

**REBUTTAL TESTIMONY OF
WALTER E. EDGE Jr. MBA CPA
CONSULTING DEPARTMENT DIRECTOR
BACON & EDGE p.c.**

**for
THE NARRAGANSETT BAY COMMISSION**

**ABBREVIATED FILING
DOCKET # 3707**

March 2006

1 **Narragansett Bay Commission**

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

6 **Q. Good morning Mr. Edge. Are you the same Walter E. Edge Jr. that previously**
7 **filed direct testimony in this docket?**

8 A. Yes.
9

10 **Q. What is the purpose of your testimony?**

11 A. I have read the pre-filed direct testimony of Mr. Thomas Catlin and Mr. David
12 Stearns and I have a few comments. For the most part I found their testimony
13 reasonable, however there are a few adjustments that were made that I believe after
14 further review, and in some cases, additional information, should be further adjusted.
15

16 **Q. Please summarize your rebuttal position.**

17 A. As shown on Schedule WEE-R1 NBC's rebuttal revenue requirement is \$63,903,717.
18 This represents an increase over approved revenue of \$2,971,946. This revenue increase
19 is \$136,525 less than the rate year requested in NBC's original filing.
20

21 **Q. Do you agree with any of Mr. Catlin's adjustments?**

22 A. Yes. Using Mr. Catlin's list of adjustments on his schedule TCS-2 "Summary of
23 Division Adjustments to Rate Year Revenues and Expenses at Present Rates" I agree with
24 his adjustment in the amount of \$3,746 for Residential Measured User Fees. However, it
25 should be noted that this adjustment is to account for the rounding in the revenue proof in
26 Docket #3639. Mr. Catlin's adjustment is to reflect the amount generated by the
27 approved rates. I filed my testimony using the revenue requirement approved in the PUC
28 order in Docket #3639 which was the \$60,931,771. In either case the adjustment is
29 minor. Next, I accept one of Mr. Catlin's two adjustments to the electricity account in
30 the amount of \$63,085.
31

1 I agree with and appreciate Mr. Catlin's adjustment to increase the union pension account
2 for the updated state retirement rate however I disagree with his further adjustment to
3 capitalize part of the union pension expense. Mr. Catlin may not have been aware that
4 none of the approximate 13.9 FTEs charged to the CIP projects (referenced in the
5 Commission Data Request 1-8 response) are union personnel. Therefore, it would be
6 inappropriate to charge to the CIP projects (capitalize) any of the union pension increase.
7 When Mr. Catlin's capitalized pension expense adjustment, in the amount of \$33,618, is
8 added back to Mr. Catlin's pension expense calculation the resulting increase to
9 Personnel Costs is \$62,081. Please see my Schedule WEE-R2.

10

11 **Q. Mr. Edge, do you agree with Mr. Stearns' adjustment regarding electricity?**

12 A. No, I do not. Mr. Stearns adjusted the distribution rate for electricity by carrying the
13 rate out to five decimal places. This resulted in a decrease to NBC's rate year
14 requirement of \$63,932. In previous filings, NBC has rounded its calculations to three
15 decimal places and this adjustment is seen as nitpicking. In this filing, I included a
16 request to recover the cost for a total of 33,882,320 kilowatt hours of electricity. After
17 adjusting for the removal of the incinerator, the total in the filing is 31,898,349 kilowatt
18 hours.

19

20 I am concerned that the estimates for kilowatt hours in the filing are too low. For
21 example, NBC's Fiscal Year 2006 budget had a total of 35,848,583 kilowatt hours. This
22 higher budgeted kilowatt hour volume reflects CDM's design estimates of usage at
23 Bucklin Point when the new facilities were expected to come on-line.

24

25 I believe that my approach to estimating kilowatt hours has been very conservative and
26 that electricity cost as filed should not be cut. If Mr. Stearns' rounding adjustment is
27 accepted by the Commission then I believe that the estimated total kilowatt hours for
28 Bucklin Point should be increased as well. It should be noted that electricity costs
29 represent a total of about 10.5% of NBC's total O&M budget.

