

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
Docket No. 3818
Response to
The Rhode Island Public Utilities Commission’s Data Requests
Set 1

Comm. 1-2: Please provide specific details about the property litigation between the City of Newport and Town of Middletown that resulted in a settlement.

Response: The City of Newport Water Fund had an ongoing dispute with the Town of Middletown over the assessed value of Newport’s property in Middletown. The City Water Fund owed the Town of Middletown \$399,314.22 in taxes, plus an additional \$268,999.54 in penalties from tax year 1996 through 2003. The Town of Middletown owed the City of Newport \$44,351.83, net of penalties for tax years 1994-2002 for a sewer main located in Newport.

The Town and City agreed to a settlement whereby Middletown gave a 100% credit for taxes owed in 1996 and 1997; a 25% credit for taxes owed as of 1998 through 2003; and a credit of \$72,754.15 for claimed refunds pre-dating fiscal year 1996.

The resulting balance due, after subtracting out the Town’s amount due to the City and removing all penalties and interest, was \$187,042.75. This was the amount that was mutually agreed to. The settlement agreement potentially saved the City Water Fund \$408,516.86 in taxes, interest and penalties plus legal fees.

Prepared by: L.Sitrin

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Comm. 1-3: Please explain how the \$30,000 amount for doubtful accounts was projected. How much money was written off in bad accounts because of move-outs or turnovers for the last three years?

Response: The amount for doubtful accounts was reduced from \$225,000 to \$30,000 during Docket 3578 and this amount is an estimated reserve at a given point in time. No accounts have been written off during the three year time frame.

Prepared by: Karen Garcia

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Comm. 1-4: Please explain the mileage reimbursement policy.

Response: Newport Water Division employees are eligible for mileage reimbursement if they use their personnel vehicle for Water Division related business. The current reimbursement rate is \$0.485/mile for Management personnel and contractually \$0.445/mile for AFSCME employees.

Prepared by: J. Forgue

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Comm. 1-5: What is the term of the labor contract?

Response: The Collective Bargaining Agreement between the City of Newport and Rhode Island Council 94, AFSCME, AFL-CIO recently agreed to is for the periods July1, 2004 through June 30, 2005; July 1, 2005 through June 30, 2006; and July 1, 2006 through June 30, 2009.

Prepared by: J. Fogue

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Comm. 1-6: Should the Debt Service Account and the Capital Fund continue to be combined? If so, why?

Response: Yes, the Debt Service Account and the Capital Fund should continue to be combined in order to provide Newport with the ability to access funds earmarked for capital projects in the unlikely event that cash flow problems would put them in jeopardy of missing a debt service payment.

Prepared by: Julia Forgue

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Comm. 1-7: On February 1, 2007, NWD filed (in Docket 3675) a balance sheet. This balance sheet indicated that as of 12/31/06, NWD had accounts receivable of \$2,529,679.

- a. Please provide an aging of this A/R balance.
- b. Please provide the name and balance of any customer that has an A/R balance of greater than \$35,000. Indicate the portions of any such balances that are past due.
- c. Explain why the 12/31/06 A/R balance is close to double the 12/31/05 A/R balance of \$1,390,708.
- d. Does NWD deem any of its A/R to be uncollectible?
- e. Explain the steps NWD has taken to reduce this large A/R balance.
- f. If NWD were to collect these receivables in a timely manner, could these funds be used to eliminate a large portion of the Accounts Payable owed to vendors and the City? Explain why or why not.

Response: The answer to this question begins with question (c). The City accrues revenue at fiscal year-end for earned but unbilled revenues. Accrued revenues at June 30, 2005 was \$340,150 for the portion of earned revenues billed in August, September and October of 2005. The City Water Fund switched to a new computerized billing system, and, with the advice of outside auditors, determined that the billing on July 1, 2006 should be accrued at June 30, 2006 as earned and unbilled. This, combined with increased rates at June 30, 2006 led to an accrual of \$1,624,945. The City traditionally does not reverse this accrual because there are earned and unbilled receivables at any given point. The accrual is adjusted at fiscal year-end to reflect the appropriate amount. The difference between the accrued revenues in FY05 and FY06 is the reason that the 12/31/06 receivables appear so much larger. This will smooth out after the FY06 year. As such, no significant discrepancy between the prior year’s customer account receivable balance and the current year’s receivable balance exists.

No customer has an A/R balance greater than \$35,000.

An aging report by customer account number is a 133-page document. I have, however, enclosed the last page of the report, sorted by balance outstanding in an ascending order, reflecting a total outstanding account receivable balance as of March 29, 2007, of \$531,721.69. Please note the largest outstanding balances, with account numbers beginning with 089-, are attributable to the Navy.

NWD does not deem any of its A/R to be uncollectible.

The accounts receivable balance has been reduced from those reflected on the 12/31/06 quarterly report. It should be noted the report captures a moment in time and accounting entries are constantly being made to increase or reduce balances. NWD exercises its right to

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shut off accounts with an unpaid balance and that deterrent causes customers to at least negotiate a payment plan with us.

