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Raymond J. Marshall, P.E.  
Executive Director

[illegible]

COM 3-1      In which account listed for the rate year would be the \$26,194 in NBC credit card fees, referenced in PUC Data Response 2-1, be included?

Answer:      The \$26,194 is included in account 52690 Other Services.

Prepared by : WEE

Com 3-2      Update PUC Data Response 2-2 through April 2007.

Answer:	Month	Non Union	Union
	Jan 2006	122	117
	Feb 2006	125	117
	March 2006	124	118
	April 2006	125	121
	May 2006	125	119
	June 2006	125	119
	July 2006	124	121
	Aug 2006	124	122
	Sept 2006	121	125
	Oct 2006	122	121
	Nov 2006	122	122
	Dec 2006	120	121
	Jan 2007	119	121
	Feb 2007	119	122
	March 2007	116	121

NBC has had difficulty hiring and retaining qualified technical staff. In terms of staff retention, exit interview results show that 69% of voluntary terminations in FY 2006 were the result of better financial opportunities outside of NBC along with a concern about the continued erosion of NBC's benefits package. NBC has also faced challenges in terms of hiring. NBC posted and advertised for an electrician position four times, received only five qualified applicants and made five offers before successfully filling the position. To date, NBC has been unsuccessful in filling a critical pretreatment engineering position that has been posted and advertised three times resulting in four separate offers. All offers were rejected based on salary.

Prepared by: WEE

Com 3-3      On page 17 of Mr. Edge's direct testimony, he indicated that the average number of employees included in the test year is 244. Is this also the number included in the rate year? Also, list the employee position included in the test and rate year, including salary or wages and benefits and payroll taxes by position for the rate year. Indicate which positions are union or non-union and which are currently vacant.

Answer:      A. Yes, the rate year includes 244 average employees as in the test year.

                B. NBC is unable to provide the salaries and benefits by position for the rate year since the rate year expenses were calculated using an average percentage increase from the test year. Also, for the most part, the staff in the rate year will not be the same as in the test year, due to retirements, attritions, new hires, etc. Therefore, this information cannot be provided from NBC's records.

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Com 3-4      In the assumption for its non-union pension plan, NBC utilized 3.5 percent for salary. Is NBC still using this assumption for the pension plan? Indicate why on page 15 of Mr. Edge's direct testimony NBC is adjusting test year salaries for non-union employees by 3.75 percent and 4.5 percent increases for fiscal years 2007 and 2008. Also, adjust NBC's proposed rate year salaries for non-union employees as well as benefit and payroll taxes if salary increases of 3.5 percent per year are utilized. Indicate the new figures and the savings to ratepayers compared to NBC's rebuttal position.

Answer:

- A. One of the actuarial assumptions for the calculation of the minimum plan year required contribution to NBC's Non-Union Defined Benefit Plan is a salary scale of 3.5%. This is designed to be a long term assumption with up to a 40 year time period. It is adjusted as necessary based upon actual plan experience. It should in no way be interpreted as a cap on salary increases in any one particular year.
- B. There is no relationship between the actuarial assumption of 3.5% salary scale adjustment used for the purpose of the actuarial study and the annual salary increases and certainly no artificial cap that would result from the use of such an assumption.

NBC adjusted test year salaries by the same percentage as the average annual increases for the union employees for fiscal years 2007 and 2008. NBC's non-union employees do not receive step or longevity raises and the annual increases are required in order to hire and retain the qualified employees needed to operate and maintain the NBC as well as manage its multi-million dollar Capital Improvement Program. Should the Commission wish to complete the requested calculation the Commission can use Schedule WEE-5 to perform the calculation. NBC does not agree with the original premises of the data request and therefore does not believe that the calculation is meaningful and for that reason NBC will not put the calculation on the record.

Prepared by: WEE

Com 3-5      Update PUC Data Response 2-5 and list the actuals for March 2007, if available the actuals for April 2007 in another column, and NBC's rebuttal position for the rate year in the last column.

Answer      NBC does not understand the question. The Commission already has 9 months of the interim year, comparing 9 or 10 months of the interim year to the rate year is meaningless. FY 2006 is the normalized test year and FY 2008 is the rate year. Please clarify the question, use of information and the purpose of the information.

Prepared by: WEE

Com 3-6      Cite which specific provision in the Trust Indenture prohibits NBC from using interest income from the project fund and debt service or the proposed O & M reserve to fund operations.

Answer      See the attached legal opinions from NBC's bond counsel. The February 21, 2006 opinion was provided previously as part of Docket 3707.

Prepared by: WEE



TILLINGHAST LICHT LLP

ATTORNEYS AT LAW SINCE 1818

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.

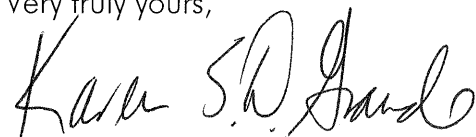
The Trust Indenture also permits transfers from the Debt Service Reserve Fund under certain circumstances. Section 508 of the Trust Indenture, which governs the Debt Service Reserve Fund, provides that if there are excess funds on deposit in the Debt Service Reserve Fund on the last business day of any 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

May 4, 2007

Ms. Karen L. Giebink  
Director of Administration and Finance  
Narragansett Bay Commission  
One Service Road  
Providence, RI 02905

Re: Ability of Narragansett Bay Commission to Transfer  
Investment Earnings on the Operation and Maintenance  
Reserve Fund to the Operation and Maintenance Fund

Dear Karen:

The following discussion pertains to the operation of relevant provisions of the Trust Indenture dated as of April 15, 2004, as amended (the "Indenture") of the Narragansett Bay Commission ("NBC") to the corporate trustee from time to time thereunder, presently Wells Fargo Bank, N.A. (the "Trustee").

