

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

**IN RE: ABBREVIATED RATE FILING DATED :  
NOVEMBER 1, 2005 OF THE : DOCKET NO. 3707  
NARRAGANSETT BAY COMMISSION :**

**SETTLEMENT AGREEMENT**

This Settlement Agreement is entered into by and between the Narragansett Bay Commission (“NBC”) and the Rhode Island Division of Public Utilities and Carriers (“Division”) (collectively referred to herein as the “Parties”) in order to resolve the issues in the above-captioned proceeding. The Division and NBC jointly request approval of this Settlement Agreement (“Agreement”) by the Rhode Island Public Utilities Commission (“Commission”).

**I. RECITALS**

1. NBC initiated Docket No. 3707 by filing an abbreviated rate filing with the Commission on November 1, 2005. The rate application sought rate relief in the form of an increase to user charges of 5.38% or \$3,108,471 on revenue available for the increase of \$57,808,953. As filed, NBC’s total rate year revenue requirement was \$64,040,242.

2. On November 25, 2005, December 14, 2005, and March 3, 2006, the Division forwarded three sets of data requests to NBC. The Division received responses to these data requests on or about December 23, 2005, January 19, 2006, and March 9, 2006. The Division’s expert consultant, Thomas S. Catlin, conducted follow-up inquiries

in connection with NBC's data request responses. The Commission also forwarded data requests and received responses from NBC.

3. On February 9, 2006, the Division filed the Direct Testimony of Thomas S. Catlin and David R. Stearns with the Commission.

4. NBC filed the Rebuttal Testimony of Water E. Edge, Jr., MBA, CPA with the Commission on March 1, 2006.

5. On March 22, 2006, the Division filed the Surrebuttal Testimony of Thomas S. Catlin and David R. Stearns with the Commission.

6. After the Division's Surrebuttal Testimony was filed, the Division and NBC commenced settlement discussions in connection with this docket. In light of NBC's rate application; data responses; the Parties' direct, rebuttal and surrebuttal testimony; as well as other information provided by NBC, the Parties agree to a comprehensive settlement which resolves all of the issues relating to NBC's rate application.

7. The Parties believe that that this settlement, as a whole, constitutes a just and reasonable resolution of the issues in this proceeding, and jointly request its approval by the Commission.

## **II. TERMS AND CONDITIONS**

1. The Parties agree to adopt the total cost of service and revenue and expense adjustments reflected in the Surrebuttal Testimony of Thomas S. Catlin and the schedules attached to this settlement. Mr. Catlin's Surrebuttal Testimony describes how the Parties arrived at the various individual elements of this Settlement.

2. The Parties agree that NBC's total rate year revenue requirement is \$63,593,526, and that a rate increase of \$2,658,009 or 4.60% over present revenues that are subject to the increase (*i.e.*, \$57,812,699) is appropriate.

3. A Summary of Revenues and Expenses at Present and Proposed Rates for the Rate Year ended June 30, 2007 is attached here to and marked Exhibit 1 (TSC-1). A Summary of the Division Adjustments to Rate Year Revenues and Expenses at Present Rates for the Rate Year ended June 30, 2007 is attached hereto and marked Exhibit 2 (TSC-2). Schedules identifying individual agreed to adjustments are attached hereto and marked Exhibit 3 (TSC-3 through TSC-8). A Calculation of Uniform Increase in Rates Required to Generate Additional Revenues is attached hereto and marked Exhibit 4 (TSC-9). A Calculation of the Agreed-upon Rates and a Revenue Proof is attached hereto and marked Exhibit 5 (TSC-10). All exhibits are restated and incorporated herein by reference.

### **III. EFFECT OF SETTLEMENT**

1. This agreement is the result of a negotiated settlement. The discussions which have produced this agreement have been conducted with the explicit understanding that all offers of settlement and discussion relating thereto are and shall be privileged, shall be without prejudice to the position of any party or participant presenting such offer or participating in any such discussion, and are not to be used in any manner in connection with these or other proceedings.