All funds received in the normal course of business from customers are used to alleviate operating expenses including both vendors and the City.

Prepared by: Julia Forgue and Laura Sitrin

CITY OF NEWPORT
Commission First Set Data Requests 1-7
Aging of Accounts Receivable @ 3/29/07

Account	Period	Billing	Usechg	WQPchg	Wat st tax	Sew st tax	Wat Pen	Other chg	Credit	Total
B099-01700	90 Day	13.25	-	-	-	-	0.83	1,257.00	-	1,271.08
B079-10200	90 Day	26.64	1,076.59	77.24	82.64	-	31.24	-	-	1,294.35
B037-12800	30 Day	13.25	1,194.61	85.71	-	-	9.59	-	-	1,303.16
B038-01210	90 Day	37.02	1,180.55	84.69	-	-	32.30	-	-	1,334.56
B089-01400	Current	13.25	1,345.36	-	-	-	10.72	-	-	1,359.29
B089-01400	30 Day	13.25	1,335.32	-	-	-	-	-	-	1,362.46
B079-03230	Current	10.34	1,261.61	90.51	37.03	46.52	9.49	-	-	1,371.27
B078-03800	30 Day	13.25	1,180.30	84.68	-	-	40.77	-	-	1,380.07
B041-10403	90 Day	13.25	1,237.28	88.77	-	-	5.03	-	-	1,418.80
B089-01300	90 Day	0.86	1,412.91	-	-	-	-	-	-	1,480.28
B079-07230	Current	13.25	1,284.09	92.13	90.81	50.98	10.39	-	-	1,502.29
B010-05660	30 Day	13.25	1,294.26	92.86	40.55	-	81.39	40.00	-	1,532.96
B030-07970	90 Day	13.25	1,285.09	113.23	-	-	0.83	1,572.00	-	1,586.08
B099-05400	90 Day	13.25	-	-	-	-	0.83	1,572.00	-	1,586.08
B099-38800	90 Day	13.25	-	-	-	-	-	1,572.00	-	1,682.04
B099-40100	90 Day	-	-	-	55.02	55.02	-	-	-	1,783.54
B006-08010	90 Day	39.75	1,418.44	101.77	50.86	58.34	114.38	-	-	1,826.47
B078-03800	Current	13.25	1,587.30	113.88	49.58	62.46	-	-	-	2,008.47
B089-01900	Current	7.50	2,000.97	150.96	-	-	53.85	-	-	2,348.66
B078-13111	90 Day	39.66	2,104.19	163.14	-	-	101.52	-	-	2,617.95
B088-00300	90 Day	79.55	2,273.74	175.33	-	-	97.65	-	-	2,730.02
B022-01000	90 Day	13.32	2,443.72	182.44	-	-	65.08	-	-	2,827.28
B078-13112	90 Day	36.88	2,542.88	185.64	-	-	67.74	-	-	2,880.15
B078-13113	90 Day	39.35	2,587.42	185.64	-	-	34.87	-	-	4,932.62
B089-01902	30 Day	13.25	4,375.48	509.02	-	-	-	-	-	5,500.65
B022-38410	Current	13.25	5,120.06	367.34	-	-	56.91	-	-	7,219.49
B089-01700	30 Day	13.25	7,149.33	-	-	-	26.41	-	-	7,441.12
B089-01700	90 Day	11.74	7,402.97	-	-	-	-	-	-	7,836.89
B022-35124	Current	-	7,312.27	524.62	-	-	134.84	-	-	8,769.09
B089-01700	60 Day	13.25	8,621.00	-	-	-	-	-	-	9,081.47
B089-01902	Current	13.25	8,123.21	945.01	-	-	-	-	-	12,169.73
B089-01700	Current	13.25	12,156.48	-	-	-	47.07	-	-	13,262.86
B089-01500	30 Day	13.08	13,202.71	-	-	-	-	-	-	21,656.78
B089-01300	Current	13.25	21,643.53	-	-	-	172.45	-	-	21,876.45
B089-01300	30 Day	13.25	21,690.75	-	-	-	337.47	-	-	21,947.03
B089-01300	60 Day	13.25	21,596.31	-	-	-	396.17	-	-	25,768.27
B089-01400	60 Day	39.75	25,332.35	-	-	-	-	-	-	531,721.69
			446,630.64	20,921.20	1,867.06	1,336.05	7,014.17	8,929.90	-	
			45,022.67							

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Comm. 1-8: With regard to NWD’s 12/31/06 balance sheet. Please explain what appears to be a new long term liability in the amount of \$231,370 with the description “Net other post-employment benefits obligation”. If this item had previously been included elsewhere on the balance sheet, please explain.

Response: The City of Newport implemented Governmental Accounting Standards (GASB) #43 and #45 on Other Post Employment Benefits (OPEB) and OPEB Trusts. The actuarial valuation of retiree health insurance, and where applicable, life insurance for the combined City and Schools as of July 1, 2005 is \$123,721,034. The actuarially determined annual required contribution (ARC) was \$9,706,604. The City and School actually funded \$5,239,666 from both pay-go and Trust contributions. The difference between the ARC and actual funding of \$4,466,938 is considered a liability that has to be posted to the City’s books. The Water Fund’s share of the liability is \$231,370. A full description of the City’s plan and funding levels can be found in the CAFR footnotes starting on page 69.

