

**KEOUGH & SWEENEY, LTD.**

ATTORNEYS AND COUNSELORS AT LAW

100 ARMISTICE BOULEVARD

PAWTUCKET, RHODE ISLAND 02860

JOSEPH A. KEOUGH JR.\*  
JEROME V. SWEENEY III\*

SEAN P. KEOUGH\*  
MARGARET HOGAN SWEENEY\*

JEROME V. SWEENEY II  
OF COUNSEL

\*ADMITTED TO PRACTICE IN  
RHODE ISLAND & MASSACHUSETTS

TELEPHONE  
(401) 724-3600  
FACSIMILE  
(401) 724-9909

www.keoughsweeney.com

BOSTON OFFICE:  
171 MILK STREET  
SUITE 30  
BOSTON, MA 02109  
TEL. (617) 574-0054  
FAX (617) 451-1914

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2007 MAY -7 PM 2:47  
PUBLIC UTILITIES COMMISSION

May 3, 2007

Ms. Luly Massaro, Clerk  
Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

RE: City of Newport, Utilities Department, Water Department – Docket 3818

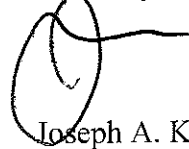
Dear Ms. Massaro:

Enclosed please find the following documents:

- 1) City of Newport – Utilities Division – Water Department's Response to Portsmouth Water and Fire District's Third Set of Data Responses. Please note that these documents were electronically served on the parties to the Docket on May 2, 2007.

Please file in your customary manner.

Sincerely,



Joseph A. Keough, Jr.

JAK:prc  
Enclosures

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**  
**Docket No. 3818**  
**Response to**  
**Portsmouth Water and Fire District's Data Requests**  
**Set 3**

**PWFD 3-1:** Newport Water's direct testimony and its response to PWFD 1-1 suggest that the variations in water sales from month to month, including the summer months, are attributable to tourism and irrigation. How does Newport Water explain the substantial variation in water sales from year to year, as shown in the response to PWFD 1-14?

**Response:** The variation in water sales from year to year, as shown in the response to PWFD 1-14, is due to the variation in demand for water by Newport's customers.

Prepared by: Harold Smith

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**  
**Docket No. 3818**  
**Response to**  
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**Set 3**

**PWFD 3-2:** RFC Schedule 9 indicates Capital Outlays in FY 2007 of \$2,083,247.

- a. Based on the electronic version of the spreadsheet that was supplied, it appears that the monthly amounts in FY 2006 and through December (2006) in FY 2007 are fixed amounts. Please confirm that these past amounts are the same as those presented in the past reports of capital expenses that have been submitted to the Commission and other parties; if not true, please explain which values are different and why.
- b. The calculations for the balance of FY 2007 (January 2007 - June 2007) appear to be based on the claimed rate funded capital of \$1, 654,969 plus an additional \$428,278. RFC Schedule I indicates that \$378,881 of restricted fund balance will be used in FY 2007. Please explain the \$428,278 value and the derivation of the \$2,083,247 projected to be drawn from the Restricted Capital Account in FY 2007.
- c. RFC Schedule I also shows two EP A grants that reduce the amount of rate funded revenues needed in FY 2007. Have these grants been received? If yes in what amounts? If some or all have yet to be received, when does Newport expect to receive these and are they still the amounts expected?

**Response:**

- a. The amounts reflected in the electronic version of the spreadsheet are consistent with amounts provided in reports submitted to the Commission and other parties.
- b. The amount of \$428,278 represents cash disbursed from the Capital Spending restricted account in FY 2007 to pay for capital expenses incurred in FY2006. The amount of \$2,083,247 that is projected to be withdrawn from the Capital Spending restricted account in FY 2007 includes the \$1,654,969 that is expected to be funded with rate revenues or cash reserves in FY 2007 (as shown on RFC Schedule I) plus the previously mentioned amount of \$428,278 that was withdrawn from the Capital Spending account in FY 2007 to pay for work performed in FY 2006.
- c. The City has been awarded two grants from the EPA Fiscal Year 2005 Appropriations for a total of \$673,500. These grants are part of a reimbursement funding program. To date we have been reimbursed \$468,302.63 for work completed. Additional requests for reimbursement will be submitted to the EPA as the work proceeds on the Ocean Avenue Phase 3 Project after the winter shutdown. Newport Water will be requesting reimbursement in the total amount of \$673,500.

Prepared by: H. Smith and J. Forgue

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**  
**Docket No. 3818**  
**Response to**  
**Portsmouth Water and Fire District's Data Requests**  
**Set 3**

**PWFD 3-3:** Newport Water's response to PWFD 1-8 indicates that Newport Water will be responsible for \$46,941 of the Easton Pond Dam & Moat Study. Please confirm that this is the amount shown as \$47,000 on RFC Schedule I For FY 2007. Please explain why the additional \$100,000 budgeted for improvements from this study is proposed to be rate funded while the \$100,000 for Lawton Valley Reservoir Aeration for FY 2008 is proposed to be bond funded.

**Response:** The \$47,000 figure in RFC Schedule I represents the figure referred to in the response to PWFD 1-8. The Easton Pond Dam & Moat Study will be finalized in June, 2007. The \$100,000 for FY 2008 was included in this filing as an initial amount for recommended improvements to the dam and spillways. It should not be interpreted that \$100,000 is the figure which represents the total capital improvements required for the dam.

The northern and western embankments of the Easton Pond dam sustained significant damage as a result of the April 15-16 storm. Emergency repairs have been made by Newport Water staff and the engineers working on the study are now reviewing the situation in order to provide direction to Newport Water on options for repairing the damage to the dam. The costs are not known at this time but anticipated to be substantially more than \$100,000.

The Lawton Valley Reservoir Aeration project is a proposed design build project estimated to cost \$100,000.

Prepared by: J. Forgue

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**  
**Docket No. 3818**  
**Response to**  
**Portsmouth Water and Fire District's Data Requests**  
**Set 3**

**PWFD 3-4:** Regarding RFC Schedule I, for each project to be funded from the proceeds of the 2007 SRF Schedule B bonds, please provide a listing of each project listed on RFC Schedule I and indicate the status of the project (advertised, awarded, or start) and include the date of advertisement and/or award and/or start date and indicate the estimated completion date.

