

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

**IN RE:           CITY OF NEWPORT, UTILITIES           :**  
                  **DEPARTMENT WATER DIVISION           :**           **DOCKET NO. 3818**  
                  **APPLICATION TO CHANGE RATES       :**

**ORDER**

**I.     Introduction**

On January 29, 2007, the City of Newport, Utilities Department, Water Division (“Newport Water” or “Water Department”), a municipal utility, filed with the Public Utilities Commission (“Commission”) a rate application pursuant to R.I.G.L. § 39-3-11. In its filing, Newport Water requested a total revenue increase over current rates of 17.5%, to collect an additional \$1,580,896 for operating revenues, for a total revenue requirement of \$10,603,318. The impact of this request on the typical residential customer’s bill with annual consumption 55,200 gallons, if granted, would result in an increase of \$48.75 per year or 18.44%. On February 12, 2007, the Commission suspended the effective date of Newport Water’s requested rate increase in order to conduct a full investigation and to hold public hearings.<sup>1</sup> The parties to the docket were the Division of Public Utilities and Carriers (“Division”) on behalf of the ratepayers, Portsmouth Water and Fire District (“PWFD” or “Portsmouth”), a wholesale customer, and the United States Navy (“Navy”), the utility’s largest single customer.

The instant general rate case filing represents Newport Water’s third such filing in the last four years. The following table provides a brief history:

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<sup>1</sup> R.I. Gen. Laws §39-3-11 authorizes the Commission to suspend the taking effect of proposed rate(s) for a period not to exceed six (6) months in order that it may investigate and hold public hearings on the propriety of the proposed change(s).

Docket No.	Filing Date	Amount Requested	Amount Allowed	% Increase
3578	11/28/03	\$ 606,662	\$ 0	0.00%
3675	04/15/05	\$1,852,451	\$1,513,407	20.48%

## II. Newport Water Division's Pre-filed Direct Testimony

In support of its rate application filing, Newport Water submitted testimony and supporting exhibits of Julia Forgue, Director of Public Works for the City of Newport, and Harold Smith of Raftelis Financial Consultants. The purpose of Ms. Forgue's testimony was to provide support for the rate increase requested by Newport Water. She noted that although Newport Water was authorized to collect \$9,284,455 in revenue, in fiscal year 2006, it collected only \$7,931,537. For the current year, Newport Water requires \$10,603,318. Newport Water used fiscal year 2006 as the test year in order to establish the revenue requirements for the rate year, fiscal year 2008, upon which to base rates and charges to its retail and wholesale customers. Ms. Forgue indicated that the rates authorized by the previous docket, No. 3675, are not sufficient to recover expenses for the rate year, fiscal year 2008.<sup>2</sup>

Ms. Forgue provided testimony that Newport Water has complied with all of the prior Commission Orders, specifically, those set forth in Docket Nos. 3578 and 3675. She outlined the difficulties with Newport Water's cash flow and identified a number of factors, including problems with management, the fact that the prior settlement agreement in Docket No. 3578 did not provide for a rate increase, delayed

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<sup>2</sup> Newport Water Exhibit 1(a), Testimony of Julia Forgue at 2-3. Footnotes to testimony will be provided at the end of each paragraph unless otherwise necessary.

implementation of newly approved rates resulting in less than expected revenues, and heavy rainfall, that have caused these difficulties.<sup>3</sup>

Lower than forecasted sales have caused problems with Newport Water's cash flow. In addition to the above-noted problems, during 2006, Newport Water experienced a growing deficit of approximately \$1.5 million dollars owed to the City of Newport ("City") and vendors. The majority of the deficit is attributable to the City for payroll and legal, administrative and data processing costs. Ms. Forgue identified a number of other unexpected, non-reoccurring expenses totaling more than \$500,000.<sup>4</sup>

Regarding Capital Improvement Projects, Ms. Forgue noted that the account for these projects was adversely affected by the fact that the expenditures were not funded by the settlements in the prior dockets. Because Newport Water's capital expenditures are expected to total approximately \$8.5 million dollars for fiscal years 2007 and 2008, it will need to seek another SRF loan of approximately \$2,800,000 from Clean Water Finance and meet any balance left, after available project funds and grant money is exhausted, through rates over the next two fiscal years.<sup>5</sup>

Ms. Forgue explained a number of normalizing adjustments which resulted in increases to test year expenses in the amount of \$429,464 to account for reduced spending prompted primarily by lower than expected revenues and higher employee vacancies than expected in the rate year. The normalized test year expenses resulted in a

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<sup>3</sup> *Id.* at 3-6.

<sup>4</sup> *Id.* at 6-8. Ms. Forgue noted that even though the information required to prepare the present case was not available until December 2006, the newly elected City Council did not convene until January 2007, and the prior City Council was unwilling to address financial issues that would extend into the term of the new Council.

<sup>5</sup> *Id.* at 8-9

normalized test year revenue requirement of \$9,167,417. Actual test year revenues were \$8,739,683, or a deficiency of \$429,464.<sup>6</sup>

Ms. Forgue provided testimony in support of Newport Water's request for increased revenue related to adjustments from the normalized test year to the rate year for specific operating budget items. Of the \$1,580,876 request, \$1,201,209 is related to personnel, sewer, chemical and CIP expense. Specifically, Newport Water is projecting an increase in personnel related expenses in the amount of \$522,430 to comply with contractual requirements and to normalize out certain non-recurring expenses. The projected \$160,996 increase in the Sewer Charge account is due to the need to fund the Lawton Valley Account that was previously unfunded. The balance of the requested increase results from several smaller adjustments across many categories of expenses.<sup>7</sup>

Ms. Forgue then explained that General Fund Costs, also referred to as City Services Expense, are assigned either by determining the Water Division's share of production for Human Resources, Accounting and Payroll and Purchasing or by allocating them based on the Water Division's budget as a percentage of the City's total budget for all funds for City Council, City Manager, City Solicitor, City Clerk, Finance Administration, Assessment, Collections, Administrative Services, Facilities Maintenance and Planning. Legal and Administrative are projected to increase, while Data Processing, Mileage Reimbursement and Regulatory Expense costs are projected to

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<sup>6</sup> *Id.* at 10-16 referencing RFC Schedule 2. Ms. Forgue had included a \$30,000 increase in Allowance for Doubtful Accounts, because Newport Water had not written off any bad debt during the test year. However, \$30,000 was allowed in Docket No. 3675. *Id.* at 16 referencing RFC Schedule 3.

