

1 **Q. Please provide your full name, title and business address for the record.**

2 A. Julia Fogue, P.E. I am employed by the City of Newport where I serve as Director of Public
3 Works. My business address is 70 Halsey Street, Newport, RI.

4

5 **Q. How long have you held this position?**

6 A. I began my employment at the City of Newport in my current position March 12, 2001.

7

8 **Q. What are your responsibilities as Public Works Director with regard to the Newport
9 Water System?**

10 A. As Director of Public Works, I also serve as general manager of the water division. I am
11 responsible for planning, organizing and directing the activities of the Water Division. I direct
12 and supervise the work of supervisors on administrative and technical issues conforming to a
13 policy framework established by the City and state and federal agencies.

14

15 **Q. Can you provide a brief description of your work experience?**

16 A. Prior to working for the City of Newport, I was employed by the City of East Providence for
17 14 years with the last 11 years as Director of Public Works. At DPW in East Providence, I
18 managed the water division. The City of East Providence purchases water wholesale from
19 Providence Water and operates and maintains its own transmission and distribution system with
20 approximately 15,000 services. Prior to working for the City of East Providence, I was
21 employed as a project engineer at consulting firms in Colorado and New Hampshire.

22 **Q. What is your educational background?**

23 A. In 1981 I received a B.S. in Civil Engineering from Northeastern University and in 1982 a
24 M.S. in Civil Engineering from the University of Colorado at Boulder. I am a registered
25 Professional Engineer in Rhode Island and New Hampshire.

1 **Q. Do you have any professional affiliations?**

2 A. Yes, I am a member of the American Water Works Association, New England Waterworks
3 Assoc and the Rhode Island Waterworks Association. I served as President of the RIWWA
4 December 2001 to December 2003. I am also a member of the American Public Works
5 Association and served as President of the New England Chapter in 2002.

6
7 **Q. What is the purpose of this testimony?**

8 A. To support the request of the City of Newport, Utilities Department, Water Division
9 (hereinafter “Newport” or “Newport Water”) for a rate increase. In Docket 3675 Newport was
10 authorized to collect \$9,284,455 in revenue (before offsets). In fiscal year 2006 (FY06), Newport
11 collected \$7,931,537 in total revenue. For the proposed rate year, Newport requires \$10,603,318
12 in revenue (before offsets), which is an additional \$1,319,863 in additional revenues over those
13 authorized in Docket 3675. The revenue requirements for the rate year can be broken down as
14 follows:

15	O&M	\$6,918,266	65.25%
16	Capital	\$1,715,056	16.17%
17	Debt Service	\$1,307,303	12.31%
18	Repayment to the City	\$ 250,000	2.36%
19	Additional Revenue Requirements	<u>\$ 415,096</u>	<u>3.91%</u>
20	Total Revenue Requirements	\$10,603,318	100.0%
21	Less Offsets	<u>(\$443,076)</u>	
22	Net Revenue Requirements	\$10,160,242	

23
24 In my testimony, I will present and explain the differences between amounts shown in the test
25 year and in the proposed rate year. A test year of actual expenses for the Water Fund from July
26 1, 2005 through June 30, 2006 will aid in the establishment of revenue requirements for the rate
27 year upon which rates and charges for retail and wholesale customers will be based in order to
28 collect revenue to support the O&M and capital costs for the Water Fund.

29

1 **Q. Will the revenues from current rates be sufficient to cover expenses for the upcoming**
2 **2008 fiscal year?**

3 A. No. The revenues generated from the existing rates will not be sufficient to recover the
4 expenses for the rate year (FY08). However, the proposed rates should recover revenues
5 sufficient to recover the rate year expenses.

6
7 **PRIOR ORDERS**

8 **Q. The Commission's Orders in Docket 3578 and Docket 3675 set forth a number of**
9 **reporting requirements. Has Newport complied with these requirements?**

10 A. Yes. As of this date, Newport has complied with the Commission's order in Docket 3578 and
11 Docket 3675. As set forth in the Docket 3578 order, Newport Water was allowed to repay the
12 City of Newport \$2,500,000 for monies advanced by the General Fund to the Water Fund. The
13 repayment was spread over five years, with payments of \$500,000 per year. As a precondition to
14 the repayment, Newport Water is required to demonstrate that it has complied with the
15 Commission's reporting requirements. The first repayment was deferred until December 2004,
16 and Newport Water was ordered to file a report by November 15, 2004 demonstrating that it had
17 complied with the reporting requirements to that point. This report was filed, and the
18 Commission ultimately approved the first repayment. Since that time, the Commission has also
19 approved two subsequent repayments, and the current balance owed to the City of Newport is
20 one million dollars (\$1,000,000).

21
22 In Docket 3675, the Commission also ordered Newport Water to submit an additional monthly
23 report on accrual basis consistent with a format and due date to be approved by the Commission.
24 This "monthly trial balance" report was ultimately approved by the Commission and Newport
25 has been filing it along with its monthly cash flow reports.

26
27 **Q. In the Docket 3675 order, Newport was allowed to utilize funds from the restricted**
28 **Capital Fund in order to meet Debt service expenditures. However, the cash expenditures**

1 **and deposits to the two accounts were to continue to be tracked separately. Has this been**
2 **done?**

3 A. Yes.

4
5 **Q. Newport Water was authorized to borrow up to \$3 million dollars from The Rhode**
6 **Island Clean Water Finance Agency in Division Docket D-02-03. As of this date, has**
7 **Newport borrowed this money?**

8 A. Yes. On February 15, 2006 the City filed an application for Supplemental Approval of
9 Borrowing Authority with respect to the authority previously granted by the Division in Docket
10 No. D-02-03. The supplemental approval was requested as the specific projects to be funded by
11 the \$3 million dollars differed in some respects from the projects identified in the Division
12 Docket D-02-03. The Division approved the request in Docket D-06-09 issued June 6, 2006.
13 Construction and construction management assistance contracts for the Lawton Valley Residual
14 Management and the Lawton Valley Raw Water Main Replacement were awarded in October,
15 2006 for a total amount of \$2,720,500.00. The Notice to Proceed with the work was issued to the
16 contractor December 7, 2006. The City anticipates drawing downs on the available project funds
17 in early 2007. The SCADA system project and Chemical Feed system update are no longer being
18 done as stand alone projects. Rather, they are being done as part of other projects. For instance,
19 the Lawton Valley Residual Management project will include some SCADA work. In addition,
20 updates to the chemical system are being accomplished through work on PH and Chloramines in
21 our system, and in the conversion of our chlorine feed system from a pressure feed to a vacuum
22 feed at Lawton Valley.

