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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

Com 2-1 The Commission has currently in effect: Rules Governing the Acceptance of Credit Cards by Utility Companies.

a. When is NBC going to come into compliance with these Regulations (provide a specific date)?

b. How much in credit card fees during the test year were paid by NBC rather than by the individual ratepayer?

c. Estimate the cost in NBC's proposed rate year which is due to NBC incurring credit card fees for ratepayers who pay by credit card.

Answer:

a. NBC is in compliance with the majority of the rules governing the acceptance of credit cards. In fact, NBC has been accepting credit cards from ratepayers for many years as a convenience to the ratepayer. However, NBC believes that the use of credit cards is beneficial to NBC because it speeds up the collection of accounts, some of which would be difficult to collect without the use of credit cards. NBC collection rate has continued to improve over the years with late fees as a percentage of user fee revenues less than 0.8% in FY 2006.

NBC is concerned about the impact that a convenience fee may have on bill payment. It appears that the State charges convenience fees for some services but not for others (e.g. on-line registrations).

NBC is in the process of working with its credit card vendor to establish a method of collecting a credit card usage fee from the ratepayer to offset the current cost of processing credit cards. NBC's vendor is having difficulty complying with NBC's request because the fees charged vary based upon the type of card, ease of processing, etc. NBC expects that if its current credit card vendor is eventually unable to comply with NBC's request that NBC will be forced to go out for bids to secure a new vendor. NBC is concerned that the cost of getting a new vendor may exceed the \$26,194 currently paid by NBC for credit card fees.

b. The total credit card fees paid during the test year by NBC was \$26,194.

c. The amount included in the rate year for credit card fees is \$26,194.

Prepared by: WEE

Com 2-2

a. Provide the number of employees currently employed by NBC by month since January, 2006 to the present separated into two categories: union and non-union.

b. Also, provide the salary compensation by month since January, 2006 to the present separated into two categories: union and non-union.

Answer:

a.

	<u>Non Union</u>	<u>Union</u>
Jan-06	122	117
Feb-06	125	117
Mar-06	124	118
Apr-06	125	121
May-06	125	119
Jun-06	125	119
Jul-06	124	121
Aug-06	124	122
Sep-06	121	125
Oct-06	122	121
Nov-06	122	122
Dec-06	120	121
Jan-07	119	121
Feb-07	119	122

b. Original and two copies provided to Commission Clerk due to size of attachment.

Prepared by: WEE

Com 2-3

- a. Explain why non-union employees receive salary increases higher than union employees (see NBC Data Response to Div. I-19)?
- b. Also, explain why NBC is proposing raises for its non-union employees while the State of RI is engaging in furloughs and layoffs?

Answer:

- a. The initial premise of the question is incorrect. Non-union employees receive merit raises based upon a performance based compensation system. Therefore, some employees may receive increases higher than union employees while others receive increases below that received by union employees. Overall, the total non-union merit raises in a fiscal year are approximately the same percentage overall as the percent increase of the union COLA, step and longevity raises.
- b. NBC's non-union personnel expense has no impact on the State of Rhode Island budget. NBC is unaware of any other regulated utility in the State that is implementing furloughs or layoffs.

Prepared by: WEE

Com 2-4 Is there a no-lay off clause in any of NBC's current collective bargaining agreements? If so, please explain the nature and operation of the clause.

Answer: No.

Prepared by: WEE

Com 2-5

Schedule WEE-3 provides the actuals for NBC's accounts in the past 4 fiscal years. In the same format and for the same accounts listed, provide the actuals of fiscal year 2007 through December, 2006. (For the account salaries and wages, separate union and non-union into two accounts).