<sup>7</sup> *Id.* at 16-20.

decrease.<sup>8</sup> The total requested for these City Service expenses was \$496,389 an increase of \$21,390 over what was allowed in the prior docket.

Harold Smith worked with representatives of the City and Newport Water to develop pro forma revenue requirements and the resulting cost allocations and cost based rates and charges. He provided testimony to explain each of the schedules he prepared. Mr. Smith concluded that Newport Water would face a deficit in the rate year of \$1,580,896 if the current rates were to remain in effect. Mr. Smith noted that the rate year was developed by examining each cost line item for the normalized test year and then making adjustments to those line items to reflect the anticipated cost to provide service during the rate year. Mr. Smith had to normalize the test year because: 1) Newport Water's sales were less than anticipated and 2) the rates approved in Docket No. 3675 did not go into effect until six months into the rate year.<sup>9</sup>

Mr. Smith explained that the large amount of rainfall during fiscal year 2006 resulted in lower water sales than anticipated. He noted that the low sales impacted Newport Water by reducing revenues resulting cash shortages and lower electricity costs, because the need to pump raw water from remote reservoirs was reduced. The second factor that contributed to the need to adjust the test year was that the rates approved in Docket No. 3675 did not go into effect until six months into the rate year. This resulted in Newport Water being constricted in its spending during the first six months of the rate year and having to operate with revenues allowed by the previous docket, Docket No. 3578.<sup>10</sup>

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<sup>8</sup> *Id.* at 21-25.

<sup>9</sup> Newport Water Exhibit 1(b), Testimony of Harold Smith at 2-8. The shortfall would be \$1,318,863 if Newport Water had collected the amount approved in Docket 3675.

<sup>10</sup> *Id.* at 8-10.

Mr. Smith described other factors in addition to the decreased revenues and the timing of the increase in Docket No. 3675 as also causing Newport Water's cash flow problems. Specifically, he identified the management problems faced by Newport Water as contributing to Newport Water's struggles. He noted the fact that the City previously informed Newport Water that it would not advance money from the General Fund to Newport Water. He also indicated that the increase in Docket No. 3675 was its first increase in approximately six years and the equivalent of only a 3.4% increase per year. Mr. Smith identified an unexpected tax settlement, an environmental penalty and the settlement of a labor contract as also contributing to cash flow problems. To lessen the impact of the unreimbursed payroll, Newport requested permission from the Commission to use money from the Repayment to City Account to lower its debt to the City and to vendors. Mr. Smith suggested that in the long term, Newport Water be allowed to increase its operating reserve. He explained that during the past several years, Newport Water was not able to build an operating reserve of 1.5% because of unforeseen expenses such as the tax settlement and to cover expenses during periods of low consumption.<sup>11</sup>

Mr. Smith noted that the current 1.5% Operating Revenue Allowance, \$137,209 allowed in Docket No. 3675, is insufficient to address Newport Water's current needs. He identified the reasons for this as the delay in the effective date of rates, the lower than anticipated revenues that were insufficient to cover expenses, higher than normal

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<sup>11</sup> *Id.* at 10-14. Subsequent to the filing of its Application to Change Rates, Newport Water filed a Miscellaneous Petition requesting that it be allowed to use monies from the Repayment to City Account to pay down existing deficits owed to the City and outside vendors. Newport Water also requested that the Commission allow it to pay the remaining \$1 million dollars owed to the City in four installments of \$250,000 over the course of four years as opposed to two \$500,000 payments during the next two years. The Commission denied Newport Water's Miscellaneous Petition and ordered it to make the \$500,000 payment to the City as required by Order No. 17992 in Docket No. 3675. The Commission deferred ruling on the restructuring of the remaining balance of \$500,000 until the decision in the current docket. At the hearing, Newport Water noted it was no longer requesting consideration of its Miscellaneous Petition. Transcript of Hearing, July 24, 2007 at 12.

precipitation and over-estimated water sales. Newport Water proposed an allowance equal to 6% of annual Operating and Maintenance (“O&M”) expenses which is approximately \$425,000 of its revenue requirements in the instant matter. The intent of Newport Water is to accumulate an amount equal to 45 days of O&M expenses. This is expected to take about three years. Newport Water would use this money to cover operating costs during the period between when expenses are incurred and revenues are received to pay for those expenses, to cover expenses when revenues are insufficient to do the same and to cover unforeseen costs that are not included in the rate year revenue requirements.<sup>12</sup>

Mr. Smith noted that the capital revenue requirements for the rate year were based on the five year capital improvement plan (“CIP”) and the City’s plan to fund the projects in the CIP. Newport Water requested \$1,715,056, an increase over the test year expense of \$445,476, to recover the year’s funded projects as well as to pay the debt service on the outstanding revenue bonds and the SRF loans.<sup>13</sup> Furthermore, in Docket No. 3675, Newport Water had agreed to perform a demand study in order to gather data necessary for a full cost of service study. Newport Water has begun that data collection. Over the next five years, Newport Water expects to spend approximately \$2 million dollars to install remote radio read devices to collect actual data in order to obtain sufficient data to conduct an appropriate cost of service study.<sup>14</sup>

### **III. Division of Public Utilities and Carriers’ Direct Testimony**

On May 8, 2007, the Division filed the Direct Testimony of Thomas S. Catlin, its consultant. Like Newport Water, Mr. Catlin used July 1, 2005 through June 30, 2006 as

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<sup>12</sup> Newport Water Exhibit 1(b), Testimony of Harold Smith at 14-17.

