 businesses, public utilities, municipalities, schools, and individuals.
15

16 **Q. Are you the same Walter E. Edge Jr. who has testified as an expert accounting**
17 **and rate witness in previous rate filings for Providence Water and others?**

18 A. Yes. I have provided expert accounting and rate testimony before the Rhode Island
19 Public Utilities Commission (PUC) for Providence Water on numerous occasions. Some
20 of the other clients that I have testified for include Interstate Navigation Company, Block
21 Island Power Company, Narragansett Bay Commission, Pawtucket Water Supply Board,
22 Newport Water, the Town of North Smithfield, Osram Sylvania, and Stone Bridge Fire
23 District.
24

25 In addition to the above listed expert testimony prepared for Division and PUC filings, I
26 have completed rate studies for non-regulated utilities such as Warwick Water, Warwick
27 Sewer, East Providence Water, North Kingstown Water, Greenville Water, Cumberland
28 Water, East Smithfield Water, Pascoag Fire District, and Harrisville Fire District.
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1 **Q. What is the purpose of your testimony?**

2 A. Providence Water hired B&E to develop a normalized test year (FYE June 30, 2004)
3 and a rate year (CY December 31, 2006). B&E was asked to prepare expert testimony
4 and schedules in support of the test year and the rate year. In addition, B&E was asked
5 to present an appropriate revenue check and ratepayer impact schedules. Further, I will
6 present any rate design issues that may be appropriate for this filing.

7
8 **Q. Would you please provide an update as to the status of rate issues raised in the**
9 **last abbreviated rate filing Docket #3446?**

10 A. Certainly. Docket #3446 was concluded by a settlement between the parties
11 presented to the Commission November 6, 2002 and approved with new rates effective
12 January 1, 2003. The major issues addressed in that Docket were as follows:

13
14 1. The Division's witness proposed adjustments to Providence Water's projected
15 revenue at old rates. The reasons for the adjustments were updating the number of
16 water and fire service customers, updating wholesale water sales results and upwardly
17 adjusting the Bristol County Water sales to reflect recent trends. For this filing, I
18 have addressed each of these concerns and updated the necessary revenue
19 information.

20
21 2. The second area that was adjusted was salaries and wages. The Division's witness
22 adjusted the rate year impact for the mid year salary increases per the union contract.
23 For this filing, I have made the same adjustment that the Division made to rate year
24 payroll calculation in the last Docket. I used one half of the salary increase effective
25 July 1, 2006 in the rate year.

26
27 3. The third area addressed was pension expense. In the last Docket Providence Water
28 was in the process of changing its contribution percentage to the employee pension
29 plan to synchronize its contribution percentage to agree with the percentage
30 contribution of the City and School Department. In the stipulation the parties agreed
31 to Providence Water's initial request.

- 1 The Commission added a safeguard however that required that any significant
2 reduction in the contribution (10% or more) must be put into a restricted account.
3 There was no reduction since the last Docket.
4
- 5 4. The next issue was the adjustment for three in-house professionals that were to be
6 funded from IFR and/or CIP per Commission Order # 16552. The Division's witness
7 reduced operating salary expense to account for these three positions. Providence
8 Water pointed out in rebuttal testimony that the adjustment was not required because
9 the positions were never filled. For this filing, the positions have been filled and they
10 have been charged to the IFR account and are not included in the operating salaries
11 and wages.
12
- 13 5. In Docket #3446 the Division recommended a two year amortization of rate case
14 expense. I have used a two year amortization for rate case expense in this Docket.
15
- 16 6. The parties agreed to allocate \$405,532 of capitalized labor to IFR and/or CIP. The
17 parties further agreed that the \$405,532 amount only be taken from current funds and
18 not bond proceeds. I have continued this allocation for the rate year in this Docket.
19
- 20 7. Property tax was a big issue in the last docket and will be discussed again in this
21 docket. Providence Water has updated the status of the suit between Providence
22 Water and Scituate regarding property taxes in Mr. Boyce Spinelli's prefiled
23 testimony. For my rate year projection of property taxes I have used the actual
24 property taxes for FY 2005 plus an estimated increase for the FYE June 30, 2006 and
25 one half of the projected increase for the FYE June 30, 2007 (to cover the increase in
26 the last six months of the rate year).
27
- 28 8. The Division reduced the allowance for chemicals to reflect a two year average of the
29 quantities utilized at current chemical prices. The chemical account was made a
30 restricted account. I have reviewed chemicals for this Docket.

1 9. KCWA provided testimony that agreed with many of the Division's revenue
2 requirement adjustments and further recommended adjustments to Providence
3 Water's funding of restricted accounts. I have completed a detailed analysis of all of
4 the restricted accounts and the projected cash balances in these accounts as of June
5 30, 2005 for this filing and made significant reductions.

6
7 10. There were a number of lesser accounts discussed but the above summary represents
8 the major issues.

9
10 **Q. How much of a revenue increase is Providence Water requesting in this**
11 **abbreviated docket?**

12 A. Providence Water is requesting additional revenue of \$4,957,115. This represents a
13 revenue increase of 10.74 %.

14
15 **Q. Will all rates increase by 10.74 %?**

16 A. No, not all revenue accounts are impacted by the proposed rate increase. Therefore,
17 the effective across-the-board rate increase on tariff rates approved by the PUC will be
18 11.01%. (See Schedule WEE – 13A)

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TEST YEAR (FYE JUNE 30, 2004)

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Q. Mr. Edge, has the test year been audited?

A. Yes.

Q. What adjustments did you make to the test year?

A. I made twelve normalizing adjustments as follows:

1. Providence Water has been told by Bristol County Water that they are very close to reducing their wholesale water purchases as they prepare to put their own treatment plant back on line. They have assured Providence Water that they will significantly reduce their wholesale purchases by January 1, 2006, the start of Providence Water's rate year. Providence Water has obtained written confirmation of Bristol County's plans (See Attachment A). The normalizing adjustment that I made was a \$671,522 reduction to wholesale water sales returning the Bristol County Water's wholesale purchases to FYE 2001 levels adjusted for the passage of time and rate increases.

Please note that annual gross revenue (adjusted for the last rate increase) for the past three years would be at about the same as the test year level of revenue \$46,833,541. This is approximately the same revenue level allowed in the last docket \$46,782,148.

2. Consistent with the Division's adjustment in the last docket I have adjusted the number of water and fire service customers to actual resulting in adjustments to service charge revenue (a reduction of \$97,697), private fire (an increase of \$48,333) and public fire (an increase of \$58,510). These adjustments were calculated by applying the current rates times the current number of customers.

1 3. In reviewing the three year comparative schedule of expenses I noted that the
 2 pension accounts changed significantly in the test year when compared to the
 3 previous two years. I asked Providence Water to look at these accounts to
 4 determine what the differences were. Providence Water found that its
 5 allocations were inconsistent with the salary allocations. An amended
 6 calculation was made and the adjustments that resulted are as follows:

Account	Amount
Source of Supply:	
60410	\$(287,218)
60420	78,499
Pumping:	
60423	None
60426	None
Water Treatment:	
60430	631,653
60440	126,716
Transmission & Dist.:	
60450	(179,915)
60460	640,430
Customer Accounts	276,608
Admin. & General	(1,286,773)
Net Adjustments	-0-

8

9 4. I noticed that there was a \$14,427 credit to account 61830 relating to chemicals.
 10 It appears that this is an inventory adjustment that should be posted to the
 11 chemical restricted account 61830. I made the reclassification.

12

13 5. Contractual services expenses (Accounts 63530 and 63540) were unusually
 14 high in the test year. My review of these two accounts resulted in two
 15 reductions to the test year cost. The first was an engineering study that cost
 16 \$42,994 (not expected in the rate year) and the second item was telephone lines
 17 for Providence Water's SCADA system that cost \$17,000 (a one time
 18 expenditure). A total adjustment reducing the test year was made in the
 19 amount of \$59,994.

20

- 1 6. The next test year adjustment was to eliminate the inventory clearing amount in
2 Account 62650 in the amount of \$100,285.72. This adjustment is needed to
3 put the expenditures on a cash basis. Providence Water is regulated on a cash
4 basis.
5
- 6 7. Account 67550 was higher in the test year. My review identified an
7 adjustment in the amount of \$22,600 which was charged in error to account
8 67550 that should have been posted to account 63550. I made the
9 reclassification and both accounts appeared reasonable.
10
- 11 8. Next I restored the overhead applied amounts (Account 60550 \$1,764,480 and
12 Account 60570 \$57,889) to put the expenditures on a cash basis similar to the
13 inventory adjustment.
14
- 15 9. The next account that appears out of line in the test year when compared to the
16 two previous years is Account 67070 Bad Debts (credit balances). I found that
17 the large credit balance in FYE June 30, 2003 was the result of Providence
18 Water recognizing that its detailed accounts receivable were greater than the
19 general ledger balance of accounts receivable. An adjustment was made to the
20 general ledger accounts receivable and bad debts to synchronize the general
21 ledger balance to the detail accounts receivable. This adjustment did not
22 happen in the test year and is not expected in the rate year.
23
- 24 10. I noted that although the balance in Account 67570 appeared correct for the test
25 year the FYE June 30, 2003 balance appeared low. I found that there was an
26 incorrect posting in the amount \$100,725 to Account 62080 that year that
27 should have been posted to Account 67570.
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1 11. The next account I analyzed was Account 63280 which had a zero balance in
2 the test year. I found that a \$46,000 audit fee was charged to Account 67580
3 Misc. Expense instead of the appropriate account. I reclassified the \$46,000
4 and both accounts came into line. That concludes my test year adjustments.

5
6 12. Lastly, I made a normalizing adjustment to the payroll accounts reflect the
7 positions that were not included for a full twelve month period. The
8 normalization adjustment added about 1.7% to the test year salaries and wages
9 expense.

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Q. Mr. Edge, does that conclude you test year testimony?

A. Yes it does.

Q. What would you like to discuss next?

A. I believe that the next area we should discuss in the rate year and my rate year adjustment.

1 **RATE YEAR (CY December 31, 2006)**

2
3 **Q. What adjustments have you made for the rate year in this abbreviated filing?**

4 A. After reviewing Providence Water's financial position I have made rate year
5 adjustments in 8 groups of accounts as follows:

6

Account	Amount
1. Salaries and Wages	\$723,897
2. Property Taxes	380,129
3. Insurance Expense	954,093
4. Pension and Other Benefits	917,421
5. Regulatory and Rate Case Expense	64,881
6. Chemical and Sludge	232,980
7. Purchase Power	142,559
8. Debt Service / Restricted Funding	(1,150,000)

7
8 In addition, I have made an adjustment for the net income allowance as a result of the
9 above adjustments.

10
11 **Q. How did you calculate the increase needed for salaries and wages for the rate
12 year?**

13 A. I started my calculation with the actual amount for salaries and wages as adjusted in
14 the normalized test year June 30, 2004. Next, I increased the normalized test year
15 amount by the union contract increases for September 1, 2004 (1.5%), July 1, 2005
16 (3.0%) and one half of the increase for July 1, 2006 (1.5%). An adjustment factor of
17 1.06113175 was calculated as follows: $1.0 * 1.015 * 1.030 * 1.015$. The resulting total
18 payroll expense for the rate year was then compared to the test year payroll expense to
19 calculate the rate year adjustment. See WEE-5 and WEE-5A.

1 **Q. The next adjustment in your list of adjustments is property taxes. How did you**
2 **calculate the rate year property taxes for this filing?**

3 A. As I stated earlier in this testimony I started with the actual FYE June 30, 2005
4 property taxes and increased the property tax cost to reflect the projected increases for
5 FYE 2006 and one half of FYE 2007. (See Schedules WEE-6 and WEE 6A)

6
7 **Q. Mr. Edge, you have used projected property tax increases for FYE 2006 and**
8 **FYE 2007. Is it your intention to update the estimates for FYE 2006 when the**
9 **actual percentage increases are known?**

10 A. Yes. I will advise the Division and Commission as to the actual FYE 2006 property
11 taxes when they become known and I will adjust my estimates for FYE 2007 if needed.

12

13 **Q. What account would you like to discuss next?**

14 A. Insurance expense. The insurance expense is made up of six different activities as
15 shown on my schedule WEE-7. The largest premiums of the insurance expense are for
16 1) Property and Casualty (P&C) premium and 2) Worker's Compensation (WC)
17 premium. These two items represent about 90% of the insurance expense accounts. To
18 estimate the rate year CY 2006 insurance expense I started with the actual insurance
19 expense for the FYE June 30, 2005. I then calculated the estimated insurance expense
20 for FYE June 30, 2006 and FYE June 30, 2007 by using a 10% increase per year
21 (provided by Providence Water's insurance carrier as a reasonable estimate) for the two
22 major accounts P&C and WC. Providence Water will update this estimate should
23 additional information become available.

24

25 Old Worker's Compensation Claims was reduced from \$125,000 to \$50,000 per year for
26 the rate year per discussion with Providence Water's insurance coordinator. The other
27 three insurance activities (Injuries and Damages, Safety Supplies and Other, and program
28 expense) were left at the test year level for the rate year. I used the average of the FYE
29 June 30, 2006 and FYE June 30, 2007 insurance expense for the rate year insurance
30 expense level. (See Schedules WEE-7 and Schedule WEE-7A)

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1 **Q. I notice that the next set of accounts is Pension and Other Benefits. How did**
2 **you calculate the rate year level of expense for these related accounts?**

3 A. I have listed the Pension and Other Benefits accounts on my Schedule WEE-8. This
4 schedule shows the test year level of expense for each item, the proposed adjustment and
5 the pro-forma expense for each item. It further shows the percentage increase used to
6 calculate the pro-forma adjustment and the referenced back-up schedule.

7

8 On Schedule WEE-8A I have prepared the allocation of the total Pension and Other
9 Benefits to the appropriate NARUC accounts. The results of this schedule were posted
10 to Schedule WEE-4.

11

12 Schedule WEE-8B shows the actual increases and decreases for three accounts; 1) Union
13 Pension, 2) Training and 3) Other Benefits from the test year to the rate year. Since the
14 absolute dollar amounts were known for the rate year and the test year only one
15 percentage was needed to calculate the multi-year pro-forma rate year adjustment.

16

17 Schedule WEE-8C provides the actual increase in health insurance from the test year
18 through the FYE June 30, 2006. The percentages on Schedule WEE-8C were used to
19 calculate the rate year estimated cost of Health Insurance.

20

21 **Q. Returning to Schedule WEE-8 can you explain how each of the adjustments was**
22 **calculated?**

23 A. Yes I can. The first two items Laborers Legal Fees and Vision/Prescription were
24 merged into the new union combined benefits and increased by 5.44% from the test year
25 to the rate year. The Labor's International Pension expense was increased by 2% from
26 the test year to the rate year. The training dollars appear to be reallocated in the contract
27 to the above activities and therefore the test year training expense decreased from the test
28 year to the rate year by 40%. The life insurance premium expense increased \$348 for the
29 rate year, a 21.48% increase.

1 The next two accounts FICA and the ½ percent wage adjustment account were increased
2 by the payroll multiplier calculated earlier in this testimony. The next three items
3 relating to health insurance and Delta Dental were increased as stated above.

4
5 City retirement expense was explained and calculated in Mr. Boyce Spinelli's testimony.

6
7 **Q. Mr. Edge how did you calculate the regulatory and rate case expense for the**
8 **rate year?**

9 A. Regulatory Commission expense was increased to estimate the amount of the PUC
10 assessment for the rate year. I increased the test year amount by about 4% per year to
11 arrive at the rate year level of assessment. Other regulatory expenses were estimated to
12 cover the cost of various PUC and DPUC activity. In total the regulatory utility expense
13 was increased by about \$10,000. Rate case expense was estimated and then amortized
14 over two years. The total calculated rate year regulatory and rate case expense was
15 compared to the test year level of expense and an adjustment was calculated. (See
16 Schedule WEE-9 for details)

17
18 **Q. The next set of accounts that you have listed above requiring adjustment are**
19 **Chemicals and Sludge. How did you calculate the rate year level of expense for**
20 **chemicals and sludge?**

21 A. Please see my schedule WEE-10 and WEE-10A.

22 The pro-forma rate year level of chemical cost was calculated by taking the average of the
23 usage for the test year and the fiscal year to date, March 31, 2005, and multiplying that
24 average usage by the estimated price for each chemical in the rate year. It should be
25 noted that there were savings from the test year in the chemical Flouride. In the test year
26 Providence Water used dry Flouride while in the rate year Providence Water expects to
27 use liquid Flouride. The savings is estimated to be about \$66,000. Any estimates in
28 unit price will be updated as they become known.