Answer

Account Description	July 2006 - Jan 2007
FLAT FEES RESIDENTIAL	8,545,268
MEASURED FEE - RESIDENTIAL	15,165,681
FLAT FEES COMMERCIAL & INDUSTRIAL	5,329,354
MEASURED FEE - COMMERCIAL	12,956,888
MEASURED FEE - INDUSTRIAL	918,688
PRETREATMENT FEES	682,055
CONNECTION PERMIT FEES	139,804
BOD/TSS SURCHARGE	112,247
SEPTAGE INCOME	224,131
INTEREST INCOME	1,131,232
LATE CHARGE PENALTY	277,225
ENVIRONMENTAL ENFORCEMENT	48,525
GRANT	25,608
ABATEMENT FEE	2,052
CAPITAL CONTRIBUTIONS	5,626
MISCELLANEOUS INCOME	64,406
TOTAL REVENUE	45,628,790
UNION OVERTIME	236,370
UNION	2,655,967
NON-UNION REGULAR	4,278,195
NON-UNION OVERTIME	38,217
NON-UNION LIMITED	8,796
EMPLOYEE RET. BEN. - UNION PENSION	480,482
EMPLOYEE RET. BEN. - NON-UNION PENSION	516,455
EMPLOYEE RET.BEN.-FICA	425,698
EMPLOYEE BENEFITS-UI	13,084
RETIREMENT HEALTH - STATE	68,128
EMPLOYEE BEN.-HEALTH INS.	1,625,751
EMPLOYEE BEN-DISABILITY INS.	18,818
HEALTH INSURANCE-RETIRES	423
WORKERS COMP-OLD CLAIMS	26,416
<i>Total Personnel Services</i>	<i>10,392,801</i>
SALARY REIMBURSEMENT	(555,499)
FRINGE REIMBURSEMENT	(304,724)
<i>Net Personnel Services</i>	<i>9,532,578</i>

MEDICAL SVCS.	37,299
BLDG. & GRND. MAINT.	54,957
BIOSOLIDS DISPOSAL	2,078,271
SCREENINGS & GRIT DISPOSAL	95,863
BAD DEBT EXPENSE	7,536
POSTAGE	94,275
TELEPHONE	65,692
OFFICE EXPENSE	26,449
DUES & SUBSCRIPTIONS	46,082
FREIGHT, CART. & EXP.	17,716
INSURANCE	548,175
CENTRAL PHONE SVCS.	1,626
PRINTING & BINDING	40,073
ADVERTISING	10,092
LOCAL TRAVEL	1,924
LONG DISTANCE TRAVEL	28,051
VEHICLE FUEL AND MAINTENANCE	81,851
REPAIR-BLDG & STRUCTURE	311,489
REPAIR-HIGHWAY & WALKS	4,631
EQUIPMENT MAINTENANCE AGREE	373,683
RENTAL- EQUIPMENT	27,237
RENTAL- CLOTHING	26,339
DIESEL FOR EQUIPMENT	1,375
FUEL-GAS	137,976
ELECTRICITY	1,595,507
WATER	34,890
CLOTHING	17,276
SAFETY EQUIPMENT	11,029
PUBLIC OUTREACH EDUCATION	14,593
CHEMICALS, HOUSE & LAUNDRY SUPPLY	18,991
CHEM-CHLORINE/HYPOCHLORITE	198,051
CHEM-SODIUM BISULFITE	81,310
LAB SUPPLIES	91,422
HIGHWAY & LANDSCAPE	2,296
SUPPLIES BLDG & MAINTENANCE	112,433
EDUCATIONAL SUPP. & EXP.	35,743
COMPUTER SUPPLIES & EXPENSE	29,474
OTHER OPERATING EXPENSE	2,590
MISCELLANEOUS EXPENSE	18,500
<i>Total Operating Supplies & Expense</i>	<u>6,382,772</u>
BOND AND NOTE FEES	21,608
REGULATORY EXPENSE	198,580
LECTURES/ED./PROF. SVCS.	-
SECURITY SERVICES	19,859
LEGAL SERVICES	81,253
MGMT/AUDIT SERVICES	1,058,544
CLERICAL SERVICES	12,845
OTHER SERVICES	60,294
<i>Total Special Services</i>	<u>1,452,984</u>
AMORTIZATION	5,652
DEPRECIATION	3,746,787
<i>Total Depreciation & Amortization</i>	<u>3,752,439</u>
INTEREST	5,925,109
<i>Total Debt Service</i>	<u>5,925,109</u>
<i>Total Expenses</i>	<u>27,045,883</u>
<i>Net Income</i>	<u>\$18,582,907</u>

Prepared by: WEE

Com 2-6

- a. Explain in detail why interest income was increased by only \$149,424 to \$600,000 for the rate year when in fiscal year 2006 it was \$2,483,388.
- b. Also, explain NBC's objection to the Commission setting NBC's rates based on NBC's actual interest income in fiscal year 2006 rather than the proposed amount of \$600,000.
- c. Explain in detail the source of this interest income, how and at what rate it is earned.