<sup>13</sup> Newport Water Exhibit 1(b), RFC Schedule 1.

<sup>14</sup> Newport Water Exhibit 1(b), Testimony of Harold Smith at 17-19.

the test year and July 1, 2007 through June 30, 2008 as the rate year in determining Newport Water's revenue requirements and the revenue increase necessary to satisfy those requirements. Based on his review, Mr. Catlin recommended that Newport Water be allowed a revenue increase of \$995,106 to be collected through an increase in existing rates and charges for metered water services and fire protection, but not through an adjustment to the billing charge for water service.<sup>15</sup>

In developing his recommendation, Mr. Catlin accepted Newport Water's requested rate year expenses where those expenses were small or where any adjustment he would make would be small, and focused on larger elements of costs where he believed adjustments to the expense were appropriate. For sewer charges, Mr. Catlin made two adjustments; the first was to utilize data for the period ending January 2007 which would more accurately reflect the reduced waste discharge from the Newport plant which Ms. Forgue noted is the result of improved operations. The second adjustment reduced the sewer charges for the Lawton Valley plant by half, because the Residuals Management Project is not scheduled to be complete until six months into the rate year. Mr. Catlin's total reduction in sewer charges is \$75,200.<sup>16</sup>

Mr. Catlin reduced Newport Water's vehicle maintenance charges by \$8,055 based on a comparison of the FY2008 budgeted costs for the City to Newport Water's actual costs for the test year. He also proposed an adjustment to the level of electricity costs by \$25,170, because Newport Water's power supply charges are not subject to change through December 2009. Since Newport Water has not experienced any uncollectibles or bad debt write-offs for the past three years, Mr. Catlin excluded the

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<sup>15</sup> Division Exhibit 1, Testimony of Thomas S. Catlin at 1-5.

<sup>16</sup> *Id.* at 6-8.

\$30,000 expense listed by Newport Water for bad debt costs included as the allowance for doubtful accounts. He also proposed excluding \$30,000 from rate year consultant fees, noting that any costs incurred for legal or other fees in conjunction with new debt be charged to the Debt Service Restricted Account.<sup>17</sup>

Although Newport Water proposed a \$25,000 per expense allowance for claims not covered by insurance, Mr. Catlin pointed out that during the test year; Newport Water incurred a \$404 expense for a damage claim not covered by insurance. Additionally, there were no expenses for FY 2004 or FY 2005, and in FY 2003, Newport Water incurred an expense of only \$12,500. Mr. Catlin concluded that after a review of historical expenses, the \$25,000 proposed by Newport Water was too high and suggested that \$10,000 be included in rates. Two adjustments were made by Mr. Catlin to the expenses attributable to legal and administrative and data processing services. Mr. Catlin revised this by increasing Newport Water's allocation by \$30,924 to reflect its total costs as opposed to allocating the costs based on the City's budgeted costs. He excluded \$82,336 of data processing costs associated with \$705,000 of capital costs that Newport Water did not include in the budget, because Newport Water did not provide an explanation of why this adjustment was made to costs that were not in the budget.<sup>18</sup>

Mr. Catlin proposed a decrease of \$83,900 in the amount that Newport Water requested for debt service expense, because he expects any payments for new debt in 2008 to be nominal and believes Newport Water will have sufficient funds in its debt service account to pay these nominal amounts. He also addressed Newport Water's cash flow problems and recommended that billing of retail customers be increased from every

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<sup>17</sup> *Id.* at 8-10.

<sup>18</sup> *Id.* at 10-13.

four months to bi-monthly as a way to significantly improve cash flow. Mr. Catlin recommended that should the rates approved in the instant docket remain in effect after the 2008 rate year that the \$250,000 collected to repay the City for the \$2.5 million dollar loan be put into a restricted account and addressed in the next rate proceeding.<sup>19</sup>

Mr. Catlin recommended that the operating revenue allowance included in the total cost of service remain at the traditional level of 1.5 percent of total operating costs as opposed to the 6 percent of Operating and Maintenance Expenses that Newport Water proposed. Mr. Catlin's recommendation to increase billing frequency while keeping billing charges the same would be used to establish a separate Operating Reserve Fund. The increased billing would result in approximately \$561,000 of additional revenue if the billing charge of \$13.25 were to remain the same. Mr. Catlin proposed that an 11.6 percentage revenue increase be recovered through a uniform increase in all rates for water and fire service. In order to minimize the impact on customers resulting from the bi-monthly billing, Mr. Catlin suggested that the \$13.25 billing charge remain the same and that the cost of the commodity be increased by 6 cents per thousand gallons for retail water service to recover revenue that would have been generated through the uniform percentage increase in the billing charges.<sup>20</sup>

#### **IV. Department of the Navy Direct Testimony**

Larry R. Allen submitted direct testimony on behalf of the Navy. Mr. Allen recommended adjustments totaling \$63,192 for the test year and \$31,719 for the rate year. He used the same test year as Newport Water, and his adjustments were made by using a multi-year historical average of expenses as opposed to utilizing projected

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<sup>19</sup> *Id.* at 13-17.