23
24 **Q. The Settlement provided for Newport's Water Pollution Control (WPC) Division to**
25 **recognize the benefits it receives from Newport Water's Customer Accounts division. Has**
26 **the WPC Division provided payment for services provide by the Customer Services**
27 **Account?**

28 A. Yes the WPC Division made a payment in FY 2006 to the Water Division in the amount of
29 25% of the Customer Accounts cost. The WPC Division has also made a payment in September,

1 2006 to the Water Division in the amount of 50% (\$268,408) of the FY07 Customer Accounts
2 costs.

3
4 **CASH FLOW ISSUES**

5 **Q. Newport Water continues to experience cash flow concerns. Please discuss the**
6 **difficulties Newport faces.**

7 A. As the Commission knows from reviewing Newport's monthly cash flow reports, we have
8 struggled with having enough cash to keep current with all of our bills and financial obligations.
9 The root of this problem is made up of a number of factors. As the Commission knows, Newport
10 Water struggled for a number of years with issues caused by the management of the Water
11 Department, and with the City of Newport itself. These struggles were fully outlined in my
12 rebuttal testimony in Docket 3578. The water department has worked diligently with the City of
13 Newport to correct the problems and become a more stable utility. I feel that we have made great
14 strides, and we continue to do so. However, we still deal with the effects of the past.

15 These problems clearly affected our filing in Docket 3578. The Commission will recall that the
16 rate application in Docket 3578 was filed on November 28, 2003. In our filing we used the non-
17 coinciding test year of April 1, 2002 to March 31, 2003 and a rate year of July 1, 2003 to June
18 30, 2004. The settlement in that case was approved on June 22, 2004, which was eight days
19 before the expiration of the rate year, and the settlement did not provide for a rate increase.

20 In addition, during the litigation of Docket 3578, the City of Newport informed the Water
21 Department that it would no longer advance money. The City also established a separate
22 checking account for the Water Fund. As a result, we had to start paying its bills solely from
23 revenue we collected. The new cash account was opened April 15, 2004, at which time Newport
24 had to both pay outstanding payables in existence as of that date, while keeping pace with
25 ongoing expenses. Also, during Docket 3578, it became clear we would have to begin preparing
26 another rate filing. This was especially true as Newport agreed to a settlement that did not
27 provide for a rate increase.

28 Therefore, Newport Water filed an application to increase rates on April 22, 2005. The Test Year
29 in Docket 3675 was July 1, 2003 to June 30, 2004 and the rate year was July 1, 2005 to June 30,

1 2006. A settlement agreement was reached on November 4, 2005 and became effective on
2 November 11, 2005. As a result we were halfway through its rate year when the new rates
3 became effective. In addition, the rate increase in Docket 3675 was our first increase in six years.
4 This was the equivalent of a 3.4% increase per year over that time period.

5 In addition, even if Newport was collecting the full amount of revenue needed, the seasonal
6 nature of our sales exacerbates our cash flow problems to a certain extent. While not as
7 pronounced in FY06 due to heavy rainfall, a disproportionate share of Newport's water sales
8 occur in the summer months due to the influx of tourists and demand for water to irrigate during
9 these months. As a result, revenues for water sales during the winter months are relatively low
10 while many of our costs remain constant.

11

12 **Q. What other problems did Newport face with its cash flow?**

13 A. As addressed in Harold Smith's testimony, our sales, and corresponding revenue, have been
14 less than forecasted. As a result, customer receipts have been insufficient to keep pace with our
15 regular monthly monetary outflows such as payroll, employee benefits and insurance. To bring
16 the cash flow into perspective, we are presenting some historical detail. At the end of fiscal year
17 2005 (FY05), Newport Water's accounts payable consisted of the following:

18

19	Accrued Vendor payables (Non Restricted Accounts)	450,770
20	Accrued payrolls	356,080
21	Due to WPC for sludge removal-Station 1	147,785
22	Legal/Admin. - 4 th Qtr 2005	<u>48,450</u>
23	Total	1,003,085

24 As referenced above, the test year in Docket 3675 was fiscal year 2004 and the rate year was
25 fiscal year 2006. Therefore, rates were not granted in Docket 3675 to address this deficit. As
26 such, Newport Water was in the position of paying for fiscal year 2005 expenditures from fiscal
27 year 2006 revenue. This deficit then grew during FY06. At the end of FY06 our accounts
28 payable consisted of the following:

29

30

1	Accrued Vendor payables	335,199
2	Accrued payrolls (periods 4/6/06 to 6/29/06)	810,795
3	Due to WPC for sludge removal-Sta. 1	113,812
4	Legal/Admin and Data Processing-3 rd Qtr. 2006	118,750
5	Legal/Admin and Data Processing-4 th Qtr 2006	<u>118,750</u>
6	Total	1,497,306

7

8 Thus, our cash flow problems were exacerbated, and in fiscal year 2007 approximately \$1.5
9 million of revenue will go towards funding expenditures from fiscal year 2006 and these funds
10 will be unavailable for fiscal year 2007 expenditures.

11

12 **Q. Are there any other issues that also affect the Cash Flow?**

13 A. Yes, in any given year, the Water Division incurs a number of unexpected, non reoccurring
14 expenses. For example, we have recently incurred expenses for the Middletown property tax
15 settlement (\$187,043); a Rhode Island Department of Environmental Management (RIDEM)
16 Notice of Violation Penalty (\$50,000); and the RI Council 94 AFSCME retroactive pay
17 settlement (\$294,313).