**Response:** The projects proposed for the 2007 SRF Schedule B bonds as identified in RFC Schedule I are as follows:

- Intake at Gardiner Pond
- LVWTP Chloramine Conversion Construction
- LVWTP pH Adjustment Construction
- LVWTP Sedimentation Basin Improvements
- Station 1 Chloramine Conversion Construction
- Station 1 pH Adjustment Construction
- Station 1 Additional Pretreatment/Clarification Train
- Distribution Main Improvements
- Finished Water Storage Tank

With the exception of the pH Adjustment Construction projects, the projects are programmed for FY 2008 and FY 2009, therefore none of these projects have been advertised, awarded, and /or started at this time. The design documents for the pH Adjustment Construction have been issued a Certificate of Approval from the RIDOH. Upon notification from CWFA regarding availability of funding, the project for both plants will be advertised.

Prepared by: J. Forgue

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**  
**Docket No. 3818**  
**Response to**  
**Portsmouth Water and Fire District's Data Requests**  
**Set 3**

**PWFD 3-5:** Please confirm that the first principal payment on the 2007 SRF Series A bonds does not occur until the September following the estimated completion of all the projects shown as February 2008 on the drawdown schedule provided as part of the response to PWFD 1-18.

**Response:** As shown on the debt service schedule provided in the response to PWFD 1-18, the first payment characterized as a principal payment is scheduled for September 1, 2007; however, the first actual principal payment is not scheduled to be due until September 1, 2008.

Prepared by: Harold Smith

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**

**Docket No. 3818**

**Response to**

**Portsmouth Water and Fire District's Data Requests**

**Set 3**

**PWFD 3-6:** Please confirm that the positive cash position in July 2006 (see response to PWFD 1-6) was in part due to a one time prepayment of \$396,900 of public fire Newport to the Water Fund. Also, please confirm that the monthly report for July 31, 2006 indicates payrolls to be transferred to the City, transfers to WPC for sludge removal at Station One and Vendor payables totaled \$400,062.59 as of July 31, 2006.

**Response:** This is Correct. As an act of good faith, the City of Newport, was invoiced and paid to the Water Department, all Public Fire Protection fees due to the Water Division in advance of the normal monthly billing cycle for fiscal year 2007. As is evident in the response to PWFD 1-6 attachment, the efforts of the City to pay in advance significantly reduced the total due in vendor payables.

Prepared by: Karen Garcia

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**  
**Docket No. 3818**  
**Response to**  
**Portsmouth Water and Fire District's Data Requests**  
**Set 3**

**PWFD 3-7:** PWFD 2-2 asked about FICA/Medicare rates. In light of NWD's response, is Newport also planning to update that page of the 2006 Annual Report?

**Response:** A revised schedule is attached. Upon further review, it appears clear that the preparer put the pension information on the wrong line.

Prepared by: Laura Sitrin



Name of Respondent Newport Water REVISED April 12, 2007	This Report is: (1) ___ An Original (2) <u>X</u> A Resubmission	Date of Report (Mo, Da, Yr)	Year of Report 06/30/06
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**EMPLOYEE FRINGE BENEFITS & ORGANIZATION CHART**

1. Please describe each benefit received by union and non-union personnel. Include costs for individual and family plans, when eligible, termination policy, and any additional information that can provide an understanding of costs incurred.
2. Please supply an organization chart showing staffing count, areas of responsibilities and reporting lines.

Family Health Insurance Plan	12,642.50 annually	*	
Family Dental Insurance Plan	1237.68 annually	*	
Life Insurance .482 per thousand	144.60 annually	eligible after 2 years employment	
FICA/Medicare	7.65% of Salary	eligible one month after hire	
Pension - Municipal Employees of Rhode Isl	8.99% of Salary	eligible one month after hire	

\* Supervisory and NEA employees eligible upon hire; AFSCME employees eligible after 6 months

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**  
**Docket No. 3818**  
**Response to**  
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**Set 3**

**PWFD 3-8:** Regarding the response to PWFD 2-3, 2-7, and 2-9: Who prepares the figures in the Annual Report to the PUC? Are the same source documents used to prepare the rate case? If not, what are the two different sources and why are there two sources? If it is the same source documents, please explain why the values are not the same in the Annual Reports and the Rate Filing. What assurances can Newport Water provide that there are no other conflicting data?

**Response:** The June 30, 2006 Annual Report to the PUC was prepared by the former Deputy Director of Utilities – Finance, who is no longer employed by the City of Newport. The same source documents should have been used for both the Annual Report and the rate case. As the report was prepared by the Deputy Director, who is no longer employed by Newport, it cannot be specifically determined why the values are not the same. Newport will take steps in the future to verify that the source documents used to prepare Annual Reports and Rate filings are the same, and that data does not conflict.

Prepared by: Laura Sitrin

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**  
**Docket No. 3818**  
**Response to**  
**Portsmouth Water and Fire District's Data Requests**  
**Set 3**

**PWFD 3-9:** Please provide a copy of Newport's General Bond Resolution (also known as the Trust Indenture) adopted in conjunction with the SRF loans and a copy of any certification of revenues prepared in conjunction with the sale of the bonds.