<sup>20</sup> *Id.* at 17-22.

expenses. Mr. Allen noted that the Navy is concerned that Newport Water has not submitted a cost of service (“COS”) study as previously agreed to in Docket No. 3675 and pointed out that this is exacerbating the inequities in customer class charges. Mr. Allen noted that the COS study is extremely important in order to insure that a company will recoup its investment in infrastructure. He recommended that the Commission order Newport Water to conduct a fully allocated customer class demand study, to incorporate that into a class cost of service study and to include in its order deadlines to ensure that the study is completed prior to the filing of the next rate case.<sup>21</sup>

#### **V. Portsmouth Water and Fire District Direct Testimony**

Christopher P.N. Woodcock filed testimony on behalf of Portsmouth. Mr. Woodcock noted that he had been involved in Newport Water’s last four rate filings. He indicated that he remains concerned that the negative cash position appears to be getting worse rather than better. He alleged apparent lack of support from the City as one of the causes of Newport Water’s problems. He pointed out that PWFd intervened in the current matter primarily to assure that the costs allocated to it are fair, and that it believes Newport Water should receive sufficient funds to properly operate, maintain its system and provide quality water to its customers.<sup>22</sup>

Mr. Woodcock noted that in his opinion Newport Water’s claimed revenue requirements for the rate year are overstated for debt service, various studies, city services, operating reserve, repayment to the city and miscellaneous revenues.<sup>23</sup> Mr. Woodcock recommended that Newport Water be allowed a revenue increase of \$324,417

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<sup>21</sup> Navy Exhibit 1, Testimony of Larry R. Allen at 1-8.

<sup>22</sup> PWFd Exhibit 1, Testimony of Christopher Woodcock at 1-4.

<sup>23</sup> *Id.* at 5-9.

for a revenue requirement of \$9,376,361.<sup>24</sup> Specifically, for debt service, Mr. Woodcock pointed out that because the claimed debt service of \$207,056 for the FY 2007 Series B bond will not occur in the rate year, it should be removed. He does not believe that the Commission should allow Newport Water to collect extra funds for the bonds at this time, because historically bond issues that were promised never materialized. He noted that the bonds that have been closed on have \$73,000 of costs in the rate year, while the proposed later bonds for the same amount show payments in the rate year of almost twice as much.<sup>25</sup>

Mr. Woodcock proposed that the costs associated with the new Lawton Valley WTP plant be bonded rather than rate funded as requested by Newport Water. Furthermore, he suggested that if the metering program is to proceed, then it be bonded also. He noted that these adjustments would not affect the programs but would merely shift the funding of those programs.<sup>26</sup>

As for City Services, PWFD spent considerable time explaining why Newport Water's request to fund such services in the same way it did in the settlement of Docket No. 3675 should not be accepted. Newport Water requested a total increase of City Services of 12% over the prior settlement. Mr. Woodcock asserted that Newport Water's allocation was not justified. He noted that if allocating this cost based on the percentage of the Water Department budget to the total City budget, all departments including the school department and the library should be included. He discussed the failure of Newport Water to timely file a request for a rate increase and the apparent lack of communication between and unwillingness of the City Manager, City Finance Director

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<sup>24</sup> PWFD Exhibit 1, CW Schedule 1.

<sup>25</sup> PWFD Exhibit 1, Testimony of Christopher Woodcock at 5-9.

<sup>26</sup> *Id.* at 10-12

and City Council to consider the financial situation of the Newport Water as supporting the inappropriateness of asking ratepayers to fund additional amounts to the City. Mr. Woodcock pointed out that although Ms. Forgue testified in the prior proceeding that it was Newport Water's intention to reduce its reliance on the Finance Department as the Deputy Utility Director of Finance would assume most of the responsibilities and provide stipulated accrual based accounting reports by May 2006 which have yet to be provided, Newport Water still proposed costs be allocated in the same manner to the Finance Department as they were in the previous case. Based on his perception of unwillingness of the City Council and City Manager's Office to respond to the cash flow problems of Newport Water, Mr. Woodcock recommended disallowing any funds for the City Manager's Office and the City Council and only allowing "half of the amount" requested for the Finance Director's Office. His adjustments resulted in a reduction to Newport Water's request by \$12,201.<sup>27</sup>

With regard to the City Clerk's Office, Mr. Woodcock recommended that only 1% of the Clerk's Office be allocated to ratepayers, reducing Newport Water's request by \$35,867.<sup>28</sup> He explained that when a representative of PWFD called to request a schedule of water rates, the PUC filing and other documents related to Newport Water, that representative was referred to the Water Department for that information. He also noted that the functions of the Clerk's Office also apply to the School Department and that because of this, it is inappropriate to exclude the School Department from the allocation of expenses. He also asserted that since an outside vendor is responsible for

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<sup>27</sup> *Id.* at 12-15, CW Schedule 4.

<sup>28</sup> PWFD Exhibit 1, CW Schedule 4.

billing, \$27,900 be removed from the Collector's Office budget.<sup>29</sup> He allocated only 5% of the Administrative Services budget to Newport Water, because in the prior docket, Newport Water indicated that ¼ of a person's time was spent on Newport Water issues increasing Newport Water's request by \$300,000.<sup>30</sup> Mr. Woodcock also reduced the MIS Operating budget by \$705,000 because of the lack of explanation justifying the items that make up this amount and also assigned a share of the MIS functions to the School Department and Library. Finally, because of the decrease in revenue, Mr. Woodcock explained that the percentage of the budget that water represents also drops. His percentage allocations reflect his revised revenue requirements.<sup>31</sup>

Mr. Woodcock explained why he disagreed with Newport Water's plan to repay the City for borrowed funds. He noted that Newport Water previously agreed in Docket No. 3578 that it would not seek to recover in rates any money borrowed from the City through and including June 30, 2005. Additionally, Newport's delay in filing a rate case is a large part of the reason that Newport Water owes so much money to the City. Mr. Woodcock recommended that upon completion of the authorized payment to the City of \$250,000, the balance that is presently restricted be applied to the debt service account.<sup>32</sup>

Mr. Woodcock noted three concerns about the operations and management of Newport Water. His concerns relate to the delay in filing, estimated water sales, unaccounted for water and incorrect or inconsistent data. In order to correct these deficiencies, Mr. Woodcock recommended that the Commission set goals for Newport

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<sup>29</sup> PWFD Exhibit 1, Testimony of Christopher Woodcock at 16-19.

<sup>30</sup> *Id.*

<sup>31</sup> *Id.* at 16-19.

<sup>32</sup> *Id.* at 19-27.