18

19 **Q. Can you describe these expenses in more detail?**

20 A. Yes. The Middletown property tax settlement with Newport was the result of property tax
21 disputes between the two municipalities for the years 1996 to 2002, which had been unresolved.
22 The settlement was reached February 2006 and the first installment of \$50,000 was paid upon
23 signing the agreement. The second installment of \$50,000 was paid July 1, 2006 and the final
24 installment of \$87,043 was paid December 31, 2006.

25 On May 5, 2005, RIDEM issued a Notice of Violation to the Water Division alleging certain
26 violations related to the delay in starting our Residual Management Project. These delays were
27 caused primarily by problems in acquiring property and/or property easements from the Rhode
28 Island Department of Transportation to perform this work. These issues were eventually
29 resolved, and the project is now in the construction phase. Had Newport not encountered these
30 delays, work could have begun at a time that would have allowed us to avoid any violation. The

1 City of Newport Water Division vigorously defended itself from these charges and the penalty
2 was negotiated down to \$50,000 and a draft Consent Agreement issued November 2006. The
3 payment of the \$50,000 is imminent in FY07.

4
5 The RI Council 94 AFSCME contract had been in negotiations since July 1, 2004 and a
6 settlement was reached October 13, 2006. The \$294,313 represents salary and benefits payable
7 retroactively between July 1, 2004 and January 6, 2007. The City Council has approved the
8 settlement and the payment has been made.

9
10 **Q. If Newport was struggling with cash flow, why didn't it file an application to increase**
11 **rates earlier?**

12 A. As we were using FY06 as our test year, we had to wait until preliminary audit information
13 was available to begin preparing this case. The audit was not completed until December 2006.
14 After the audit was complete, it took additional time to analyze the numbers and determine the
15 amount of the increase needed. In the interim, a new City Council was elected on November 7,
16 2006. The Water Department must review any potential rate case with the City Council before an
17 application for a rate increase is filed. In November and December 2006, the old City Council
18 would not address financial matters that would carry over into the term of the new City Council.
19 As such, we had to wait until January 2007 to review this rate filing with the new City Council.

20
21 **CAPITAL IMPROVEMENTS**

22 **Q. Capital Improvement Projects are partially funded by the Drinking Water State**
23 **Revolving Fund, with the balance funded by rates. Please describe the current funding**
24 **status of the projects and any difficulties with projected payments for these projects.**

25 A. Newport's Capital Account has been adversely affected by expenditures that were required by
26 the Settlement Agreements in past Dockets, but were not funded. These expenditures include the
27 Lawton Valley WTP Water Age Study (\$46,730), Joint Water Study (\$105,205), and the
28 Financial Management Study (\$45,000). These unfunded expenditures have contributed to a
29 situation where Newport Water has begun several capital projects for which we have insufficient
30 funds in the restricted capital account to make payment on a timely basis. Thus, Newport is

1 requesting an increase in funding for Capital Projects. A full review of the status of our Capital
2 Program and funding is as follows.

3

4 Newport's capital expenditures are expected to be approximately \$4,021,719 during FY 2007
5 and \$4,645,400 during FY 08. The available project funds of \$2,746,000 from the approved
6 \$3,000,000 SRF loan will fund the Lawton Valley Raw Water Replacement and Residuals
7 Management Project. This project will be spread out over fiscal years 07 and 08. The Ocean
8 Avenue Phase 3 Distribution Main Improvement project will also be completed during both
9 fiscal years 07 and 08. This project will be partially reimbursed from an EPA grant in the
10 amount of \$673,500.

11

12 Furthermore, in FY07 Newport water will have to seek another SRF loan from Clean Water
13 Finance in the approximate amount of \$2,800,000. The project funds from this anticipated loan
14 will be used to fund the following projects:

15	1. PH Improvements Sta. 1 and Lawton Valley (Construction)	\$584,000
16	2. Chloramine Improvements Sta. 1 and Lawton Valley (Construction)	\$342,000
17	3. Lawton Valley sedimentation basin rehabilitation	\$300,000
18	(Design & Construction)	
19	4. Distribution Main Improvements (Design)	\$250,000
20	5. Lawton Valley Reservoir Aeration Study (Des. & Const.)	\$100,000
21	6. Gardiner Pond Intake Structure Rehabilitation (Des. & Const.)	\$190,000
22	7. Goulart Lane Water Tank Rehabilitation (Des. & Const.)	\$656,000
23	8. Station 1 Treatment Train Design	\$292,433
24	Total	\$2,714,433

25

26 The balance remaining is to be met through rates over the next two fiscal years. Thus, Newport
27 needs the requested increase in Capital requested in this filling.

1 **ADJUSTMENTS FROM TEST YEAR TO NORMALIZED TEST YEAR.**

2 **Q. Would you please identify and explain each of the normalization adjustments to the Test**
3 **Year revenue requirements?**

4 A. Yes, I would be happy to do so. A review of RFC Schedules 2, 3 and C demonstrate that a
5 number of normalization adjustments were made. Many of these adjustments were necessary due
6 Newport's cash flow struggles. The majority of these adjustments were made to simply bring the
7 adjusted test year to the funding levels provided for in Docket 3675.

8
9 Herein below, I have identified, and provided an explanation to, the normalization adjustments to
10 the test year that exceeds \$5,000 or 10% of the test year amount or whichever is less. In my
11 testimony I will be refer to the Newport Water Budget line item, and will be referencing RFC
12 Schedules 2 and 3 and Support Schedule RFC C attached to Harold Smith's testimony. RFC
13 Schedules 2 and 3 set forth the test year, and the normalization adjustment requirements for each
14 of Newport Water's budget accounts and individual budget line items. RFC Schedule C provides
15 detailed support for the test year normalization adjustments I will address each of the
16 adjustments in order as they appear on RFC Schedules 2, 3 and C.