2. The agreement by any party to the terms of this agreement shall not be construed as an agreement as to any matter of fact or law beyond the terms thereof. By entering into this agreement, matters or issues other than those explicitly identified in this

agreement have not been settled upon or conceded by any party to this agreement, and nothing in this agreement shall preclude any party from taking any position in any future proceeding regarding such unsettled matters.

3. In the event that the Commission rejects this agreement, or modifies this agreement or any provision therein, then this agreement shall be deemed withdrawn and shall be null and void in all respects, unless the parties agree to such modifications or changes.

IN WITNESS WHEREOF, the Parties agree that this agreement is reasonable, in the public interest and in accordance with law and regulatory policy, and have caused this agreement to be executed by their respective representatives, each being authorized to do so.

THE NARRAGANSETT BAY COMMISSION  
By its attorneys,  
  
TILLINGHAST LICHT, LLP

DIVISION OF PUBLIC UTILITIES  
AND CARRIERS  
By its attorneys,

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Dated:

Dated:

**CERTIFICATE OF SERVICE**

I certify that a copy of the within Settlement Agreement was forwarded by regular mail, postage prepaid, to all of the individuals on the attached Service List on the \_\_\_\_ day of \_\_\_\_\_, 2006.

\_\_\_\_\_

Settlement Exhibit 1

Docket No. 3707  
Schedule TSC-1  
Updated 4/5/2006

THE NARRAGANSETT BAY COMMISSION

Summary of Revenues and Expenses at  
Present and Proposed Rates  
Rate Year Ended June 30, 2007

	Test Year Amount Per NBC	NBC Rate Year Adjustments	Rate Year Amount Per NBC	Division Adjustments	Rate Year at Present Rates	Allowable Rate Increase	Rate Year at Proposed Rates
<b><u>Revenue</u></b>							
User Fee Revenue	\$ 57,808,953	\$ 3,746	\$ 57,812,699	\$ -	\$ 57,812,699	\$ 2,658,009	\$ 60,470,708
Other Service Revenue	2,382,618	-	\$ 2,382,618	-	\$ 2,382,618	-	2,382,618
Miscellaneous	740,200	-	\$ 740,200	-	740,200		740,200
Total Revenue	<u>\$ 60,931,771</u>	<u>\$ 3,746</u>	<u>\$ 60,935,517</u>	<u>\$ -</u>	<u>\$ 60,935,517</u>	<u>\$ 2,658,009</u>	<u>\$ 63,593,526</u>
<b><u>Expenses</u></b>							
Personnel Services	15,408,865	740,952	16,149,817	(198,450)	15,951,367	-	15,951,367
Operating Supplies & Expenses	10,535,163	1,883,136	12,418,299	(110,704)	12,307,595	-	12,307,595
Special Services	2,029,039	307,627	2,336,666	-	2,336,666	-	2,336,666
Capital Outlays	1,892,350	-	1,892,350	-	1,892,350	-	1,892,350
Prior Year Debt Coverage	(1,892,350)	-	(1,892,350)	-	(1,892,350)	-	(1,892,350)
Amortization	9,690	-	9,690	-	9,690	-	9,690
Debt Service	25,872,877	-	25,872,877	-	25,872,877	-	25,872,877
Debt Coverage	6,656,397	-	6,656,397	-	6,656,397	-	6,656,397
Total Expenses	<u>\$ 60,512,031</u>	<u>\$ 2,931,715</u>	<u>\$ 63,443,746</u>	<u>\$ (309,154)</u>	<u>\$ 63,134,592</u>	<u>\$ -</u>	<u>\$ 63,134,592</u>
Operating Reserve	<u>419,740</u>	<u>43,976</u>	<u>463,717</u>	<u>(4,783)</u>	<u>458,934</u>	<u>-</u>	<u>458,934</u>
Total Cost of Service	<u>\$ 60,931,771</u>	<u>\$ 2,975,691</u>	<u>\$ 63,907,463</u>	<u>\$ (313,937)</u>	<u>\$ 63,593,526</u>	<u>\$ -</u>	<u>\$ 63,593,526</u>
Revenue Surplus/(Deficiency)	\$ -	\$ (2,971,945)	\$ (2,971,946)	\$ 313,937	\$ (2,658,009)	\$ 2,658,009	\$ -