Answer:

- a. This issue was addressed in length in the last docket. Interest income for the rate year was reduced by the interest earned on the project fund and the debt service fund neither of which are available for operations.
- b. Should the Commission choose not to set NBC's rates using the \$600,000 the Commission would put NBC out of compliance with its Trust Indenture and put all of NBC's debt in peril. See the answer above which explains that not all interest income is available for operations and therefore cannot be included to calculate the rates.
- c. NBC had funds invested with Citizens, Fidelity and JP Morgan during the test year. NBC invests its funds in accordance with its Investment Policy. The policy sets forth that funds are to be invested in a way that will preserve the value and safety of capital. The policy also sets forth that funds should be invested in order to maximize earnings and minimize risk during the period of availability of funds. Given the flatness of the yield curve, most of NBC's funds were invested short-term with daily liquidity. In addition, funds held by the Trustee (the Debt Service and Project Funds) were invested by the Trustee in accordance with the Trust Indenture.

Revenue Fund	\$ 363,291
O & M Fund	82,222
Sweep Interest	5,063
EEF Fund	1,138
Debt Service	383,229
Project Fund	1,648,444
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	\$ 2,483,388

Prepared by: WEE

Com 2-7 Explain in detail why the revenues for Environmental Enforcement of \$81,398 should be eliminated from the rate year but only a total of \$49,729 in related expenses (p. 8 of Edge's testimony) should be eliminated from NBC's cost of service.

Answer: In accordance with the legislation, the use of the Environmental Enforcement Funds is limited. In any given year, the amount of revenue and expenses may not be equal. Therefore NBC has removed the actual revenues and the actual expenses relating to Environmental Enforcement from the test year. See response to Div 1-4 and Div 1-7 for more details.

Prepared by: WEE

Com 2-8

- a. Explain on what basis the \$1,165,958 in capital contributions in fiscal year 2006 was expended.
- b. How much in capital contributions does NBC expect to receive for fiscal year 2008?

Answer:

- a. The \$1,165,958 was a federal grant from the Environmental Protection Agency (EPA). The EPA grant funds were required per the grant award to be expended for the construction of contract 302.06C Main Spine Tunnel of the CSO Phase I Facilities.
- b. None.

Prepared by: WEE

Com 2-9 In the last paragraph of page 11 for the Executive Summary of the FY 2008 RI Budget, it indicates that retiree health care will be based on 3.63 percent of payroll instead of 8.57 percent.

a. Recalculate NBC's union retirement health expense utilizing 3.63 percent.

b. Is NBC willing to utilize the 3.63 percent figure to calculate retiree health?

Answer: a. The retirement health expense recalculated at the 3.63% amounts to \$175,773.

b. It is NBC understanding that the 3.63% is included in the proposed State of RI budget which means it could still possibly increase or decreased. NBC would be willing to adjust to a new retiree health percentage once it is finalized and approved.

Prepared by: WEE

Com 2-10. Explain in detail why the amounts in the following accounts increased from fiscal year 2005 to the rate year and why they should not be normalized utilizing a three or five year average: medical services, long-distance travel, repair highway and walks, general repairs, water, clothing, miscellaneous expense and office expense.

Answer: These seven accounts were addressed in my testimony on page 12 where I stated that “sixty-three expense accounts and five revenue accounts that have balances in the test year of less than \$200,000 ... were left at test year levels for the rate year.....I believe that the net change, if any, in these accounts in the rate year would be immaterial to the overall revenue requirement”. I believe that taking seven of these very minor accounts and reviewing them is inappropriate. I believe that a complete review of all sixty three minor expense accounts would result in a minor adjustment and that the adjustment may increase the cost of service. More importantly the review of such small account balances is a significant misuse of my time, the time of NBC’s staff and I believe the Commission’s time. That said the following responses were prepared in response to this data request.