You have asked if investment earnings on deposits in the Operation and Maintenance Reserve Fund (the "O&M Reserve Fund") created under the Indenture may be transferred to the Operation and Maintenance Fund ("O&M Fund") or may otherwise be used to pay NBC's "Operating Expenses" as defined in the Indenture. In this connection, you have asked if the Rhode Island Public Utilities Commission ("PUC") is empowered under the terms of the Indenture to direct or order that the investment earnings on deposits in the O&M Reserve Fund be used to pay the Operating Expenses of NBC.

Section 511(b) of the Indenture provides that, in the event that amounts on deposit in the O&M Fund are at any time insufficient to pay all Operating Expenses then payable, the Trustee (upon the direction of an NBC Authorized Officer) shall transfer amounts from the O&M Reserve Fund to the O&M Fund as are specified in the NBC direction to the Trustee. In other words, amounts in the O&M Reserve Fund may be transferred to the O&M Fund to pay Operating Expenses only at the time and to the extent necessary to satisfy any then existing deficiency in the O&M Fund. Apart from such necessity, there can be no transfer.

Note that the O&M Reserve Fund can be funded (1) from deposits made therein monthly by the Trustee from NBC's Revenue Fund (created under the Indenture) to the extent necessary to



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satisfy the Operation and Maintenance Reserve Fund Requirement (pursuant to Section 504(2)(viii) of the Indenture) or (2) from investment earnings derived from the investment of moneys on deposit in the O&M Reserve Fund in "Permitted Investments" (as defined in the Indenture) pursuant to Section 514(1) of the Indenture.

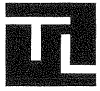
In fact, Section 514(1) of the Indenture provides, in part, that

. . . Permitted Investments purchased as an investment of moneys in any fund or account shall be deemed at all times to be a part of such fund or account and all income thereon shall accrue to and be deposited in such fund or account and all losses from investment shall be charged against such fund or account.

In other words, as a result of the operation of this provision, investment earnings on amounts deposited in the O&M Reserve Fund are required by the terms of the Indenture to be credited to the O&M Reserve Fund. Such investment earnings cannot be used for any purpose except for transfer to the O&M Fund in accordance with the requirements of Section 511(b) of the Indenture as described above (and except for transfer to the Debt Service Fund under the circumstances set forth in Section 511(a) of the Indenture).

The terms of the Indenture do not empower the PUC to direct or order the application of investment earnings on amounts on deposit in the O&M Reserve Fund otherwise than as set forth above.

Finally, bear in mind that the rules on the application of investment earnings that are set forth above with respect to the O&M Fund and the O&M Reserve Fund also generally apply to the other funds and accounts created under the Indenture. Accordingly, Section 514(1) of the Indenture requires that investment earnings derived from amounts deposited into particular funds and accounts created under the Indenture be added to such particular funds and accounts and shall not be subject to transfer to any other funds and accounts created under the Indenture, either at the direction of an authorized officer of NBC, the PUC or any other person. As a consequence, the only investment earnings that may be directly deposited into the O&M Fund and used to pay Operating Expenses under the Indenture are those investment earnings that are derived from amounts that are then on deposit in the O&M Fund – and not from amounts on deposit in any other Indenture fund or account. These same



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principles pertaining to the deposit of investment earnings also apply in connection with the operation of all of the funds and accounts of key importance that have been established under the Indenture, such as the Project Fund and the Debt Service Fund.

If you have any questions, please do not hesitate to call.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Jeffrey A. Nemecek'.

Jeffrey A. Nemecek

JAN/dd

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Com 3-7      As a follow up to the response to PUC Data Request 2-12, provide examples of what expenses were deemed miscellaneous for fiscal years 2006 and 2007. Also, in this data response, NBC indicated that it had made purchases from an entity called "Something Fishy, Inc.". List specifically what NBC purchased from this company, the amount and the reasons it did for fiscal years 2006 and 2007. Also, explain what, how much and why did NBC make purchases from West Marine Products, Pet Food Experts, RI Aquarium and Pet Center, and Robert Game for the same time period.

Answer:      NBC has already provided the detail of everything charged to miscellaneous expense for fiscal years 2006 and 2007.

Something Fishy, Inc – Provides the aquarium maintenance service for the reception area and IT area fish tanks. In addition to the aquarium maintenance service they provide the tank supplies, fish, and fish supplies. (2006 \$1,695.72 and 2007 \$1,214.22)

RI Aquarium – Provided the aquarium maintenance service and supplies for two months. Their service was not satisfactory. Therefore, we went back to Something Fishy, Inc. (2007 \$502.89)

Pet Food Experts – NBC purchased fish tank supplies and fish food for the EMDA fish tank. Also, some lab supplies were purchased for analysis purposes. (2007 \$188.01)

West Marine Products – Purchased supplies for the NBC sampling boat including, but not limited to the, radar system, inverter, freezer, alarm, flood light, work suit/ life preservers, 12 volt Winch, and miscellaneous supplies. (2006 \$5,196.21 and 2007 \$2,377.20)

Robert Game – Mr. Game was out-of-town candidate (Niagra Falls) interviewed for the position of Executive Director. He was reimbursed for his travel expenses.

Prepared by: WEE