Water such as reducing the unaccounted-for water, reducing the numbers of estimated bills, and encouraging timelier rate filings.<sup>33</sup>

PWFD also requested that the Commission interpret the current tariff regarding the application of interest on late payments. The tariff provides for interest on all account balances that are 30 days overdue. Newport Water has applied interest charges to a bill that is not paid by the due date regardless of when PWFD received the bill. PWFD believes that the wording means that interest will be applied if the bill is not paid by 30 days after the listed due date, i.e., more than 30 days overdue. Attempts to resolve this dispute with Newport Water have remained unsuccessful. Finally, Mr. Woodcock noted that PWFD agrees that Newport Water be allowed a 6% operating allowance, equal to \$397,988, on its operations and maintenance expenses, half of which would be restricted to cover revenue shortfalls and the other half to cover unforeseen changes in expenses and to provide working capital.<sup>34</sup>

William J. McGlenn, General Manager and Chief Engineer of PWFD, provided testimony wherein he described the PWFD water system, its needs and how it obtains its water from Newport Water. He also discussed the water quality issues, specifically TTHMs and water age that he identified as a serious concern. Mr. McGlenn noted Newport Water was required, in the prior Docket, to conduct a water age study. This issue is of concern to PWFD because the age of the water received by PWFD is greater than that water received by the Navy and Newport Water's other customers. Free chlorine allows for the formation of TTHMs. When chloramines are used to address the TTHM issue, this increases the potential for nitrification in the distribution system. The

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<sup>33</sup> *Id.* at 28-33.

<sup>34</sup> *Id.* at 33-35.

water age study was not provided to PWFD until one year after its agreed to completion date. The late completion of the report prevented PWFD from completely addressing it in its pre-filed direct testimony.<sup>35</sup>

Finally, Philip Driscoll, the clerk of PWFD, provided testimony to offer observations and suggestions to the Commission. He noted that Newport Water's financial and operational difficulties have existed for some time. He suggested that the Commission require a number of financial reporting requirements that Newport Water should be required to submit. If Newport Water finds that this type of accounting is too burdensome, then it should retain the services of outside accountants. Mr. Driscoll opined that without change Newport Water's operational and financial difficulties will continue.<sup>36</sup>

## **VI. Newport Water Division Rebuttal Testimony**

Both Ms. Forgue and Mr. Smith filed Rebuttal Testimony in order to respond to the testimony of Mr. Catlin, Mr. Woodcock, Mr. McGlinn, and Mr. Driscoll. Ms. Forgue noted that Newport Water agreed with Mr. Catlin's testimony as it related to Vehicle Maintenance Charges, Electricity, Allowance of Doubtful Accounts, Debt Issuance Fees and Self Insurance. She pointed out that Newport Water disagreed with Mr. Catlin's position on Sewer Charges, City Services and Operating Revenue Allowance and expressed concern over the implementation and effects of increasing the frequency of water billings.<sup>37</sup>

She provided testimony that on May 23, 2007, the City Council adopted a new rate of \$6.00/1000 gallons and that the annual fee for Station 1 is \$3,026. She noted that

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<sup>35</sup> PWFD Exhibit 2, Testimony of William J. McGlinn at 1-9.

<sup>36</sup> PWFD Exhibit 3, Testimony of Philip Driscoll at 1-5.

<sup>37</sup> Newport Water Exhibit 2(a), Rebuttal Testimony of Julia Forgue at 1-4.

Newport Water accepted Mr. Catlin's testimony adjusting the Station 1's annual gallons of discharge to the sewer system for purposes of calculating an allowance but disagreed with his recommendation that only six months of sewer discharge volume for the Lawton Valley WTP be allowed. Newport Water requested an adjusted allowance for Sewer Charges of \$274,808.<sup>38</sup>

Ms. Forgue agreed that \$105,000 of the requested \$705,000 for legal and administrative expenses be excluded noting that the \$600,000 balance applies to all Departments equally, including schools. She recommended reducing Data Processing by \$19,696 as opposed to \$82,336. Ms. Forgue indicated her skepticism to Mr. Catlin's belief that implementation of bi-monthly billing will immediately reduce Newport Water's cash flow problems. Ms. Forgue noted that in theory, if the increased billing commenced prior to the completion of the remote radio read program, Newport Water would incur costs for staff to perform actual reads of the meter, an expense not provided for in the current filing. Absent the hiring of additional staff, Newport Water would have to rely on estimated readings, which it has been trying to reduce. Therefore, she disagreed with Mr. Catlin's recommendation to increase the billing frequency as opposed to allowing an Operating Revenue Allowance of 6 percent.<sup>39</sup>

Ms. Forgue disagreed with Mr. Woodcock that the City had been unresponsive to Newport Water's financial troubles. She explained that Newport Water has filed three rate cases since November 2003. She stated that Newport Water did not file a new rate case immediately following the last one, Docket No. 3675, because it had to monitor sales at the new rates for a period of time and then wait until preliminary audit

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<sup>38</sup> *Id.*

<sup>39</sup> *Id.* at 5-10.

information for the fiscal year was complete before the rate filing could be finalized. In response to Mr. Woodcock's assertion that Newport Water did not have to wait for audited financial information, Ms. Forgue responded that this contradicts PWFD's criticism of Newport Water for incorrect and inconsistent data that required updating. She noted that the delay in filing the current rate case was not caused by the City Manager or the City Council refusing to allow the rate filing.<sup>40</sup>

Ms. Forgue pointed out that although the Water Fund is a stand alone account, the City has helped Newport Water in a number of ways, including paying its annual fire protection bill in one payment of \$390,000, even though it had the option of paying this amount over the course of twelve months, and allowing Newport Water to make payroll reimbursements when funds become available. With regard to Newport Water's payments to the City for services provided by the City Finance Department, Ms. Forgue disagreed with Mr. Woodcock's adjustments. She noted that Newport Water is asking for the same allocation as it did in the previous docket and that his adjustment was already made in Docket No. 3675 to account for the Deputy Utility Director-Finance. Ms. Forgue refuted Mr. Woodcock's suggestion that Newport Water has failed to comply with the reporting requirements established in Docket No. 3675 by stating that Newport Water has filed each and every monthly report it was required to file in the Commission approved format.<sup>41</sup>

In response to Mr. Woodcock's allegations that Newport Water's CIP is behind schedule, Ms. Forgue stated that he ignored the sixteen projects that have been completed as well as the numerous improvements made to the treatment plants. She explained that

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<sup>40</sup> *Id.* at 10-16.