30

31

1 The following table shows that the Bucklin Point kilowatt hours in the filing are well
2 below design specifications, original bid estimates and NBC's current budget.

3

	<u>KWHr</u>
4 Design Engineer Estimate	17.5
5 Veolia Bid	15.4
6 NBC's 2006 Budget	15.4
7 NBC's Filing	14.1

8

9 This filing as filed contains an extremely conservative kilowatt hour allowance.

10
11 **Q. Are there any of Mr. Catlin's cost reduction adjustments that you believe**
12 **should be further decreased?**

13 A. Yes. In my prefiled testimony I calculated the rate year natural gas cost buy using
14 NBC's current long term natural gas contract price times the estimated consumption of
15 natural gas in the rate year. Mr. Catlin's calculation lowered my estimate for natural gas
16 cost based on New England Gas Company's current rates (NE Gas is a second supplier of
17 natural gas that had not been the successful bidder for the NBC contract years ago).

18
19 NBC has historically entered into long-term contracts with the most advantageous rates at
20 the time and does not believe that spot market rates should be used to project NBC's
21 future costs. Nevertheless, Mr. Catlin's approach did result in an adjustment that went in
22 the right direction. However, NBC has now received bids for its long term natural gas
23 needs that will be in effect in the rate year. Based upon the new bid, the cost will
24 actually be lower than Mr. Catlin calculated. I have re-calculated Mr. Catlin's
25 adjustment using the new rate, reducing natural gas cost for the rate year. See WEE-R5.

26
27 **Q. Mr. Edge, are there any adjustments that you can partially accept?**

28 A. Yes. Mr. Catlin has proposed four adjustments to Health Benefits costs. I can agree
29 with three out of four adjustments as follows:

- 30 1. I agree to reducing the participants from 250 to 246,
31 2. I recognize that Mr. Catlin is correct in that there will be a co-payment for
32 new employees selecting the PPO plan, and

1 3. I agree with Mr. Catlin's adjustment for a capital reimbursement factor.

2
3 **Q. What part of the health benefits adjustment do you disagree with?**

4 A. I disagree with Mr. Catlin's adjustment to use a two year average for the health
5 insurance percentage increase rather than a three year average increase which I proposed
6 for the rate year. I have used a very conservative rate increase of 13.43% which was the
7 three year average for PPO family category (the lowest of the three year averages for
8 health coverage).

9
10 In an effort to further evaluate the reasonableness of the my proposed 13.43% increase, I
11 have recently reviewed NBC's current Fiscal Year 2006 Loss Claims Experience, one of
12 the principal factors on which the FY 2007 premiums will be based. The loss claims
13 percentage has increased significantly in FY 2006 to (96.00%) compared to the two prior
14 years 2004 (77.69%) and 2005 (78.32%). (See table below). The lower loss claims
15 experience in 2004 and 2005 resulted in the lower PPO increases (7.08% and 7.48%). It
16 is expected that the 96.00% claims loss experience in 2006 will result in a much higher
17 percentage increase in the rate year. Further, it is my understanding that NBC has had
18 preliminary discussions with its health insurer who is suggesting that the 13.43%
19 projected increase is realistic.

20

Item	Actual FY 2004	Actual FY 2005	Actual FY 2006	Docket 3707 As Filed
PPO Plan Increase	25.72%	7.08%	7.48%	13.43%
HMO Plan Increase	29.84%	8.74%	8.18%	13.43%
Loss Claims Ratio	77.69%	78.32%	96.00%	

21
22
23
24
25

1 **Q. Is NBC requesting a higher percentage increase in health benefits at this time in**
2 **the rate year?**

3 A. No. I have recalculated the health benefits costs using Mr. Catlin's three
4 adjustments with which I agreed, combined with my proposed 13.43% increase. The
5 result is a reduction in health benefits of \$58,355. Please see my schedule WEE-R3.