17
18 **Q. Please explain why spending was less for Accrued Benefits Buy-out (line item 770) than**
19 **allowed in the previous rate filing?**

20 A. Upon retirement, employees are paid sixty-five percent of their accrued sick leave. For
21 employees hired before July 1, 1995, payment is made up to a maximum of \$25,000. For those
22 employees hired after July 1, 1995 payment for sick leave is made up to \$10,000. Employees
23 hired prior to July 1, 1998 are entitled to accumulate vacation leave up to a maximum of 400
24 hours. Also, upon retirement or resignation employees are entitled to payment of accumulated
25 vacation leave. The maximum accumulation of vacation leave is reduced to 300 hours for
26 employees hired after July 1, 1998. One employee retired at the end of FY 2006 and received a
27 combined buy out of \$31,889 in early July 2006 which appears as a fiscal year 2007 expenditure.
28 There are four employees who are currently eligible to retire based on 30 years of service and
29 could do so at any time. There is also the potential for three additional employees to retire based

1 on age attainment and 10 or more years of service. While we cannot predict with any certainty
2 which of these eligible employees will actually retire, we are projecting that at least two will do
3 so. The amount of \$70,000 for the rate year was agreed to in Docket 3675 in order to start
4 funding for this liability. Therefore, while money from this fund was not spent in FY06, the
5 potential liability remains and the test year is normalized for the full amount provided for in
6 Docket 3675.

7
8 **Q. Why were salaries and wages (line item 001) in the Test Year less than allowed in the**
9 **previous rate filing?**

10 A. Vacant positions in several divisions accounted for the lower than normal expenditures on
11 Salaries and Wages during FY 2006. In the Administration Division the Deputy Director-
12 Finance and Deputy Director-Engineering positions were not filled until November 2005 and
13 April 2006, respectively. At the Lawton Valley Plant, a water treatment operator position was
14 filled in June 2006. In addition, the Meter Division had two vacancies that were filled in January
15 2006 and April 2006.

16
17 **Q. Why was spending for Injury Pay (line item 056) less than allowed in the previous rate**
18 **filing?**

19 A. Newport incurred lower than anticipated injury rates in FY 2006 but, since potential danger is
20 inherent in the positions covered, it is fiscally responsible to normalize this expense to the \$1,200
21 provided for in Docket 3675 as the City's minimum liability.

22
23 **Q. Why was spending for Legal Advertisement (line item 207) less than allowed in the**
24 **previous rate filing?**

25 A. This account supports advertising notices when an obligation to notify the public of Newport
26 Water's actions is necessary. However, the potential exists for legal contingencies and we have
27 normalized this account to reflect that contingency.

1 **Q. Why was spending for Conferences and Training (line item 212) less than allowed in the**
2 **previous rate filing?**

3 A. Due to the previously discussed cash flow problems, conference and training expenditures
4 were kept to a minimum in FY06. Furthermore, some positions were vacant during the year.
5 However, we are now fully staffed and anticipate more attendance at NEWAA, AWWA,
6 RIWWA and ABPA conferences.

7
8 **Q. Why was spending for Tuition Reimbursement account (line item 214) less than allowed**
9 **in the previous rate filing?**

10 A. Tuition reimbursement for employees pursuing courses for college credit is a contractual
11 benefit under the NEA labor agreement. As such, Newport strives to maintain funds available
12 for the use of affected employees. Although no employees took advantage of the tuition
13 reimbursement benefit in FY 2006, a normalization adjustment was made to keep this account at
14 the amount provided for in Docket 3675 because it is a union contract benefit.

15
16 **Q. Why was spending for Contract Services (line item 225) less than allowed in the**
17 **previous rate filing?**

18 A. The Opal service contract was not in effect for the entire test year since this was the first year
19 of utilizing the new billing software.

20
21 **Q. Why was spending for Electricity (line item 254) less than allowed in the previous rate**
22 **filing?**

23 A. The test year was one in which unusually wet weather conditions prevailed. This resulted in
24 reservoirs at the northern end and higher elevation of our system not requiring a significant time
25 period to recharge. Therefore, the pumping of treated water to the northern end of the system to
26 allow the Lawton Valley reservoir to recharge was reduced. This condition saved approximately
27 \$35,000 from the test year electric bill at Station 1. Electric costs for Source of Supply- Mainland
28 were also approximately \$5,000 less as pumping from these raw water supplies occurred for a

1 short period of time. As this was an unusual year, we project that, in a typical year with more
2 typical weather conditions, an additional \$40,000 in electric costs would be incurred.

3
4 **Q. Why was spending for Legal & Administrative (line item 266) less than allowed in the**
5 **previous rate filing?**

6 A: As stated in Docket 3675, the costs included in this line item are those associated with
7 valuable services that the City of Newport's General Fund departments provide to Newport
8 Water. The services provided by the General Fund departments are services that Newport Water
9 would need to provide internally if it was an independent entity.

10 The increase to normalize the test year is due to the fact that the test year consisted of less than
11 an entire year at Docket 3675 figures. This normalization adjustment provides for a full year at
12 the Docket 3675 funding level.

13
14 **Q. Why was spending for Data Processing (line item 267) less than allowed in the previous**
15 **rate filing?**

16 A. As stated in Docket 3675, the costs included in this line item are those associated with
17 valuable services that the City of Newport's General Fund departments provide to Newport
18 Water. The services provided by the General Fund departments are services that Newport Water
19 would need to provide internally if it was an independent entity.

20 The increase to normalize the test year is due to the fact that the test year consisted of 2 quarters
21 of Docket 3578 costs and 2 quarters of Docket 3675 costs rather than an entire year at Docket
22 3675. This normalization adjustment provides for a full year at the Docket 3675 funding level.