Medical Services – The increase in this expense account from 2005 to 2006 is the result of an increase in the number of and cost of health screenings. NBC expects medical services to remain at the test year level or increase slightly in the rate year.

Long distance travel – The vast majority of the increase in travel in FY 2006 relates to educational training of the Information Technology (IT) staff. Given the size and complexity of the NBC computer systems, it is critical that the IT staff stays current on new technologies and can effectively support NBC current systems and applications. It is anticipated that the travel expense will remain at the FY 2006 level but may increase in the rate year.

Repair highway and walks and miscellaneous expense – Both of these accounts were reviewed, there are no unusual expenses that would need to be normalized out. Also, both of these accounts have increased each year over the past four years which would suggest that NBC should have projected an increase in these accounts for the rate year. However, NBC took a conservative approach for these accounts and left them at the test year level.

General repairs – NBC actually had two accounts (General Repairs and Repair Building and Structures) that reflected changes in the test year from the previous year. These two accounts have been used interchangeably over the years. To avoid this confusion, in FY 2007, NBC combined these two accounts into one. Therefore, in order to make a proper comparison of these two accounts between 2005 and 2006 the two accounts would need to be added together.

2005	2006
\$576,195	\$544,772

Therefore, the actual cost decreased in FY 2006.

Water – Based on a review of the history of this account for the last four years, NBC does not know why the FY 2005 year expense is much less than FY 2003, 2004 and 2006. In order to make an exact determination, NBC would need to do a study of all the accounts, consumptions and rates for the last few years. Based on cursory review, Providence Water had a rate increase in 2006 from \$1.72 to 1.882 per CCF and also an increase in their quarterly service charge of roughly the same percentage. It is our understanding that Providence Water is planning another filing in the near future which will also increase NBC's rates. NBC feels that no additional research is warranted as the water costs show an increasing trend over the last four years except for FY 2005. And the test year level NBC used for the rate year FY 2008 is reasonable.

Clothing – Based on a review of the expense there are no costs that need to be normalized out. The increase is in part the result of the "Tyvek" suits which are now recorded in clothing expense not in safety expense. Also, there has been an increase in some of the clothing prices. Therefore, using the test year level (FY 06) for the rate year (FY 08) is a conservative approach.

Office expense – Based on a review of the expenses charged to office expense, there are no unusual expense that would need to be normalized out. The average office expense for the last four years is \$73,724, per WEE-3, which is greater than the rate year amount \$72,216. Therefore, the amount requested in the rate year appears to be at an appropriate level.

It is important to note that a number of the 63 accounts left at the test year level actually decreased from 2005 to 2006. For example the following are a few of the decreases: rental equipment (\$11,341), safety equipment (\$4,254), other services (\$22,998) and building supplies and maintenance (\$15,554). As stated above, NBC feels that the net change on all of these accounts would be immaterial to this rate filing

Prepared by: WEE

Com 2-11 Explain in detail why the amounts in the following accounts in increased from fiscal year 2005 to the rate year: postage and clerical services.

Answer: The increase in postage is the result of an increase in the cost of stamps from \$0.37 to \$0.39 during FY 2006. Also, in FY 2006 Customer Service started sending correspondence to all customers with a dispute and a follow-up letter once the dispute is resolved. It was recently reported in the news that the Postage Commission is recommending increasing the cost of a stamp from \$0.39 to \$0.41. Therefore, if the postage cost increases, the rate year would be understated.

Clerical services increased in FY 2006 because an individual in the PT section went out on maternity leave. Therefore, the PT section hired an individual through a temporary employment agency.

The Lab also had a similar situation where they were having difficulty filling positions that had been vacated. Because of the lab's critical functions, the lab hires employees through a temporary employment agency to meet immediate needs until a qualified individual can be hired permanently.