6
7 **Q. Do you agree with Mr. Catlin's adjustment to the Interest Income revenue**
8 **account?**

9 A. No. I have always advised my clients that the Commission requires that interest
10 earned in restricted accounts must stay in restricted accounts. I have never recommended
11 breaking this golden rule.

12
13 In an effort to clarify this issue I asked NBC to request an opinion from bond counsel.
14 See Attachment A. In the opinion it is clearly stated that investment income must be
15 accrued to and deposited to the fund in which it is earned. It further states that only
16 investment income in the O & M fund and, after meeting certain other conditions, the
17 Revenue fund, may be used for operating and maintenance expense.

18
19 Even if one were to ignore the legal requirements, an adjustment to reclassify all of the
20 FYE June 30, 2005 interest income to operations would result in a major shortfall for
21 NBC. I have determined that the majority of the interest income earned, about \$539,000,
22 was earned on the investment of bond proceeds and other funds held in the Project fund.
23 The Trust Indenture, as per bond counsel's attached opinion, clearly prohibits NBC from
24 transferring interest income from the Project fund to fund O & M expense. In addition,
25 the proceeds of the bonds on which this interest income was earned in FY 2005 will be
26 exhausted by the end of calendar year 2006, and investment earnings will not remain at
27 the FY 2005 level. In Fiscal Year 2005 the total amount of interest income available for
28 O & M was approximately \$196,000 which is approximately \$48,000 less than I filed for
29 the rate year.

1 **Q. The only adjustments remaining are Mr. Catlin's adjustments to hypochlorite**
2 **and the operating reserve. Do you have comments as to these reductions?**

3 A. Yes. As far as the hypochlorite is concerned I do not agree with Mr. Catlin's
4 adjustment. When I prepared the rate year adjustments I simply reduced the hypochlorite
5 by \$20,117 (the Bucklin Point amount in the test year) to reflect the outsourcing at
6 Bucklin Point. I never calculated the actual usage and cost for hypochlorite that would
7 be needed in the rate year.

8
9 If the Commission does not agree with my approach of backing out only the cost of
10 hypochlorite at Bucklin Point in the test year then the proper approach for making an
11 adjustment would be to calculate the appropriate rate year cost using usage for the
12 remaining operations, Field's Point and Interceptor Maintenance (IM) multiplied by
13 current rates. I have completed the calculation of the proper adjustment on my Schedule
14 WEE-R4. The correct adjustment is a reduction of hypochlorite cost from the test year
15 of \$8,229 as opposed to Mr. Catlin's reduction of \$63,675.

16
17 Lastly, I agree with the methodology used by Mr. Catlin in calculating the adjustment to
18 the operating reserve. I have used the same method to adjust this account to reflect the
19 adjustments discussed in this rebuttal.

20
21 **Q. Mr. Edge, have you provided updates to your schedules incorporating the**
22 **adjustments discussed in this testimony?**