23
24 **Q. Please explain why Newport's expenditures in Repair & Maintenance – Equipment (line**
25 **item 275) significantly lower than the amount allowed for that account in Docket 3675.**

26 A. Due to the cash flow concerns addressed in other portions of my testimony, we postponed
27 preventative maintenance on some of the less critical components of our system including work
28 at both treatment plants, the Halsey Street building, water laboratory and source of supply

1 island/mainland. While we were comfortable postponing this type of maintenance during FY 06,
2 continuing to do so would most likely result in widespread equipment failures that could impact
3 our ability to provide service. For this reason, a normalizing adjustment has been made to the
4 test year amount in each division. The total adjustment for this account is \$22,770 resulting in a
5 normalized test year amount of \$183,000.

6
7 **Q. Why was spending for Reservoir Maintenance (line item 277) less than allowed for in**
8 **the previous rate filing?**

9 A. Historical expenses for Reservoir Maintenance have not matched the approved Docket 3675
10 rate. Therefore, Newport Water is requesting a decrease from \$36,000 to \$30,000 for this line
11 item. The budget, however, has been increased from the test year. Our scheduled maintenance
12 of dams was deferred due to budget constraints and thus the purchase of materials normally used
13 for the repair and maintenance of dams was curtailed. Materials were drawn down from stock if
14 required. The purchase of a new medium sized wood chipper was also deferred. RIDEM
15 proposed mandated dam inspections have also been added to the rate year.

16
17 **Q. Why was spending for Meter Maintenance (line item 299) less than allowed in the**
18 **previous rate filing?**

19 A. Due to vacancies, meter change outs were not completed as quickly as planned. These
20 vacancies were filled in January and April 2006. When short staffed, meter change outs are
21 considered a secondary task compared to the primary task of timely reading of meters. When
22 fully staffed, approximately 1,000 meters are projected to be changed out on an annual basis. At
23 the end of FY 2006, with full staffing, an increased rate of meter change outs was accomplished.
24 Had we been fully staffed, and had this program been in effect for the entire fiscal year, we
25 project that an additional \$8,687 would have been spent. This normalizing adjustment has been
26 made to the test year amount and results in a normalized test year amount that level funds this
27 account to the \$11,000 provided for in Docket 3675.

1 **Q: Please explain why expenditures on Operating Supplies (line item 311) in the test year**
2 **were lower than allowed in Docket # 3675.**

3 A. Again, as in my prior testimony, cash flow concerns necessitated postponing the purchase of
4 operating supplies such as tools, blades, cutters, etc. However, in a normal year, we project an
5 additional \$19,232 of supplies would have been purchased and are required for the rate year to
6 replenish supplies that are in need of replacement. Normalizing adjustments were made under
7 each of the accounts in which this line item occurs, including negative adjustments in Water
8 Laboratory and Transmission & Distribution, to reflect the amount that would have been spent in
9 FY 2006 had not cash flow been an issue. The sum of these adjustments is \$19,232 and results
10 in a normalized test year amount of \$77,500.

11
12 **Q. Please explain why Newport is projecting an increase in Uniforms & Protective Gear**
13 **(line item 320) to arrive at the normalized test year.**

14 A. The uniforms and protective gear requirements have been reassessed, with the resulting
15 decrease requested. The amount has, however, been normalized. Due to the purchase of items in
16 this account kept at a minimum in fiscal year 2006 due to cash flow concerns purchases for this
17 line item were limited to strictly protective equipment.

18
19 **Q. Please explain why expenditures on Laboratory Supplies (line item 339) in the test year**
20 **were lower than allowed in Docket # 3675.**

21 A. Cash flow concerns required that Newport postpone the purchase of laboratory supplies. It is
22 estimated that if adequate cash had been available in FY 2006, Newport Water would have spent
23 approximately \$10,000 on laboratory supplies. Therefore a normalizing adjustment in the
24 amount of \$5,909 has been made to this line item.

25
26 **Q. Why was spending for Office Supplies (line item 361) less than allowed in the previous**
27 **rate filing?**

28 A. For the test year, Newport Water was constrained by cash flow concerns. After further
29 review of our operating needs, it was determined that we would have spent an additional \$17,709

1 on items such as office desks, chairs, file cabinets, and cubicles. This amount has been noted as
2 a normalizing adjustment. The result is a normalized test year amount of \$30,000.

3
4 **Q. Please explain why Newport is projecting an increase in the Self Insurance (line item**
5 **561) to arrive at the test year.**

6 A. These claims are those not covered by Newport Water's policy with Interlocal Trust and
7 include (1) deductible billing from the trust and (2) liability claims requiring City Solicitor
8 and/or City Council approval; for example, during fiscal year 2006, a customer was awarded
9 damages from his claim that water main work near the entrance to Fort Adams caused the
10 clogging of sand and gravel from the street work into his home water system. The amount he
11 expended to make this repair was expensed through this account. Historical expenses in this
12 category did not approach the \$52,000 approved in Docket 3675 and we are requesting a
13 reduction to \$25,000.

14
15 **Q. Please explain why Newport is projecting an increase in Allowance for Doubtful**
16 **Accounts under the Administration Account (line item 999, Schedule RFC 3) from the**
17 **Docket 3675 projection to the rate year.**

18 A. As part Newport's audit, the auditors recommended that \$30,000 be used under this line item
19 and represents the amount of revenue that is projected to be uncollected in the rate year; for
20 instance due to move-outs and turnovers.

21 **ADJUSTMENTS FROM NORMALIZED TEST YEAR TO RATE YEAR.**

22 **Q. Is Newport seeking increased revenue related to adjustments from the normalized test**
23 **year to the rate year in specific operating budget items?**

24 A. Yes we are.

1 **Q. Would you please identify each of these items, and explain the adjustments to the**
2 **Normalized Test Year revenue requirements?**

3 A. Yes, I would be happy to do so. Herein below, I have identified, and provided an explanation
4 to the adjustments to the normalized test year that exceed \$5,000 or 10% of the total test year
5 amount or whichever is less. In my testimony I will be referencing RFC Schedules 2 and 3 and
6 RFC Support Schedule C attached to Harold Smith's testimony. RFC Schedule 2 sets forth the
7 rate year adjustments and the rate year revenue requirements for each of Newport Water's budget
8 accounts and individual budget line items. RFC 3 and C provide detailed support. I will address
9 each of the adjustments in order as they appear on these schedules.