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1 **Q. You have made an adjustment for purchased power. What are these accounts?**

2 A. These accounts are mostly electricity and one gas account. Purchased power
3 increased from FYE June 30, 2003 to FYE June 30, 2004 by about \$100,000. I estimate
4 using year to date numbers for nine months and straight lining the dollars that FYE June
5 30, 2005 will reflect an increase of an additional \$142,559. I do not know if this level of
6 increase will continue, but to be safe I have used my projected FYE June 30, 2005
7 purchased power cost for the rate year. (See Schedule WEE-11) Please note that I will
8 up-date the actual FYE June 30, 2005 activity when it becomes available. At that time it
9 might be necessary to reflect an increase for FYE June 30, 2006 and one half of FYE June
10 30, 2007.

11

12 **Q. Mr. Edge the next item on your schedule is a large reduction to the rate increase**
13 **request. Would you please explain?**

14 A. Yes. I have completed a detailed review of each of Providence Water's restricted
15 accounts and the cash balances in each at June 30, 2005 available for future expenditures.
16 I found that Providence Water could reduce its funding of a few of the restricted accounts
17 to provide revenues to reduce this rate request. In summary I found the following:

- 18 1. The two restricted accounts 1) 102" Valve Fund and 2) the Alternate Supply Fund
19 could be discontinued and the current funding eliminated in the rate year. This
20 would save \$650,000 (\$500,000 102" Valve and \$150,000 Alternate Supply).
- 21 2. The Equipment Replacement annual funding could be reduced from \$1,100,000 to
22 \$600,000 saving an additional \$500,000.
- 23 3. The remaining restricted funding would not change.

24

25 **Q. Have you provided any schedules in support of your restricted account**
26 **findings?**

27 A. Yes I have, see Schedules WEE-12 (A-I). I have provided the projected source and
28 use of funds for each of the restricted accounts for the fiscal years ended June 30, 2006,
29 2007 and 2008. Each schedule further shows the beginning cash balance at July 1, 2005
30 and carries forward the available cash balance for each successive year.

31

1 I believe that these schedules clearly show the projected activity of each of the restricted
2 accounts through June 30, 2008. Further, I believe that these schedules show that the
3 funding levels that I am recommending for each restricted fund is reasonable.
4

5 **Q. Mr. Edge, would you like to make any comments on the individual schedules?**

6 A. Yes I would. Schedule WEE-12A clearly shows a continuation of the current level
7 of funding (\$2,450,000) and that the carry forward cash balance for the Capital
8 Improvement Fund at July 1, 2005 will be \$2,730,618. Even with level funding the
9 available cash balance at June 30, 2008 drops to \$1,774,244 a reduction of about
10 \$1,000,000 in two years.
11

12 Schedule WEE-12B the Western Cranston Fund shows a continuation of funding at the
13 current level of only \$62,069 and the estimated impact fees through June 30, 2008.

14 Providence Water is concerned that the impact fees may decrease in future years and does
15 not wish to ever reach a level of revenue that does not allow for the payment of the debt
16 service expense. Further with current estimates of costs the July 1, 2005 carry forward
17 cash balance of \$1,255,910 will be reduced to less than \$300,000 by June 30, 2008. To
18 reduce the funding at this time may be risky.
19

20 The IFR fund shown on Schedule WEE-12C has continued funding at \$12,500,000 per
21 year and still the July 1, 2005 cash balance of \$10,268,254 will decrease to less than
22 \$1,000,000 by June 30, 2008. This is a concern for the future but no funding adjustment
23 is required at this time.
24

25 Schedules WEE-12D and WEE-12E are the two restricted accounts that I am
26 recommending be eliminated. The remaining cash balances at December 31, 2005 in
27 both of these accounts should be transferred to the Insurance Fund. The total transfer
28 will be approximately \$746,054 (\$302,905 from the 102" Valve Account and \$443,149
29 from the Alt. Supply Account). No rate year funding is needed in either account.
30

1 Schedule WEE-12F shows that the AMR/Meter Replacement Account is operated at
2 breakeven and it appears that it will continue to be about breakeven through June 30,
3 2008.

4
5 Schedule WEE-12G show that the Equipment/Vehicle Replacement Fund has been a
6 great success. Providence Water no longer needs funding at a level of \$1,100,000 to
7 cover previous lease purchase agreements. The current pay as you go approach is much
8 cheaper. I am recommending a \$600,000 per year funding saving \$500,000 per year.
9 With that funding the fund will operate at about breakeven and have a cash reserve of less
10 than \$400,000.

11
12 The last two restricted accounts Chemicals (Schedule WEE-12H) and Insurance
13 (Schedule WEE-12I) are a little different in that they are operating accounts that have
14 been restricted by the Commission. The actual expenditures in these two accounts have
15 been estimated for this filing in my rate year adjustments. Therefore the carry forward
16 cash balances in these two accounts should be kept relatively low. In fact, my
17 recommendation results in the cash balances being eliminated in aggregate for these two
18 accounts. At June 30, 2008 the chemical fund is projected to have a balance of \$179,430
19 while the insurance fund is estimated to have a negative balance of \$188,315. If these
20 estimates come to fruition I would recommend the cash in the chemical fund be used to
21 pay the deficit in the insurance account.

22
23 It should be pointed out at this time that the Insurance fund in the last docket had a
24 significant available cash balance and Providence Water suggested a funding level that
25 would over time exhaust the available cash. In fact the funding worked very well.

26

27 **Q. Mr. Edge do you have any other rate year adjustments?**

28 A. Yes, I have calculated the net operating adjustment for the rate year on schedule
29 WEE-3 by subtracting miscellaneous revenue from total expense times 1.5% to arrive at a
30 net operating allowance of \$738,409. This is the same calculation made in Providence
31 Water's last rate filing.

1 **Q. Mr. Edge have you prepared any other schedules for your testimony?**

2 A. Yes I have. Schedule WEE-13 shows the revenue check calculation of revenues at
3 present and proposed rates. Schedule WEE-13A shows the calculation of the across the
4 board increase amount of 11.01%. Schedule WEE-14 shows the calculation of water
5 rates using the 11.01% increase. Schedule WEE-15 shows ratepayer impact.

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7 **Q. Does that conclude you rate year testimony?**

8 A. Yes.

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1 **RATE DESIGN**

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3 **Q. Mr. Edge, are there any rate design issues?**

4 A. Providence Water has chosen to implement the increase using an across-the-board
5 methodology consistent with the rules for abbreviated rate filings, therefore I believe that
6 there are no rate design issues.

7

8 **Q. Does that conclude your prefiled testimony?**

9 A. Yes.

**COMPARATIVE SCHEDULE OF REVENUES
PROVIDENCE WATER**

Schedule WEE-1

	FISCAL YEAR 06/30/02	FISCAL YEAR 06/30/03	TEST YEAR 06/30/04	TEST YEAR ADJUSTMENTS	ADJUSTED TEST YEAR
<u>Metered Revenue</u>					
Residential	\$ 19,233,791	\$ 20,746,347	\$ 21,535,227		\$ 21,535,227
Commercial	3,555,621	3,584,757	4,053,489		4,053,489
Industrial	1,574,981	1,586,412	1,465,686		1,465,686
Private Fire Supply	30,367	(680)	30		30
Sub-total Retail	24,394,760	25,916,836	27,054,432		27,054,432
Wholesale	11,110,746	12,406,313	12,574,605	A (671,522)	11,903,083
Sub-total Metered	35,505,506	38,323,148	39,629,037	(671,522)	38,957,515
<u>Non-metered Water Revenue</u>					
Service Charge	2,933,411	3,358,599	3,621,587	B (97,697)	3,523,890
Private Fire Supply	756,529	1,151,963	1,094,400	B 48,333	1,142,733
Public Fire Supply	1,089,184	1,215,282	1,325,931	B 58,510	1,384,441
Sub-total Non-metered	4,779,123	5,725,844	6,041,919	9,146	6,051,065
Total Water Revenue	40,284,629	44,048,993	45,670,956	(662,376)	45,008,580
Miscellaneous Revenue	1,414,090	1,118,869	1,162,585		1,162,585
Grand Total Revenue	\$ 41,698,719	\$ 45,167,862	\$ 46,833,541	\$ (662,376)	\$ 46,171,165

(A) = Normalized Wholesale sales WEE Testimony page 5.

(B) = Normalized Service Fee & Fire Protection Fees WEE Testimony page 5.

TEST YEAR REVENUE BY RATE CLASS
PROVIDENCE WATER

Schedule WEE-1A

	<u># of Customers</u>	<u>Consumption HCF</u>	<u>FISCAL YEAR</u> <u>2004</u>
<u>Metered Revenue</u>			
Residential	64,993	12,030,853	\$ 21,535,227
Commercial	6,254	2,356,680	4,053,489
Industrial	674	877,656	1,465,686
Private Fire Supply	-	-	-
<i>Sub-total Retail</i>	<u>71,921</u>	<u>15,265,189</u>	<u>27,054,402</u>
Wholesale	9	14,840,147	12,574,606
<i>Sub-total Metered</i>	<u>71,930</u>	<u>30,742,269</u>	<u>39,629,008</u>
<u>Non-metered Water Revenue</u>			
Retail Service Charge			3,621,587
Private Fire Supply Service Charge			1,094,430
Public Fire Supply (# of Hydrants)	<u>5,779</u>		<u>1,325,931</u>
Sub-total Non-metered			<u>6,041,948</u>
Total Water Revenue			45,670,956
<i>Miscellaneous Revenue</i>			<u>1,162,585</u>
Grand Total Revenue			\$ <u>46,833,541</u>

**COMPARATIVE SCHEDULE OF EXPENSES
PROVIDENCE WATER**

Schedule WEE-2

ACCOUNT	TITLE	FISCAL YEAR 06/30/02	FISCAL YEAR 06/30/03	FISCAL YEAR 06/30/04	TEST YEAR ADJUSTMENTS	ADJUSTED TEST YEAR
601 Operating Fund:						
Source of Supply						
60110	Salaries + Wages - Emp					
60120	Salaries + Wages - Emp	\$ 468,084	\$ 406,577	\$ 358,404	\$ 46,263	\$ 404,667
60320	Sal. + Wages - Officers, Dir	207,328	212,377	215,345		215,345
60410	Employee Pension + Ben					
60420	Employee Pension + Ben	115,359	123,124	469,800	(287,218)	182,582
61510	Purchase Power	55,921	65,640	31,207	78,499	109,706
61610	Fuel for Power Purch			4		4
62010	Material + Supplies	1,360				
62020	Material + Supplies	23,263	3,073	6,122		6,122
63110	Contractual Services - Engineer	14,487	20,368	40,600		40,600
63120	Contractual Services - Engineer	5,472	45			
63420	Contractual Services - Mgt. Fees		3,600	3,910		3,910
63510	Contractual Services - Other	34,304	47,495	45,247		45,247
63520	Contractual Services - Other	12,866	7,121	14,214		14,214
64210	Rental of Equipment					
64220	Rental of Equipment					
65010	Transportation Exp.					
65020	Transportation Exp.					
67510	Misc. Expenses	8,631	1,956	5,590		5,590
67520	Misc. Expenses	1,043	6,354	5,714		5,714
	Total Source of Supply Expense	948,116	897,729	1,196,157	(162,456)	1,033,701
Pumping Expenses						
60123	Salaries + Wages - Emp	4,602				
60126	Salaries + Wages - Emp	4,619				
60423	Employee Pension + Ben	1,886				
60426	Employee Pension + Ben	1,066				
61523	Purchase Power					
61623	Fuel for Power Purch	452,235	441,041	475,707		475,707
62023	Material + Supplies	9,556	101,082	17,943		17,943
62026	Material + Supplies					
63123	Contractual Services - Engineer	15,092				

**COMPARATIVE SCHEDULE OF EXPENSES
PROVIDENCE WATER**

Schedule WEE-2

ACCOUNT	TITLE	FISCAL YEAR 06/30/02	FISCAL YEAR 06/30/03	FISCAL YEAR 06/30/04	TEST YEAR ADJUSTMENTS	ADJUSTED TEST YEAR
63126	Contractual Services - Engineer	-	-	-	-	-
63523	Contractual Services - Other	13,516	14,985	16,369	-	16,369
63526	Contractual Services - Other	3,759	17,002	412	-	412
64223	Rental of Equipment	-	-	-	-	-
64226	Rental of Equipment	-	-	-	-	-
65023	Transportation Exp.	-	-	-	-	-
67523	Misc. Expenses	-	344	-	-	-
67526	Misc. Expenses	-	-	-	-	-
	Total Pumping Expenses	506,330	574,454	510,432	-	510,432
Water Treatment Expenses						
60130	Salaries + Wages - Emp	1,355,555	1,413,109	1,590,694	H	1,604,271
60140	Salaries + Wages - Emp	510,220	545,692	430,037	-	430,037
60430	Employee Pension + Ben	345,987	392,133	178,939	A	631,653
60440	Employee Pension + Ben	168,096	195,501	92,125	A	218,841
61530	Purchase Power	100,100	104,036	127,781	-	127,781
61630	Fuel for Power Purch	40,527	36,385	76,452	-	76,452
61830	Chemicals	713,980	1,081,710	(14,427)	B	14,427
62030	Material + Supplies	64,965	95,679	82,154	-	82,154
62040	Material + Supplies	95,216	127,353	85,706	-	85,706
63140	Contractual Services - Engineer	-	-	-	-	-
63240	Contract Services - Acctg	-	-	-	-	-
63430	Contractual Services - Mgt. Fees	4,697	7,888	8,441	-	8,441
63530	Contractual Services - Other	71,334	76,366	226,235	C	183,241
63540	Contractual Services - Other	104,122	91,259	34,114	C	17,114
64140	Rental Buidlg/Real Prop	-	-	-	-	-
64230	Rental of Equipment	8,368	3,874	3,948	-	3,948
64240	Rental of Equipment	-	-	-	-	-
65030	Transportation Exp.	-	-	-	-	-
65640	Insurance Vehicle	-	-	-	-	-
65830	Insurance - W/C	-	-	-	-	-
65840	Insurance - W/C	-	-	-	-	-
66730	Regularity Com Exp. -Other	-	-	-	-	-
67530	Misc. Expenses	75,354	28,082	29,040	-	29,040
67540	Misc. Expenses	398	48	46	-	46
	Total Treatment Expense	3,658,918	4,199,115	2,951,284	726,379	3,677,663

**COMPARATIVE SCHEDULE OF EXPENSES
PROVIDENCE WATER**

Schedule WEE-2

ACCOUNT	TITLE	FISCAL YEAR 06/30/02	FISCAL YEAR 06/30/03	FISCAL YEAR 06/30/04	TEST YEAR ADJUSTMENTS	ADJUSTED TEST YEAR
Transmission + Dist. Expense:						
60150	Salaries + Wages - Emp	858,323	934,001	860,119	H	889,914
60160	Salaries + Wages - Emp	1,840,173	1,960,654	1,910,650	H	1,973,236
60250	Payroll Clearing -Emp	(453,489)	(447,848)	(472,859)		(472,859)
60260	Payroll Clearing -Emp	(97,651)	-	-		-
60450	Employee Pension + Ben	188,259	223,769	618,091	A	438,176
60460	Employee Pension + Ben	630,881	717,841	332,924	A	973,354
60550	Overhead Rate Applied	(1,634,843)	(1,541,451)	(1,764,480)	F	-
60560	Overhead Rate Applied	(317,753)	-	-		-
61550	Purchase Power	3,192	3,305	7,643		7,643
62050	Material + Supplies	54,526	127,695	119,767		119,767
62060	Material + Supplies	29,618	13,516	26,433		26,433
62560	Inventory Clearing	(52,538)	(89,019)	(100,286)	D	100,286
63150	Contractual Services - Engineer	-	-	-		-
63160	Contractual Services - Engineer	-	3,000	-		-
63460	Contractual Services - Mgt. Fees	-	-	-		-
63550	Contractual Services - Other	167,741	515,354	588,683	E	611,283
63560	Contractual Services - Other	7,588	287,519	53,215		53,215
64150	Rental Bldg/Real Prop	-	-	-		-
64160	Rental Bldg/Real Prop	(10,602)	-	(6,083)		(6,083)
64250	Rental of Equipment	4,599	5,909	6,830		6,830
64260	Rental of Equipment	-	-	-		-
65060	Transportation Exp.	-	-	-		-
65850	Insurance W/C	-	-	-		-
65860	Insurance W/C	-	-	-		-
65950	Insurance Other	-	-	-		-
66750	Regulatory Com Exp - Other T & D	-	-	284		284
66760	Regulatory Com Exp - Other T & D	-	423	-		-
67550	Misc. Expenses	4,431	7,224	31,350	E	8,750
67560	Misc. Expenses	-	-	198		198
	Total Transmission & Distribution	1,222,455	2,721,891	2,212,479		4,630,141
Customer Accounts Expense:						
60170	Salaries + Wages - Emp	1,581,313	1,655,337	1,676,606	H	1,699,680
60270	Payroll Clearing -Emp	-	-	(15,305)		(15,305)
						23,074
						2,417,662