**Response:** Please see the attached documents.

Prepared by: L. Sitrin

FIRST SUPPLEMENTAL INDENTURE

between

CITY OF NEWPORT, RHODE ISLAND

and

WELLS FARGO BANK, N.A., AS TRUSTEE

Governing the Issuance of

\$3,000,000 WATER REVENUE BONDS, 2007 SERIES A

Dated March 7, 2007

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Exhibit A - Form of Requisition

## FIRST SUPPLEMENTAL INDENTURE

THIS FIRST SUPPLEMENTAL INDENTURE (the "Indenture") dated March 7, 2007 is made by and between the CITY OF NEWPORT, RHODE ISLAND (the "Issuer" or the "City"), a municipal corporation organized and existing under the laws of the State of Rhode Island and WELLS FARGO BANK, N.A. (the "Trustee"), a trust company duly organized and validly existing under the laws of the United States of America authorized to exercise corporate trust powers:

### WITNESSETH:

WHEREAS, the Issuer and the Trustee have entered into a Trust Indenture dated March 7, 2007 (the "Indenture"); and

WHEREAS, within the limitations of and in compliance with Articles II and IX of the Indenture, the Issuer is authorized to issue one or more Series of Bonds; and

WHEREAS, the Issuer has determined to issue its \$3,000,000 Water Revenue Bonds 2007 Series A (the "2007 Series A Bonds"), the proceeds of which shall be used to provide for the purpose of financing the improvements to the Newport Water System and all attendant expenses, including, but not limited to, engineering costs, the funding of an account in the Debt Service Reserve Fund for the 2007 Series A Bonds, and payment of certain Costs of Issuance (the "2007 Series A Project"); and

WHEREAS, the Indenture provides at Section 205 that, in connection with the issuance of a Series of Bonds, the Issuer and the Trustee shall execute a Supplemental Indenture governing the issuance of the Series of Bonds and setting forth the provisions thereof; and

WHEREAS, the Issuer has taken all necessary action to make the 2007 Series A Bonds, when authenticated by the Authenticating Agent and issued by the Issuer, valid and binding obligations of the Issuer and to constitute this First Supplemental Indenture a valid and binding instrument for the authorization of and security for the 2007 Series A Bonds;

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE FURTHER WITNESSETH: That the Issuer does hereby covenant and agree with the Trustee and with the respective Holders, from time to time, of the Outstanding 2007 Series A Bonds, as follows:

ARTICLE I  
DEFINITIONS AND AUTHORITY

Section 101. Definitions. (1) Except as provided in subsection (2) of this Section, all terms used herein shall have the same meanings in this First Supplemental Indenture as are given such terms in Section 101 of the Indenture.

(2) In this First Supplemental Indenture unless a different meaning clearly appears from the context:

"Agency" means the Rhode Island Clean Water Finance Agency established pursuant to Chapter 12.2 of Title 46 of the General Laws of Rhode Island (1956) as amended;

"Agency Trustee" shall mean the trustee under the Agency Indenture of Trust, defined herein.

"Agency Indenture of Trust" shall mean the Indenture of Trust dated as of February 23, 2004 between the Agency and U.S. Bank National Association as amended and supplemented in accordance with its terms.

"Code" means the Internal Revenue Code of 1986 as amended from time to time and the regulations thereunder and under the Internal Revenue Code of 1954 to the extent applicable.

"Interest Payment Date" shall have the meaning set forth in Section 201(5).

"Loan Agreement" shall mean the Loan Agreement between the Agency and the Issuer dated March 7, 2007 pursuant to which the Issuer will issue to the Agency and the Agency will purchase from the Issuer the 2007 Series A Bonds.

"Record Date" shall have the meaning specified in Section 201(5) of this First Supplemental Indenture.

"Required Debt Service Deposits" with respect to the 2007 Series A Bonds shall mean the payments on the dates and in the amounts set forth in Section 201(4) of this First Supplemental Indenture as such Section may be revised from time to time by operation of Article III or Article IV of the Loan Agreement and which shall take into account amounts, if any, held by the Agency Trustee in a capitalized interest account established for the Issuer pursuant to the Agency Indenture of Trust.

"2007 Series A Bonds" shall mean the City's \$3,000,000 Water Revenue Bonds, 2007 Series A authorized by Section 201 of this First Supplemental Indenture.

"2007 Series A Project Account" shall mean the account in the Project Fund so designated and created by Section 301 of this First Supplemental Indenture.

"2007 Series A Project" shall mean the Project described in the third WHEREAS clause of this First Supplemental Indenture.

"Tax Compliance Certificate" shall mean the Arbitrage and Use of Proceeds Certificate of the Issuer delivered in connection with the 2007 Series A Bonds.

Section 102. Authority. This First Supplemental Indenture is authorized pursuant to the Indenture.

## ARTICLE II DETAILS AND FORM OF 2007 SERIES A BONDS

Section 201. 2007 Series A Bonds. (1) A Series of Fixed Rate Bonds, designated "Water Revenue Bonds, 2007 Series A" and constituting the first Series of Bonds under the Indenture, is hereby authorized to be issued pursuant to Section 204 of the Indenture in the aggregate Principal Amount of \$3,000,000.

(2) The purposes for which the 2007 Series A Bonds are issued are (a) to provide funds to pay all or a portion of the Cost of the 2007 Series A Project, (b) to provide funds for deposit in an account for the 2007 Series Bonds in the Debt Service Reserve Fund, and (c) to provide for all or a portion of the Cost of Issuance of the 2007 Series A Bonds, subject in all cases to the limitations and provisions provided in Article V of the Indenture and in the amounts determined by or pursuant to Article III hereof.

(3) The 2007 Series A Bonds shall be issued in denominations of \$1,000 or any whole multiple thereof, and shall be lettered and numbered separately from one (1) consecutively upward in order of maturity preceded by the letter "R" and with such further or alternate designation as the Trustee shall determine with the approval of the Issuer. In accordance with Section 303 of the Indenture, the 2007 Series A Bonds shall be authenticated prior to delivery by the Trustee, who is hereby appointed Authenticating Agent for the 2007 Series A Bonds. The Trustee is also hereby appointed registrar for the 2007 Series A Bonds.