**Settlement Exhibit 2**

Docket No. 3707  
Schedule TSC-2  
Updated 3/21/2006

**THE NARRAGANSETT BAY COMMISSION**

Summary of Division Adjustments to  
Rate Year Revenues and Expenses at Present Rates  
Rate Year Ended June 30, 2007

Description	Amount	Source
<b><u>Revenue Adjustments</u></b>		
Residential Measured Use Fees	\$ -	Schedule TSC-3
Interest Income	-	
Total Revenue Adjustments	\$ -	
<b><u>Expense Adjustments</u></b>		
Benefits Capitalized	\$ (56,331)	Schedule TSC-4A
Union Pension	-	Schedule TSC-4B
Health Benefits Costs	(142,119)	Schedule TSC-5
Electric Rates	(109,786)	Stearns Exhibit DS-S-2
Incinerator Electricity Costs	-	Schedule TSC-6
Natural Gas Costs	(918)	Schedule TSC-7
Hypochlorite Costs	-	Schedule TSC-8
Operating Reserve	(4,783)	See Note (1)
Total Expense Adjustments	\$ (313,937)	
Total Division Adjustments to Operating Income	\$ 313,937	

**Note:**

(1) Adjusted to reflect 1.5% of Division Operating Expenses per Schedule TSC-1.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Interest Income to Include  
Interest on Restricted Accounts at Current Levels  
Rate Year Ended June 30, 2007

Total Interest Income (1)	\$ 244,713
Interest Income per NBC (2)	<u>244,713</u>
Adjustment to Rate Year Interest Income	<u><u>\$ -</u></u>

Notes:

- (1) Reflects acceptance of NBC rate year claim.
- (2) Per Schedule WEE-R1.



THE NARRAGANSETT BAY COMMISSION

Adjustment to Benefits Costs Capitalized  
Rate Year Ended June 30, 2007

FY 2005 Fringe Reimbursement (Benefits Capitalized) (1)	\$ 512,798
FY 2005 Benefits Costs Subject to Capitalization (2)	<u>4,225,531</u>
Ratio of Benefits Capitalized to Eligible Expense	12.14%
Test Year Benefits Subject to Capitalization (3)	<u>4,388,889</u>
Test Year Benefits Capitalized	\$ 532,623
Amount per Company (4)	<u>476,292</u>
Adjustment to Rate Year Expense	<u><u>\$ (56,331)</u></u>

Notes:

(1) Per Schedule WEE-3.

(2) Per Schedule WEE-3, excludes Union Pensions and Workers Comp-Old Claims.

(3) Per Schedule WEE-R1, excludes Union Pensions and Workers Comp-Old Claims.

(4) Per Schedule WEE-R1.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Union Pension Expense  
Rate Year Ended June 30, 2007

Total Rate Year Salaries & Wages and Overtime (1)	\$ 5,047,206
Updated Pension Contribution Rate (2)	<u>18.40%</u>
Rate Year Union Pension Contribution	\$ 928,686
Test Year Expense (1)	<u>574,808</u>
Increase in Union Pension Expense	\$ 353,878
Portion Capitalized (3)	<u>-</u>
Adjustment to Personnel Services Expense	\$ 353,878
Increase Per Company (1)	<u>353,878</u>
Adjustment to Rate Year Expense	<u><u>\$ -</u></u>

Notes:

(1) Per Schedule WEE-5.