23 A. Yes, I have attached the rebuttal schedules WEE -R1, R2, R3, R4 and R5.

24
25 **Q. Does that conclude your testimony?**

26 A. Yes.

**Narragansett Bay Commission
Rebuttal Rate Year Cost of Service**

Schedule WEE-R1

Acct. #	Account Description	Test Year	Rate Year Adjustments	Rate Year as Filed	NBC Rebuttal Adjustments	NBC Revised Rate Year
<i>Revenue</i>						
41000	FLAT FEES RESIDENTIAL	\$ 10,648,737	\$ -	10,648,737		10,648,737
41100	MEASURED FEE - RESIDENTIAL	20,752,066	-	20,752,066	3,746	20,755,812
	FLAT FEES COMMERCIAL & INDUSTRIAL	6,908,120	-	6,908,120		6,908,120
41510	MEASURED FEE - COMMERCIAL	16,388,850	-	16,388,850		16,388,850
41511	MEASURED FEE - INDUSTRIAL	3,111,180	-	3,111,180		3,111,180
42000	PRETREATMENT FEES	1,259,546	-	1,259,546		1,259,546
42500	CONNECTION PERMIT FEES	91,774	-	91,774		91,774
43000	BOD/TSS SURCHARGE	170,578	-	170,578		170,578
43500	SEPTAGE INCOME	860,720	-	860,720		860,720
44502	MISCELLANEOUS OPERATING INCOME	1,883	-	1,883		1,883
45100	INTEREST INCOME	244,713	-	244,713		244,713
45500	LATE CHARGE PENALTY	470,674	-	470,674		470,674
46500	ENVIRONMENTAL ENFORCEMENT	-	-	-		-
47000	REIMBURSED COLLECTION COSTS	16,981	-	16,981		16,981
47500	GRANT	-	-	-		-
42600	ABATEMENT FEE	-	-	-		-
	ARBITRAGE REBATE	4,428	-	4,428		4,428
49005	CAPITAL CONTRIBUTIONS	-	-	-		-
49002	MISCELLANEOUS INCOME	1,521	-	1,521		1,521
	TOTAL REVENUE	60,931,771	-	60,931,771	3,746	60,935,517
<i>EXPENSES</i>						
<i>PERSONNEL SERVICES</i>						
	SALARIES & WAGES	11,821,821	-	11,821,821		11,821,821
	OVERTIME	470,643	-	470,643		470,643
	EMPLOYEE RET. BEN. - UNION PENSION	574,808	291,797	866,605	62,081	928,686
	EMPLOYEE RET. BEN. - NON-UNION PENSIOI	691,163	-	691,163		691,163
	EMPLOYEE RET. BEN.-FICA	940,374	-	940,374		940,374
52810	EMPLOYEE BENEFITS-UI	31,638	-	31,638		31,638
52940	RETIREMENT HEALTH - STATE	64,922	-	64,922		64,922
52950	EMPLOYEE BEN.-HEALTH INS.	2,627,709	445,429	3,073,138	(58,355)	3,014,783
52990	EMPLOYEE BEN-DISABILITY INS.	31,437	-	31,437		31,437
54950	HEALTH INSURANCE-RETIREES	1,646	-	1,646		1,646
	WORKERS COMP-OLD CLAIMS	50,000	-	50,000		50,000
55700	TURNROVER ALLOWANCE	(508,692)	-	(508,692)		(508,692)
	<i>Total Personnel Services</i>	16,797,469	737,226	17,534,696	3,726	17,538,422
59000	SALARY REIMBURSEMENT	(955,258)	-	(955,258)		(955,258)
	FRINGE REIMBURSEMENT	(476,292)	-	(476,292)		(476,292)
59001	SALARY & FRINGE TURNOVER ALLOWANCEI	42,947	-	42,947		42,947
	<i>Net Personnel Services</i>	15,408,865	737,226	16,146,092	3,726	16,149,818