**COMPARATIVE SCHEDULE OF EXPENSES
PROVIDENCE WATER**

Schedule WEE-2

ACCOUNT	TITLE	FISCAL YEAR 06/30/02	FISCAL YEAR 06/30/03	FISCAL YEAR 06/30/04	TEST YEAR ADJUSTMENTS	ADJUSTED TEST YEAR
60470	Employee Pension + Ben	502,273	560,026	577,515	276,608	854,123
60570	Overhead Rate Applied	-	-	(57,889)	57,889	-
61670	Fuel for Power Purch	-	-	-	-	-
62070	Material + Supplies	13,167	14,219	16,194	-	16,194
63370	Contractual Services - Legal	75,458	51,004	50,309	-	50,309
63570	Contractual Services - Other	37,644	39,228	48,943	-	48,943
65070	Transportation Exp. -CAO	-	50	-	-	-
65870	Insurance - Other	-	-	-	-	-
65970	Insurance Other	-	-	-	-	-
67070	Bad Debt Expense - CAO	(95,546)	(485,548)	-	-	-
67570	Misc. Expenses	110,875	2,922	101,357	-	101,357
	Total Customer Accounts	2,225,184	1,837,237	2,397,731	357,571	2,755,301
	Administrative and General					
60180	Salaries + Wages - Emp	4,006,419	4,112,306	4,531,989	64,662	4,596,651
60280	Payroll Clearing -Emp	-	-	-	-	-
60380	Salaries + wages - Officers, Dir.	20,972	28,124	27,780	-	27,780
60480	Employee Pension + Ben	1,495,363	3,115,812	3,595,550	(1,286,773)	2,308,757
60580	Overhead Rate Applied	-	-	-	-	-
61580	Purchase Power	48,172	44,665	79,129	-	79,129
61680	Fuel for Power Purch	125,435	142,629	138,431	-	138,431
62080	Material + Supplies	137,394	210,897	90,219	-	90,219
63180	Contractual Services - Engineer	25,000	1,745	6,652	-	6,652
63280	Contract Services - Acctg	38,000	43,700	-	46,000	46,000
63380	Contractual Services - Legal	137,263	61,539	41,536	-	41,536
63480	Contractual Services - Mgt. Fees	11,658	-	-	-	-
63580	Contractual Services - Other	491,433	516,724	449,703	-	449,703
64180	Rental Bldg/Real Prop	-	-	-	-	-
64280	Rental of Equipment	16,864	7,142	10,602	-	10,602
65080	Transportation Exp.	170,588	87,748	119,917	-	119,917
65780	Ins. Gen. Liability	-	-	-	-	-
65880	Insurance - W/C	-	-	-	-	-
65980	Insurance Other	-	-	-	-	-
66080	Advertising Expense	2,180	2,851	3,149	-	3,149
66680	Reg Com Exp - Amort of Rate Case	4,228	-	-	-	-
66780	Regulatory Com Exp. -Other	193,151	157,236	157,985	-	157,985

**COMPARATIVE SCHEDULE OF EXPENSES
PROVIDENCE WATER**

Schedule WEE-2

ACCOUNT	TITLE	FISCAL YEAR 06/30/02	FISCAL YEAR 06/30/03	FISCAL YEAR 06/30/04	TEST YEAR ADJUSTMENTS	ADJUSTED TEST YEAR
67580	Misc. Expenses	116,782	273,432	308,580	(46,000)	262,580
	Total Administration + General	7,040,899	8,806,550	9,561,203	(1,222,111)	8,339,092
	Total Operation & Maintenance	15,601,903	19,036,977	18,829,285	2,117,045	20,946,330
	Source of Supply	948,116	897,729	1,196,157	(162,456)	1,033,701
	Pumping	506,330	574,454	510,432	-	510,432
	Treatment	3,658,918	4,199,115	2,951,284	726,379	3,677,663
	Transmission & Distrib.	1,222,455	2,721,891	2,212,479	2,417,662	4,630,141
	Customer Accounts	2,225,184	1,837,237	2,397,731	357,571	2,755,301
	Administration & General	7,040,899	8,806,550	9,561,203	(1,222,111)	8,339,092
	Total Operation & Maintenance	15,601,903	19,036,977	18,829,285	2,117,045	20,946,330
	Capitalized Overheads	1,952,595	1,541,451	1,822,369	(1,822,369)	-
	Full Operation & Maint. Operating Fund	17,554,498	20,578,428	20,651,654	294,676	20,946,330
	857 Insurance Fund					
	65840 Insurance W/C - WTM	-	23,327	25,862		25,862
	65870 Insurance W/C - CAO	10,427	39,930	39,990		39,990
	62080 Materials + Supplies - A&GO	19,528	44,392	17,569		17,569
	63180 Contractual Services-Engineer	2,800	-	-		-
	63380 Contract Services - Legal A&GO	2,460	-	-		-
	63580 Contract Services - Other A&GO	14,950	1,500	2,388		2,388
	65780 Ins. Gen. Liability	375,509	680,029	751,134		751,134
	65980 Insurance-Other A&GO	5,100	-	-		-
	65880 Insurance - W/C	176,139	276,506	168,625		168,625
	67070 Bad Debt Expense-CAO	(105,765)	-	-		-
	67580 Misc. Expense	163,249	115,493	39,439		39,439
	Total Insurance Fund	664,397	1,181,176	1,045,007	-	1,045,007
	878 Chemical and Sludge Maintenance Fund					
	61830 Chemicals - WTO	-	-	1,414,823	(14,427)	1,400,396

**COMPARATIVE SCHEDULE OF EXPENSES
PROVIDENCE WATER**

Schedule WEE-2

ACCOUNT	TITLE	FISCAL YEAR 06/30/02	FISCAL YEAR 06/30/03	FISCAL YEAR 06/30/04	TEST YEAR ADJUSTMENTS	ADJUSTED TEST YEAR
62030	Materials + Supplies WTO	-	-	36,338		36,338
63540	Contract Services - Other WTM	-	-	400,000		400,000
	Total Chemical and Sludge Maintenance Fund				(14,427)	1,836,734
	Full Operation and Maintenance	18,218,895	21,759,604	23,547,823	280,249	23,828,072
	City Services	806,769	768,382	729,994	-	729,994
	Property Taxes- Other Local Governm.					
40820	Town of North Providence	213,154	213,456	224,322		224,322
40821	Town of Gloucester	17,642	31,109	135,693		135,693
40822	Town of West. Gloucester	989	1,921	3,363		3,363
40823	Town Harmony	69	137	142		142
40824	Town Chepachet	55	131	145		145
40825	Town Scituate	4,205,173	4,150,004	4,657,788		4,657,788
40826	Town Warwick	24	25	26		26
40827	Town of Johnston	158,168	166,878	96,550		96,550
40828	Town of Foster	315,703	315,703	297,825		297,825
40829	City of Cranston	440,152	508,299	493,535		493,535
40830	City of West. Warwick	6,012	6,070	6,223		6,223
	Total Property Taxes	5,357,141	5,393,732	5,915,612	-	5,915,612
	Full Operation & Maint.					
	City Services	18,218,895	21,759,604	23,547,823	280,249	23,828,072
	Total Property Taxes	806,769	768,382	729,994	-	729,994
	Capitalized Labor	5,357,141	5,393,732	5,915,612	-	5,915,612
	Grand Total	551,140	447,848	488,164	-	488,164
	\$	24,933,946	\$ 28,369,566	\$ 30,681,593	\$ 280,249	\$ 30,961,842

- (A) = Normalized Pension Accounts WEE Testimony page 6.
- (B) = Re-class Chemical Inventory Adjustment WEE Testimony page 6.
- (C) = Normalized Contractual Service Expenses WEE Testimony page 6.
- (D) = Remove Inventory Clearing Account WEE Testimony page 7.
- (E) = Re-class Expenses WEE Testimony page 7.
- (F) = Remove Overhead Applied WEE Testimony page 7.

COMPARATIVE SCHEDULE OF EXPENSES
PROVIDENCE WATER

Schedule WEE-2

ACCOUNT	TITLE	FISCAL YEAR 06/30/02	FISCAL YEAR 06/30/03	FISCAL YEAR 06/30/04	TEST YEAR ADJUSTMENTS	ADJUSTED TEST YEAR

(G) = Reclass Audit Fees WEE Testimony page 7.

(H) = Normalized Salary WEE Testimony page 8.

**COST OF SERVICE SUMMARY
PROVIDENCE WATER**

	ADJUSTED TEST YEAR	COMBINED ADJUSTMENTS	PROFORMA OLD RATES	ADDITIONAL REVENUE REQUIREMENT	PROFORMA NEW RATES
Revenue					
Retail Water Sales	\$ 27,054,432	\$ (30)	\$ 27,054,402		
Wholesale	11,903,083	0	11,903,083		
Retail Service Charge	3,523,890	0	3,523,890		
Private Fire Service Charge	1,142,733	30	1,142,763		
Public Fire protection	1,384,441	(0)	1,384,441		
Miscellaneous Income	1,162,585	0	1,162,585		
					B
Total Revenue	\$ 46,171,165	\$ (0)	\$ 46,171,165	\$ 4,957,115	\$ 51,128,280
				10.74%	
Expenses					
Operation and Maintenance	\$ 20,946,330	\$ 1,818,915	\$ 22,765,246		\$ 22,765,246
Insurance	1,045,007	954,093	1,999,100		1,999,100
Chemical & Sludge	1,836,734	232,980	2,069,714		2,069,714
City Service Expense	729,994	-	729,994		729,994
Property Taxes	5,915,612	380,129	6,295,742		6,295,742
Capital Labor	488,164	29,842	518,006		518,006
Net Operations	30,961,842	3,415,959	34,377,802		34,377,802
Capital Fund Cash	963,628	(39,783)	923,845		923,845
Debt Service CIP Fund	1,486,372	39,783	1,526,155		1,526,155
Western Cranston Fund	62,069	-	62,069		62,069
Infrastructure Replacement	9,241,012	1,238,329	10,479,341		10,479,341
Debt Service IFR Fund	3,258,988	(1,238,329)	2,020,659		2,020,659
102" Valve	500,000	(500,000)	-		-
Alternative Source of Supply	150,000	(150,000)	-		-
Meter Replacement	400,000	-	400,000		400,000
Equipment Replacement	1,100,000	(500,000)	600,000		600,000
Net Restricted	17,162,069	(1,150,000)	16,012,069		16,012,069
Total Expense	\$ 48,123,911	\$ 2,265,959	\$ 50,389,871	\$ -	\$ 50,389,871
Revenues Over (Under) Expenses (1)	\$ (1,952,746)	\$ (2,265,960)	\$ (4,218,706)	\$ 4,957,115	\$ 738,409
					(1)

(1) Includes Net Operating Revenue at 1.5%, Calculated (A-B) x .015

NOTE: Revenue adjustment of \$30 is to reclassify private fire water sales to private fire.

DETAIL COST OF SERVICE - EXPENSE
PROVIDENCE WATER

Schedule WEE-4

ACCOUNT	TITLE	Adjusted Test Year	Rate Year Adjustments	Proforma Rate Year
601	Operating Fund			
	<u>Source of Supply</u>			
60110	Salaries + Wages - Emp	\$ 404,667 A	\$ 24,738	\$ 429,405
60120	Salaries + Wages - Emp	215,345 A	13,164	228,509
60320	Sal. + Wages - Officers, Dir	- A	-	-
60410	Employee Pension + Ben	182,582 D	28,409	210,992
60420	Employee Pension + Ben	109,706 D	17,070	126,776
61510	Purchase Power	4 G	(4)	(0)
61610	Fuel for Power Purch	-	-	-
62010	Material + Supplies	6,122	-	6,122
62020	Material + Supplies	40,600	-	40,600
63110	Contractual Services - Engineer	-	-	-
63120	Contractual Services - Engineer	3,910	-	3,910
63420	Contractual Services - Mgt. Fees	-	-	-
63510	Contractual Services - Other	45,247	-	45,247
63520	Contractual Services - Other	14,214	-	14,214
64210	Rental of Equipment	-	-	-
64220	Rental of Equipment	-	-	-
65010	Transportation Exp.	-	-	-
65020	Transportation Exp.	-	-	-
67510	Misc. Expenses	5,590	-	5,590
67520	Misc. Expenses	5,714	-	5,714
	Total-Source of Supply	1,033,701	83,378	1,117,079
	<u>Pumping</u>			
60123	Salaries + Wages - Emp	- A	-	-
60126	Salaries + Wages - Emp	- A	-	-
60423	Employee Pension + Ben	- D	-	-
60426	Employee Pension + Ben	- D	-	-
61523	Purchase Power	-	-	-
61623	Fuel for Power Purch	-	-	-
62023	Material + Supplies	475,707 G	93,993	569,700
62026	Material + Supplies	17,943	-	17,943
63123	Contractual Services - Engineer	-	-	-
63126	Contractual Services - Engineer	-	-	-
63523	Contractual Services - Other	-	-	-
63526	Contractual Services - Other	16,369	-	16,369
64223	Rental of Equipment	412	-	412
64226	Rental of Equipment	-	-	-

**DETAIL COST OF SERVICE - EXPENSE
PROVIDENCE WATER**

Schedule WEE-4

ACCOUNT	TITLE	Adjusted Test Year	Rate Year Adjustments	Proforma Rate Year
65023	Transportation Exp.	-	-	-
67523	Misc. Expenses	-	-	-
67526	Misc. Expenses	-	-	-
	Total-Pumping	510,432	93,993	604,425
	Water Treatment			
60130	Salaries + Wages - Emp	1,604,271 A	98,072	1,702,343
60140	Salaries + Wages - Emp	430,037 A	26,289	456,325
60430	Employee Pension + Ben	810,592 D	126,126	936,717
60440	Employee Pension + Ben	218,841 D	34,051	252,892
61530	Purchase Power	127,781 G	23,972	151,753
61630	Fuel for Power Purch	76,452	-	76,452
61830	Chemicals	-	-	-
62030	Material + Supplies	82,154	-	82,154
62040	Material + Supplies	85,706	-	85,706
63140	Contractual Services - Engineer	-	-	-
63240	Contract Services - Acctg	-	-	-
63430	Contractual Services - Mgt. Fees	8,441	-	8,441
63530	Contractual Services - Other	183,241	-	183,241
63540	Contractual Services - Other	17,114	-	17,114
64140	Rental Buildg/Real Prop	-	-	-
64230	Rental of Equipment	3,948	-	3,948
64240	Rental of Equipment	-	-	-
65030	Transportation Exp.	-	-	-
65640	Insurance Vehicle	-	-	-
65830	Insurance - W/C	-	-	-
65840	Insurance - W/C	-	-	-
66730	Regulatory Com Exp. -Other	-	-	-
67530	Misc. Expenses	29,040	-	29,040
67540	Misc. Expenses	46	-	46
	Total-Water Treat. Exp.	3,677,663	308,510	3,986,173
	Transmission & Distribution			
60150	Salaries + Wages - Emp	889,914 A	54,402	944,316
60160	Salaries + Wages - Emp	1,973,236 A	120,627	2,093,863
60250	Payroll Clearing -Emp	(472,859) A	(28,907)	(501,766)
60260	Payroll Clearing -Emp	- A	-	-