Prepared by: Laura Sitrin

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Comm. 1-9: The Settlement in Docket 3675 allowed annual City Services expense of \$285,005 for the rate year ending June 30, 2006 (Docket 3675 Settlement Schedule TSC-7). At the hearing in Docket 3675, Mr. Catlin agreed that the amount NWD would pay to the city for City Services would remain fixed until the “next rate case”. Ms. Forgue on behalf of both NWD and the City of Newport also indicated that the amount NWD would pay to the city for City Services would remain fixed until the “next rate case” (See transcript dated 11/9/2005, pages 90-92).

- a. Please confirm that the City has not billed NWD (or NWD paid) an annual amount for City Services in excess of \$285,005 for the fiscal year ended June 30, 2006 or the fiscal year that will end June 30, 2007.
- b. If NWD is not able to confirm (a) above, please explain.

Response:

- a. The City of Newport billed the Water Fund the following for City Services in FY2006 and to date in FY2007:

FY2006 1 st Quarter	\$49,713.25	
FY2006 2 nd Quarter	49,713.25	
FY2006 3 rd Quarter	71,251.25	
FY2006 4 th Quarter	<u>71,251.25</u>	
FY2006 Total	\$241,929.00	
FY2007 1 st Quarter	71,251.25	
FY2007 2 nd Quarter	71,251.25	(unpaid)

- b. n/a

Prepared by: J. Forgue

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Comm. 1-10: With regard to the financial and management audit of Newport Water (see Docket 3675 Settlement):

- a) Will the audit be completed and findings distributed to the parties in the current docket by June 30, 2007?
- b) If no, why not?
- c) What is the scope of the audit?

Response:

- a) Yes the audit will be completed and distributed to the parties in the current docket by June 30, 2007.
- b) n/a
- c) Attached is a copy of the scope of work which is included in the contract for professional services with Infrastructure Management Group, Inc.

Prepared by: J. Forgue

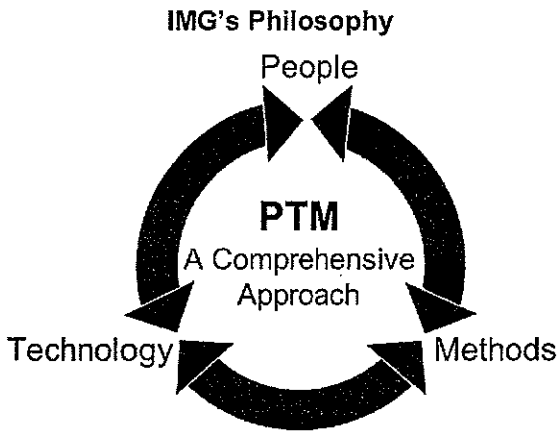
Section
B

Scope of Work

Overview

Infrastructure Management Group (IMG) is pleased to describe our approach for providing financial and management consulting services to the City of Newport's Department of Public Works. The IMG project team members have conducted over 100 similar studies across the U.S. and abroad. This unparalleled experience is coupled with sophisticated organizational assessment techniques that have been honed over many years to produce maximum value for our clients. The output of our studies are

not simply reports, but a roadmap for organizations such as yours to move forward with a clear understanding of where they are today and the opportunities for financial and organizational improvements moving forward.



The following section addresses our IMG's overall philosophy towards executing this assignment as well as our detailed project approach. Our philosophy is to examine the public works department from a broad perspective and understand what each of its parts ("Divisions") is trying to accomplish. Often as a public works department ages it becomes misaligned from its strategic focus, which is typically established by the City. For this project, IMG will initially gain an

understanding of the City's strategic mission with respect to the public works functions, and then begin assessing its current level of effectiveness and efficiency. If a consultant performing an assessment simply looks at each singular activity without understanding the larger strategic focus of the business, they will miss the big picture. IMG will utilize its PTM "People, Technology, and Methods" technique to provide the Department with the highest quality assessment, aimed at yielding both insightful and implementable recommendations across all of your organization's dimensions:

People- What work do they do and how do they do it? How are they organized? How do they communicate? How many staff are necessary? What skills and competencies are needed? How are they incented and rewarded? What activities are being done that don't add value? Are personnel qualified and properly trained? Do they carry out tasks that are aligned with core services and functional missions? Are there specific activities and functions that people perform that could best be done by others, or conversely, are these activities currently being outsourced that could be brought in house?

Technology- What systems, tools, and technologies are available? How are they used? What information is needed to do the job and who has it? How does the workforce acquire and share information? Are the technologies utilized by the

Customized Approach:
IMG does not take a one-size fits all approach; we will customize our evaluation and recommendations based on the specific needs of City and its customers. IMG does this using a sophisticated interactive management approach coupled with real time public works

City enhancing service or hindering it? Would additional or alternate technologies be beneficial? What training is needed? Which current processes can be automated by better use of technology? How does the Department keep up with changing technologies that could make it more efficient and cost effective in the future?