Narragansett Bay Commission
 Rebuttal Rate Year Cost of Service

Acct. #	Account Description	Test Year	Rate Year Adjustments	Rate Year as Filed	NBC Rebuttal Adjustments	NBC Revised Rate Year
Operating Supplies & Expense						
52610	MEDICAL SVCS.	8,220	-	8,220		8,220
52640	BLDG. & GRND. MAINT.	98,863	-	98,863		98,863
52641	SLUDGE LOADING/DISPOSAL	1,519,783	2,733,162	4,252,945		4,252,945
52642	SCREENINGS & GRIT DISPOSAL	212,440	-	212,440		212,440
53200	BAD DEBT EXPENSE	160,000	-	160,000		160,000
53210	POSTAGE	134,699	-	134,699		134,699
54000	TELEPHONE	158,214	-	158,214		158,214
54500	OFFICE EXPENSE	93,249	-	93,249		93,249
53240	DUES & SUBSCRIPTIONS	29,954	-	29,954		29,954
53250	FREIGHT, CART. & EXP.	40,104	-	40,104		40,104
53260	INSURANCE	654,014	-	654,014		654,014
53900	CENTRAL PHONE SVCS.	6,065	-	6,065		6,065
53310	PRINTING & BINDING	85,396	-	85,396		85,396
53320	ADVERTISING	17,355	-	17,355		17,355
53410	MILEAGE ALLOWANCE	2,572	-	2,572		2,572
53420	OUT-OF-STATE TRAVEL	48,501	-	48,501		48,501
53510	AUTOMOTIVE MAINTENANCE	126,859	-	126,859		126,859
53610	REPAIR-BLDG & STRUCTURE	645,479	-	645,479		645,479
53611	SOLIDS HANDLING REPAIRS	354,850	(354,850)	-		-
53620	REPAIR-HIGHWAY & WALKS	4,380	-	4,380		4,380
53630	EQUIPMENT MAINTENANCE AGREE	471,451	-	471,451		471,451
53640	GENERAL REPAIRS	18,878	-	18,878		18,878
53350	RENTAL-OUTSIDE PROPERTY	2,107	-	2,107		2,107
53330	RENTAL-EQUIPMENT	17,746	-	17,746		17,746
53340	RENTAL-CLOTHING	44,550	-	44,550		44,550
54010	FUEL OIL - KEROSENE	-	-	-		-
54020	DIESEL FOR EQUIPMENT	-	-	-		-
54021	OIL FOR SOLIDS HANDLING	16,053	(16,053)	-		-
54060	FUEL-GAS	381,685	185,874	567,559	(63,229)	504,330 WEE-R5
54061	FUEL-GAS - INCINERATOR	608,605	(608,605)	-		-
54090	ELECTRICITY	2,987,588	445,784	3,433,372	(63,085)	3,370,287 Test P. 1
54110	WATER	67,872	-	67,872		67,872
54200	CLOTHING	23,625	-	23,625		23,625
54210	SAFETY EQUIPMENT	17,005	-	17,005		17,005
53370	PUBLIC OUTREACH EDUCATION	-	-	-		-
54330	CHEMICALS, HOUSE & LAUNDRY SUPPLY	20,826	(20,117)	20,826	(8,229)	20,826
54332	CHEM-CHLORINE/HYPOCHLORITE	389,822	(12,422)	369,705		361,476 WEE-R4
54334	CHEM-LIME	12,422	(87,553)	-		-
54335	CHEM-POLYMER	87,553	-	87,553		87,553
54337	CHEM-SODIUM BISULFITE	105,273	-	105,273		105,273
54338	SODA ASH	243,541	(243,541)	-		-
54340	LAB SUPPLIES	189,879	-	189,879		189,879