(4) All 2007 Series A Bonds shall be dated March 7, 2007 and shall bear interest payable from the date of the first advance to the Issuer pursuant to the Loan Agreement, from September 1 or March 1 to which interest has been paid or duly provided, if no interest has been paid, from the Original Issue Date. Principal of or sinking fund installments on the 2007 Series A Bonds shall be payable on the dates, in the Amounts, at the stated rate, which is the Issuer's Market Interest Rate (the "Market Rate") but with a subsidized interest rate (which is 75% of the respective Market Rate (the "Subsidized Interest Rate") shown below:



<u>Payment Date</u>	<u>Principal Amount or Sinking Fund Installment</u>	<u>Market Rate</u>	<u>Subsidized Rate</u>
September 1, 2007	\$ 1,000*	3.71%	2.78%
September 1, 2008	106,000	3.71	2.78
September 1, 2009	110,000	3.78	2.83
September 1, 2010	114,000	3.84	2.88
September 1, 2011	117,000	3.86	2.89
September 1, 2012	121,000	3.88	2.91
September 1, 2013	125,000	3.91	2.93
September 1, 2014	130,000	3.94	2.95
September 1, 2015	134,000	3.99	2.99
September 1, 2016	139,000	4.04	3.03
September 1, 2017	144,000	4.08	3.06
September 1, 2018	149,000	4.12	3.09
September 1, 2019	154,000	4.15	3.11
September 1, 2020	160,000	4.17	3.13
September 1, 2021	166,000	4.19	3.14
September 1, 2022	172,000	4.21	3.16
September 1, 2023	178,000	4.23	3.17
September 1, 2024	185,000	4.25	3.19
September 1, 2025	191,000	4.27	3.20
September 1, 2026	198,000	4.28	3.21
September 1, 2027	206,000	4.30	3.22

\* Represents sinking fund redemption of September 1, 2008 maturity

Interest on the 2007 Series A Bonds (calculated on the basis of a numerator using 30 days and a denominator using a 360-day year) is payable semi-annually on September 1 and March 1 of each year commencing September 1, 2007 each year until maturity (herein referred to as an "Interest Payment Date"). If any Interest Payment Date or Principal Payment Date is not a Business Day, interest or principal shall be paid on the next succeeding Business Day with no additional interest accruing.

(5) The Principal Amount of, Redemption Price of and interest on the 2007 Series A Bonds shall be payable by the Paying Agent for the 2007 Series A Bonds by check or draft drawn upon the Trustee and mailed to the address of the registered owner thereof as it appears on the registry books of the City determined as of the close of business on the applicable record date, provided, however, that payments of interest to any registered owner of \$1,000,000 or more aggregate principal amount of 2007 Series A Bonds may be paid at the election of the registered owner by wire transfer to the account number of such registered owner on file with the Trustee or to another account number of which the registered owner shall give notice to the Trustee in writing at least five days prior to the Interest Payment Date. The record date for payment of interest on the 2007 Series A Bonds shall be the fifteenth day preceding the date on

which the interest is to be paid, or, if such day is not a Business Day, the next preceding Business Day, provided that, with respect to overdue interest or interest payable on redemption of such 2007 Series A Bonds other than on an Interest Payment Date or interest on any overdue amount, the Trustee may establish a special record date. The special record date may be not more than twenty (20) days before the date set for payment. The Trustee shall give notice of a special record date by mailing a copy of such notice to the registered owners of all 2007 Series A Bonds Outstanding in the manner provided in Section 1001 of the Indenture at least ten (10) days before the special record date or in such other time and manner as the Trustee may deem appropriate. The Principal Amount and Redemption Price of, and interest on the 2007 Series A Bonds shall also be payable at any other place which may be provided for such payment by the appointment of any other Paying Agent or Paying Agents as permitted by the Indenture.

Section 202. [Reserved].

Section 203. Prepayment. 2007 Series A Bonds are subject to prepayment at any time with the consent of the Agency, subject to the terms of the Loan Agreement.

Section 204. Form of 2007 Series A Bonds. Subject to the provisions of the Indenture, the form and tenor of the 2007 Series A Bonds shall be substantially as follows, with such insertions, omissions, and variations as may be required or permitted by the Indenture.

No. R-1

\$3,000,000

CITY OF NEWPORT, RHODE ISLAND

WATER REVENUE BONDS, 2007 SERIES A

Original Issue Date: March 7, 2007

The City of Newport, Rhode Island (herein called the "Issuer"), for value received, hereby promises to pay to the Rhode Island Clean Water Finance Agency (the "Agency"), or registered assigns, the Principal Amount or such lesser amount as shall have been advanced from time to time under and pursuant to a Loan Agreement by and between the Issuer and the Agency relating to the Loan, as defined therein, which this Bond represents, in installments on September 1 of each of the years set forth below with interest meantime, payable from the date of the first advance to the Issuer pursuant to the Loan Agreement at the Interest Rate Per Annum on such Principal Amount, or such lesser amount as shall have been advanced pursuant to the Loan Agreement, from the most recent September 1 or March 1 (each an "Interest Payment Date") to which interest has been paid or provided for or, if no interest has been paid, from the Original Issue Date, payable on September 1, 2007, and semi-annually thereafter on the first day of each subsequent March and September until payment of such Principal Amount. Interest will be calculated on the basis of a 360-day year of twelve 30-day months.

<u>Year</u>	<u>Principal Due or Sinking Fund Installment</u>	<u>Interest Rate</u>
2007	\$ 1,000*	3.71%
2008	106,000	3.71
2009	110,000	3.78
2010	114,000	3.84
2011	117,000	3.86
2012	121,000	3.88
2013	125,000	3.91
2014	130,000	3.94
2015	134,000	3.99
2016	139,000	4.04
2017	144,000	4.08
2018	149,000	4.12
2019	154,000	4.15
2020	160,000	4.17
2021	166,000	4.19
2022	172,000	4.21
2023	178,000	4.23
2024	185,000	4.25
2025	191,000	4.27
2026	198,000	4.28
2027	206,000	4.30

\* Represents sinking fund redemption of September 1, 2008 maturity

The principal or redemption price of and interest on this bond are payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts. The principal of, redemption price of and interest on this bond is payable by check or draft drawn on Wells Fargo Bank, N.A., in the City of Providence, Rhode Island, trustee under the Indenture hereinafter mentioned, or its successor (the "Trustee") and to the Registered Owner at its address appearing on the registration books of the Issuer kept for that purpose at the principal office of the Trustee, determined as of the close of business on the applicable record date, provided that payments of interest to any Registered Owner of \$1,000,000 or more aggregate principal amount of 2007 Series A Bonds may be paid at the election of the Registered Owner by wire transfer to the account number of such Registered Owner on file with the Trustee or to another account number of which the Registered Owner shall give notice to the Trustee in writing at least five days prior to the Interest Payment Date. The record date for payment of interest is the fifteenth day preceding the date on which the interest is to be paid or, if such day is not a Business Day, the next preceding Business Day, provided that, with respect to overdue interest or interest payable on redemption of this bond other than on an Interest Payment Date or interest on any overdue amount, the Trustee may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment.