Methods- How are the tasks being executed and priorities established? How is progress monitored and reported? Are there better ways of doing things? How can the core business processes be streamlined? What people, with what skills and tools, are necessary? Is work being done safely? Do supervisors supervise other supervisors or inspectors inspect previously inspected work? Are there non-value added steps that can be eliminated? Are there any "sacred cows?"

These three dimensions of the enterprise - People, Technology, and Methods or "PTM"- are interrelated in such a way that they must be dealt with concurrently to properly evaluate and improve the performance of any organization. Every public works department has its own unique characteristics that affect the manner in which dimensions inter-relate to provide services; however, there is very little need to "reinvent the wheel". There are lessons, or "best practices", that can be applied from what has been successfully accomplished in other departments. One way in which IMG will seek to define those practices that are applicable to the City will be to make use of the support materials and programs accessible through the American Public Works Association (APWA), American Water Works Association (AWWA) and the Water Environment Federation (WEF). The APWA, WEF and AWWA serve as a clearinghouse for what has worked in providing effective public works, water and wastewater services in United States. IMG will use the extensive experience of its personnel, coupled with the inventory of best practices as defined by AWWA, WEF and the APWA, when making recommendations to the City.

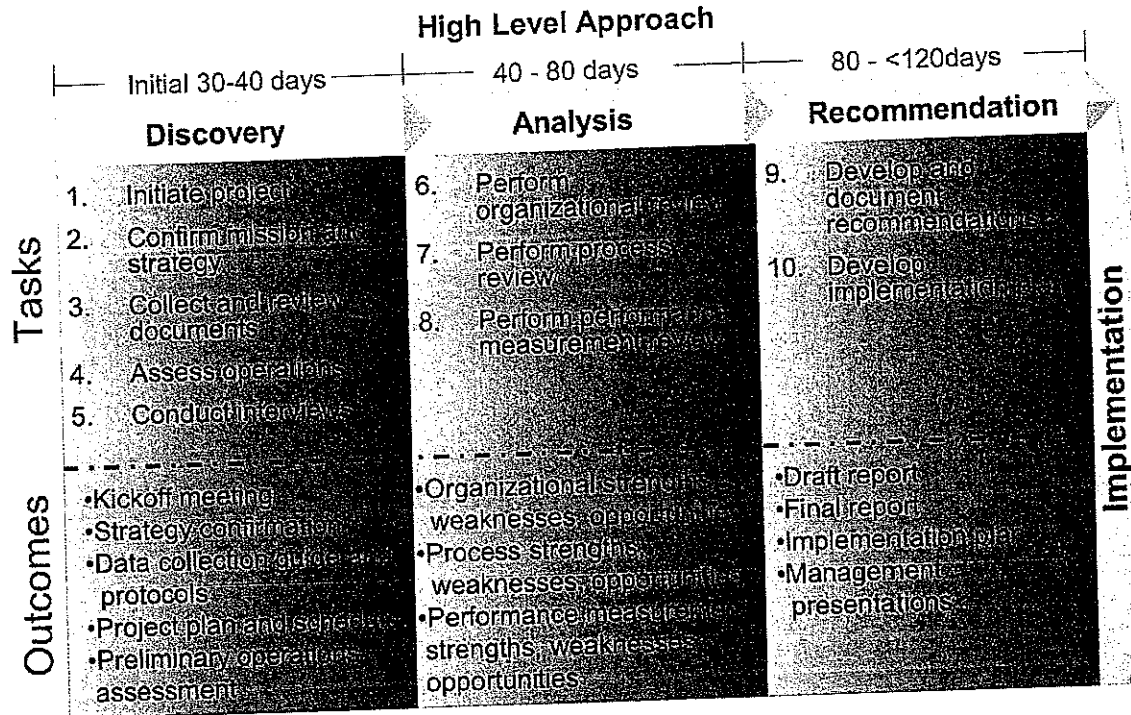
Three business elements, people, technology, and methods, or "PTM," are interrelated in such a way that they must be dealt with concurrently to evaluate and improve the performance of any

Work Plan and Methodology

IMG will employ a proven methodology and supporting work planning process to assess the Divisions within scope of this effort. Our approach is multi-phased to ensure both a timely and comprehensive evaluation. To facilitate a comprehensive and swift evaluation, we will rely on the cooperation of City staff in providing relevant documentation, in addition to being available for interviews and focus groups.

The approach is comprised of three distinct phases, which include:

- Discovery
- Analysis
- Recommendation



Discovery Phase

During the discovery phase, IMG will initiate the project, develop detailed project plans, complete data collection activities, and perform initial assessments.

Task 1: Initiate Project

Within one week from notice-to-proceed, we propose to begin this project with a kickoff meeting with representatives of the Department of Public Works to define the project scope and objectives, discuss any parameters in which the project will be conducted, define the project timeline and deliverables, identify information needs and data collection protocols, and develop meeting and interview schedules. Effective communication between IMG and the Department will be key to this project's success, so related project management and status reporting protocols will also be defined. Additionally, all project logistical needs (e.g., work space, network access, badging, etc.) will be accomplished during this task.