DETAIL COST OF SERVICE - EXPENSE
PROVIDENCE WATER

Schedule WEE-4

ACCOUNT	TITLE	Adjusted Test Year	Rate Year Adjustments	Proforma Rate Year
60450	Employee Pension + Ben	438,176 D	68,179	506,355
60460	Employee Pension + Ben	973,354 D	151,451	1,124,805
60550	Overhead Rate Applied	-	-	-
60560	Overhead Rate Applied	-	-	-
61550	Purchase Power	7,643 G	1,177	8,820
62050	Material + Supplies	119,767	-	119,767
62060	Material + Supplies	26,433	-	26,433
62560	Inventory Clearing	-	-	-
63150	Contractual Services - Engineer	-	-	-
63160	Contractual Services - Engineer	-	-	-
63460	Contractual Services - Mgt. Fees	-	-	-
63550	Contractual Services - Other	611,283	-	611,283
63560	Contractual Services - Other	53,215	-	53,215
64150	Rental Buildg/Real Prop	-	-	-
64160	Rental Buildg/Real Prop	(6,083)	-	(6,083)
64250	Rental of Equipment	6,830	-	6,830
64260	Rental of Equipment	-	-	-
65060	Transportation Exp.	-	-	-
65850	Insurance W/C	-	-	-
65860	Insurance W/C	-	-	-
65950	Insurance Other	-	-	-
66750	Regulatory Com Exp - Other T & D	284	-	284
66760	Regulatory Com Exp - Other T & D	-	-	-
67550	Misc. Expenses	8,750	-	8,750
67560	Misc. Expenses	198	-	198
	Total-Trans/Dist Exp.	4,630,141	366,930	4,997,070
	Customer Accounts			
60170	Salaries + Wages - Emp	1,699,680 A	103,904	1,803,584
60270	Payroll Clearing -Emp	(15,305) A	(936)	(16,241)
60470	Employee Pension + Ben	854,123 D	132,899	987,023
60570	Overhead Rate Applied	-	-	-
61670	Fuel for Power Purch	-	-	-
62070	Material + Supplies	16,194	-	16,194
63370	Contractual Services - Legal	50,309	-	50,309
63570	Contractual Services - Other	48,943	-	48,943
65070	Transportation exp. - CAO	-	-	-
65870	Insurance - Other	-	-	-

DETAIL COST OF SERVICE - EXPENSE
PROVIDENCE WATER

ACCOUNT	TITLE	Adjusted Test Year	Rate Year Adjustments	Proforma Rate Year
65970	Insurance Other	-	-	-
67070	Bad Debt Expense - CAO	-	-	-
67570	Misc. Expenses	101,357	-	101,357
	Total-Cust Accts Exp	2,755,301	235,868	2,991,169
	Administration			
60180	Salaries + Wages - Emp	4,596,651	281,001	4,877,652
60280	Payroll Clearing -Emp	-	-	-
60380	Salaries + wages - Officers, Dir.	27,780	1,698	29,478
60480	Employee Pension + Ben	2,308,757	359,236	2,667,993
60580	Overhead Rate Applied	-	-	-
61580	Purchase Power	79,129	23,420	102,549
61680	Fuel for Power Purch	138,431	-	138,431
62080	Material + Supplies	90,219	-	90,219
63180	Contractual Services - Engineer	6,652	-	6,652
63280	Contract Services - Acctg	46,000	-	46,000
63380	Contractual Services - Legal	41,536	-	41,536
63480	Contractual Services - Mgt. Fees	-	-	-
63580	Contractual Services - Other	449,703	-	449,703
64180	Rental Builgde/Real Prop	-	-	-
64280	Rental of Equipment	10,602	-	10,602
65080	Transportation Exp.	119,917	-	119,917
65780	Ins. Gen. Liability	-	-	-
65880	Insurance - W/C	-	-	-
65980	Insurance Other	-	-	-
66080	Advertising Expense	3,149	-	3,149
66680	Reg Com Exp - Amort of Rate Case	-	-	-
66780	Regulatory Com Exp -Other	157,985	64,881	222,867
67580	Misc. Expense	262,580	-	262,580
	Total-Admini/Gen Exp	8,339,092	730,237	9,069,329
	Total Operating Fund	20,946,330	1,818,915	22,765,246
	857 Insurance Fund			
65840	Insurance W/C - WTM	-	-	-
65870	Insurance W/C - CAO	25,862	(6,226)	19,637
62080	Materials + Supplies - A&GO	39,990	(9,626)	30,363
63580	Contract Services - Other A&GO	17,569	7,431	25,000
65780	Ins. Gen. Liability	2,388	612	3,000
		751,134	611,766	1,362,900

DETAIL COST OF SERVICE - EXPENSE
PROVIDENCE WATER

Schedule WEE-4

ACCOUNT	TITLE	Adjusted Test Year	Rate Year Adjustments	Proforma Rate Year
65880	Insurance - W/C	168,625 C	339,575	508,200
67580	Misc. Expense	39,439 C	10,561	50,000
	Total Insurance Fund	1,045,007	954,093	1,999,100
878 Chemical and Sludge Maintenance Fund				
61830	Chemicals - WTO	1,400,396 F	82,980	1,483,376
62030	Materials + Supplies WTO	36,338 F	-	36,338
63540	Contract Services - Other WTM	400,000 F	150,000	550,000
	Total Chemical and Sludge Maintenance	1,836,734	232,980	2,069,714
	Total Operation and Maintenance Expenditure	23,828,072	3,005,988	26,834,060
Other Expenditures				
	City Services	729,994	-	729,994
	Property Taxes	5,915,612 B	380,129	6,295,742
	Capital Labor	488,164 A	29,842	518,006
	Total Other Expenditures	7,133,770	409,971	7,543,742
	Capital Fund Cash	963,628 H	(39,783)	923,845
	Debt Service CIP Fund	1,486,372 H	39,783	1,526,155
	Western Cranston Fund	62,069 H	-	62,069
	Infrastructure Replacement (1)	9,241,012 H	1,238,329	10,479,341
	Debt Service IFR Fund	3,258,988 H	(1,238,329)	2,020,659
	102" Valve	500,000 H	(500,000)	-
	Alternative Source of Supply	150,000 H	(150,000)	-
	Meter Replacement	400,000 H	-	400,000
	Equipment Replacement	1,100,000 H	(500,000)	600,000
	Total Restricted Expenditures	17,162,069	(1,150,000)	16,012,069
	Total Other & Rest. Expenditures	24,295,839	(740,029)	23,555,811
	GRAND TOTAL	\$ 48,123,911	\$ 2,265,959	\$ 50,389,871

(A) = Salary Adjustment WEE-5A.

(B) = Property Taxes WEE-6.

(C) = Insurance Expenses WEE-7.

DETAIL COST OF SERVICE - EXPENSE
PROVIDENCE WATER

Schedule WEE-4

ACCOUNT	TITLE	Adjusted Test Year	Rate Year Adjustments	Proforma Rate Year
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- (D) = Pension Adjustment WEE-8A.
- (E) = Regulatory and Rate Case Expenses WEE-9.
- (F) = Adjustment for Chemicals and Sludge Maintenance WEE-10.
- (G) = Purchase Power Expense WEE-11.
- (H) = Restricted Accounts WEE-12.

Salaries & Wages
Providence Water

Schedule WEE-5

Actual Payroll Expense FY 2004	\$ 11,601,623
Normalizing adjustments	<u>239,957</u>
Adjusted Test Year	11,841,580
Contractual Increase as of 9/1/04 & 7/01/05 & 07/01/06 *	x <u>1.06113175</u>
Pro-forma amount, agrees to schedule WEE-5A (X)	<u>\$ 12,565,477</u>
Adjusted Test Year (Y)	<u>\$ 11,841,580</u>
Adjustment (X-Y)	<u>\$ 723,897</u>

* Source: Union Contract Article VI

DETAIL PAYROLL EXPENSE
PROVIDENCE WATER

Schedule WEE-5A

ACCOUNT	TITLE	ADJUSTED TEST YEAR	ACTUAL x 1.06113175	PRO-FORMA ADJUSTMENT
SOURCE OF SUPPLY				
60110	Salaries & Wages - Emp	\$ 404,667	\$ 429,405	\$ 24,738
60120	Salaries & Wages - Emp	215,345	228,509	13,164
60320	Sal & Wages - Officers, Dir	-	-	-
	TOTAL SOURCE OF SUPPLY	620,012	657,914	37,902
PUMPING				
60123	Salaries & Wages - Emp	-	-	-
60126	Salaries & Wages - Emp	-	-	-
	TOTAL PUMPING	-	-	-
WATER TREATMENT				
60130	Salaries & Wages - Emp	1,604,271	1,702,343	98,072
60140	Salaries & Wages - Emp	430,037	456,326	26,289
	TOTAL WATER TREATMENT	2,034,308	2,158,669	124,361
TRANSMISSION & DISTRIBUTION				
60150	Salaries & Wages - Emp	889,914	944,316	54,402
60160	Salaries & Wages - Emp	1,973,236	2,093,863	120,627
60250	Payroll Clearing	(472,859)	(501,766)	(28,907)
60260	Payroll Clearing	-	-	-
	TOTAL TRANSMISSION & DISTRIBUTION	2,390,291	2,536,414	146,123
CUSTOMER ACCOUNT EXPENSE				
60170	Salaries & Wages - Emp	1,699,680	1,803,584	103,904
60270	Payroll Clearing	(15,305)	(16,241)	(936)
	TOTAL CUSTOMER ACCTS EXPENSE	1,684,375	1,787,344	102,969
ADMINISTRATION				
60180	Salaries & Wages - Emp	4,596,651	4,877,652	281,001
60280	Payroll Clearing	-	-	-
60380	Sal & Wages - Officers, Dir	27,780	29,478	1,698
	TOTAL ADMINISTRATION EXPENSE	4,624,430	4,907,130	282,700
O/M LABOR SUMMARY				
SOURCE OF SUPPLY		\$ 620,012	\$ 657,914	\$ 37,902
PUMPING		-	-	-
WATER TREATMENT		2,034,308	2,158,669	124,361
TRANSMISSION & DISTRIBUTION		2,390,291	2,536,414	146,123
CUSTOMER ACCOUNTS		1,684,375	1,787,344	102,969
ADMINISTRATION		4,624,430	4,907,130	282,700
PLUS: CAPITALIZED LABOR		488,164	518,006	29,842
TOTAL		\$ 11,841,580	\$ 12,565,477	\$ 723,897
RECAP:				
	Adjusted Test Year		6.113175%	\$ 11,841,580
	Contractual increases			723,897
	Pro-forma CY 2006			\$ 12,565,477

ANALYSIS OF PROPERTY TAXES
PROVIDENCE WATER

Schedule WEE-6

MUNICIPALITY	TEST YEAR	ADJUSTMENTS	NOTE	PRO-FORMA AMOUNT *
Scituate	\$ 4,657,788	\$ 359,620	1	\$ 5,017,408
Foster	297,825	22,074	2	319,899
Cranston	493,535	75,266	2	568,801
North Providence	224,322	40,050	2	264,372
Johnston	96,550	(39,026)	3	57,524
Glocester	135,693	(75,991)	2	59,702
West Warwick	6,223	(2,141)	2	4,082
West Glocester Fire	3,363	283	2	3,646
Harmony Fire Dist.	142	-	4	142
Chepachet Fire Dist.	145	-	4	145
Warwick	26	(6)	4	20
Total Expense	\$ 5,915,612	\$ 380,129		\$ 6,295,741
Test Year				<u>5,915,612</u>
Total Adjustment				<u>\$ 380,129</u>
				6.4%

* See Schedule WEE-6A for 6 year historical

Note:

1. Scituate increase 7.5% from FY 05. (Amt per Town Council meetings) to get FYE 6/30/06, then added 1/2 year (.0275) for 7/1/06-12/31/06
2. These taxes increased 5.5% from FY 05 + 1/2 for CY Adj.
3. Johnston increased 3.7% from FY 05.
4. FY 05 amount used.

COMPARATIVE SCHEDULE OF PROPERTY TAXES
PROVIDENCE WATER

Schedule WEE-6A

MUNICIPALITY	FISCAL YEAR 7/1/99-6/30/00	FISCAL YEAR 7/1/00-6/30/01	FISCAL YEAR 7/1/01-6/30/02	FISCAL YEAR 7/1/02-6/30/03	FISCAL YEAR 7/1/03-6/30/04	FISCAL YEAR 7/1/04-6/30/05
Situate	\$ 3,172,846	\$ 3,261,814	\$ 4,125,554	\$ 4,229,623	\$ 4,657,788	\$ 4,604,051
Foster	295,284	294,106	315,703	315,703	297,825	295,106
Cranston	411,523	455,417	431,198	508,299	493,535	524,718
North Providence	206,129	206,129	213,155	213,406	224,322	243,883
Johnston	57,697	57,697	158,168	166,877	96,550	54,464
Glocester	16,738	17,253	17,642	31,109	135,693	55,075
West Warwick	6,593	6,642	6,012	6,070	6,223	3,766
West Glocester Fire	989	989	988	1,921	3,363	3,363
Harmony Fire Dist.	69	69	69	137	142	142
Chepachet fire Dist.	55	55	55	131	145	145
Warwick	22	23	24	25	26	20
Total	\$ 4,167,945	\$ 4,300,195	\$ 5,268,568	\$ 5,473,301	\$ 5,915,612	\$ 5,784,733
% Increase		3.17%	22.52%	3.89%	8.08%	-2.21%
5 Yr average % Increase						7.09%

INSURANCE EXPENSE
PROVIDENCE WATER

Schedule WEE-7

	TEST YEAR	ADJUSTMENTS	PRO-FORMA AMOUNT *
Property and Casualty	\$ 751,134	\$ 611,766	\$ 1,362,900
Worker's Compensation	168,625	339,575	508,200
Old Worker's Comp Claims	65,852	(15,852)	50,000
Injuries & Damages	39,439	10,561	50,000
Safety Supplies & Other	17,569	7,431	25,000
Program Expense	2,388	612	3,000
Total Expenses	\$ 1,045,007	\$ 954,093	\$ 1,999,100
Test Year amount			\$ 1,045,007
Pro-Forma Amount			1,999,100
Total Adjustment			<u>\$ 954,093</u>

* See Schedule WEE-7A for calculations

INSURANCE EXPENSE
PROVIDENCE WATER

	FY 2005 AMOUNTS	FY 2006 ESTIMATE *	FY2007 ESTIMATE *	Pro-Forma AMOUNT
Property and Casualty premium	\$ 1,180,000	\$ 1,298,000	\$ 1,427,800	\$ 1,362,900
Worker's Compensation premium	440,000	484,000	532,400	508,200
Old Worker's Comp Claims (Self Ins)	125,000	50,000	50,000	50,000
Injuries & Damages	50,000	50,000	50,000	50,000
Safety Supplies & Other	25,000	25,000	25,000	25,000
Program Expense	3,000	3,000	3,000	3,000
Total Expenses	\$ 1,823,000	\$ 1,910,000	\$ 2,088,200	\$ 1,999,100

* Estimate for P&C and WC premium increase 10% per year

PENSION AND OTHER BENEFITS
PROVIDENCE WATER

Schedule WEE-8

FRINGE BENEFIT	TEST YEAR	ADJUSTMENTS	PRO-FORMA AMOUNT	% INCREASE	REFERENCE
1 Laborers Legal Fees	\$ 76,079	\$ (76,079)	\$ -		
2 Vision/Prescription Program	439,160	(439,160)	-		
3 New Union Combined Benefits	-	543,268	543,268		Schedule WEE-8B
4 Laborers International Pension	345,817	6,916	352,733	2.00%	Schedule WEE-8B
5 Training	69,192	(27,677)	41,515	-40.00%	Schedule WEE-8B
6 Life Insurance Premium	1,620	348	1,968	21.48%	
7 FICA	884,405	54,065	938,470	6.11%	See Note *
8 1/2% Wage Assignment	32,970	2,016	34,986	6.11%	See Note *
9 Blue Cross	1,048,866	352,388	1,401,254	33.60%	Schedule WEE-8C
10 United Healthcare	574,562	199,696	774,258	34.76%	Schedule WEE-8C
11 Delta Dental	179,171	23,497	202,668	13.11%	Schedule WEE-8C
12 City Retirement	2,244,290	278,143	2,522,433		See Mr. Spinelli's Testimony
Total	\$ 5,896,132	\$ 917,421	\$ 6,813,553		
Test Year FY 2004			5,896,132		
Adjustment			\$ 917,421		

* Compounded salary increase used 1.06113175%.

FRINGE ALLOCATION TO NARUC ACCOUNTS
PROVIDENCE WATER

Schedule WEE-8A

<u>NARUC ACCOUNT</u>	<u>TEST YEAR</u>	<u>ALLOCATION</u>	<u>PRO-FORMA ADJUSTMENT</u>
60410	\$ 182,582	3.10%	\$ 28,409
60420	109,706	1.86%	17,070
60423	-	0.00%	-
60426	-	0.00%	-
60430	810,592	13.75%	126,126
60440	218,841	3.71%	34,051
60450	438,176	7.43%	68,179
60460	973,354	16.51%	151,451
60470	854,123	14.49%	132,899
60480	<u>2,308,757</u>	<u>39.16%</u>	<u>359,236</u>
	<u>\$ 5,896,131</u>	<u>100.00%</u>	<u>\$ 917,421</u>

SCHEDULE OF UNION BENEFIT RATES
PROVIDENCE WATER

Schedule WEE-8B

DESCRIPTION	FYE 06/30/04	PROFORMA YEAR	% INCREASE/ (DECREASE)
<u>Union Pension</u>			
40 Hour	1.00	1.02	2.00%
35 Hour	1.00	1.02	2.00%
<u>Training</u>			
40 Hour	0.20	0.12	-40.00%
35 Hour	0.20	0.12	-40.00%
<u>Other Benefits *</u>			
40 Hour	1.47	1.55	5.44%
35 Hour	1.47	1.55	5.44%

* Note: Other benefits include Prescription Drug, Vision Care, Life Insurance, Legal Care and Wellness. These benefits were combined for the new contract 7/1/04-6/30/07.