**THE PRINCIPAL OF OR REDEMPTION PRICE AND INTEREST ON THE 2007 SERIES A BONDS ARE PAYABLE ONLY FROM THE REVENUES OR ASSETS OF THE ISSUER PLEDGED THEREFOR AND NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION OF THE STATE SHALL BE OBLIGATED TO PAY THIS BOND. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THIS BOND.**

This bond is one of a duly authorized issue of bonds of the Issuer (herein called the "Bonds"), issued and to be issued pursuant to Chapter 12.8 of Title 46 of the General Laws of the State of Rhode Island, 1956 (1996 Reenactment) as amended (the "Act") and under and pursuant to a Trust Indenture by and between the Issuer and the Trustee dated March 7, 2007, as amended and supplemented by a First Supplemental Indenture dated March 7, 2007 (the Trust Indenture and First Supplemental Indenture are collectively referred to herein as the "Indenture"). As provided in the Indenture, Bonds may be issued from time to time in one or more series in various principal amounts, may mature at different times, may bear interest at different rates, and may otherwise vary as provided in the Indenture. Except as provided in the Indenture, the aggregate principal amount of Bonds which may be issued thereunder is not limited and all Bonds issued and to be issued under said Indenture are and will be equally secured by the pledge and covenants provided therein.

This bond is a special obligation of the Issuer. The Issuer has pledged to the payment of the principal and redemption price of and interest on the Bonds, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, the proceeds of the Bonds, all Revenues of the Issuer (as defined in the Indenture), and all moneys, securities and other amounts in all funds and

accounts established by or pursuant to the Indenture, except the Operating Fund and the Rebate Fund and the Unrestricted Fund of the Issuer.

This bond is one of a series of Bonds designated as "Water Revenue Bonds, 2007 Series A " (herein called the "2007 Series A Bonds"), issued under the Indenture, and limited to the aggregate principal amount of \$3,000,000. Copies of the Indenture are on file at the office of the Issuer and at the principal corporate trust office of the Trustee and reference to the Indenture and any supplements thereto and to the Act is made for a description of the pledge securing the Bonds and covenants relating thereto, the manner of enforcement of the pledge, the rights and remedies of the Registered Owners of the Bonds with respect thereto, the terms and conditions upon which the Bonds are issued and may be issued thereunder, the conditions upon which the Indenture may be amended with or without the consent of the Registered Owners of the Bonds, and the terms upon which Bonds may no longer be secured by the Indenture.

The Registered Owner of this bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein to take any action with respect to an Event of Default under the Indenture or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

The 2007 Series A Bonds are subject to prepayment at any time with the consent of the Agency, subject to the terms of the Loan Agreement.

This bond is transferable, as provided in the Indenture, only upon the books of the Issuer held by the Bond Registrar by the Registered Owner hereof in person or by his attorney duly authorized in writing, upon surrender hereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Registered Owner or his duly authorized attorney, and thereupon the Issuer shall issue in the name of the transferee a new registered 2007 Series A Bond or Bonds of the same aggregate principal amount, interest rate and maturity as the surrendered 2007 Series A Bond, as provided in the Indenture, and upon the payment of the charges therein prescribed. This Bond may also be exchanged, alone or with other 2007 Series A Bonds of the same series, interest rate and maturity, at the office of the Trustee in Minneapolis, Minnesota, for a new 2007 Series A Bond or Bonds of the same aggregate principal amount, interest rate and maturity, without transfer to a new registered owner, as provided in the Indenture and upon the payment of the charges therein prescribed. The 2007 Series A Bonds are issuable only in denominations of \$1,000 or any whole multiple thereof.

The Issuer shall not be obligated to make any transfer or exchange of this bond between a record date and an Interest Payment Date.

No recourse shall be had for the payment of the principal or redemption price of or the interest on the 2007 Series A Bonds or for any claim based thereon or on the Indenture against any member, officer or employee of the Issuer or any person executing the 2007 Series A Bonds.

It is hereby certified and recited that all conditions, acts and things required by the Constitution or statutes of the State or the Indenture to exist, to have happened or to have been performed precedent to or in the issuance of this bond, exist, have happened and have been performed and that the issue of this bond, together with all other indebtedness of the Issuer, is within every debt and other limit prescribed by law.

This bond shall not be entitled to any security, right or benefit under the Indenture or be valid or obligatory for any purpose, unless the certificate of authentication hereon has been duly executed by the Trustee.

IN WITNESS WHEREOF, the City of Newport, Rhode Island has caused this bond to be executed in its name by the manual or facsimile signature of an authorized officer of the Issuer and its corporate seal (or a facsimile thereof) to be affixed, imprinted, engraved or otherwise reproduced hereon and countersigned by the manual or facsimile signature of another authorized officer of the Issuer.

(Seal)

CITY OF NEWPORT, RHODE ISLAND

By: \_\_\_\_\_  
Authorized Officer

Attested:

By: \_\_\_\_\_  
Authorized Officer

CERTIFICATE OF AUTHENTICATION

This Bond is one of the 2007 Series A Bonds described in the within-mentioned  
Indenture.

WELLS FARGO BANK, N.A., as Trustee

By: \_\_\_\_\_  
Authorized Signatory

CERTIFICATE OF ASSIGNMENT

The Rhode Island Clean Water Finance Agency, for value received, does assign and pledge the above Bond to U.S. Bank National Association, as Agency Trustee under the Agency Indenture of Trust, dated as of February 23, 2004, as supplemented, between the Agency and such Trustee, to be held as provided therein as security for the performance of the obligations of the Agency hereunder.