Narragansett Bay Commission
 Rebuttal Rate Year Cost of Service

Acct. #	Account Description	Test Year	Rate Year Adjustments	Rate Year as Filed	NBC Rebuttal Adjustments	NBC Revised Rate Year
53650	HIGHWAY & LANDSCAPE	2,242	-	2,242	-	2,242
54370	SUPPLIES BLDG & MAINTENANCE	114,464	-	114,464	-	114,464
54371	SUPPLIES FOR SOLIDS HANDLING	4,000	(4,000)	-	-	-
54410	EDUCATIONAL SUPP. & EXP.	79,231	-	79,231	-	79,231
54420	COMPUTER SUPPLIES & EXPENSE	221,245	-	221,245	-	221,245
54430	OTHER OPERATING EXPENSE	1,810	-	1,810	-	1,810
53360	MISCELLANEOUS EXPENSE	4,168	-	4,168	-	4,168
55820	EDUCATION SCHOOL AIDE	525	-	525	-	525
57600	EQUIP LOSSES-CASUALTY THEFT	-	-	-	-	-
	<i>Total Operating Supplies & Expense</i>	10,535,163	2,017,679	12,552,842	(134,543)	12,418,299
Special Services						
57800	BOND AND NOTE FEES	2,500	-	2,500	-	2,500
52600	REGULATORY EXPENSE	192,423	-	192,423	-	192,423
52620	ARCHITECT/ENG. SERVICES	750	-	750	-	750
52630	LECTURES/ED./PROF. SVCS.	198	-	198	-	198
52650	SECURITY SERVICES	17,804	-	17,804	-	17,804
52660	LEGAL SERVICES	129,185	-	129,185	-	129,185
52670	MGMT/AUDIT SERVICES	1,419,173	307,627	1,726,799	-	1,726,799
52680	CLERICAL SERVICES	13,233	-	13,233	-	13,233
52690	OTHER SERVICES	253,773	-	253,773	-	253,773
	<i>Total Special Services</i>	2,029,039	307,627	2,336,665	-	2,336,665
Capital Outlays						
16200	LANDFILL	-	-	-	-	-
16510	AUTOMOTIVE EQUIP.	128,000	-	128,000	-	128,000
16520	BLDG. & PLANT EQUIP.	519,650	-	519,650	-	519,650
16530	CONSTRUCTION EQUIP.	-	-	-	-	-
16540	ED. AND REC. EQUIP.	-	-	-	-	-
16570	LABORATORY EQUIP.	151,000	-	151,000	-	151,000
16580	OFFICE FURNITURE AND EQUIP.	598,700	-	598,700	-	598,700
16583	COMPUTER SOFTWARE	-	-	-	-	-
16585	COMPUTER HARDWARE	-	-	-	-	-
16590	OTHER EQUIP.	-	-	-	-	-
16610	BUILDING & OTHER STRUCT.	125,000	-	125,000	-	125,000
16630	IMP.-NOT BLDG OR STRUCT.	-	-	-	-	-
16600	REPLACEMENT RESERVE	370,000	-	370,000	-	370,000
	<i>PRIOR YEAR DEBT COVERAGE</i>	(1,892,350)	-	(1,892,350)	-	(1,892,350)
	<i>Total Capital Outlays</i>	-	-	-	-	-

**Narragansett Bay Commission
Rebuttal Rate Year Cost of Service**

Schedule WEE-R1

Acct. #	Account Description	Test Year	Rate Year Adjustments	Rate Year as Filed	NBC Rebuttal Adjustments	NBC Revised Rate Year
Depreciation & Amortization						
57010	AMORTIZATION	9,690	-	9,690	-	9,690
57500	DEPRECIATION	-	-	-	-	-
	<i>Total Depreciation & Amortization</i>	9,690	-	9,690	-	9,690
Debt Service						
57910	DEBT COVERAGE INTEREST	6,656,397	-	6,656,397	-	6,656,397
	DEBT SERVICE	25,872,877	-	25,872,877	-	25,872,877
	<i>Total Debt Service</i>	32,529,274	-	32,529,274	-	32,529,274
	<i>Total Expenses</i>	60,512,030	3,062,532	63,574,563	(130,817)	63,443,746
	<i>Net Operating Reserve</i>	419,741	45,938	465,679	(1,962)	463,717
		\$ 60,931,771	\$ 3,108,471	\$ 64,040,242	\$ (132,779)	\$ 63,907,463
	Revenue Adjustment				(3,746)	
	Revenue Requirement			64,040,242	(136,525)	63,903,717

Test. P. 6

**Adjustment to Union Pension Expense
Docket 3707 - NBC Rebuttal**

Schedule WEE-R2

Total Rate Year Salaries & Wages	\$	5,047,206
Updated Pension Contribution Rate		<u>18.40%</u>
Rate Year Union Pension Contribution		928,686
Test Year Expense		<u>574,808</u>
Increase in Union Pension Expense		353,878
Rate Year Adjustment as Filed		291,797
<u>Rebuttal Adjustment</u>	<u>\$</u>	<u>62,081</u>