Source: Union Contract Articles XX through XXIV

SCHEDULE OF INSURANCE RATES (HEALTH)
PROVIDENCE WATER

Schedule WEE-8C

DESCRIPTION	FYE 06/30/04	FYE 06/30/05	FYE 06/30/06	% INCREASE/ (DECREASE)	WEIGHTED AVERAGE	COMPOUNDED INCREASE
<u>United Healthcare</u> Union:						
Individual	\$ 258.60	\$ 303.56	\$ 325.75	25.97%		
Family	648.91	765.61	821.32	26.57%		
Non-Union:					26.42%	
Individual	276.40	323.39	348.03	25.92%	<u>26.40%</u>	34.76%
Family	696.08	821.37	880.88	26.55%	<u>26.41%</u>	
<u>Delta Dental</u> Union:						
Individual	23.92	25.12	26.38	10.29%		
Family	73.84	77.54	81.42	10.27%		
Non-Union:					10.28%	
Individual	23.92	25.12	26.38	10.29%	<u>10.28%</u>	13.11%
Family	73.84	77.54	81.42	10.27%	<u>10.28%</u>	
<u>Blue Cross</u> Union:						
Individual	274.37	312.78	334.68	21.98%		
Family	670.92	764.85	818.39	21.98%		
Non-Union:					21.98%	
Individual	274.37	312.78	358.53	30.67%	<u>32.33%</u>	33.60%
Family	670.92	764.85	891.38	32.86%	<u>25.57%</u>	

REGULATORY COMMISSION (66780 & 66680) AND RATE CASE EXPENSE
PROVIDENCE WATER

	TEST YEAR	PRO-FORMA AMOUNT
Regulatory Commission Expense:		
D1725/3423 Winter Moratorium	101 \$	5,000
D3446 Abbreviated Filing	322	
Credit Card Payment	2,193	
Providence Street Ordinance	8,192	
Rate of Return legislation	6,117	
Billing Disputes/Meter Retention	7,431	10,000
Miscellaneous Legal Matters	5,732	12,000
Miscellaneous PUC Matters	2,615	10,000
Proportionate Share PUC Expenses	125,282	135,866
Sub-total	157,985 \$	167,866

(A)

*

<u>This Filing (Estimated):</u>	
Accounting	\$ 25,000
Legal	30,000
Division of Public Utilities estimated	55,000
Total Estimated Rate Case this filing	\$ 110,000
Two Year Amortization	\$ 55,000

(B)

Estimated Regulatory Commission Expense (A) + (B)	\$ 222,866
Test Year	157,985
Adjustment	\$ 64,881

CHEMICAL & SLUDGE MAINTENANCE EXPENSE
PROVIDENCE WATER

	TEST YEAR	ADJUSTMENTS	NOTE	PRO-FORMA AMOUNT *
Chemicals:				
Ferric	\$ 862,170	\$ 138,978	1	\$ 1,001,148
Quicklime	339,516	(5,903)	1	333,613
Flouride	147,950	(147,950)	1	-
Liquid Flouride	-	82,018	1	82,018
Chlorine	50,760	15,837	1	66,597
Sub-total Chemicals	1,400,396	82,980		1,483,376
Calgon	36,338	-		36,338
Sludge Maintenance	400,000	150,000	2	550,000
Total Expenses	\$ 1,836,734	\$ 232,980		\$ 2,069,714
Test Year Amount				\$ 1,836,734
Pro-Forma Amount				2,069,714
Total Adjustment				\$ 232,980

Docket 3446 funding amount \$1,776,516
 1 See Schedule WEE-10A for calculations
 2 Per contract amount

**ADJUSTMENT TO CHEMICAL EXPENSE
TO REFLECT ESTIMATED QUANTITIES AND PRICES
PROVIDENCE WATER**

CHEMICAL	QUANTITY USED FY 2004 (1)	FYTD 3/2005 (2)	AVERAGE	UNIT PRICE (3)	CY 06 EXPENSE	FY 04 EXPENSE (4)	ADJUSTMENT
Ferric Sulfate (gallons)	1,238,706	1,242,455	1,240,581	0.807 \$	1,001,148 \$	862,170 \$	138,978
Lime (tons)	2,465	2,469	2,467	135.25	333,613	339,516	(5,903)
Chlorine (tons)	114	120	117	570	66,597	50,760	15,837
Flouride (tons)	158	151			-	147,950	(147,950)
Flouride liquid (gallons)	270 gallons/day x 365 days/year		98,550	0.83225	82,018	-	82,018
Total Projected Costs					\$ 1,483,376	\$ 1,400,396	\$ 82,980

Notes:

(1) Per Exhibit I, Table C accompanying the testimony of PWSB witness J. Bondarevskis

(2) Chemical quantities used 12 months ended March 21, 2005

(3) CY 2006 bid prices as projected below

(3) FY 04 Ferric Sulfate was reduced \$14,427 to reflect Test Year inventory adjustment

Prices	FY 04	FY 05	FY 06	FY 07 Est.	CY06 FY 06/07 Average
Ferric Sulfate (gallons)	0.707	0.772	0.772	0.842	0.807
Lime (tons)	130.675	133.75	133.75	136.75	135.25
Chlorine (tons) est 06	450	490	550	590	570
Flouride liquid (gallons)	n/a	0.83225	0.83225	0.83225	0.83225

PURCHASE POWER EXPENSE
PROVIDENCE WATER

Schedule WEE-11

	FY02	FY03	FY04	FYTD 3/05	PRO-FORMA AMOUNT *	PRO-FORMA ADJUSTMENT
61510	\$ -	\$ -	\$ 4	\$ -	\$ -	(4)
61523	452,235	441,041	475,707	427,275	569,700	93,993
61530	100,100	104,036	127,781	113,815	151,753	23,972
61550	3,192	3,305	7,643	6,615	8,820	1,177
61580	48,172	44,665	79,129	76,912	102,549	23,420
	\$ 603,699	\$ 593,047	\$ 690,264	\$ 624,617	\$ 832,823	\$ 142,559

	FY 02	FY 03	FY 04	FY 05
61523				
Activity Electric	452,235	441,041	475,707	427,275
61530				
Activity Electric	100,100	104,036	127,781	113,815
61550				
Activity Electric	3,192	3,305	7,643	6,615
61580				
Activity Electric	48,172	43,206	61,263	55,788
Gas	-	1,459	17,722	21,123
Inventory Control	-	-	144	-
	48,172	44,665	79,129	76,911

<i>Combined Narratives by Activity</i>				
Electric	603,699	591,588	672,394	603,493
Gas	-	1,459	17,722	21,123
Inventory Control	-	-	144	-
	603,699	593,047	690,260	624,616

* Proforma amount calculated by FYTD 3/05 by 9 and then multiplied by 12 to annualize.

DEBT SERVICE / RESTRICTED FUNDING REQUIREMENTS
PROVIDENCE WATER

	ADJUSTED TEST YEAR	ADDITIONAL REQUESTS	PRO-FORMA AMOUNT	PRO-FORMA BY FUND
Cash Funded CIP Fund	\$ 963,629	\$ (39,783)	\$ 923,846	\$ -
Debt Service CIP Fund	1,486,372	39,783	1,526,155	2,450,000
Western Cranston Fund	62,069	-	62,069	62,069
Debt Service IFR Fund	3,258,988	(1,238,329)	2,020,659	-
Cash Funded IFR Fund	9,241,012	1,238,329	10,479,341	12,500,000
Cash Funded 102" Valve Fund	500,000	(500,000)	-	-
Cash Funded Alt. Supply Fund	150,000	(150,000)	-	-
Cash Funded AMR/Meter Repl. Fund	400,000	-	400,000	400,000
Equipment Replacement Fund	1,100,000	(500,000)	600,000	600,000
Sub-Total	\$ 17,162,069	\$ (1,150,000)	\$ 16,012,069	\$ 16,012,069

Adjusted Test Year

17,162,069

Total Adjustment

\$ (1,150,000)

PROJECTED FY 2006 - FY 2008 SOURCES AND USES OF FUNDS
CAPITAL IMPROVEMENT FUND
 PROVIDENCE WATER

	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008
Source of Funds			
D3446 (effective 1/1/2003) (A)	\$ 1,225,000	\$ -	\$ -
New Docket effective 1/1/06 proposed (B)	1,225,000	2,450,000	2,450,000
Interest			
Carryover funds from prior year estimated	2,730,618	1,914,114	1,339,642
Total Sources	5,180,618	4,364,114	3,789,642
Less obligated uses of funds:			
Fruit Hill Bonds (P)	865,000	915,000	950,000
Fruit Hill Bonds (I)	206,656	164,381	120,325
RICWFA 2002 (P)	395,000	405,000	415,000
RICWFA 2002 (Security) (I)	24,848	15,091	5,073
Sub-total Debt Service	1,491,504	1,499,472	1,490,398
Cash Funded Projects	1,775,000	1,525,000	525,000
Total Uses	3,266,504	3,024,472	2,015,398
Total Carryover Funds	\$ 1,914,114	\$ 1,339,642	\$ 1,774,244

(A) Funding 7/1/05 - 12/31/05
 (A) Funding 1/1/06 - 6/30/06

PROJECTED FY 2006 - FY 2008 SOURCES AND USES OF FUNDS
 WCWDS FUND
 PROVIDENCE WATER

Schedule WEE-12B

	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008
Source of Funds			
D3446 (effective 1/1/2003)	\$ 31,035	\$ -	\$ -
New Docket effective 1/1/06 proposed	31,035	62,069	62,069
Interest			
Impact Fees estimated	150,000	100,000	100,000
Carryover funds from prior year estimated	1,255,910	287,481	300,857
Bond Proceeds maintained at RICWFA	884,011	-	-
Total Sources	2,351,990	449,550	462,926
Less obligated uses of funds			
Western Cranston Acquisition Debt (P)	52,000	-	-
Western Cranston Acquisition Debt (I)	1,378	-	-
RICWFA 2002B (P)	90,729	93,809	97,065
RICWFA 2002 (Pippin Main & WilburPS) (I)	50,402	54,884	74,623
Sub-total Debt Service	194,509	148,693	171,688
Cash Funded Projects	1,870,000	-	-
Total Uses	2,064,509	148,693	171,688
Total	\$ 287,481	\$ 300,857	\$ 291,238

PROJECTED FY 2006 - FY 2008 SOURCES AND USES OF FUNDS
INFRASTRUCTURE REPLACEMENT FUND
 PROVIDENCE WATER

	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008
Source of Funds			
D3446 (effective 1/1/2003)	\$ 6,250,000	\$ -	\$ -
New Docket effective 1/1/06 proposed	6,250,000	12,500,000	12,500,000
Carryover funds from prior year estimated	10,268,254	7,499,325	1,089,826
Total Sources	22,768,254	19,999,325	13,589,826
Less obligated uses of funds:			
RICWFA Debt (1994 \$12M) (P)	723,000	740,000	756,000
RICWFA (various projects) (I)	198,968	195,990	178,668
RICWFA Debt (2001 \$5M) (P)	1,022,799	1,046,676	-
RICWFA (90" Transmission) (I)	44,162	14,833	-
Sub-total Debt Service	1,988,929	1,997,499	934,668
Cash Funded Projects	13,280,000	16,912,000	11,762,000
Total Uses	15,268,929	18,909,499	12,696,668
Total	\$ 7,499,325	\$ 1,089,826	\$ 893,158

PROJECTED FY 2006 - FY 2008 SOURCES AND USES OF FUNDS
WHOLESALE VALVE FUND
 PROVIDENCE WATER

	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008
Source of Funds			
D3446 (effective 1/1/2003)	\$ 250,000	\$ -	\$ -
New Docket effective 1/1/06 proposed			
Interest			
Carryover funds from prior year estimated	897,141	-	-
Total Sources	1,147,141	-	-
Less obligated uses of funds			
Balance of contract	444,236	-	-
Contingency for delay by KCWA	400,000		
Transfer to Insurance Fund	302,905		
Total Uses	1,147,141	-	-
Total	\$ -	\$ -	\$ -

PROJECTED FY 2006 - FY 2008 SOURCES AND USES OF FUNDS
ALT. SUPPLY FUND
PROVIDENCE WATER

Schedule WEE-12E

	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008
Source of Funds			
D3446 (effective 1/1/2003)	\$ 75,000	\$ -	\$ -
New Docket effective 1/1/06 proposed Interest		-	-
Carryover funds from prior year estimated	368,149		
Total Sources	443,149	-	-
Less obligated uses of funds			
Transfer to Insurance Fund	443,149		
Total Uses	443,149	-	-
Total	\$ -	\$ -	\$ -

PROJECTED FY 2006 - FY 2008 SOURCES AND USES OF FUNDS
AMR/METER REPLACEMENT FUND
 PROVIDENCE WATER

Schedule WEE-12F

	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008
Source of Funds			
D3446 (effective 1/1/2003)	\$ 200,000	\$ -	\$ -
New Docket effective 1/1/06 proposed	200,000	400,000	400,000
Interest			
Carryover funds from prior year estimated	(555)	7,651	4,917
Line of Credit	560,000	325,000	105,000
Total Sources	959,445	732,651	509,917
Less obligated uses of funds			
Existing equipment and services	147,719	159,609	171,387
New/additional equipment and services	75,075	-	7,209
Interest Expense	14,000	8,125	2,625
Payment on Line of Credit	715,000	560,000	325,000
Total Uses	951,794	727,734	506,221
Total	\$ 7,651	\$ 4,917	\$ 3,696

PROJECTED FY 2006 - FY 2008 SOURCES AND USES OF FUNDS
EQUIPMENT/VEHICLE REPLACEMENT FUND
 PROVIDENCE WATER

	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008
Source of Funds			
D3446 (effective 1/1/2003)	\$ 550,000	\$ -	\$ -
New Docket effective 1/1/06 proposed	300,000	600,000	600,000
Interest	5,000	5,000	5,000
Carryover funds from prior year estimated	455,554	306,294	321,657
Total Sources	1,310,554	911,294	926,657
Less obligated uses of funds			
New Modular Office Building Lease payment	196,541	-	-
Vehicle and Equipment purchases	699,419	498,137	437,125
Computer Equipment purchases	83,300	66,500	70,000
Office Furniture purchases	25,000	25,000	25,000
Total Uses	1,004,260	589,637	532,125
Total	\$ 306,294	\$ 321,657	\$ 394,532

PROJECTED FY 2006 - FY 2008 SOURCES AND USES OF FUNDS
CHEMICAL/SLUDGE FUND
 PROVIDENCE WATER

Schedule WEE-12H

	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008
Source of Funds			
D3446 (effective 1/1/2003)	\$ 888,258	\$ -	\$ -
New Docket effective 1/1/06 proposed	1,034,857	2,069,714	2,069,714
Interest			
Carryover funds from prior year estimated	451,098	320,073	229,723
Total Sources	2,374,213	2,389,787	2,299,437
Less obligated uses of funds			
Chemicals	1,467,802	1,573,726	1,583,669
Calgon	36,338	36,338	36,338
Sludge Maintenance	550,000	550,000	500,000
Total Uses	2,054,140	2,160,064	2,120,007
Total	\$ 320,073	\$ 229,723	\$ 179,430

PROJECTED FY 2006 - FY 2008 SOURCES AND USES OF FUNDS
 INSURANCE FUND
 PROVIDENCE WATER

Schedule WEE-121

	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008
Source of Funds			
D3446 (effective 1/1/2003)	\$ 179,500	\$ -	\$ -
New Docket effective 1/1/06 proposed Interest	1,037,050	2,074,100	2,074,100
		8.6% inc	0% inc
Carryover funds from prior year estimated	58,301	110,905	96,805
Request PUC to Transfer funds from Alt Supply & Valves	746,054	-	-
Total Sources	2,020,905	2,185,005	2,170,905
Less obligated uses of funds			
Property & Casualty	1,298,000	1,427,800	1,570,580
Workers Compensation	484,000	532,400	585,640
Old Worker's Comp Claims	50,000	50,000	125,000
Injuries & Damages	50,000	50,000	50,000
Safety Supplies & Other	25,000	25,000	25,000
Program Expense	3,000	3,000	3,000
Total Uses	1,910,000	2,088,200	2,359,220
Total	\$ 110,905	\$ 96,805	\$ (188,315)