<sup>41</sup> *Id.* at 17-23.

Newport Water has had to perform other studies that required it to divert staff efforts resulting in the deferral of certain CIP studies. New issues have arisen which affected the priority of certain CIP projects, for example damage to the northern and western embankments of Easton Pond Dam, the Consent Agreement with the RIDEM requiring the development of a Sediment Assessment Proposal and the RIPDES permit standard for Aluminum at the Lawton Valley Treatment Plant.<sup>42</sup>

Ms. Forgue also addressed Mr. Woodcock's concerns with estimated water sales and the number of accounts estimated in a billing cycle and was able to determine that estimated bills have averaged 13.9% of all bills since December 2006. Lastly, Ms. Forgue noted that interest on the late payment of water bills should begin to accrue on the thirty-first day after the bill is sent as opposed to Mr. Woodcock's position that interest should begin to accrue thirty days after the bill is due.<sup>43</sup>

Ms. Forgue also responded to Mr. McGlenn's testimony regarding the treatment issues. She noted that Newport Water works with both the Rhode Island Department of Health ("RIDOH") and the Environmental Protection Agency ("EPA") to address water quality issues. She pointed out that the Commission previously stated that it would not insert itself into water quality issues unless it had evidence that RIDOH was not complying with its statutory duties. She stated that Mr. McGlenn's allegation that the stable and higher pH appears to have made a difference in the lead levels in PWFD is unsubstantiated. Furthermore, she noted that the EPA is funding the construction of pipe loops necessary for a testing program scheduled for June 2007. Finally, with regard to the issue of water age, Ms. Forgue stated that Newport Water's consultant, CDM,

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<sup>42</sup> *Id.* at 23-25.

<sup>43</sup> *Id.* at 25-27.

evaluated the water age at the Lawton Valley Water Treatment Plant storage facilities and concluded that no improvements were warranted for the 2-MG standpipe, that even though the 4-MG reservoir has greater T90 than the standpipe, both shared the same potential for the forming of TTHMs and that major changes at the 4-MG reservoir would be costly. Finally, Ms. Forgue briefly responded to Mr. Driscoll's testimony by disagreeing with his allegation that Newport Water's financial and operational difficulties will exist perpetually.<sup>44</sup>

Mr. Smith also addressed the testimonies provided by the Division, PWFD and the Navy, accepting some adjustments and rejecting others for a rebuttal position requesting \$10,383,216 or an additional \$1,215,799 over the normalized test year. He reiterated Ms. Forgue's testimony agreeing with Mr. Catlin's recommended adjustments to Vehicle Maintenance Charges, Electricity Costs, Allowance for Doubtful Accounts, Debt Issuance Fees and Self Insurance. He also noted that the increase in sewer rates, the net effect of the reduction in discharge volume and the implementation of the CSO charge results in a percentage revenue increase required from 18.43% to 18.68%. Mr. Smith also disagreed with Mr. Allen's recommendations with respect to the adjustments to certain O&M expense items noting that the method of projecting rate year expenses used by Newport Water that is based on specific information about the way in which Newport Water incurs costs is more accurate and realistic than using an analysis of historical costs and then adjusting the rate year to reflect inflationary increases in costs.<sup>45</sup>

Mr. Smith agreed with Mr. Catlin's recommendations that because many of the allocations are based on the relationship between Newport Water's proposed budget and

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<sup>44</sup> *Id.* at 28-31.

<sup>45</sup> Newport Water Exhibit 2(b), Rebuttal Testimony of Harold Smith at 1-8.

the City budget, the amount of Newport Water's budget and the total city budget should be adjusted to reflect adjustments made during the Docket. Mr. Smith, like Ms. Forgue, noted that a \$110,000 reduction in the capital component of the MIS budget would be acceptable as opposed to the elimination of \$705,000 as Mr. Catlin recommended. Mr. Smith disagreed with Mr. Woodcock's recommendation that capital and debt service costs be excluded from Newport Water's and the City's budgets when determining the allocation of factors for legal and administrative services. He did, however, agree to exclude these costs from those budgets when calculating the allocation of costs for the Assessment Department, the Collections Department and the Administrative Services Department.<sup>46</sup>

Regarding debt service, Mr. Smith concurred with Mr. Catlin's recommended reduction noting that the amount in conjunction with the existing balance in the restricted Debt Service Account should be sufficient for Newport Water to meet its current debt service needs. He accused Mr. Woodcock of making inaccurate assumptions and misleading statements regarding Newport Water's securing the Series B loan which it received approval for in April 2007. Additionally, Mr. Woodcock asserted that Newport Water had combined its Capital Spending and Debt Service restricted accounts which Mr. Smith disputed and noted that both of these accounts exist and are tracked separately.<sup>47</sup>

Mr. Smith discussed the Repayment to the City Account and agreed with Mr. Catlin in principle that bi-monthly billing would help Newport deal with its financial difficulties and provide more precise data regarding customer demand but noted that the current filing does not provide for the increased costs that would result from

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<sup>46</sup> *Id.* at 8-10

<sup>47</sup> *Id.* at 14-16.