**Adjustment to Health Benefits Expense
Docket 3707 - NBC Rebuttal**

Schedule WEE-R3

		Members	Rate per Pay Period	Number of Pay Periods	Cost
Health Insurance					
HMO	Family	14	\$ 484.78	26	\$ 176,459
	Single	3	177.42	26	13,838
PPO	Family	159	557.98	26	2,306,709
	Single	54	204.20	26	286,692
Waiver		16	2,500.00	1	40,000
Total		246			
Dental					
	Family	185	37.61	26	180,904
	Single	57	13.56	26	20,096
	Waiver	4	110.00	1	440
Total		246			
Vision					
	Family	189	6.96	26	34,201
	Single	57	3.24	26	4,802
Total		246			
Total Rate Year					3,064,142
Less: Employee Co-payments					(8,727)
Net Rate Year Premiums					3,055,415
Test Year Expense					2,627,709
Increase in Total Premiums					427,706
Portion Capitalized at 9.5%					(40,632)
Total Adjustment					387,074
Rate Year Increase as Filed					445,429
Rebuttal Adjustment to Health Benefits Costs					\$ (58,355)

**Adjustment to Hypochlorite Expense
Docket 3707 - NBC Rebuttal**

Schedule WEE-R4

	FY 2003	FY 2004	FY 2005	Average Gallons
Field's Point	702,179	702,111	707,641	703,977
IM	25,363	20,045	12,382	19,263
Total	727,542	722,156	720,023	723,240
			X FY 2007 Contracted Rate	\$ 0.4998
			Revised Rate Year FY 2007	\$ 361,476
			Rate Year as Filed	369,705
			Rebuttal Adjustment	\$ (8,229)

Adjustment to Natural Gas Expense
Docket 3707 - NBC Rebuttal

NBC's contracted supply rate for Natural Gas (1)	\$ 1.153
Cost per Therm per NBC (2)	1.339
Adjustment	<u>(0.186)</u>
Deliveries in Therms (2)	<u>329,744</u>
Adjustment to Cost of Gas	<u>(61,332)</u>
Total Gas Cost Excluding R.I. Gross Earnings Tax per NBC (3)	550,532
Less: Adjustment to Cost of Gas	<u>(61,332)</u>
Adjusted Cost of Gas before R.I. Gross Earnings Tax	489,200
R.I. Gross Earnings Tax at 3.0928%	15,130
R.I. Gross Earnings Tax per NBC (3)	<u>17,027</u>
Adjustment to R.I. Gross Earnings Tax	<u>(1,897)</u>
Adjustment to Rate Year Expense	<u><u>\$ (63,229)</u></u>

Notes:

- (1) Reflects NBC's contracted Natural Gas supply rate for 24 months starting April 1, 2006 with Hess Corp.
- (2) Per Schedule WEE-9
- (3) Per Response to DIV 1-7



Karen S. D. Grande
Direct Dial: 456-1213
Email: kgrande@tllaw.com

February 21, 2006

Ms. Karen Giebink
Director of Administration and Finance
Narragansett Bay Commission
One Service Road
Providence, Rhode Island 02903

Re: Ability of Narragansett Bay Commission to Use Interest
Income for Operation and Maintenance Expenses

Dear Karen:

You have asked that we, as Bond Counsel to the Narragansett Bay Commission (the "Commission"), review the extent to which the Commission may use investment income for operation and maintenance expenses. The application of amounts in the Commission's funds and accounts are governed by the Trust Indenture between the Commission and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee") Securing Wastewater System Revenue Bonds dated as of April 15, 2004, as amended and supplemented and as consented to by the Governor on April 27, 2004 (the "Trust Indenture"). Capitalized terms not otherwise defined herein have the meanings ascribed to them in the Trust Indenture.