10

11 **RATE YEAR ADJUSTMENTS - MULTIPLE ACCOUNTS**

12 **Q. Are there rate year adjustments to the budget line items that occur in more than one**
13 **account?**

14 A. Yes there are, and I will address these adjustments first.

15

16 **Q. Please explain why Newport is projecting increases in Salaries and Wages (line item**
17 **001) and Employee Benefits (line item 100) from the normalized test year to the rate year.**

18 A. As indicated in the applicable Schedules, the increase can be attributed to salary increases in
19 FY 2007 and projected increases for FY 2008. Employee health insurance premiums are
20 projected at a 10% increase, pension at an 11.99% increase and a 5% dental increase. The build
21 up of these amounts are shown in this schedule.

22

23 **Q. Please explain why Newport is projecting an increase in Overtime (line item 002) from**
24 **the Docket 3675 to the rate year.**

25 A. The overall increase in this line item over the Docket 3675 amount, and the test year amount
26 is comprised of a number of different factors.

1 In the Customer Service Account, Newport Water incurred overtime costs associated with the
2 implementation of the new billing software during the test year. Salaries have increased which is
3 why there is a rate year adjustment, but the overall rate year amount in this account is less than
4 amount allowed for in Docket 3675.

5

6 In Source of Supply Mainland, overtime (002) and Temporary/Seasonal Wages (004) are used to
7 staff the Sakonnet pump station when it is operational. During the test year the Sakonnet Pump
8 Station was only operated for 40 days from August 18 through September 27, 2005. This pump
9 station becomes operational to provide raw water from the mainland reservoirs during conditions
10 of high demand and low supply or in an emergency situation. Thus, this account should be fully
11 funded to deal with any such situations, and we have level funded the Docket 3675 amounts.

12

13 In the Treatment Plant Newport account, overtime is used for shift coverage for operator's
14 vacations and absences due to illness even though the treatment plants must be staffed 24 hours
15 per day, 7 days per week. Currently, all operator positions are filled. This requested amount is
16 based on actual history of the overtime account. In addition, since salaries and wages have
17 increased, overtime rates increase proportionally. In the Treatment – Lawton Valley account,
18 overtime is used for shift coverage for operator's vacations and absences due to illness.
19 Currently, all operator positions are filled. This amount is also based on actual history of the
20 overtime account. In addition, since salaries and wages have increased, overtime rates increase
21 proportionally.

22

23 In the Transmission & Distribution account, the increase is commensurate with salary increases.

24

25 **Q. Please explain why Newport is projecting an increase in Holiday Pay (line item 003) in**
26 **the Treatment Plant – Newport and Lawton Valley Accounts.**

27 A. The increase is based on 12% projection cumulative increase which assumes 9 operators with
28 12 holidays at 8 hours per holiday and an average rate of \$20 per hour.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

Q. Please explain the adjustment to Temporary Salaries (004).

A. To lessen the impact during the summer months due to increased workloads and vacation time taken by permanent employees, the City is seeking funds to employ summer help in Source of Supply Mainland, Source of Supply Island, Customer Service and Transmission/Distribution accounts. We have determined that it is more cost effective to rely on temporary employees during the peak summer period rather than have permanent employees work overtime.

However, there is a rate year adjustment that decreases the test year amount. This is due to a significant expenditure in the Customer Service account in the test year that is not anticipated to happen again. The Customer Service Division was short two employees for a significant length of time and temporary employees were hired to bridge the gap until permanent employees could be hired.

Q. Please explain why Newport is projecting an increase in Contract Services (225) from the normalized test year to the rate year in Customer Service and Transmission and Distribution.

A. In Customer Service, the increased costs are associated with the new billing software that requires an annual payment for a support service agreement. Also included is the processing cost of the service provider for Newport Water’s billing. The build up for this line item is provided in Schedule RFC C. In the Transmission and Distribution account, Newport Water anticipates an increase in distribution contract pricing, Dig Safe and welding services.

Q. Please explain why Newport is projecting an increase in Fire & Liability Insurance (line item 239) from the normalized test year to the rate year.

A. The increase in this expense which occurs in Administration, Treatment-Newport, Treatment-Lawton Valley, and Transmission & Distribution, is based on projections of insurance costs provided by the RI Interlocal Trust.

1 **Q. Please explain why Newport is projecting a decrease in Heavy Equipment Rental (260)**
2 **in the Treatment Plant Newport and Lawton Valley and Transmission and Distribution**
3 **accounts.**

4 A. The rate year decrease of \$2,727 in this account is the result of extraordinary expenses in the
5 test year due to the Forest Ave/W. Main Rd. repair in Dec. 2005. We do not anticipate such a
6 recurrence and the effective is to level fund Heavy Equipment Rental in the rate year to \$14,660,
7 which is the amount provided for in Docket 3675.

8
9 **Q. Please explain why Newport is projecting an increase in the Sewer Charge (line item**
10 **265) in the Treatment Plant Newport and Lawton Valley Accounts from the normalized**
11 **test year compared to the rate year.**

12 A. The overall increase in this account is due to the fact that there is a need to fund this line item
13 in the Lawton Valley Account. Prior to this rate case this line item was not funded in this
14 account. Once the Lawton Valley Residuals Management project is completed, residuals will be
15 pumped from Lawton Valley into the Middletown sewer collection system and to the Newport
16 Plant for treatment. In fact had it not been necessary to fund this line item in this account, the
17 rate year amount would have been considerably less than the amount allowed for in Docket
18 3675. In reviewing the Newport Plant account it can be seen that due to increased efficiencies of
19 clarifier sludge blowdown and the proposed rate year amount in that account is significantly less
20 than the amount approved in Docket 3675.

21
22 **Q. Please explain why Newport is projecting an increase in Gas/Vehicle Maintenance (line**
23 **item 271).**

24 A. The actual costs in the test year were less than Docket 3675. However, effective January
25 2007, the City of Newport privatized gas and vehicle maintenance to First Vehicle and is no
26 longer performing these services in-house. At the advice of the Director of Administrative
27 Services, we have increased the test year expenses by 15% to arrive at the rate year of \$125,850.