implementation of this additional billing. He again emphasized that allowing Newport Water to use the money from this account to pay down past due payables would provide significant relief to Newport Water. He disagreed with Mr. Catlin's recommendation that the Commission continue to allow 1.5% of operating costs as opposed to the 6% of O&M costs, or approximately \$830,000, requested by Newport Water to fund an operating reserve arguing that the 1.5% is inadequate to address unforeseen or unexpected circumstances that could occur during the year. He stated that Newport Water had no objection to restrictions being placed on the fund. He did not believe that the increased billing charge revenues would be adequate to fund the reserve account, especially in light of the fact that Mr. Catlin recommended using this money to pay down past due payables.<sup>48</sup>

Mr. Smith disagreed with Mr. Woodcock's suggestion that Newport Water fund approximately \$1.5 million in capital projects with rate revenues noting that this would result in Newport Water being unable to fund approximately one third of the projects. He also disagreed with Mr. Woodcock's assertion that Newport Water's timing in filing this rate case should have been sooner and if so, would have alleviated its current financial situation. He pointed out that even in June 2006, Newport Water had no clear indication that the rate revenue approved in Docket No. 3675 would not be sufficient to cover expenses. Prior to June of FY 2006, Mr. Smith noted that Newport Water would not have been able to predict the decline in revenues it experienced.<sup>49</sup>

Mr. Smith disputed Mr. Woodcock's characterization of the money owed to the City and outside vendors as loans from the City, instead identifying them as past due

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<sup>48</sup> *Id.* at 17-20.

<sup>49</sup> *Id.* at 20-24.

accounts payable to the City for municipal employees' salaries and to outside vendors. He stated that the City did not loan Newport Water money to pay its employees, because the employees are the City employees paid by the City which is then reimbursed by Newport Water. Regarding cost allocation and/or rate design, Mr. Smith disagreed with Mr. Catlin's recommendation that billing charges remain unchanged, since Newport Water is not in agreement to move to bi-monthly billing prior to the end of the rate year and believes an increase in billing charges by the same percentage as other rates is necessary to ensure sufficiency. Mr. Smith also addressed Mr. Allen's suggestion that Newport Water prepare a full cost allocation study and indicated that such study should be complete by the time of Newport Water's next rate filing.<sup>50</sup>

#### **VII. Division of Public Utilities and Carriers' Surrebuttal**

Mr. Catlin provided surrebuttal testimony on the issues of Sewer Charges, City Services, Repayment to the City and Operating Revenue Allowance and rate design. Regarding Sewer Charges he accepted the charges Newport Water provided in its rebuttal testimony and recommended that the avoided charges for the period be set aside in the Operating Reserve Fund that Newport Water proposed. Regarding City Services, Mr. Catlin accepted the inclusion of \$600,000 of capital expenditures as part of the Data Processing costs allocable to Newport Water and recommended the changes to the allocation procedures that Mr. Smith made in his rebuttal.<sup>51</sup>

Mr. Catlin reiterated his recommendation that Newport Water move to bi-monthly billing to fund an Operating Reserve. He again noted that the Division objects to Newport Water's proposal to change the loan repayment schedule to the City and that to

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<sup>50</sup> *Id.* at 25-29.

<sup>51</sup> Division Exhibit 2, Surrebuttal Testimony of Thomas S. Catlin at 1-4.

increase the operating revenue allowance places the burden on its customers in the form of higher rates. Finally, with regard to rate design, Mr. Catlin noted that it is his opinion that the change to bi-monthly billing coupled with the billing charge being left unchanged is feasible.<sup>52</sup> Based on his review, Mr. Catlin's recommendation in surrebuttal was that Newport Water be allowed a revenue increase of \$1,095,729 over current rates.<sup>53</sup>

#### **VIII. Department of the Navy's Surrebuttal**

Mr. Allen noted that after review of Ms. Forgue's rebuttal testimony, he made adjustments to the test year and to the rate year. The effect of these adjustments resulted in a recommendation to allow Newport Water \$6,227,448 excluding capital, debt service and repayment to the City, which he did not address. He accepted Mr. Smith's adjustments to the Transfer to Equipment Replacement and Allowance for Doubtful Accounts as accurate and reasonable. He disagreed with Mr. Smith's assessment of projected costs which were based on what Newport Water should have spent if it had no restrictions, instead explaining that utilizing demonstrable historical costs is the best method. With regard to rate year adjustments, Mr. Allen again used the historical average to adjust salaries and wages and to support his previous adjustments to self insurance and unemployment claims. Finally, Mr. Allen again suggested that Newport Water include a fully allocated cost of service study with its next rate filing.<sup>54</sup>

#### **IX. Portsmouth Water and Fire District Surrebuttal**

Mr. Woodcock filed surrebuttal testimony for the purpose of addressing Mr. Catlin's testimony on the proposed allowances on debt service, Newport Water's proposal to use funds in its Repayment to the City Account, City Services, the proposed

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<sup>52</sup> *Id.* at 4-9.

<sup>53</sup> Division Exhibit 2, Schedule TSC-1.

<sup>54</sup> Navy Exhibit 2, Surrebuttal Testimony of Larry R. Allen at 1-4.

change to billing frequency and the Operating Reserve. Regarding the Division's proposed debt service allowance, Mr. Woodcock recommended that the Commission only accept the rate year allowance for debt on the Series A bonds requested by Newport Water, and that he and Mr. Catlin agreed that the Commission should eliminate funding for the 2007 Series B bonds, as there is no evidence that these funds will be needed in the rate year. The resulting adjustment was a \$209,656 reduction to Newport Water's request.<sup>55</sup>

Mr. Woodcock disagreed with Mr. Catlin's recommendation that the disposition of the \$250,000 annual deposit to the Repayment to the City Account be addressed in the next rate proceeding. He noted that at the conclusion of fiscal year 2008 the Commission should order the balance be deposited into the debt service account. He agreed with Mr. Catlin's adjustments to remove capital expenses from the allocations of the operating costs of various departments but stood by his previously recommended adjustments to City Services. He also agreed with Mr. Catlin's recommendation that Newport Water increase its billing frequency noting that Newport Water should transition to quarterly billing as soon as possible and maybe even to bimonthly billing, recognizing that the cost of implementation may affect this transition and pointing out that acceleration of the meter replacement program would assist with the more frequent billing. Mr. Woodcock explained that his concern regarding Newport Water's percentage of estimated bills was based on the use of this data for test year sales, on the fact that he believes the meter replacement program be bonded and in his opinion that 13.9% is an extremely high percentage in light of the fact that other water utilities in Rhode Island have an estimated bill rate of less than 2%. Recognizing that more frequent billing would certainly help