(2) Per response to DIV 1-2.

(3) Reflects updated treatment of benefits capitalized as discussed in accompanying surrebuttal testimony.

## THE NARRAGANSETT BAY COMMISSION

Adjustment to Health Benefits Costs  
to Reflect Revised Premium and Employee Levels  
Rate Year Ended June 30, 2007

		Current Premium (1)	Escalation Factor (2)	Rate Year Premium	Number of Members (3)	Annual Cost
<u>Medical Insurance</u>						
HMO	Family	\$ 427.38	108.46%	463.54	14	\$ 168,729
	Single	156.41	108.46%	169.64	3	13,232
PPO	Family	491.92	107.28%	527.74	159	2,181,674
	Single	180.02	107.28%	193.12	54	271,145
Waiver		2,500.00	N/A	2,500	16	40,000
Total					246	\$ 2,674,781
<u>Dental Insurance</u>						
	Family			37.61	185	180,904
	Single			13.56	57	20,096
	Waiver			110.00	4	440
Total					246	\$ 201,440
<u>Vision Insurance</u>						
	Family			6.96	189	34,201
	Single			3.24	57	4,802
Total					246	\$ 39,003
Total Rate Year Premiums						\$ 2,915,224
Less: Employee Co-Payments						\$ (8,727)
Net Rate Year Premiums						\$ 2,906,497
Test Year Expense (4)						2,627,709
Increase in Total Premiums						\$ 278,788
Portion Capitalized at 12.14% (6)						(33,833)
Adjustment to Personnel Services Expense						\$ 244,955
Increase Per Company (7)						387,074
Adjustment to Rate Year Expense						\$ (142,119)

Notes:

- (1) Per response to DIV 1-3.
- (2) Reflects 2 year growth rate from FY 2004 to FY 2006 based on response to DIV 1-3.
- (3) Per response to DIV 1-4. Four additional employees (3 family, 1 single) have been added to account for employee vacancies accounted for in Turnover Allowance from Docket No. 3592.
- (4) Per Schedule WEE-5.
- (5) Per response to DIV 1-5.
- (6) Based on ratio of fringe benefits capitalized to eligible fringe benefits per Schedule TSC-11.
- (7) Per Schedule WEE-R3.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Electricity Costs  
to Correct for Removal of Incinerator Consumption  
Rate Year Ended June 30, 2007

	<u>Division Adjusted Electric Rates</u>
Field's Point Incinerator Usage (kWh) (1)	1,983,971
Combined Supply and Delivery Rate (2)	<u>0.09933</u>
Subtotal	\$ 197,068
R.I. Gross Earnings Tax at 4.1666%	<u>8,211</u>
Total Decremental Cost	\$ 205,279
Rate Year Deduction per NBC (3)	<u>205,279</u>
Adjustment to Rate Year Expense	<u>\$ -</u>

Notes:

- (1) Per response to Division 1-11.
- (2) Adjusted rate per Exhibit 1 of David Stearns.
- (3) Per Schedule WEE-R1.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Natural Gas Costs  
Rate Year Ended June 30, 2007

Contracted Supply Rate (1)	\$ 1.1503
Cost per Therm per NBC (2)	1.1530
Adjustment	<u>\$ (0.0027)</u>
Deliveries in Therms (2)	<u>329,744</u>
Adjustment to Cost of Gas	<u>\$ (890)</u>
Total Gas Cost Excluding R.I. Gross Earnings Tax per NBC (2)	\$ 489,200
Less: Division Adjustment	<u>(890)</u>
Adjusted Cost of Gas Before R.I. Gross Earnings Tax	<u>\$ 488,310</u>
R.I. Gross Earnings Tax at 3.0928%	\$ 15,102
R.I. Gross Earnings Tax per NBC (2)	<u>15,130</u>
Adjustment to R.I. Gross Earnings Tax	<u>\$ (28)</u>
Adjustment to Rate Year Expense	<u><u>\$ (918)</u></u>

Notes:

(1) Per response to DIV 4-4.