IN WITNESS WHEREOF, the Rhode Island Clean Water Finance Agency has caused this assignment to be signed in its name and behalf by its duly authorized officer, as of the 7<sup>th</sup> day of March, 2007.

RHODE ISLAND CLEAN WATER  
FINANCE AGENCY

By: \_\_\_\_\_  
Title: Executive Director



ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers this bond

to

\_\_\_\_\_ (Name and Address of Assignee)

\_\_\_\_\_ (Social Security or other Identifying Number of Assignee)

and irrevocably appoints \_\_\_\_\_ attorney-in-fact to transfer it on the books kept for registration of this bond with full power of substitution.

\_\_\_\_\_ Dated:

NOTE: The signature to this assignment must correspond with the name as written on the face of the bond without alteration, enlargement or other change.

Signature Guaranteed:

\_\_\_\_\_  
Participant in a Recognized Signature  
Guaranty Medallion Program

\_\_\_\_\_  
By: \_\_\_\_\_  
Authorized Signature

ARTICLE III  
APPLICATION OF PROCEEDS AND OTHER FUNDS

Section 301. Establishment of Accounts. In accordance with Section 503 of the Indenture, a 2007 Series A Project Account is hereby established within the Project Fund. Such account shall be established and held by the Trustee in accordance with subsections (2), (3) and (4) of said Section 503.

Section 302. Application of 2007 Series A Bond Proceeds. The proceeds of the sale of the 2007 Series A Bonds net of the loan fee paid to the Agency shall be applied or caused to be applied by the Issuer simultaneously with their delivery, as follows:

(a) An amount equal to the Debt Service Reserve Fund Requirement of \$212,633.20 shall be deposited in the 2007 Series A Account Debt Service Reserve Fund.

(b) An amount equal to \$57,000.00 the estimated costs of issuance which may be paid from the proceeds of the 2007 Series A Bonds, shall be held by the Agency in a cost of issuance account established for the Issuer pursuant to the Agency Indenture of Trust;

(c) The balance of the proceeds of the 2007 Series A Bonds, \$2,730,366.80, shall be held by the Agency Trustee in an account of the construction proceeds fund established for the Issuer pursuant to the Agency Indenture of Trust for application to the Cost of the 2007 Series A Project.

Section 303. Disbursements from 2007 Series A Project Account. Amounts, if any, in the 2007 Series A Project Account shall be disbursed to or upon the order of the City upon receipt by the Agency of one or more requisitions in the form annexed to and incorporated into this First Supplemental Indenture as Exhibit A, subject to the requirements of Section 503(3) of the Indenture, and subject to the additional requirement that payments and reimbursements will be made only on account of those portions of the 2007 Series A Project for which the Issuer has received and filed with the Agency a certificate of approval from the Rhode Island Department of Health.

Section 304. Application of 2007 Series A Rebate Account; Tax Covenants. The City covenants to take all actions necessary to comply with the Tax Compliance Certificate.

Notwithstanding any provision of the Indenture or this First Supplemental Indenture, the Issuer shall take all lawful action necessary under the Code to ensure that interest on the 2007 Series A Bonds will remain exempt from federal income taxation to the extent provided in Section 103 of said Code and will refrain from taking any action which will cause interest on the 2007 Series A Bonds to lose the benefit of the exclusion from gross income provided by Section 103(a) of the Code. The Issuer shall not use or permit the use of any moneys held by the Issuer or the Trustee under the Indenture in any manner which would result in the

2007 Series A Bonds being classified as private activity bonds within the meaning of Section 141 of the Code or as arbitrage bonds within the meaning of Section 148 of the Code.

The provisions of this Section 304 shall be complied with by the Issuer in order to meet the requirements of the Code such that interest on the 2007 Series A Bonds shall be and remain exempt from federal income taxes to the extent provided in Section 103 of the Code; provided, however, that the Issuer shall not be required to comply with any such provision with respect to the 2007 Series A Bonds in the event the Issuer receives a Counsel's Opinion that compliance with such provision is no longer required to satisfy the requirements of the Code or that compliance with some other provision in lieu of a provision specified in this Section 304 will satisfy said requirements, in which case compliance with such other provision specified in the Counsel's Opinion shall constitute compliance with the provisions specified in this Section 304. The Issuer shall adopt a Supplemental Trust Indenture reflecting the deletion or substitution of any such provision of this Section 304 in the same manner as provided for Supplemental Trust Indentures authorized in accordance with Section 901 of the Indenture.

Section 305. Operation and Maintenance Reserve Fund Requirement. The Operation and Maintenance Reserve Fund Requirement for the 2007 Series A Bonds shall be funded at the level approved, if any, by the Public Utilities Commission and shall be funded in accordance with the time frame approved by the Public Utilities Commission by depositing an amount equal to one twelfth (1/12) of the Operation and Maintenance Reserve Fund Requirement in accordance with Section 504(2)(vii) of the Indenture.

Section 306. Application of Other Funds. Simultaneously with the delivery of the 2007 Series A Bonds, the City shall withdraw all moneys and securities then on deposit in the following interest-bearing restricted receipt accounts and deposit them as follows:

- (1) Funds on deposit in the restricted chemicals capital account shall be deposited in the Chemicals Account of the Operating Fund.
- (2) Funds on deposit in the restricted electricity account shall be deposited in the Electricity Account of the Operating Fund.
- (3) Funds on deposited in the retiree health insurance account shall be deposited in the Retiree Health Insurance Account of the Operating Fund.
- (4) Funds on deposited in the restricted new employee benefits account shall be deposited in the Accrued Benefits Buyout of the Operating Fund.
- (5) Funds on deposit in the rate case expense capital account shall be deposited in the Rate Case Account of the Operating Fund.
- (6) Funds on deposit in the debt service capital account shall be deposited in the Debt Service Account of the Debt Service Fund.

(7) Funds on deposit in the restricted repayment account shall be deposited in the City Loan Repayment Account of the Debt Service Fund.

(8) Funds on deposit in the restricted electricity account shall be deposited in the Capital Improvements Account of the Project Fund.

In addition, the City shall deposit all Revenues collected up to and including the day of delivery of the 2007 Series A Bonds into the Revenue Account of the Revenue Fund.