1 **Q. Please explain why Newport is projecting an increase in Reservoir Maintenance (line**
2 **item 277) in the Source of Supply Island and Mainland accounts from the normalized test**
3 **to the rate year.**

4 A. Costs for RIDEM proposed mandated dam inspections have been added to the rate year
5 budget. The City also deferred purchase of materials required for maintenance of the dams
6 during the test year. However, historical expenditures in this account have not matched
7 projections. Therefore, although there is an increase from the normalized test year, this account
8 is proposed at \$5,000 less than approved in Docket 3675.

9
10 **Q. Please explain why Newport is projecting increases in Regulatory Assessment in**
11 **Administration and the Water Laboratory Accounts (line item 281) from the normalized**
12 **test year to the rate year.**

13 A. The build up of the rate year amount is shown in Schedule RFC C. This increase effectively
14 level funds the account with Docket 3675.

15
16 **Q. Please explain why Newport is projecting an increase in Annual Leave Buy-Back (line**
17 **item 175).**

18 A. All employees are eligible to buy back up to 100 hours of available unused accumulated
19 vacation time in increments of 50 hours per transfer. This is a discretionary option for which we
20 cannot predict which employees will take advantage of this option. We are projecting a rate year
21 increase in proportion to the increase in salaries from Docket 3675.

22
23 **RATE YEAR ADJUSTMENTS - INDIVIDUAL ACCOUNTS**

24 **Q. Are there normalized test year adjustments to the budget line items that occur in only**
25 **one account.**

26 A. Yes there are, and I will now address these adjustments.

1

2 **Adjustments to Administration (Account No. 15-500-2200)**

3 **Q. Please explain why Newport is projecting an increase in Retiree Insurance Coverage**
4 **(line item 103) from the normalized test year to the rate year.**

5 A. Newport Water paid \$186,892 in FY 2006 for retiree insurance coverage as shown in
6 Schedule C. The Newport Finance Department, in consultation with the City's insurance
7 carriers, has projected a 6% annual increase associated with the costs of this coverage for the rate
8 year. This only represents a slight increase over the Docket 3675 amount.

9

10 **Q. Please explain the increase in Workers' Compensation under the Administration**
11 **account (line item 105) from the normalized test year to the rate year.**

12 A. Based on historical claims for the Water Division, and rates provided by the Rhode Island
13 Inter Local Trust, Newport Water's insurance provider, a 30% increase in Workers'
14 Compensation premiums is projected. Rates are based on prior claims, severity of those claims,
15 classifications of positions and are a percentage of salary. Additionally, costs are included for the
16 additional Deputy Director position added in FY 2006 as well as COLA increases for department
17 staff.

18 **Q. Please explain why Newport is projecting an increase in Consultant Fees under the**
19 **Administration account (line item 220) from the test year to the rate year.**

20 A. Actual consultant fees during FY 2006 were approximately \$170,000 and were primarily the
21 result of the Docket 3675 rate filing and the additional oversight required. In addition, hourly
22 consultant fees are projected to increase and this increase is reflected in the FY 2008 projection.

1 **Q. Please explain the decrease in Property Taxes (line item 261) from the amount approved**
2 **in Docket 3675 to the rate year.**

3 A. Newport Water pays property taxes to the municipalities of Middletown, Portsmouth,
4 Tiverton and Little Compton as indicated in RFC Schedule C. The decrease is the result,
5 primarily, of Middletown's reduced assessment on Newport Water's property.

6
7 As referenced in my Docket 3675 rebuttal testimony, Newport Water is diligent in challenging
8 property tax valuations in all communities where Newport is subject to property taxation.
9 Newport Water does this with the assistance of the City Assessor, who acts as Newport's
10 appraisal expert for Newport's properties, and who attends appeal hearings in each of the four
11 communities and before appraisal companies, Tax Assessors and Tax Boards of Appeals. The
12 City Solicitor also assists in these matters in the event that a Superior Court appeal is necessary.

13
14 **Q. Please explain how General Fund Costs are assigned?**

15 A. General Fund costs are currently assigned to the Water Dept. in two ways. First, all costs
16 that can be allocated by determining the water fund's share of production is allocated on this
17 basis. These include Human Resources, Accounting & Payroll and Purchasing. Human
18 Resources costs are allocated based on each department's proportionate share of the total number
19 of payroll checks issued. This results in Newport Water being allocated approximately 4.8% of
20 the budgeted costs for the Human Resources Department. Accounting & Payroll's costs are
21 allocated based on the number of vendor checks written and results in Newport Water being
22 allocated approximately 12.9% of the Accounting & Payroll costs. The Purchasing Department
23 costs are allocated based on the number of purchase orders issued and results in Newport Water
24 being allocated approximately 11.7% of the Purchasing Department's costs.

25
26 The second way costs are allocated is based on Newport Water's budget as a percentage of the
27 City's total budget for all funds. This method is used for additional resources and services the
28 general fund provides to Newport Water. These include the functions of City Council, City
29 Manager, City Solicitor, City Clerk, Finance Administration, Assessment, Collections,

1 Administrative Services, Facilities Maintenance and Planning. These costs are allocated based on
2 Newport Water's percentage as applied to the FY2007 proposed budget.

3

4

5

6 **Q. Please explain why Newport is projecting increases in Legal & Administrative (line item**
7 **266) from the normalized test year compared to the rate year.**

8 A: The costs included in this line item are those associated with valuable services that the City
9 of Newport's General Fund departments provide to Newport Water. The services provided by
10 the General Fund departments are services that Newport Water would need to provide internally
11 if it was an independent entity. The increase between the normalized test year and the rate year
12 is due to the fact that the test year consisted of less than a full year at the 3675 allocations. In
13 addition, the 2007 City budget bears an increase over the test year and this increase is reflected in
14 our proportionate share of Legal and Administration expenses. The build up of this amount is
15 provided in RFC Schedule C.