Prepared by: WEE

Com 2-12 List and itemize all expenditures incurred under the following accounts for fiscal years 2006 and 2007 and justify these expenditures specifically: dues and subscription, advertising, long distance travel, other operating expense, miscellaneous expense, educational supplies and expense, public outreach education, and other services.

Answer: Original and two copies provided to Commission Clerk due to size of attachment.

Prepared by: WEE

Com 2-13 Explain in detail why NBC's electricity and fuel gas accounts are increasing for the rate year when electric and natural gas prices have recently declined.

Answer: NBC did not increase electricity or fuel gas accounts in the rate year - see WEE-4.

Prepared by: WEE

Com 2-14. Explain in detail why NBC's rate year level for bad debt expense is \$160,000 when the last actual bad debt expense listed in WEE-3 was \$110,701.

Answer: Please refer to the response to Div 1-16. The actual write-offs for the last four years ranged from \$29,633 up to \$346,008. Therefore, it is clear that write offs fluctuate greatly from year to year. The \$160,000 bad debt expense is the amount which is included in our current rates. NBC does not have any indications that this account would decrease in the future. Therefore, the account was left at test year level, which appears to be an appropriate level.

Prepared by: WEE

Com 2-15.

a. Explain why and under what circumstances non-union employees receive overtime or “limited” compensation (see NBC’s Data Response to Div. I-12).

b. Since 1999, has either overtime or limited compensation for non-union employees been used to determine NBC’s contribution to a non-union pension plan, and if so, indicate which years this occurred?

Answer

a. The vast majority of non-union employees do not receive overtime. The non-union overtime is earned for the most part by the treatment plant shift supervisors. The straight time compensation of these employees does not provide for more than 40 hours therefore they must be compensated when they are asked to work additional shifts. The Limited compensation account reflects costs for interns.

b. The overtime compensation of the non-union employees has been included in the pension contribution calculation since 1999. The limited compensation has been included in the determination of the pension expense budgeted amount since 2001.

Prepared by: WEE

Com 2-16

- a. List by fiscal year and by calendar year, since 1999, the amounts contributed by NBC to the union and non-union pension. (Indicate the amount separately for each employee group).
- b. List by fiscal year and by calendar year since 1999, the amounts actually paid in salaries and wages to NBC's union and non-union employees. (Indicate the amounts separately for each employee group).

Answer The information provided below is from the audited financial statements. NBC does not maintain the total salary paid broken down by union and non-union.

Fiscal Year	Salary	Per Fiscal Year	
		Union Pension Contribution	Non-Union Pension Contribution
1999	9,467,747	409,601	464,197
2000	9,346,792	312,531	495,018
2001	9,678,441	298,716	516,449
2002	10,389,818	225,780	560,792
2003	10,954,624	319,047	595,593
2004	11,722,560	418,056	651,619
2005	11,943,348	488,463	664,516
2006	12,360,725	672,224	819,178

Period ending:	July 1, 2005 to December 31, 2005	January 1, 2006 to June 30, 2006	Total
Employer	\$ 303,166	\$ 183,520	\$ 486,686
Employee	145,310	144,099	289,409
	<u>\$ 448,476</u>	<u>\$ 327,619</u>	<u>\$ 776,095</u>

Prepared by: WEE

Com 2-17

- a. Indicate how much in the non-union pension expense for the rate year is for the unfunded liability for past service.
- b. Explain why ratepayers should pay this unfunded liability since these employees were already compensated for their service in past years through a defined contribution by NBC.

Answer:

- a. The unfunded liability for the rate year has not been calculated.
- b. The annual cost to the ratepayers to cover the current cost and the unfunded liability cost of the defined benefit plan was set by the design of the defined benefit plan to be equal to the cost of continuing the defined contribution plan. In other words there is no additional cost to the ratepayers included in this filing.

In addition, to cover the cost of the defined benefit plan, NBC requires the employees to contribute to the defined benefit plan. The combination of the employee contribution and the funds that would have been available under a continuance of the defined contribution plan fund the defined benefit plan.

Prepared by: WEE