#### ARTICLE IV MISCELLANEOUS

Section 401. Authorization of Officers. The Finance Director and the Mayor of the Issuer, acting singly, are hereby authorized and directed to do all acts and things and to execute and deliver any and all documents, certificates and other instruments necessary or desirable to effectuate the transactions contemplated by this First Supplemental Indenture and the Indenture.

Section 402. Notices. Unless otherwise expressly provided, all notices to the Issuer, the Trustee and the Paying Agent shall be in writing and shall be sent by registered or certified mail, postage prepaid, or delivered during business hours as follows: (i) to the Issuer at its office at City Hall, 43 Broadway, Newport, Rhode Island 02840, attention Finance Director, (ii) to the Trustee and Paying Agent, Wells Fargo Bank, N.A., 10 Orms Street, Providence, Rhode Island 02904 and (iii) to the Rhode Island Clean Water Finance Agency, 235 Promenade Street, Suite 119, Providence, Rhode Island 02908, or, as to all of the foregoing, to such other address as the addressees shall have indicated by prior written notice to the one giving notice. If mailed, any notice given under this section shall be deemed given upon mailing, and if delivered, such notice shall be deemed given upon receipt by the party for whom it was intended.

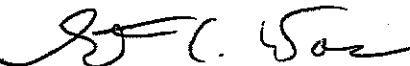
Notice hereunder may be waived prospectively or retrospectively by the person entitled to the notice, but no waiver shall affect any notice requirement as to other persons.

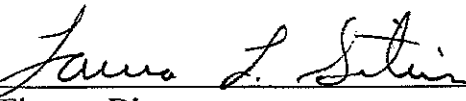
Section 403. Severability. In the event that any provision of this First Supplemental Indenture shall be held to be invalid under any circumstances, such invalidity shall not affect any other provisions or circumstances.

Section 404. Captions. The captions and table of contents, if any, of this First Supplemental Indenture are for convenience only and shall not affect the construction hereof.

IN WITNESS WHEREOF, the Issuer and the Trustee have caused this First Supplemental Indenture to be executed in their respective corporate names by their duly authorized officers all as of the date first above written.

CITY OF NEWPORT, RHODE ISLAND

By:   
Mayor

By:   
Finance Director

WELLS FARGO BANK, N.A., as Trustee

By:   
Vice President

EXHIBIT A

Form of Requisition

REQUISITION NO.

\$3,000,000 City of Newport, Rhode Island  
Water Revenue Bonds, 2007 Series A

To: Wells Fargo Bank N.A., Trustee under Trust Indenture, as amended and supplemented by the First Supplemental Indenture, each dated March 7, 2007.

This Requisition is made pursuant to Section 503 of the above Trust Indenture.

The Trustee is directed to pay sums out of the Account of the Project Fund entitled the [PICK ONE] 2007 Series A Project Account; Capital Improvements Account (during such times as such Account is held by the Trustee).

<u>Payee</u>	<u>Purpose of Payment</u>	<u>Amount</u>
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I hereby certify that

(i) each obligation mentioned herein (a) has been properly incurred, (b) is a proper charge against the Account of the Project Fund named above, (c) is currently due and payable, (d)

has not been previously paid or reimbursed, (e) has not been the basis of any previous withdrawal and (f) is an item of "Cost" or "Cost of Issuance" (as defined in the Trust Indenture).

(ii) attached hereto are invoices (or, in the event reimbursement is being requested, cancelled checks) for each amount described herein.

CITY OF NEWPORT, RHODE ISLAND

By: \_\_\_\_\_  
Authorized Officer

CERTIFICATE REQUIRED BY  
SECTION 205 (2) (iv) OF THE TRUST INDENTURE

The undersigned, Raftelis Financial Consultants, Inc., a consulting firm within the definition of Consulting Engineer under the Trust Indenture by and between the City of Newport, Rhode Island (the "City") and Wells Fargo Bank, N.A. as trustee (the "Trustee") and the First Supplemental Indenture by and between the City and the Trustee each dated March 7, 2007 (collectively, the "Indenture") in connection with the project being financed with proceeds of the City's \$3,000,000 State Revolving Fund Loan (the "Bonds") hereby certifies that:

1. The estimated annual Net Revenues for each of the following four (4) fiscal years (including the Fiscal Year in which such bonds are issued), after giving effect: (A) to any increases or decreases in Rates and Charges projected to be in effect during such period, (B) and to the Series Debt Service Reserve Fund Requirement attributable to such Bonds and (C) to any additional Revenues projected to be available during such period, are as follows:

<u>Fiscal Year</u>	<u>Net Revenues</u>
2007	\$2,662,045
2008	\$1,995,169
2009	\$1,995,169
2010	\$1,995,169

2. The estimated annual Net Revenues for each such Fiscal Year listed in paragraph (1) above will be equal to at least one hundred twenty-five percent (125%) of the Debt Service Requirement for each such Fiscal Year exclusive of projections of any increase in Rates and Charges during the first full Fiscal Year of the projection period which has not been adopted by the City and approved by the Public Utilities Commission for such Fiscal Year on or before the date of this Certificate.

All capitalized terms used herein shall have the meaning ascribed to them in the Indenture

RAFTELIS FINANCIAL CONSULTANTS, INC.

Dated: March 7, 2007

By:   
Harold J. Smith, Vice President



**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**

**Docket No. 3818**

**Response to**

**Portsmouth Water and Fire District's Data Requests**

**Set 3**

**PWFD 3-10:** If Newport Water had a cash deficit of more than \$1 million as of June 30, 2005, how was it able to pay employees and vendors? Where did Newport obtain the money to make these payments? In other situations when Newport is in a negative cash position, where does it obtain money to pay obligations owed to employees and vendors?

**Response:** The City of Newport has an obligation to pay *all* City employees, including those employed in the Water Division. Each Water Division Payroll paid from the General Fund is tracked by the City Controller and when funding is available in the Water Fund the General Fund is reimbursed for the payrolls. All other payments which are the responsibility of the Water Division, including those to vendors, are paid from the Water Fund checking account. The Water Division pays its obligations as revenues are received, so the majority of these payments have been late. The deficit identified as of June 30, 2005 was paid by the Water Division.