CALCULATION OF REVENUES AT PRESENT AND PROPOSED RATES
PROVIDENCE WATER

	Consumption /Units	Current Rates	Revenues Current	Revenues Proposed	Percent Increase
Retail Customers					
Residential	12,030,853	\$ 1.79	\$ 21,535,227	\$ 23,907,055	11.01%
Commercial	2,356,680	\$ 1.72	4,053,490	4,499,929	11.01%
Industrial	877,656	\$ 1.67	1,465,686	1,627,112	11.01%
Sub-total Retail	15,265,189		\$ 27,054,402	\$ 30,034,096	
Wholesale Customers	14,047,633	\$ 0.847337	\$ 11,903,084	\$ 13,214,055	11.01%
Total Consumption Revenue	29,312,822		\$ 38,957,486	\$ 43,248,151	11.01%
Residential Service Charges			\$ 3,073,055	\$ 3,411,512	11.01%
Commercial Service Charges			399,353	443,337	11.01%
Industrial Service Charges			51,482	57,152	11.01%
Sub-total Service Charges			\$ 3,523,890	\$ 3,912,001	11.01%
Private Fire Supply			\$ 1,142,763	\$ 1,268,624	11.01%
Hydrant Charges	6,034	\$ 229.44	\$ 1,384,441	\$ 1,536,919	11.01%
Sub-total Fire Protection			\$ 2,527,204	\$ 2,805,543	
Total Water Revenue			\$ 45,008,580	\$ 49,965,695	11.01%
Miscellaneous Revenues			\$ 1,162,585	\$ 1,162,585	0.00%
TOTAL REVENUE			\$ 46,171,165	\$ 51,128,280	10.74%

Rate Increase (Schedule WEE-3)

\$ 4,957,115

CALCULATION OF REVENUE REQUIREMENT
AT PERCENTAGE INCREASE
 PROVIDENCE WATER

Calculation of Percentage Increase in Revenue Requirement

Revenue Increase	\$ 4,957,115
Rate Year Revenue at Old Rates	\$ 46,171,165
	<u>10.74%</u>

Calculation of Across the Board Increase Percentage

Revenue Increase	\$ 4,957,115
<i>Revenue Increase to be covered by an across the board % Increase</i>	\$ 4,957,115

Revenue Items which could be increased by an across the board % Increase

Retail Water Sales	\$ 27,054,402
Wholesale	11,903,083
Retail Service Charge	3,523,890
Private Fire Service Charge	1,142,763
Public Fire protection	1,384,441

Total Revenue Available for Increase

Across the Board Percentage Increase

11.01%

CALCULATION OF RETAIL WATER RATES
PROVIDENCE WATER

<u>Retail Consumption:</u>		Current Rates	Proposed Rates	Increase
Residential	per HCF	\$ 1.79	\$ 1.99	11.01%
Commercial	per HCF	\$ 1.72	\$ 1.91	11.01%
Industrial	per HCF	\$ 1.67	\$ 1.85	11.01%

<u>Service Charge:</u>		<u>Quarterly</u>		Percentage
(Meter size inches)	Current Rates	Proposed Rates	Proposed Rates	Increase
5/8	\$ 11.14	\$ 12.37	\$ 6.63	11.01%
3/4	\$ 11.93	\$ 13.24	\$ 6.86	11.01%
1	\$ 14.00	\$ 15.54	\$ 7.55	11.01%
1-1/2	\$ 16.76	\$ 18.61	\$ 8.47	11.01%
2	\$ 24.37	\$ 27.05	\$ 11.01	11.01%
3	\$ 80.38	\$ 89.23	\$ 29.68	11.01%
4	\$ 101.14	\$ 112.28	\$ 36.59	11.01%
6	\$ 149.54	\$ 166.01	\$ 52.72	11.01%
8	\$ 204.86	\$ 227.42	\$ 71.17	11.01%
10	\$ 254.99	\$ 283.07	\$ 87.88	11.01%
12	\$ 305.13	\$ 338.74	\$ 104.59	11.01%

<u>Wholesale</u>		Current Rates	Proposed Rates	Increase
per HCF		\$ 0.847337	\$ 0.940661	11.01%
per Million Gallons		\$ 1,132.89	\$ 1,257.66	11.01%

<u>Public Fire Supply</u>		Current Rates	Proposed Rates	Increase
per Hydrant		\$ 229.44	\$ 254.71	11.01%

<u>Private Fire Supply:</u>		<u>Quarterly</u>		Percentage
(Service size inches)	Current Rates	Proposed Rates	Proposed Rates	Increase
3/4	\$ 10.77	\$ 11.96	\$ 11.96	11.01%
1	\$ 14.26	\$ 15.83	\$ 15.83	11.01%
1-1/2	\$ 23.00	\$ 25.53	\$ 25.53	11.01%
2	\$ 33.48	\$ 37.17	\$ 37.17	11.01%
4	\$ 92.87	\$ 103.10	\$ 103.10	11.01%
6	\$ 180.22	\$ 200.07	\$ 200.07	11.01%
8	\$ 285.03	\$ 316.42	\$ 316.42	11.01%
10	\$ 407.30	\$ 452.16	\$ 452.16	11.01%
12	\$ 547.05	\$ 607.30	\$ 607.30	11.01%

**RATE IMPACT
PROVIDENCE WATER**

	Current Rates	Proposed Rate	Dollar Increase	Percent Increase	Proposed Quarterly Bill
<u>Residential</u>					
100 HCF w/ 5/8 meter					
Customer Charge	\$ 44.56	\$ 49.47	\$ 4.91		
Consumption	179.00	198.71	19.71		
Total 100 HCF	\$ 223.56	\$ 248.18	\$ 24.62	11.01%	\$ <u>62.05</u>
<u>Commercial</u>					
2,000 HCF w/ 2in meter					
Customer Charge	\$ 97.48	\$ 108.22	\$ 10.74		
Consumption	3,440.00	3,818.87	378.87		
Total 2000 HCF	\$ 3,537.48	\$ 3,927.09	\$ 389.61	11.01%	\$ <u>981.77</u>
<u>Industrial</u>					
10,000 HCF w/ 6in. meter					
Customer Charge	\$ 598.16	\$ 664.04	\$ 65.88		
Consumption	16,700.00	18,539.29	1,839.29		
Total 10,000 HCF	\$ 17,298.16	\$ 19,203.33	\$ 1,905.17	11.01%	\$ <u>4,800.83</u>
<u>Industrial (Large)</u>					
50,000 HCF w/ 10in. meter					
Customer Charge	\$ 1,019.96	\$ 1,132.30	\$ 112.34		
Consumption	83,500.00	92,696.45	9,196.45		
Total 50,000 HCF	\$ 84,519.96	\$ 93,828.74	\$ 9,308.78	11.01%	\$ <u>23,457.19</u>
<u>Wholesale</u>					
400,000 HCF	\$ 338,934.93	\$ 376,264.24	\$ 37,329.31	11.01%	\$ 31,355.35
2,500,000 HCF	\$ 2,118,343.31	\$ 2,351,651.52	\$ 233,308.21	11.01%	\$ 195,970.96

Attachment A



BRISTOL COUNTY WATER AUTHORITY

June 24, 2005

Ms. Jeanne Bondarevskis
Providence Water Supply Board
552 Academy Avenue
Providence, RI 02908

RE: Bristol County Water Authority anticipated water purchases

Dear Ms. Bondarevskis:

During calendar year 2006, Bristol County Water Authority anticipates water purchases from Providence Water to average approximately 1.6 million gallons per day, or 584 million gallons annually.

If you need anything further, please contact me.

Sincerely,
BRISTOL COUNTY WATER AUTHORITY

Pasquale DeLise
Executive Director

**PROVIDENCE WATER
Debt Service Schedule**

<u>Description of Debt</u>	<u>Interest Rate</u>	<u>Original Principal</u>	<u>Test Year FY 2004 Principal</u>	<u>Test Year FY 2004 Interest</u>	<u>Rate Year CY 2006 Principal</u>	<u>Rate Year CY 2006 Interest</u>
<u>Fruit Hill Extra High Service System Capital Lease</u> Date of issue: 03/15/80, refunded 07/15/97 by RI Water Resources Board Date of Maturity: 09/15/2009 Source of Funds: Rates (Capital Fund) Purpose: Extra high service system expansion to include Tank, Fruit Hill Avenue Pump Station, Distribution Mains and upgrades to other pump stations Repayment Terms: Semi-annual interest and annual principal payments Security Pledge: Pledge of all rentals payable pursuant to Lease Agreement	4.71%	\$11,685,000	\$790,000	\$284,558	\$915,000	\$186,113
<u>Clean Water Revenue Bonds</u> Date of Acquisition: 12/27/02 Division Docket D-02-09 Date of Maturity: 09/01/07 Source of Funds: Rates (Capital Fund) Purpose: Security Improvements throughout the Water Supply system Repayment Terms: Semi-annual interest and annual principal payments Security Pledge: Operating Revenues	2.59%	\$2,000,000	\$395,000	\$16,814	\$405,000	\$20,042
<u>Western Cranston Acquisition</u> Date of Acquisition: 07/1997 from the City of Cranston Date of Maturity: 07/01/2005 Source of Funds: Rates (Western Cranston Fund) Purpose: Various water system projects Repayment Terms: Per Agreement with City of Cranston semi-annual principal and interest Security Pledge: None	1.06%	\$1,009,969	\$51,000	\$2,691	\$0	\$0
<u>Western Cranston Acquisition</u> Date of Acquisition: 12/04/01 Division Docket D-01-04 Date of Maturity: 09/01/2021 Source of Funds: Rates (Western Cranston Fund) Purpose: Various water system projects in the WCWDS Repayment Terms: Semi-annual interest and annual principal payments Security Pledge: Operating Revenues	4.81%	\$2,500,000	\$90,729	\$50,402	\$100,434	\$66,370
Totals		\$17,194,969	\$1,326,729	\$354,465	\$1,420,434	\$272,525
Total Debt Service Capital fund				\$1,486,372		\$1,526,155
Total Debt Service new Western Cranston fund				\$194,822		\$166,804
Total Debt Service				\$1,681,194		\$1,692,959

Pursuant to 2.10 (d) (5) of the Commission Rules of Practice and Procedure

**PROVIDENCE WATER
Debt Service Schedule**

<u>Description of Debt</u>	<u>Interest Rate</u>	<u>Original Principal</u>	<u>Test Year FY 2004</u>		<u>Rate Year CY 2006</u>		
			<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
<p><u>Safe Drinking Water Revolving Loan</u> Date of Issue: 12/28/94 \$12 million RICWFA bond , Refinanced 03/2005 Date of Maturity: 09/01/2015 Source of Funds: Rates (IFR fund) Purpose: Various infrastructure replacement projects Repayment Terms: Per Loan Agreement monthly principal and interest Security Pledge: Operating Revenues</p>	3.80%	\$8,101,000	\$515,000	\$575,745	\$740,000	\$204,315	
<p><u>Clean Water Revenue Bonds</u> Date of Acquisition: 10/27/99 Date of Maturity: 09/01/04 Source of Funds: Rates (IFR fund) Purpose: Rehab Clearwell, Aqueduct Res., 102" Aqueduct projects Repayment Terms: Semi-annual interest and annual principal payments Security Pledge: Operating Revenues</p>		\$5,000,000	\$1,034,461	\$56,489	\$0	\$0	
<p><u>Clean Water Revenue Bonds</u> Date of Acquisition: 04/26/01 Date of Maturity: 09/01/06 Source of Funds: Rates (IFR fund) Purpose: Rehab 90" Aqueduct project Repayment Terms: Semi-annual interest and annual principal payments Security Pledge: Operating Revenues</p>	3.14%	\$5,000,000	\$976,668	\$100,625	\$1,046,676	\$29,668	
Totals		\$18,101,000	\$2,526,129	\$732,859	\$1,786,676	\$233,983	
			Total Debt Service IFR fund				\$2,020,659

Pursuant to 2.10 (d) (5) of the Commission Rules of Practice and Procedure

PROVIDENCE WATER
Lease Schedule Equipment Fund

<u>Description of Lease</u>	<u>Original Principal</u>	<u>Test Year FY 2004 Principal</u>	<u>Test Year FY 2004 Interest</u>	<u>Rate Year CY 2006 Principal</u>	<u>Rate Year CY 2006 Interest</u>
<u>Fleet Bank Lease # 5</u> Date of Issue: 04/15/99 Purpose: Vehicles and Equipment	\$700,000	\$150,000	\$6,225	\$0	\$0
<u>Fleet Bank Lease # 6</u> Date of Issue: 02/01/00 Purpose: Vehicles and Equipment	\$882,000	\$185,000	\$19,231	\$0	\$0
<u>New Modular Office Building</u> Date of Issue: 05/27/97 Purpose: Office building located on Scituate Avenue in the City of Cranston Rhode Island	\$1,509,818	\$163,119	\$33,421	\$184,702	\$11,839
Totals	\$3,091,818	\$498,119	\$58,877	\$184,702	\$11,839
	Total Lease Payments Equip. Repl Fund		\$556,996		\$196,541

Pursuant to 2.10 (d) (5) of the Commission Rules of Practice and Procedure

PROVIDENCE WATER SUPPLY BOARD
Rollforward of Restricted Funds
01/01/03 - 06/30/04

Fund #	Fund Name	845 Capital	857 Insurance	874 Alternative Supply	875 Vehicle & Equipment	876 102" Valve	877 Western Cranston	878 Chemical	848 Infrastructure Replacement	849 AMR/ Meter Replacement	Total
	Cash & Equivalents Balance 12/02 *	\$2,101,562	\$2,098,963	\$210,935	\$674,025	\$241,970	\$0	\$0	\$3,877,093	-\$134,429	\$9,070,119
	Revenue:										
	Docket 3446 Revenue	1,300,000	179,500	75,000	550,000	250,000	24,760	105,508	6,250,000	200,000	
	WRB Funding/Medical Reimbursement	12,503	3,710	1,041	1,371	1,225					
	Interest	1,312,503	183,210	76,041	551,371	251,225	24,760	105,508	6,252,658	200,113	
	Total Revenue										
	Expenses:										
	Debt Service	-151,364			-556,067				-287,873		
	Interest Expenses	-114,410	-248,412	-15,725	-238,448	-184,502			-3,339,735	-7,797	
	Other Disbursements/Projects	-265,774	-249,412	-15,725	-792,516	-184,502	0	0	-3,627,608	-7,797	
	Total Expenses										
	Cash & Equivalents Balance 06/03 *	\$3,148,293	\$2,032,762	\$271,252	\$432,880	\$308,694	\$24,760	\$105,508	\$6,502,145	\$57,887	\$12,684,181
	Revenue:										
	Docket 3446 Revenue	2,450,000	359,000	150,000	1,100,000	500,000	62,069	1,776,516	12,500,000	466,667	
	WRB Funding/Impact Fees	19,219	5,551	1,845	2,159	1,938	641	386	6,033		
	Interest	0	0	0	0	0	0	0	0	400,000	
	Line of Credit - Borrow on 8/03	2,469,219	364,551	151,845	1,102,159	747,963	1,406,301	1,776,902	12,506,033	866,667	
	Total Revenue										
	Expenses:										
	Debt Service	-1,486,372			-556,996		-194,822		-3,258,988		
	Interest Expenses	-1,811,171	-1,040,011	-184,745	-654,700	-511,837	-11,245	-1,338,415	-6,243	-3,133	
	Other Disbursements/Projects	-3,297,544	-1,040,011	-184,745	-1,211,696	-511,937	-206,067	-1,338,415	-6,036,856	-851,742	
	Total Expenses										
	Cash & Equivalents Balance 06/04 *	\$2,319,968	\$1,357,301	\$238,352	\$323,343	\$544,720	\$1,224,994	\$543,995	\$9,106,090	\$69,679	\$16,328,442

PROVIDENCE WATER SUPPLY BOARD
(A Component Unit of the City of Providence, Rhode Island)
Management's Discussion and Analysis - Required Supplementary Information
June 30, 2004 and 2003 (000's)

Condensed Financial Information (in thousands)

Condensed financial information from the statements of net assets and revenues, expenses, and changes in net assets is presented below.