Task 2: Confirm Mission and Strategy

It is important for IMG to gain a full and current understanding of the mission of the Department of Public Works. Over time, as the City's department and local economy change, the business case for all activities must be periodically reviewed. This is especially true in the City of Newport, where there is a seasonal fluctuation in population. At times agencies get away from their core mission and as a result may find they providing non-core services. Other times they stray away from the core activities and under serve their customers. IMG, using a facilitated discussion techniques and workshops, will gain an understanding of the desired mission and supporting strategies of the Department – and the

respective Divisions – and will use this information to properly frame our analysis, gauge overall performance, evaluate management and staff buy-in to organizational goals, and develop improvement recommendations going forward. We have found at other public works departments that over time the business of running the Department becomes misaligned from its core strategic mission and commitments to stakeholders (City Council, taxpayers, ratepayers, wholesale customers, business partners, etc.). As an example, public works departments sometimes continue to provide services that are no longer desired or needed, or are outside of its core competency; and other times they do not provide services that are consistent with the strategic mission. Determining the core strategic mission of the Department provides the necessary clarity to focus the balance of the assessment and ensure alignment of resources and stakeholder groups going forward.

Task 3: Collect and Review Documents

IMG's approach is to gather key information from the Department in advance of performing any physical investigations or one-on-one interviews. We will request specific information concerning the operational and financial aspects of the Department. Such as:

- Organizational charts
- Departmental budgets
- Functional roles/responsibilities
- Performance metrics
- Service contracts
- Engineering and Project information
- Solid waste, streets, water and wastewater technical / operational data

Alignment - As time evolves and a department grows, the core mission changes, but the work performed does not always reflect these changes.

Alignment is the notion of getting the business or work performed in sync with the

An important objective of this task is to fully understand how the Department spends its money. We will review the sources of revenue to determine where funds are coming from and dissect the financial data to determine where the funds are being utilized. This information will become a key component in creating performance metrics that will enable IMG to gauge the Department's efficiency. In subsequent tasks, IMG will evaluate the metrics that measure performance of Department in terms of operational and capital performance.

Task 4: Assess Operations

IMG will perform a physical evaluation (e.g., "site inspections") of the Department of Public Works. This evaluation will include a review of work practices, a survey of equipment and facilities, observation of daily activities, and a gaining of familiarity with the local geography and terrain. IMG recognizes that the City has a highly variable population, based on season fluctuations. We will take into account the impact and effects this variable population has on the Department. During this evaluation we will be able to determine the level of activity and types of work that are currently being performed. This information will subsequently be balanced against other information collected during the Discovery Phase. Key points we will examine include the make up of work crews, type of equipment and resources used; the management practices used in the administration, engineering and planning, and customer service functions. Additionally, this task allows us to gain insights into our subsequent evaluation of the staffing levels in the various divisions.

Task 5: Conduct Interviews

After gathering documents and performing site inspections, IMG will set up interviews with various staff across the divisions, functions, and management levels to gain a more detailed insight into the daily operations of how Department of Public Works is managed, and begin to frame the "People, Technology, Methods" issues which will require more detailed examination in the Analysis Phase. Typically the interviews are 45-60 minutes, and structured such that they are non-obtrusive and do not effect daily business. Documentation of all interview results will be provided as necessary.

Analysis Phase

Following the Discovery Phase and examination of pertinent information, we will begin an analysis of the Department's operations and organizational capabilities

Task 6: Perform Organizational Review

There are several distinct factors to consider in evaluating organizational re-alignment opportunities. They may include: the organization's history and culture, strategic goals and initiatives, personalities and preferred management philosophies of individuals, skills and capabilities of the work force, and the complexity of work to be performed. There is no one, best organizational structure for work groups. Any one structure may be more valid and effective for one organization compared to another or for the same organization under different conditions and circumstances. Effective organizational structures can include organizing by function, by discipline, or by cross-functional (e.g., "process") work units. Some structures are supported by the philosophy of "command and control" where employees function well under the direct supervision and control of others. Others lean towards more "employee-empowered" structures, with flatter hierarchies, and greater spans of control. Developing the most appropriate organizational structure depends as much on processes to perform and activities to manage, as on the inter-relationships of work group culture, i.e. the relationship between management and labor, their attitudes and perceptions of risks and responsibilities, and the beliefs of management and staff within the enterprise.

There is no one, best organizational structure for work groups. Any one structure may be more valid and effective for one organization compared to another or for the same organization under different conditions and circumstances.

How these factors affect the organizational structure must be examined in concert with the goals and objectives of the organization to determine:

- The effectiveness of the existing overall structures and the appropriateness of another.
- The work currently being performed – and forecasted to be performed – to determine staffing levels and distribution of assignments
- The appropriate blend of in house vs. contracted out work activities
- Necessary spans of control and management layers
- The physical location of work groups
- The human capital management practices (e.g., workforce planning, succession planning, incentive/reward systems, performance assessment programs, career planning and development programs, training, etc.) necessary to improve the efficiency and effectiveness of the "people resources"

Our experienced project team members will bring hands-on experience and the appropriate diagnostic tools and "best practices" to properly assess the organizational dimension of the Department across all functions within scope.