Prepared by: J. Forgue

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**  
**Docket No. 3818**  
**Response to**  
**Portsmouth Water and Fire District's Data Requests**  
**Set 3**

**PWFD 3-11:** Newport Water's response to PWFD 2-10 indicates Newport Water replaced 119 meters sized 3 inches or more during the past two years. Meanwhile, Newport Water's response to PWFD 2-10 indicates that of the total volume of gallons billed by Newport Water, 19% is billed on an estimated rather than actual basis. And when the amount billed to PWFD is taken into account, the volume of gallons billed on an estimated basis is about 25%. Does Newport consider the number of estimated accounts to be reasonable? Does Newport know how many estimated bills it issued in the last billing cycle.

**Response:** Newport is not satisfied with the number of estimated billings and has taken steps to improve this, including the previously mentioned meter changeouts as well as the proposed conversion to radio reads. The April 2007 billing cycle has produced 479 estimated reads, which is 14.6% of all bills. This compares to 787 estimated reads, 23.7% of all bills, for the corresponding April, 2006 billing cycle. Progress is being made.

Prepared by: K. Mason

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**

**Docket No. 3818**

**Response to**

**Portsmouth Water and Fire District's Data Requests**

**Set 3**

**PWFD 3-12:** The settlement agreement for Docket 3578 says that “should the City of Newport loan money to Newport water after June 30, 2005, said loan shall be reflected by appropriate documentation and Newport Water shall have the duty to monitor and track its costs and properly account for how the loan proceeds are applied. Has Newport Water complied with this obligation? Please provide a copy of any documentation constituting or evidencing any loans from the City of Newport to Newport water as required by the settlement agreement. In addition, provide copies of any documents constituting or evidencing any requests from Newport Water to the Public Utilities Commission or the Division of Public Utilities and Carriers for permission to borrow funds from the City of Newport. Finally, please explain what steps Newport water has taken to “monitor and track its costs and properly account for how the loan proceeds are applied”.

**Response:** Newport Water is aware of the requirements of the settlement agreement from Docket 3578 regarding any loans from the City of Newport. The City of Newport has not loaned any funds to Newport Water subsequent to the noted settlement agreement and therefore there are no documents to provide per this Data Request. However, Newport does file a number of financial reports with the PUC on a monthly and quarterly basis. Copies of these reports have been provided to the parties in this Docket.

Prepared by: J. Forgue

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**  
**Docket No. 3818**  
**Response to**  
**Portsmouth Water and Fire District's Data Requests**  
**Set 3**

**PWFD-3-13:** Regarding Newport Water's response to Div 2-2, please explain the following:

- a. Why is the Navy water demand for November 2005 (8.9 MG) and April 2006 (2.6 MG) significantly lower than other months (range of 24.9 MG to 46.7 MG)?
- b. Why is the January 2007 Navy water demand negative (-4.1 MG)?
- c. Why is the Navy winter time demand in the months of December 2005 through February 2006 (average = 39.0 MG) significantly higher than the Navy summer time demand in July and August 2005 (average 27.2 MG) and July, August and September 2006 (average = 32.7 MG).

**Response:**

- a. Newport Water does not require its customers to explain their demand for water. Therefore, we do not know why the Navy demand for water in November 2005 and April 2006 was significantly lower than its demand in other months. Please note that the water consumption amounts shown for the Navy in each month reflect the amount billed for in that month. The water that is being billed for in each month is actually consumed in the previous month.
- b. The negative amount for Navy water sales in January 2007 reflects an adjustment to correct overbilling to the Navy. Two accounts were adjusted as follows:
  1. Account # B089-01200 Chases Lane- A 16,168,783 gallon credit was issued for this account. This account had six previous estimates prior to an actual read being obtained in December, 2006. The estimated reads were required due to the Navy installing new locks on this meter pit with no access available to Newport Water.
  2. Account # B089-01400 Fort Adams- A 15,970,000 gallon credit was issued for this account. This is due to an error in meter reading after a new six inch meter was installed in November of 2006. The radio read device was incorrectly set up in the billing system that produced a higher bill by a factor of ten.
- c. See response to a.

Prepared by: Harold Smith and Ken Mason

**CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT**  
**Docket No. 3818**  
**Response to**  
**Portsmouth Water and Fire District's Data Requests**  
**Set 3**

**PWFD 3-14:** In the Settlement Agreement approved by the Commission in Docket #3675 Newport agreed to perform an analysis of the water age issue in order to identify and evaluate the possible options and feasibility of providing Portsmouth with water of the same age as that provided to Newport and the Navy, Newport agreed to use its best efforts to complete the analysis by May 1, 2006. Per Progress Report No. 8, the analysis is now scheduled to be completed on May 1, 2007.

- a. Please explain the reason for the one year or more delay in completing this analysis.
- b. Please provide a summary of preliminary findings and recommendations of the water age analysis.
- c. What provisions have been made to ensure that funding is available to implement the recommendations of the water age study.

**Response:**

- a. Newport Water notified PWFD through its attorneys that we were delayed in starting the analysis. The amendment to CDM's contract to perform the water age analysis was approved by the City Council at its July 26, 2006 meeting. The schedule in the amendment was for completion within six (6) months of contract execution which was August 1, 2006. A copy of the contract amendment was forwarded on September 21, 2006, as requested, to PWFD and NSN. Progress Report No. 5 included an updated schedule indicating the report would be completed in December, 2006 and a meeting for all parties to discuss the report scheduled in January, 2007. Progress Report No. 8 included a report on the schedule deviation for the water age analysis in addition to the updated schedule with the May 1, 2007 completion date.
- b. The draft report for the Water Age Analysis was distributed to Portsmouth and the Navy on April 30, 2007 for review and comment.
- c. After meeting with all parties to review the report, Newport Water will review options and incorporate any proposed improvements in its next rate filing. Information was not available for inclusion in Docket #3818.

Prepared by: J. Forgue