	2004	2003
Current assets	\$ 33,536	\$ 28,538
Capital assets, net	164,667	160,303
Other assets	1,976	3,401
Total assets	<u>200,179</u>	<u>192,242</u>
Current liabilities	16,872	15,695
Noncurrent liabilities	22,086	26,914
Total liabilities	<u>38,958</u>	<u>42,609</u>
Net assets:		
Invested in capital assets, net of related debt	137,352	128,573
Restricted	15,419	19,723
Unrestricted	8,450	1,337
Total net assets	<u>\$ 161,221</u>	<u>\$ 149,633</u>
Operating revenues:		
Water sales	\$ 46,264	\$ 44,663
Maintenance charges and other	2,904	2,617
Total operating revenues	<u>49,168</u>	<u>47,280</u>
Operating expenses:		
Source of supply	1,658	1,436
Pumping and water treatment operations	5,262	4,760
Transmission and distribution	2,413	3,051
Charge for services provided by other City Departments	730	768
Customer accounts	2,456	1,917
Administrative and general	10,420	10,508
Property taxes	5,916	5,394
Total operating expenses, excluding depreciation	<u>28,855</u>	<u>27,834</u>
Depreciation	8,759	8,925
Total operating expenses, including depreciation	<u>37,614</u>	<u>36,759</u>
Operating income	11,554	10,521
Nonoperating revenue (expense):		
Interest income	407	347
Interest expense and other	(1,570)	(1,728)
Total nonoperating revenue (expense)	<u>(1,163)</u>	<u>(1,381)</u>
Capital grants and contributions	1,197	1,236
Increase in net assets	11,588	10,376
Beginning of year net assets	<u>149,633</u>	<u>139,257</u>
End of year net assets	<u>\$ 161,221</u>	<u>\$ 149,633</u>

Financial Highlights

Providence Water's net assets totaled \$161.2 million. Total assets increased by \$11.6 million, or about 7.75%.

During the year, Providence Water had revenues that exceeded expenses by \$11.6 million. This is primarily due to the large commitment to the replacement of infrastructure included in water rates.

Providence Water as a Whole

Providence Water's net assets totaled \$161.2 million. Total assets were \$200.1 million, up \$7.9 million from last year's total assets of \$192.2 million.

Providence Water's total operating revenues were \$49.2 million. The total cost of operating the water system, including property taxes and depreciation, was \$37.6 million. This resulted in an operating income of \$11.6 million. Non-operating revenue consists of interest and dividend income. Interest on long-term restricted debt is the largest non-operating expense, followed by miscellaneous and other expenses. Non-operating income for the fiscal year totaled (\$1.2) million, with capital grants of \$1.2 million. The total increase in net assets was \$11.6 million.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, Providence Water had \$164.7 million invested in various capital assets, including land, buildings and improvements, transmission and distribution reservoirs, mains, services, hydrants and appurtenances, machinery and equipment and construction work in progress. This amount represents a net increase of \$4.4 million, or 2.7%, over last year.

Major project expenditures included (in millions):

- Rehabilitation of large dams, \$0.8
- Sludge handling and disposal, \$0.9
- Replace sand filters, \$0.3
- 90" Effluent main, \$0.6
- Various distribution improvements \$0.4
- Replace fire hydrants, \$0.3
- Replace lead services, \$0.6
- Replace meters, \$2.1
- Upgrade large valves, \$0.5
- AMR system, \$0.8
- Security system upgrades, \$2.0
- Gatehouse upgrade, \$0.4
- Office renovations, \$0.2

Providence Water's fiscal 2005 capital budget includes projected expenditures of \$16.7 million for infrastructure and capital projects. The major projects are a new pump station, sludge removal and disposal, pump station rehabilitation, chemical transfer system rehabilitation, sand filter rehabilitation, GIS

system implementation, meter replacements, and distribution system improvements. Other projects will be funded from bond proceeds available from bonds issued in prior fiscal years and with restricted cash funding from rate revenues. The majority of infrastructure projects are financed on a pay-as-you-go, cash basis. New capital additions, that benefit the ratepayers for many years, are paid for with debt financing on an as needed basis.

Debt

At fiscal year-end, Providence Water had \$20.8 million in bonds and notes outstanding versus \$24.3 million in the previous year. This represented a decrease of \$3.5 million or 14.5%.

No new debt was issued in 2004.

Contacting Providence Water's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of Providence Water's finances and to show Providence Water's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director at Providence Water, 552 Academy Avenue, Providence, RI 02908.

PROVIDENCE WATER SUPPLY BOARD
(A Component Unit of the City of Providence, Rhode Island)

STATEMENTS OF NET ASSETS
June 30, 2004 and 2003 (000's)

	2004	2003
ASSETS		
Current Unrestricted Assets		
Cash and cash equivalents	\$ 1,998	\$ 4,176
Accounts receivable, net of allowance for uncollectible accounts of \$2,962 in 2004 and \$3,045 in 2003, respectively	8,434	7,333
Accounts receivable - unbilled	4,634	4,907
Inventory	1,295	1,258
Other assets	298	351
Total unrestricted	16,659	18,025
Current Restricted Assets (Note 4)		
Cash and cash equivalents	14,653	8,574
Investments	1,235	1,051
Accounts receivable	444	356
Accounts receivable - unbilled	545	532
Total restricted	16,877	10,513
Total current assets	33,536	28,538
Capital Assets		
Land	8,162	7,900
Building and improvements	21,981	18,363
Improvements other than buildings	146,363	140,326
Machinery and equipment	20,158	17,422
Assets under capital leases (Note 8)	14,728	16,465
Scituate Reservoir Project	18,682	18,682
Construction in progress	19,040	16,834
	249,114	235,992
Less accumulated depreciation and amortization	84,447	75,689
Capital assets, net	164,667	160,303
Restricted funds for construction of assets under Safe Drinking Water bonds		
	1,976	3,401
Total assets	\$ 200,179	\$ 192,242

See accompanying notes to financial statements.

	2004	2003
LIABILITIES		
Current Liabilities		
Due to City of Providence General Fund (Note 7)	\$ 2,606	\$ 2,442
Accounts payable	2,020	2,059
Accrued expenses	2,565	2,538
Deferred revenues	1,459	1,237
Current portion of long-term debt (Note 6)	3,638	3,527
Current portion of obligations under capital lease (Note 8)	1,191	1,288
Line of credit (Note 9)	400	-
	<u>13,879</u>	<u>13,091</u>
Amounts to be paid from current restricted assets (Note 4)		
Due from Water Resources Board	481	480
Accounts payable	2,376	2,049
Accrued expenses	136	75
	<u>2,993</u>	<u>2,604</u>
Total current liabilities	<u>16,872</u>	<u>15,695</u>
Non-current Liabilities		
General revenue bonds (Note 6)	17,119	20,705
Obligations under capital lease (Note 8)	4,915	6,105
Note payable - Western Cranston (Notes 3 and 6)	52	104
Total non-current liabilities	<u>22,086</u>	<u>26,914</u>
Total liabilities	<u>38,958</u>	<u>42,609</u>
Commitments and contingencies (Note 10)		
NET ASSETS		
Invested in capital assets, net of related debt	137,352	128,573
Restricted	15,419	19,723
Unrestricted	8,450	1,337
Total net assets	<u>\$ 161,221</u>	<u>\$ 149,633</u>

McGladrey & Pullen

Certified Public Accountants

**CITY OF PROVIDENCE, RHODE ISLAND
WATER SUPPLY BOARD**

**FINANCIAL REPORT
JUNE 30, 2004**

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McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Providence Water Supply Board
Providence, Rhode Island

We have audited the accompanying financial statements of the Providence Water Supply Board (the "PWSB") as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the PWSB's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the PWSB for the year ended June 30, 2003 were audited by other auditors, whose report dated February 17, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Providence Water Supply Board as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements, but is supplementary information required by accounting standards generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

New Haven, Connecticut
November 18, 2004

Providence Water Supply Board Management's Discussion and Analysis June 30, 2004

The management of the Providence Water Supply Board (Providence Water) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended June 30, 2004 and 2003.

Financial Statements

Our financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. Under this method of accounting an economic resources measurement focus and the accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows. These are followed by notes to the financial statements.

The statements of net assets present information on the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Providence Water Supply Board is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets report the operating and nonoperating revenues and expenses of the Providence Water Supply Board for the fiscal year with the difference – the net income or loss – being combined with any capital contributions to determine the net change in assets for the fiscal year. That change combined with the previous year-end net assets total reconciles to the net assets at the end of the fiscal year.

The statements of cash flows report cash and cash equivalents activity for the fiscal year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalents balance at the end of the fiscal year.

PROVIDENCE WATER SUPPLY BOARD
(A Component Unit of the City of Providence, Rhode Island)

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND NET ASSETS
For the Years Ended June 30, 2004 and 2003 (000's)

	<u>2004</u>	<u>2003</u>
Operating Revenues		
Charges for services:		
Water sales (Note 1):		
General customers	\$ 32,363	\$ 31,042
Other local water suppliers	12,575	12,406
Fire protection services	1,326	1,215
Maintenance charges and other revenue	2,904	2,617
Total operating revenues	<u>49,168</u>	<u>47,280</u>
Operating Expenses		
Source of supply	1,658	1,436
Pumping operations	510	574
Water treatment	4,752	4,186
Transmission and distribution	2,413	3,051
Charge for services provided by other City departments (Note 7)	730	768
Customer accounts and service	2,456	1,917
Administrative and general	10,420	10,508
Depreciation and amortization	8,759	8,924
Property taxes - other local governments	5,916	5,395
Total operating expenses	<u>37,614</u>	<u>36,759</u>
Operating income	<u>11,554</u>	<u>10,521</u>
Nonoperating Revenues (Expenses)		
Interest income	407	347
Interest expense and other	(1,570)	(1,728)
Net nonoperating revenues (expenses)	<u>(1,163)</u>	<u>(1,381)</u>
Capital Grants and Contributions	<u>1,197</u>	<u>1,236</u>
Change in net assets	<u>11,588</u>	<u>10,376</u>
Net Assets, beginning of year	<u>149,633</u>	<u>139,257</u>
Net Assets, end of year	<u>\$ 161,221</u>	<u>\$ 149,633</u>

See accompanying notes to financial statements.

PROVIDENCE WATER SUPPLY BOARD
(A Component Unit of the City of Providence, Rhode Island)

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2004 and 2003 (000's)

	Business-Type Activities Enterprise Funds	
	Water Supply Board	
	2004	2003
Cash Flows From Operating Activities		
Cash received from customers	\$ 43,374	\$ 48,520
Cash paid to vendors	(4,748)	(19,580)
Cash paid to employees	(17,041)	(15,288)
Other receipts	-	197
Net cash provided by operating activities	<u>21,585</u>	<u>13,849</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(13,122)	(10,589)
Interest paid on debt	(1,570)	(179)
Proceeds of long-term debt	400	2,000
Repayment of long-term debt and capital leases	(4,812)	(5,915)
Capital grants	1,197	1,236
Net cash (used in) capital and related financing activities	<u>(17,907)</u>	<u>(13,447)</u>
Cash Flows From Investing Activities		
Purchase of investment securities	(184)	-
Proceeds from sale of investment securities	-	33
Investment income	407	292
Net cash provided by investing activities	<u>223</u>	<u>325</u>
Net increase in cash and cash equivalents	3,901	727
Cash and cash equivalents		
Beginning	<u>12,750</u>	<u>11,843</u>
Ending	<u>\$ 16,651</u>	<u>\$ 12,570</u>
Unrestricted cash and cash equivalents	<u>\$ 1,998</u>	<u>\$ 4,176</u>
Restricted cash and cash equivalents	<u>\$ 14,653</u>	<u>\$ 1,051</u>
See accompanying notes to financial statements		

PROVIDENCE WATER SUPPLY BOARD
 (A Component Unit of the City of Providence, Rhode Island)

STATEMENTS OF CASH FLOWS, Continued
 For the Years Ended June 30, 2004 and 2003 (000's)

	Business-Type Activities	
	Enterprise Funds	
	Water Supply Board	
	2004	2003
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities:		
Operating income	\$ 11,554	\$ 10,521
Adjustments to reconcile operating income to net cash		
provided by operating activities:		
Depreciation and amortization	8,759	8,924
Provision for bad debts	-	(19)
Changes in assets and liabilities:		
Accounts receivable	494	(4,570)
Other assets	52	(226)
Due (to) from other funds	164	-
Accounts payable	562	(1,098)
Other accrued liabilities	-	175
Deferred revenue	-	142
Net cash provided by operating activities	<u>\$ 21,585</u>	<u>\$ 13,849</u>

See accompanying notes to financial statements.

PROVIDENCE WATER SUPPLY BOARD
(A Component Unit of the City of Providence, Rhode Island)

NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

Note 1. Nature of Business and Significant Accounting Policies

Reporting entity

The Providence Water Supply Board (the "Water Supply Board" or the "Board") was created in 1940 by Chapter 832 of the Public Laws of the State of Rhode Island. Membership of the Water Supply Board is comprised of four persons appointed by the Mayor, who serve for four-year staggered terms and two City Council members elected by the City Council who serve during their four-year City Council term. The Finance Director of the City of Providence also serves as an ex-officio Water Supply Board member.

The Water Supply Board provides water supply services through metered sales in Providence and parts of the surrounding communities of North Providence, Johnston and Cranston. The Water Supply Board also sells water to other local water supply systems on a wholesale basis. The Water Supply Board's source of water supply is the Scituate Reservoir, located in the Town of Scituate, Rhode Island, and five tributary reservoirs.

Significant accounting policies are as follows:

Basis of Presentation

The Water Supply Board is considered a separate accounting entity within the City of Providence (the "City"). The operations of the Water Supply Board are accounted for with a separate set of self-balancing accounts organized on a Proprietary Fund type (Enterprise Fund) basis.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned; expenses are recognized in the period incurred.

Regulations and Operation

The Water Supply Board is subject, as to rates, accounting, and other matters, to the regulatory authority of the State of Rhode Island Public Utilities Commission (PUC).

PROVIDENCE WATER SUPPLY BOARD
(A Component Unit of the City of Providence, Rhode Island)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004 and 2003

Investments

The Water Supply Board accounts for investments at fair values which are established by quoted market prices.

Inventory

Inventory, consisting of materials and supplies, is valued at the lower of cost or market using the weighted average method

Capital assets

Capital assets owned by the Water Supply Board are stated at cost. Depreciation and amortization is provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Building, source of supply structures, and improvements	50-150 years
Improvements, other than buildings	75-100 years
Equipment	10-40 years

Depreciation expense is not reflected for construction in progress until such time as it is placed in service.

Restricted funds for construction of assets

Restricted funds for construction of assets represent unexpended revenue bond proceeds obtained specifically for construction of water facilities.

Cash equivalents

The Water Supply Board considers all highly liquid debt instruments purchased with an original maturity of 3 months or less to be cash equivalents.

Capital contributions

Capital contributions consist of property and equipment paid for by customers for water installations. Once the installation is complete, the property and equipment transfers to the Water Supply Board at fair value.

Note 2. Operating Revenues

Revenues include amounts billed and unbilled to all customers, including those customers outside the City of Providence, Rhode Island. All billed charges are based on rates authorized by the PUC.

PROVIDENCE WATER SUPPLY BOARD
(A Component Unit of the City of Providence, Rhode Island)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004 and 2003

Revenues for unbilled amounts to general customers are estimated based on billing amounts subsequent to year-end.

Proprietary fund accounting

The Water Supply Board has implemented Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." This Statement provides guidance on the applicability of accounting pronouncements from other standard setting organizations. Under the Board's election, it must apply all GASB pronouncements and the following pronouncements issued before November 30, 1989 unless they contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the committee on Accounting Procedures.

Concentration of credit risk

The Water Supply Board's financial instruments that are exposed to concentrations of credit risk consist primarily of accounts receivable. Exposure to losses on receivables is principally dependent on each customer's financial condition. Concentration of credit risk with respect to receivables is limited due to the large number of customers. The Water Supply Board monitors its exposure for credit losses and maintains allowances for anticipated losses.

Use of estimates

The preparation of the financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts in the financial statements have been reclassified to conform to the current year presentation.

Compensated absences

Employees accumulate sick leave hours for subsequent use or for payment upon termination or retirement. Sick leave and vacation vest and may be carried forward, but not to exceed 135 days and 55 days, respectively.

Vested sick leave and accumulated vacation leave are recorded as expenses and liabilities as the benefits accrue to employees.

PROVIDENCE WATER SUPPLY BOARD
(A Component Unit of the City of Providence, Rhode Island)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004 and 2003

Note 3. Acquisition

On January 17, 1997, the Water Supply Board acquired the Western Cranston Water Distribution System (the "Distribution System") located in the City of Cranston. The purchase consisted of the assets of the Distribution System, with a fair market value of approximately \$3.5 million. The purchase price was ten dollars (\$10.00), plus assumption of a \$1.0 million note. The acquisition has been accounted for as a purchase and, accordingly, the operating results of the Western Cranston Water Distribution System have been included in the accompanying financial statements from the date of acquisition. In accordance with the terms set forth in the acquisition agreement, the Water Supply Board did not assume any employees, civil suits or claims, loans or obligations to other Cranston city funds, of any nature resulting from acts or omissions from the operation of the Distribution System by the City of Cranston occurring up to the date of the purchase.