Task 7: Perform Process Review

As important as assessing the structure within which resources work, is the underlying business processes (the "Methods") they use to complete the work. This task will take a "process view" of the Department, first determining the core business processes that are performed (e.g., cleaning sewers, paving roads, maintaining sidewalks, producing water, etc.) and examining:

1. The efficiency of the process – percent of value added vs. non-value added activities, cycle times, resources consumed, etc.
2. The effectiveness of the process – meeting stakeholder (customers, council members, taxpayers, etc.) expectations, leveraging appropriate tools and technologies, exceeding quality goals, providing accurate information for decision making, etc.

A Balanced Scorecard evaluates:

Effectiveness: Are we doing the right things?

Efficiency: Are we doing them the right way?

Quality: Would the customer continue to pay me to perform this activity if they knew how?

We will pay special attention to the relevant financial and administrative process (e.g., revenue and expenditure accounting, financial reporting, personnel and resource management), to ensure the appropriate controls are in place, and inter-departmental coordination is occurring.

Task 8: Perform Performance Measurement Review

Once the operational, organizational, process, and financial analysis activities are underway, IMG will assess the performance metrics that are in place to gauge the Department's activities. These metrics should follow a "balanced scorecard" approach, which includes effectiveness, efficiency and quality. This approach captures the true value and cost of service provided by the Department. The majority of these metrics is common to the public works, water and wastewater industry or has been developed by IMG to accurately reflect the activity of the Department.

Sample Operational Performance Metrics		
Streets and Sidewalks	Solid Waste	Water and Wastewater Utilities
Percentage miles in satisfactory condition	Cost per ton	Cost per MGD treated
Cost per mile street rehabilitated	Stops per route	Percentage meter re-reads
Employees per unit maintained	Cost per stop	Employees per connection
Cost per mile maintained	Population served per stop	Miles of system per staff
Trucks per mile plowed (Winter)	Equipment and crew size per route	Customers per customer service staff
Snow removal response time	Tonnage per route collected	Water loss per connection

In this task, we will develop a comparative analysis of metrics with the best practices from across the country. This comparison will allow IMG to document the current level of effectiveness and efficiency of the City against other public work's departments and IMG database of best practices. This analysis provides an indication of potential additional areas that may be improved across the Department. A shortlist of some of the typical metrics we would review is depicted in the table.

Recommendation Phase

During this phase, IMG will develop an inventory of performance improvement recommendations across the Department, work with the City to gain buy-in to the recommendations, and define an implementation plan for achieving the results.

Task 9: Develop and Document Recommendations

IMG will consolidate and analyze the information gleaned in the prior phases to develop a draft report. The report will give an overview of IMG's findings, present a series of analysis, and include our range of opportunities for improvement across the Department. We will then work with the Department's leadership, including City officials, to reach consensus as to which actions are politically and financially feasible, and then finalize our deliverable. We stand ready to support any necessary presentation of our results to key stakeholder groups.

Task 10: Develop Implementation Plan

To complete our engagement, IMG prepares a recommended program for implementation. Many of the suggested potential improvements might be immediately achievable and require little outside involvement, but others might require a continued engagement to ensure proper implementation as well as sustainability. IMG is not the typical consultant that simply writes a shelf study or makes a recommendation that they are not willing to live with through an implementation. We demonstrate our value and competitive advantage by creating workable short and long-term solutions. That said, we offer a comprehensive plan for implementation that will include:

- Tasks, timelines and schedule
- Deliverables and outcomes
- Resource requirements
- Governance structure and accountabilities
- Quantifiable and non-quantifiable benefits

This deliverable will prioritize implementation efforts based on:

- **Efficiency / service impact:** Improvement in operational efficiency, and enhancement of service quality
- **Ease of Implementation:** Degree of organizational change, cost of execution, level of effort required and length of implementation period
- **Risk:** Potential operational and financial problems, likelihood of shortfalls or failures and impact of failed or inadequate implementation

Project Schedule

The tasks are basically sequential, in that each will build upon the results of previous activities. However, there is some overlap as the interviews and physical inspections may be initiated before the document review is complete. The schedule also allows for some refinement of parameters and policies that may occur during the course of the project.

IMG proposes to begin this project with a kickoff meeting with representatives of the Newport Department of Public Works to lay out a refined project timeline, identify information needs, and set up meeting and interview schedules. This meeting will be scheduled as soon as possible after contract award to IMG.

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Comm 1-11: The previous rate case allowed \$838,893 annually for Transmission and Distribution maintenance. For the 6 months ended 12/31/06, NWD had expended \$1,387,881. Please explain the large increase over the amount allowed.

Response: The \$1,387,881 referred to in the PUC quarterly reports also includes capital projects that are transmission and distribution maintenance related. The previous rate case allowing \$838,893 does not include capital projects.