16

17 **Q. Please explain why Newport is projecting a decrease in Data Processing (line item 267)**
18 **from the normalized test year compared to the rate year.**

19 A. The allocation of costs to Data Processing is determined by taking the water fund's
20 percentage of FY2007 budget to the total funds' FY2007 budgets and allocating that percentage
21 of time to the FY2007 original adopted MIS department budget. The FY 2007 budget for MIS
22 has decreased approximately \$236,500 from the last rate filing; therefore, the proportionate
23 percentage allocated to Newport Water has decreased. The build up of this amount is provided
24 in RFC Schedule C.

25

26 **Q. Please explain why Newport is projecting a decrease in Mileage Reimbursement (line**
27 **item 268) from the amount allowed in Docket 3675 to the rate year.**

1 A. This is a benefit available to employees but in the test year, employees did not take advantage
2 of this benefit. Nevertheless, funds must be available in the event that this benefit is used by the
3 employees.

4
5
6 **Q. Please explain why Newport is projecting a decrease in Regulatory Expense under the**
7 **Administration Account (line item 280) from the normalized test year to the rate year.**

8 A. Newport Water continues to use this account to prepare the Consumer Confidence Report in
9 the rate year. In addition this account is used for expenses associated with other regulatory
10 expenses such as issuing public notices to customers in accordance with Drinking water
11 regulations. Newport Water has reviewed the funding for this account and recommends a
12 reduction from the amount allowed for in Docket 3675.

13
14 **Q. Please explain why Newport is projecting increases in Unemployment Claims (line item**
15 **563) from Docket 3675 to the rate year.**

16 A. During the current fiscal year (FY 07), unemployment claims have arisen in the amount of
17 \$11,414 to date. This expense is due to Newport Water being charged by the state for
18 unemployment monies issued to a terminated employee as well as unemployment monies issued
19 to temporary employees. Although Newport Water strives not to incur such expenses, it is
20 fiscally responsible to appropriate a portion of the budget for such an eventuality.

21
22 **Adjustments to Customer Service, Account No. 15-500-2209**

23 **Q. Please explain why Newport is projecting an increase in Customer Service Supplies (line**
24 **item 380) from the normalized test year compared to the rate year.**

25 A. The rate year amount is related to the water conservation program. However, due to cash
26 flow concerns, no purchases were made for the program. The rate year amount includes funding
27 to purchase water conservation kits, booklets, and brochures for distribution to customers.

1 **Water Laboratory – Account No. 15-500-2235**

2 **Q. Please explain why Newport is projecting a decrease in the amount requested for**
3 **Operating Supplies (line item 311) in the Water Laboratory Account in the rate year.**

4 A. To better clarify and to avoid potential duplication of accounts, the City has deleted the
5 Operating Supplies (line item 311) from the Water Laboratory account. Costs that were covered
6 under this line item will now be covered by the Laboratory Supplies line item (line item 339).

7
8 **Q. Please explain why Newport is projecting increases in Laboratory Supplies (line item**
9 **339) from the normalized test year compared to the rate year.**

10 A. Further detail of this line item is provided in RFC Schedule C. To better clarify and to avoid
11 potential duplication of accounts, the City has deleted the Operating Supplies (line item 311)
12 from the laboratory account and combined it with this account. Previous budget for these two
13 accounts was \$23,662. The new rate year request is \$16,000.

14
15 **Transmission & Distribution Maintenance – Account No. 15-500-2241**

16 **Q. Please explain why Newport is projecting increases in Main Maintenance (line item**
17 **295), and Service Maintenance (line item 296), and a decrease in Gate Maintenance (line**
18 **item 298) from the normalized test year to the rate year.**

19 A. These accounts are used for ongoing maintenance and repair of the existing water mains,
20 service connections and gate valves in the water system. The Town of Middletown, City of
21 Newport, and RIDOT's road way improvement programs can be attributed to some of the
22 increase so that repairs to the water system are made prior to road paving projects. The Gate
23 Maintenance line item (298) has been deleted and \$2,000 which would have appeared here has
24 been added to Main Maintenance (line item 295) which was then adjusted 3% to reflect projected
25 increased material costs. Replacement of lead services will also increase over previous years.
26 The build up for these rate year amounts for materials and equipment are shown in RFC
27 Schedule C.

28
29 **Electricity – Restricted Account**

1 **Q. Please explain why Newport is projecting an overall increase in the Contribution to the**
2 **Electricity Account (254) from the normalized test year to the rate year.**

3 A. The new pump station at Lawton Valley for residual management will require \$5,000
4 increase in FY08. FY08 has also assumed a 6% rate increase, consistent with historical
5 averages. The buildup is as shown in RFC Schedule C.
6

7 **Chemical Restricted Account**

8 **Q. Please explain why Newport is projecting an increase in the Contribution to the**
9 **Chemical Account (line item 335, Schedule RFC 3) from the normalized test year to the**
10 **rate year.**

11 A. Chemical costs are based upon current unit pricing with a projected 3% increase and
12 quantities as determined by maximum usage of each chemical over the previous 3 years. The
13 change from lime to sodium hydroxide for pH adjustment which will occur in 2007 has also been
14 factored into the costs. Estimated usage and costs for the sodium hydroxide has been determined
15 by the City's design engineer for the change in pH adjustment. Also contributing is the increased
16 cost for copper sulfate from previous years. The price for copper sulfate has increased from
17 \$0.78 per pound in the test year to \$1.65 per pound in FY 2007.
18

19 **Q. Are there any line items in the Operating Budget with projected rate year adjustments**
20 **less than \$5,000 or less than ten percent of the test year amount?**

21 A. Yes there are, these items have been addressed in RFC Schedules 2, 3 and C. However I have
22 not addressed these line items in this testimony due to the minimal nature of the increases and/or
23 decreases, but I would be happy to provide information on these accounts if requested.
24

25 **Q. Does this conclude your testimony?**

26 A. Yes it does.