The Trust Indenture is a contract between the Commission and the Trustee on behalf of the holders of the Commission's revenue bonds. The State of Rhode Island (the "State") has covenanted, pursuant to § 46-25-64 of the Rhode Island General Laws, that the State will not limit or alter the rights vested in the Commission to fulfill the terms of any agreements made with its bondholders until its revenue bonds have been paid off. In other words, neither the State or any of its instrumentalities can impair the Commission's contract with its bondholders.

In the Trust Indenture, the Trustee establishes various funds and accounts including, but not limited to, the Project Fund, the Revenue Fund, the Operation and Maintenance Fund, the Debt Service Fund, the Redemption Fund, the Debt Service Reserve Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Reserve Fund, the Rebate Fund and an Unrestricted Fund. All of the Commission's funds and accounts are pledged to the Commission's bondholders except for the Operation and Maintenance Fund, the Rebate Fund, the Purchase Fund (if any) and the Unrestricted Fund.

Section 504 of the Trust Indenture provides that all revenues, except proceeds of insurance and condemnation, proceeds of any sale or disposition of any part of the system, and earnings on investments of the funds and accounts under the Trust Indenture to the extent provided in Section 514 of the Trust Indenture, shall be collected by the Commission and deposited in its Revenue Fund. Section 514 provides that permitted investments purchased as an investment of monies in any fund or account shall be deemed at all times to be part of such fund or account and all income thereon shall accrue to and be deposited in such fund or account in all losses from investment shall be charged against such fund or account. This means that except as permitted by the Trust Indenture, the Commission has no authority to transfer investment earnings from one account to another.

The Trust Indenture is set up to require application of certain investment earnings to operation and maintenance expenses and also permits certain other investment income to be applied to that purpose. For example, investment income in the Operation and Maintenance Fund is required to be used for operating and maintenance expenses. In addition, investment income in the Revenue Fund may, if all other deposits to funds and accounts have been satisfied, be applied to operating and maintenance expenses. Investment income in the Project Fund, however, must stay in the Project Fund.

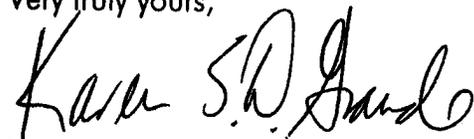
The Trust Indenture also permits transfers from the Debt Service Reserve Fund under certain circumstances. Section 508 of the Trust Indenture, which governs the Debt Service Reserve Fund, provides that if there are excess funds on deposit in the Debt Service Reserve Fund on the last business day of any month, the Trustee is to promptly notify the Commission, and the Commission may transfer the excess amount to any fund or account established under the Trust Indenture.

This would permit the Commission to transfer funds from the Debt Service Reserve Fund to the Operation and Maintenance Fund if there were excess funds.

There are, however, no investments or cash in the Debt Service Reserve Fund to generate investment income which can be transferred. The Narragansett Bay Commission has issued four series of revenue bonds pursuant to the Trust Indenture. In connection with the issuance of the 2004 Series A Bonds and the 2005 Series A Bonds, the Debt Service Reserve Fund Requirement was met with a Debt Service Reserve Surety Bond provided by a bond insurance company rather than being funded with cash. This was in order to provide the largest amount of funds available for project costs rather than holding funds in the Debt Service Reserve Fund. In connection with the 2004 Series B Bonds and the 2005 Series B Bonds which were purchased by the Rhode Island Clean Water Finance Agency (the "RICWFA"), the RICWFA did not require a Debt Service Reserve Fund. Therefore, there is no interest income generated in the Debt Service Reserve Fund and the only interest income that is available is income on investments in the Revenue Fund and Operation and Maintenance Fund.

In summary, the Commission may apply interest income in the Revenue Fund to operation and maintenance if all other required deposits to funds and accounts have been satisfied, and the Commission may always apply interest income in the Operation and Maintenance Fund to operation and maintenance expenses. We hope this letter has been helpful. If you have any additional questions, please do not hesitate to call.

Very truly yours,



Karen S. D. Grande

KDG/dd