Prepared by: K. Mason

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
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Comm 1-12: With regard to the \$40,000 being requested for temporary employees:

- a. What tasks will be assigned to temporary employees?
- b. Provide the analysis that NWD relied on to determine that “it is more cost effective to rely on temporary employees during the peak summer period rather than have permanent employees work overtime”.

Response:

- a. Tasks assigned to temporary employees include unskilled labor work such as grass and brush cutting at the reservoirs, asphalt patch of water utility trenches, manual construction labor, and assisting meter repair men with changeouts.
- b. At an average overtime rate of \$30/hour for full time employees it is clearly beneficial to utilize temporary employees at \$12/hour, even if operating at a reduced productivity rate.

Prepared by: Ken Mason

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
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Comm. 1-13: Are the services of temporary employees acquired through a temporary employment agency or through other means? Please explain and identify the terms of the contract for temporary services.

Response: The City’s Human Resources Department coordinates temporary/seasonal employment . The Department Director completes a Personnel Requisition Form which requires certification from the City’s Finance Director that funds are available and approval from the City Manager before being processed by the Human Resources Department. A temporary employee is allowed to work for a period not to exceed 19 weeks.

Prepared by: J. Fogue

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
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Comm. 1-14: Please explain why NWD is responsible for unemployment monies paid to temporary employees.

Response: When an employee is separated from employment for any reason, whether they are full time, part time, or temporary, they may apply for unemployment. The RI Division of Labor and Training (RIDLT) sends a Notice of Claim Filing to the City and all other employers from the former employee’s base period. The City must complete the form indicating the last day actually worked; whether the employee earned at least 20 times the minimum wage in the four previous weeks; reason for unemployment; expected return date, if applicable; and whether the employee is eligible to collect a pension. The City also reports all wages quarterly to the RIDLT. The RIDLT makes the determination as to whether a former City employee is eligible to collect unemployment benefits to be paid by the City. In cases of shorter term employment, the employment history from other employers is combined and a percentage of the benefit is charged to the City

Prepared by: J. Forgue

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT

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Comm. 1-15: Please explain why unemployment monies are being paid to a terminated employee. Is there evidence to suggest that these payments will continue into the rate year?

Response: As explained in Comm 1-14, an employee who is separated from employment for any reason may apply for unemployment. In cases where there is a disqualifying event (i.e. termination with cause) the employee and employer are interviewed by the RIDLT. In the case of the terminated Water Division employee referenced in the question, the RIDLT made the initial determination to deny unemployment benefits. The employee appealed the decision and the RIDLT overturned the original ruling and approved the claim for unemployment benefits. The employee was then eligible to collect unemployment benefits for 26 weeks. The last unemployment for this specific employee was paid by the City to RIDLT in September, 2006. There are no known former Water Division employees at this time for which the City would be responsible for unemployment benefits in the rate year.

Unemployment Claims is an example of an expense that occurred that was not budgeted.

Prepared by: J. Forgue

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
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Comm. 1-16: Does NWD acquire its electricity through competitive supply, National Grid’s Standard Offer Service or National Grid’s Last Resort Service? If NWD does have a competitive supply agreement, please provide details on pricing and contract duration.

Response: The City of Newport, including the Water Department, entered into a membership participation agreement with the Rhode Island League of Cities and Towns (League) for the Rhode Island Energy Aggregation Program (REAP). The membership participation agreement gives the League the authority to act as an agent in negotiating energy related services. The League selected Constellation New Energy as its supplier for members of REAP. The contract with Constellation New Energy allows the supplier to charge \$0.05963 per kilowatt hour for the term of the contract plus the next 12 months after the contract date. The term of the contract is May 15, 2004 through December, 2008.

Prepared by: Laura Sitrin

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
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Comm 1-17: If NWD acquires its electricity through National Grid’s Standard Offer Service, why is it appropriate to use \$0.10/kwh as a base and then increase the rate by 6% to \$0.106/kwh considering that National Grid’s Standard offer was lowered to \$0.083/kwh for effect January 1, 2007.

Response: NWD used this rate after adding all line items consisting of energy charge, customer charge, distribution energy, distribution charge, transmission charge, transmission adjustment, transition charge, and conservation charge. Enclosed is a worksheet showing documentation of the FY06 electricity expenditures and proposed rate year with adjustments for new equipment and normalized weather conditions. NWD has assumed a 6% increase in rates, which is consistent with historical averages.

Prepared by: Ken Mason

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
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Comm. 1-19: Please breakdown the requested consulting fees of \$170,000 by type of service.

Response: The breakdown of the Consultant fees as shown in Schedule RFC C is as follows:

Raftelis Financial: \$72, 400

Keough & Sweeney: \$38,500

RIPUC Fees: \$28,100

SRF Borrowing costs: \$30,000

Prepared by: J. Forgue

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
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Comm. 1-20: If employees of NWD did not take advantage of mileage reimbursement during the test year, what evidence indicates they will take advantage of mileage reimbursement in the rate year?