Note 4. Restricted Assets

The State of Rhode Island enacted the Public Drinking Water Protection Act of 1987 (the "Act") that empowers suppliers of public drinking water to levy a surcharge (the "surcharge") on one cent (\$0.01) per hundred gallons of water for all customers. A July 1990 amendment to the Act increased the surcharge to \$0.02333 per hundred gallons of water. The \$0.01333 increase is to be remitted to the State and appropriated to the Water Resources Board, a component unit of the State of Rhode Island. In July 1992, the Act was further amended to increase the levy to \$0.02590 per hundred gallons of water for all customers. The Water Supply Board retains 40.7% of the surcharge in its Water Quality Protection fund, remits 51.5% to the State Water Resources Board and retains 7.8% for general operations. The surcharge was effective as of January 1, 1989 and the funds collected in the Water Quality Protection fund are to be expended in the following manner: 1) at a minimum, 55% of the funds are to be spent for the acquisition of land or land rights or physical improvements to acquired land to protect the quality of the raw water of the water supply system; 2) 35% may be used to acquire a fee simple interest or a conservation restriction that directly protects the quality and safety of the public drinking water supply; and 3) 10% may be used by the supplier for any purpose relating to its operations.

On July 1, 2002, the surcharge increased to \$0.0292 per hundred gallons of water for all customers. In addition to the increase, the Water Supply Board will retain 36.1% of the surcharge in its Water Quality Protection fund, remit 57.0% to the State Water Resources Board and retain 6.9% for general operations.

The restricted investments are pooled with the cash and cash equivalents and investments of other funds maintained by the City of Providence. The earnings from investments are allocated in proportion to each fund's balance.

PROVIDENCE WATER SUPPLY BOARD
(A Component Unit of the City of Providence, Rhode Island)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004 and 2003

The Water Supply Board's cash and investment policies are governed by the City's charter. Most cash is deposited in banks insured by the FDIC and located within the State. City authorized investments include commercial paper, U.S. government securities, certificates of deposit, corporate stocks, and repurchase agreements.

The cash balance is uncollateralized. Cash equivalents and investments are uninsured and unregistered with securities held by the counterparty, its trust department or its agent, but not in the Water Supply Board's name.

Note 5. Pension Plans

Substantially all employees of the Water Supply Board participate in the Employees' Retirement System of the City of Providence (the "Plan"), a defined-benefit, single-employer plan. Disclosures about this plan, as a whole, are presented in the City of Providence, Rhode Island's basic financial statements. As of June 30, 2004 and 2003, the City recorded a liability for unpaid pension contributions of \$110 million and \$102 million, respectively. Separate actuarial information related to the Water Supply Board employees is not available. Accordingly, only disclosures about the Water Supply Board's participation in the Plan are presented herein.

All Water Supply Board employees participating in the Plan are eligible to retire at age 55 or at any age after 25 years of service. The total retirement allowance is equal to an annuity, which is the actuarial equivalent of accumulated contributions at the time of retirement, plus a pension which when added together, equals 1/40 of final compensation for each year of total service up to 20 years and 1/50 of final compensation for each year of service in excess of 20 years. These benefit provisions and all other requirements are established by City ordinance.

The Water Supply Board's allocation of the actuarial required contribution and amount contributed for the year ended June 30, 2004 were \$2.5 million and \$2.2 million, respectively. The Water Supply Board's allocation of the actuarial required contribution and amount contributed for the year ended June 30, 2003 were \$2.4 million and \$1.9 million, respectively. The employer and employees contribution rates are approximately 23% and 8%, respectively, for both 2003 and 2004.

The historical schedules of employer contributions and funding progress for the Plan are included in the City of Providence, Rhode Island's basic financial statements.

PROVIDENCE WATER SUPPLY BOARD
(A Component Unit of the City of Providence, Rhode Island)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004 and 2003

Note 6. Long-Term Debt

The following is a summary of bond activity for the years ended June 30, 2004 and 2003 (amounts in thousands):

Description	Interest Rate	June 30, 2004			Ending Balance
		Beginning Balance	Additions	Payments	
Revenue bonds:					
Safe Drinking Water Bonds (CWFA 94A)	6.0%	\$ 8,825	\$ -	\$ 515	\$ 8,310
Safe Drinking Water Bonds (CWFA FY2000)	3.1-3.8%	2,106	-	1,034	1,072
Safe Drinking Water Bonds (CWFA FY2001)	3.1-3.8%	4,046	-	977	3,069
Safe Drinking Water Bonds (CWFA FY 2002)	4.81%	2,383	-	91	2,292
Safe Drinking Water Bonds (CWFA FY 2003)		2,000	-	395	1,605
Scituate Reservoir Project (PPBA I)	6.0%	4,821	-	464	4,357
Note Payable City of Cranston	5.6%	155	-	51	104
		<u>\$ 24,336</u>	<u>\$ -</u>	<u>\$ 3,527</u>	<u>\$ 20,809</u>

Description	Interest Rate	June 30, 2003			Ending Balance
		Beginning Balance	Additions	Payments	
Revenue bonds:					
Safe Drinking Water Bonds (CWFA 94A)	6.0%	\$ 9,310	\$ -	\$ 485	\$ 8,825
Safe Drinking Water Bonds (CWFA FY2000)	3.1-3.8%	3,105	-	999	2,106
Safe Drinking Water Bonds (CWFA FY2001)	3.1-3.8%	5,000	-	954	4,046
Safe Drinking Water Bonds (CWFA FY 2002)	4.81%	2,500	-	117	2,383
Safe Drinking Water Bonds (CWFA FY 2003)		-	2,000	-	2,000
Scituate Reservoir Project (PPBA I)	6.0%	5,265	-	444	4,821
Note Payable City of Cranston	5.6%	213	-	58	155
		<u>\$ 25,393</u>	<u>\$ 2,000</u>	<u>\$ 3,057</u>	<u>\$ 24,336</u>

PROVIDENCE WATER SUPPLY BOARD
(A Component Unit of the City of Providence, Rhode Island)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004 and 2003

Scheduled principal maturities of long-term debt are as follows:

Fiscal year ending June 30.	Principal	Interest	Balance
2005	\$ 3,638	\$ 919	\$ 4,557
2006	2,651	822	3,473
2007	2,699	716	3,415
2008	1,730	616	2,346
2009	1,392	539	1,931
2010 - 2014	6,486	1,465	7,951
2015 - 2019	1,727	182	1,909
2020 - 2024	486	25	511
	<u>\$ 20,809</u>	<u>\$ 5,284</u>	<u>\$ 26,093</u>

Long-term liability activity for the years ended June 30, 2004 and 2003 were as follows:

	2004				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 24,181	\$ -	\$ (3,476)	\$ 20,705	\$ 3,586
Notes payable	155	-	(51)	104	52
Total bonds and notes payable	<u>24,336</u>	<u>-</u>	<u>(3,527)</u>	<u>20,809</u>	<u>3,638</u>
Capital leases	7,393	-	(1,288)	6,105	1,191
Total long-term liabilities	<u>\$ 31,729</u>	<u>\$ -</u>	<u>\$ (4,815)</u>	<u>\$ 26,914</u>	<u>\$ 4,829</u>

	2003				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 25,180	\$ 2,000	\$ (2,999)	\$ 24,181	\$ 3,476
Notes payable	213	-	(58)	155	51
Total bonds and notes payable	<u>25,393</u>	<u>2,000</u>	<u>(3,057)</u>	<u>24,336</u>	<u>3,527</u>
Capital leases	8,621	-	(1,228)	7,393	1,288
Total long-term liabilities	<u>\$ 34,014</u>	<u>\$ 2,000</u>	<u>\$ (4,285)</u>	<u>\$ 31,729</u>	<u>\$ 4,815</u>

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NOTES TO FINANCIAL STATEMENTS, Continued
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Note 7. Transactions with City of Providence, Rhode Island

The City of Providence performs various services for the Water Supply Board including certain accounting, personnel and cash management services and working capital support. The total billing to the Water Supply Board for services performed during the years ended June 30, 2004 and 2003, amounted to \$730,000 and \$768,000, respectively. This amount is established by the City, approved by the Water Supply Board and ultimately approved by the PUC. The Water Supply Board also provides services to various City funds and departments, the charges for which have been included as revenue in the accompanying financial statements. Included within the accounts receivable balance are the related balances due for these services which at June 30, 2004 and 2003 totaled \$417,000 and \$992,000, respectively.

Note 8. Leases

On July 1, 1988, the City of Providence, through its Water Supply Board, entered into a lease agreement with the Rhode Island Water Resources Board. Under the terms of the lease agreement, the Rhode Island Water Resources Board has issued revenue bonds totaling \$11.7 million to finance the acquisition and construction of improvements and installation of certain water facilities located in the City of Providence and the Towns of Smithfield and North Providence, Rhode Island. The Water Supply Board has leased the project for the term that commenced on July 1, 1988 and expires on September 15, 2010. At the expiration of the lease term, the Water Supply Board has the option to purchase the facilities for one dollar (\$1.00). This lease has been accounted for as a capital lease.

On July 15, 1997, the Rhode Island Water Resource Board sold \$9.9 million 1997 Refunding Revenue Bonds. These bonds mature through September 15, 2009. The proceeds from the sale of the bonds were used to refinance the Board's outstanding \$11.7 million 1989 Series A Bonds. The Water Supply Board's corresponding leases with the Rhode Island Water Resource Board were refinanced resulting in a decrease in the lease term by one year and an addition of the outstanding principal by \$205,000 to decrease future interest costs by approximately \$3.5 million over the lease term.

To the extent that the construction of the assets is complete and in operation, the assets are amortized under the Water Supply Board's normal depreciation policies for similar assets. Funds restricted for construction of assets under capital lease represent unexpended proceeds of revenue bonds obtained specifically for construction of water facilities

The assets and liabilities under all capital leases are recorded at the present value of the minimum lease payments. Amortization of assets under capital leases is included in amortization expense. Amortization of these assets charged to expense during the years ended June 30, 2004 and 2003 amounted to \$564,000 and \$735,000, respectively. Accumulated amortization related to these assets at June 30, 2004 and 2003 amounted to \$2.7 million and \$5.6 million, respectively.

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NOTES TO FINANCIAL STATEMENTS, Continued
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A summary of the lease activity for the years ended June 30, 2004 and 2003 follows:

	2004	2003
Beginning of year	\$ 7,393	\$ 8,621
Principal payments	(1,288)	(1,228)
End of year	<u>\$ 6,105</u>	<u>\$ 7,393</u>

Minimum future lease payments under capital leases as of June 30, 2004, for each of the next five fiscal years and thereafter are follows:

	Other	RI Water Resources Board	Total
2005	\$ 398	\$ 1,072	\$ 1,470
2006	197	1,072	1,269
2007	-	1,079	1,079
2008	-	2,024	2,024
2009-2013	-	1,070	1,070
Total minimum lease payments	<u>595</u>	<u>6,317</u>	<u>6,912</u>
Less amount representing interest	(45)	(762)	(807)
Present value of net minimum lease payments	<u>\$ 550</u>	<u>\$ 5,555</u>	<u>\$ 6,105</u>

Note 9. Line of Credit

The Water Supply Board has a \$2.75 million line of credit with an outstanding balance of \$400 as of June 30, 2004. The line of credit bears interest at 1.98%.

Line of credit transactions for the year ended June 30, 2004 were as follows:

Outstanding, July 1, 2003	\$ 0
Borrowings	400
Repayments	-
Outstanding, June 30, 2004	<u>\$ 400</u>

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NOTES TO FINANCIAL STATEMENTS, Continued
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Note 10. Risk Management

The Water Supply Board is subject to various claims and litigation that arise in the ordinary course of its operations. Legal counsel and management are of the opinion that the Water Supply Board's liabilities in such cases, if decided adversely to the Water Supply Board, would not materially affect the financial statements.

The Water Supply Board self insures its workers' compensation insurance plan. The plan, which is administered by an insurance company, contains certain stop loss clauses that limit the Water Supply Board's liability in the event of catastrophic losses (\$500,000 per incident). Claims are accrued as incurred based on available claim information and management's estimate of claims incurred but not yet reported. Changes in workers' compensation claims liability during fiscal 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Liability at beginning of the year	\$ 646	\$ 646
Payments for claims	(2)	(14)
Adjustments necessary to record estimated losses	2	14
Balance at end of year	<u>\$ 646</u>	<u>\$ 646</u>

The Water Supply Board is also exposed to property and casualty, unemployment, employee health, and life insurance claims. Insurance coverage and indemnification (in the case of self-insurance) is managed by the City of Providence on behalf of the Water Supply Board. Information regarding risk management as it relates to the aforementioned claims is presented in the City of Providence's basic financial statements. Amounts paid to the City include claims incurred but not paid.

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NOTES TO FINANCIAL STATEMENTS, Continued
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Note 11. Capital Assets

The following is a summary of the activity in capital assets as of June 30, 2004 (in thousands):

	Balance June 30, 2003	Additions	Disposals	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 7,900	\$ 262	\$ -	\$ 8,162
Scituate Reservoir Project	18,682	-	-	18,682
Construction in progress	16,834	11,595	9,389	19,040
Total capital assets not being depreciated	<u>43,416</u>	<u>11,857</u>	<u>9,389</u>	<u>45,884</u>
Capital assets being depreciated:				
Buildings and improvements	18,363	3,618	-	21,981
Improvements other than buildings	140,326	6,037	-	146,363
Machinery and equipment	17,422	2,736	-	20,158
Assets under capital lease	16,465	-	1,737	14,728
Total capital assets being depreciated	<u>192,576</u>	<u>12,391</u>	<u>1,737</u>	<u>203,230</u>
Less accumulated depreciation for:				
Buildings and improvements	11,320	2,936	-	14,256
Improvements other than buildings	46,277	6,159	-	52,436
Machinery and equipment	12,471	2,582	-	15,053
Assets under capital lease	5,621	564	3,483	2,702
Total accumulated depreciation	<u>75,689</u>	<u>12,241</u>	<u>3,483</u>	<u>84,447</u>
Total capital assets being depreciated, net	<u>116,887</u>	<u>150</u>	<u>(1,746)</u>	<u>118,783</u>
Total capital assets, net	<u>\$ 160,303</u>	<u>\$ 12,007</u>	<u>\$ 7,643</u>	<u>\$ 164,667</u>

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NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2004 and 2003

The following is a summary of the activity in capital assets as of June 30, 2003 (in thousands):

	Balance June 30, 2002	Additions	Disposals	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 7,887	\$ 13	\$ -	\$ 7,900
Scituate Reservoir Project	18,682	-	-	18,682
Construction in progress	10,677	12,006	5,849	16,834
Total capital assets not being depreciated	<u>37,246</u>	<u>12,019</u>	<u>5,849</u>	<u>43,416</u>
Capital assets being depreciated:				
Buildings and improvements	17,212	1,151	-	18,363
Improvements other than buildings	133,474	6,852	-	140,326
Machinery and equipment	16,921	501	-	17,422
Assets under capital lease	16,465	-	-	16,465
Total capital assets being depreciated	<u>184,072</u>	<u>8,504</u>	<u>-</u>	<u>192,576</u>
Less accumulated depreciation for:				
Buildings and improvements	9,544	1,776	-	11,320
Improvements other than buildings	41,128	5,149	-	46,277
Machinery and equipment	11,207	1,264	-	12,471
Assets under capital lease	4,886	735	-	5,621
Total accumulated depreciation	<u>66,765</u>	<u>8,924</u>	<u>-</u>	<u>75,689</u>
Total capital assets being depreciated, net	<u>117,307</u>	<u>(420)</u>	<u>-</u>	<u>116,887</u>
Total capital assets, net	<u>\$ 154,553</u>	<u>\$ 11,599</u>	<u>\$ 5,849</u>	<u>\$ 160,303</u>

Note 12. Pronouncements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2004 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

- ♦ GASB Statement No. 40, Deposit and Investment Risk Disclosures, issued March 2003, will be effective for the Board beginning with its year ending June 30, 2005. This Statement establishes and modifies disclosure requirements related to investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement also establishes and modifies disclosure requirements for deposit risks.

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- GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, will be effective for the Board beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.
- GASB Statement No. 44, Economic Condition Reporting: The Statistical Section, issued in May 2004, will be effective for the Board beginning with its year ending June 30, 2006. This Statement improves the understandability and usefulness of statistical section information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model required by Statement No. 34 and related statements.
- GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the City beginning with its year ending June 30, 2008. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.