(2) Per Schedule WEE-R5.

Docket No. 3707  
Schedule TSC-8  
Updated 3/21/2006

THE NARRAGANSETT BAY COMMISSION

Adjustment to Hypochlorite Costs  
Rate Year Ended June 30, 2007

Amount Per Division (1)	\$	369,705
Amount per Company (2)		<u>369,705</u>
Adjustment to Rate Year Expense	\$	<u><u>-</u></u>

Notes:

(1) Reflects acceptance of NBC rate year claim.

(2) Per Schedule WEE-12.

**Settlement Exhibit 4**

Docket No. 3707  
Schedule TSC-9  
Updated 4/5/2006

THE NARRAGANSETT BAY COMMISSION

Calculation of Uniform Percentage Increase in Rates  
Required to Generate Additional Revenues  
Rate Year Ended June 30, 2007

Overall Revenue Increase Required (1)	<u><u>\$ 2,658,009</u></u>
Revenues from Services Subject to Increase (2)	
Flat Fees-Residential	\$ 10,648,737
Measured Fees-Residential	20,755,812
Flat Fees-Commercial and Industrial	6,908,120
Measured Fees-Commercial	16,388,850
Measured Fees-Industrial	3,111,180
Discharge Permit Fees	-
Connection Permit Fees	-
BOD/TSS Surcharge	-
Septage Fees	<u>-</u>
Total Revenues from Services Subject to Increase	<u><u>\$ 57,812,699</u></u>
Uniform Percentage Increase	<u><u>4.60%</u></u>

Notes:

(1) Per Schedule TSC-1.

(2) Per Schedule WEE-13.

**Settlement Exhibit 5**

Docket No. 3707  
Schedule TSC-10  
Updated 4/5/2006

**THE NARRAGANSETT BAY COMMISSION**

Calculation of Proposed Rates and  
Proof of Revenues at Proposed Rates  
Rate Year Ended June 30, 2007

	Current Rate	Percent Increase	Proposed Rate	Billing Units (1)	Revenue at Proposed Rates
<b>Flat Fees</b>					
Residential	\$ 94.38	4.60%	\$ 98.72	112,831	\$ 11,138,676
<u>Commercial &amp; Industrial</u>					
Meter Size					
5/8"	212.00	4.60%	222.00	3,828	849,816
3/4"	317.00	4.60%	332.00	880	292,160
1"	528.00	4.60%	552.00	1,045	576,840
1.5"	1,057.00	4.60%	1,106.00	832	920,192
2"	1,690.00	4.60%	1,768.00	1,799	3,180,632
3"	3,168.00	4.60%	3,314.00	73	241,922
4"	5,280.00	4.60%	5,523.00	51	281,673
6"	10,562.00	4.60%	11,048.00	57	629,736
8"	16,899.00	4.60%	17,676.00	13	229,788
10"	24,292.00	4.60%	25,409.00	1	25,409
Total Commercial & Industrial Flat Fees					\$ 7,228,168
<b>Measured Fees</b>					
Residential	1.942	4.60%	2.031	10,689,623	21,710,624
Commercial	2.813	4.60%	2.942	5,825,507	17,138,642
Industrial	1.810	4.60%	1.893	1,719,119	3,254,292
Total Measured Fees					\$ 42,103,558
<b>Other Revenue</b>					
Discharge Permit Fees	-	4.60%			-
Connection Permit Fees	-	4.60%			-
BOD/TSS Surcharge	-	4.60%			-
Septage Fees	-	4.60%			-
	-				\$ -
<b>Total Service Revenue</b>					\$ 60,470,402
Target Revenue (2)					60,470,708
Variance					\$ (306)

Notes:

(1) Per Schedule WEE-14

(2) Per Schedule TSC-9. Target equals revenue at present rates plus required increase.