Response: There is no evidence that can be provided. However if an employee requests mileage reimbursement for use of their personnel vehicle for water division business, reimbursement will be required.

Prepared by: J. Forgue

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
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Comm 1-21: What is the reason for the rate year increase of \$10,588 in line item 296-Service Maintenance?

Response: A large increase in the price of copper was experienced last year with no supplier able to hold their quoted pricing for more than 30 days. The schedule for the replacement of lead services in the distribution system has increased associated with the work to implement the short term improvements at the Water Treatment Plants.

Prepared by: Ken Mason

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Comm. 1-22: For each accounting/bookkeeping function necessary to operate Newport Water (i.e. budgeting, billing, collections, banking, purchasing, day to day bookkeeping, financial reporting, accounts receivable, accounts payable, etc.) please identify the task and the person or entity that performs the task.

Response:

<u>Task</u>	<u>Entity</u>
Budgeting	Rate Filing – Dep. Dir., Water Municipal Budget – City Finance (The City has adopted a policy whereby the municipal operating budget agrees to the approved rate settlement and is not adjusted until such time as new rates may be approved with the exceptions of salaries and benefits.)
Billing	Water Department
Collections	City Finance Dept. – Collections Office
Banking	City Finance Dept.
Debt Service	City Finance Dept.
Day to Day Bookkeeping	
Review of General Ledger	Deputy Director Water
Journal Entry Preparation	Water and Finance Dept.
Posting to System	City Finance Dept.
Cash and Account Reconciliation	Deputy Director Water/City Finance Dept.
Financial Reporting	
Reporting to City Council	City Finance Dept.
Certified Annual Financial Report	City Finance Dept.
Monthly PUC Reporting	Deputy Director Water
Quarterly PUC Reporting	Deputy Director Water
Annual PUC Reporting	Deputy Director Water
Accounts Receivable	
Subsidiary Ledgers	Water Department
General Ledger	Finance Dept.
Accounts Payable	
Requisitions	Financial Analyst, Water

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Expense monitoring	Deputy Dir., Water
Processing of Requisitions & Vouchers	City Finance Dept
SRF Loan Accounting	City Finance Dept.

Payroll

Timesheet Preparation/Approval	Water Department
Processing/941/W-2 etc	City Finance Dept.

Prepared by: Laura Sitrin

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Comm. 1-23: Please explain the \$11,000 requested for Customer Service – 225 Support Services – List Perfect Labor Cost.

Response: This represents the contract costs with List Perfect to prepare the water billings each month.

Prepared by: J. Forgue

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
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Comm. 1-24: Please explain the \$20,684 requested for Customer Service – 238 Postage – List Perfect.

Response: This represents the postage costs paid to the USPS for the associated monthly billings prepared by ListPerfect.

Prepared by: J. Forgue

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
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Comm. 1-25: With regard to Treatment-Newport Plant-275 Repair and Maintenance Equipment, why is NWD only requesting \$35,000 in the rate year when the itemized list of equipment needed and tasks to be performed (Sch RFC C) total \$45,000?

Response: With the recent completion of electrical upgrades and SCADA system at the plant, the \$10,000 line item for Electrical, control and instrumentation troubleshooting repairs and maintenance was removed from the final rate year request. The line item in error was not removed from Schedule RFC C.

Prepared by: Ken Mason

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
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Comm. 1-26: Why is income from rental of property being reduced from \$85,000 in the test year to \$75,100 in the rate year?

Response: Income from rental of property is projected to decrease in the rate year because Newport Water modified two tower lease agreements. ATT Wireless and Cingular merged companies in April 2005. In an effort to merge the two companies a review of existing sites was completed and a lesser lease value was negotiated for our locations.

Prepared by: Karen Garcia

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT

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Comm. 1-27: Why does NWD expect income from Water Penalties to increase from \$5,495 in the test year to \$20,000 in the rate year?

Response: Anticipated Water Penalty revenue of \$20,000.00 was estimated based on the penalty revenue collected as of January 2007. Current Penalty Revenue Collection as of 03-31-07 was \$14,026.79. Based on the current collections, the monthly average penalty revenue of \$1,509.00, we anticipate collections just below \$20,000.00 by year end and for the rate year.

Prepared by: Karen Garcia

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
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Comm. 1-28: Is it NWD’s position that the lower than average TY 2006 consumption of 2,085,969 thousand gallons is a result of the abnormally wet Spring of 2006 or is the lower consumption due to other factors? Please explain.

Response: It is Newport’s position that the abnormally wet spring of 2006 was a contributing factor to the lower than average consumption of FY 2006, but that other factors such as conservation awareness also led to the lower than expected water sales. As shown on the consumption analysis provided in response to PWF’s 1-14, the trend in water sales in Newport has been downward over the past seven years. The trend analysis indicates that consumption in FY 2006 should have been approximately 2,130,000 thousand gallons and that the general downward trend in consumption over the past five years should not have resulted in consumption levels that were experienced in FY 2006 until FY 2008. Therefore it is surmised that the abnormally high amounts of rain during FY 2006 contributed to the lower than expected water sales during that year.

Prepared by: Harold Smith