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<sup>55</sup> PWFD Exhibit 6, Surrebuttal Testimony of Christopher P.N. Woodcock at 2-4.

with Newport Water's cash flow problems, Mr. Woodcock noted that this would not be a sufficient substitute for the operating reserve which would offer Newport Water a long term solution to recover allowed revenues in light of dropping sales and unexpected future expenses.<sup>56</sup>

Mr. Woodcock did not change his position regarding city management, contributions for City Services, financial reporting, CIP, estimated water sales and interest charges on overdue bills. Finally, Mr. Woodcock disputed Mr. Forgue's alleged mischaracterization of the interest charges on water bills. He indicated that PWFD wants a clear interpretation of the tariff, because it is concerned that Newport Water is not following the approved tariff.<sup>57</sup>

Regarding Mr. Smith's rebuttal testimony, Mr. Woodcock noted that while Newport Water listed numerous departments' allocation that should reflect the water department capital and debt service costs, no reasons or justification were given in support of this claim. He recommended moving two projects from rate funding to debt funding: the new Lawton Valley Treatment Plant project which is a four year project that will cost almost \$1 million and the remote radio read installation project.<sup>58</sup>

Mr. Woodcock pointed out that Newport Water would have alleviated some of its financial difficulties if it had filed the case sooner. He noted that Mr. Smith excluded consumption figures from fiscal years 2004 and 2005 in his comparisons, pointing out that review of these figures clearly showed sales below historic amounts. Regarding the repayment of money owed to the City, Mr. Woodcock stated that Newport Water is seeking to use \$798,395 of ratepayer money in addition to the \$2,500,000 it is authorized

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<sup>56</sup> *Id.* at 4-6.

<sup>57</sup> *Id.* at 7-14.

<sup>58</sup> *Id.* at 14-22.

to use to pay off this debt, which he claims is contrary to the Commission's Order in Docket No. 3578. Finally, Mr. Woodcock noted that after Newport Water's response to PWFD data requests, he accepted the values that Newport Water proposed for the Water Quality Protection revenues.<sup>59</sup>

Mr. McGlenn also filed surrebuttal testimony to comment on the water quality issues. Mr. McGlenn acknowledged that the DOH regulates water quality for each public water system, but that it has limited ability ensure that the water provided to secondary water suppliers such as PWFD meet water quality standards in their systems. He noted that since Docket No. 3675, the pH situation has improved. He also pointed out that Newport Water has not analyzed the water age issue as required by the Commission in Docket No. 3675 and that instead, the draft study looked at reducing the water age in the 4.0-MG reservoir as opposed to identifying and evaluating options for providing PWFD with same as water as other customers.<sup>60</sup>

#### **X. Supplemental Testimony of Newport Water**

Mr. Smith filed supplemental testimony to review three of Newport Water's revenue requirements. He noted that based on the developments in this Docket, Newport Water reduced its initial request for a \$1,580,896 increase to \$802,573 for a total revenue requirement of \$9,969,990. He identified three things that led to this reduction: the acceleration of the radio read program and the funding of the same from debt service, the agreement of the parties that Newport Water should increase its billing to bimonthly billing and the costs associated with such and the Commission's Order that Newport

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<sup>59</sup> *Id.* at 22-29.

<sup>60</sup> PWFD Exhibit 5, Surrebuttal Testimony of William McGlenn.

Water pay a \$500,000 installment payment to the City of Newport which in effect denied Newport Water's request to restructure the remaining \$1 million owed to the City.<sup>61</sup>

## **XI. Hearing**

Following notice, public hearings for the purposes of taking public comment were conducted at Newport City Hall and at the Commission. No members of the public appeared. The following appearances were entered:

FOR NEWPORT WATER: Joseph Keough, Jr., Esq.

FOR NAVY: Audrey Van Dyke, Esq.

FOR PWFD: Gerald Petros, Esq.  
Brent Canning, Esq.

FOR DIVISION: Leo Wold, Esq.  
Special Assistant Attorney General

FOR THE COMMISSION: Patricia S. Lucarelli, Esq.  
Chief of Legal Services

Newport Water presented Julia Forgue, Director of Public Works, and Harold Smith, its consultant, as witnesses to testify in support of Newport Water's request for an increase in rates. PWFD presented Christopher Woodcock, its consultant, William McGlenn, General Manager and Chief Engineer and Philip Driscoll, Clerk of the Portsmouth Water and Fire District. The Navy did not present any witnesses. The Division presented Thomas Catlin, its consultant.

Mr. Smith testified regarding his supplemental testimony and Newport Water's financial requirements. With regard to the issue of whether Newport Water's restricted accounts should be whole dollar funded<sup>62</sup>, Mr. Smith testified that if Newport Water was

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<sup>61</sup> Newport Water Exhibit 3, Supplemental Testimony of Harold Smith at 1-6.

<sup>62</sup> Whole dollar funding requires that an account be funded at the dollar amounts allowed and not on a percentage of collection basis.

denied the proposed 6% operating reserve, Newport Water should move towards a percentage of revenue funding in restricted accounts. He, however, acknowledged the benefits of whole dollar funding as the assurance that money is available to pay expenses.<sup>63</sup> Mr. Catlin testified that with the exception of the debt service account, he did not believe it was unreasonable to fund the restricted accounts at a percentage of collections but at the same time recognized that this could be problematic if Newport Water could not meet its expenses.<sup>64</sup> Finally on the issue of whole dollar funding, Mr. Woodcock testified that Newport Water's restricted accounts should be funded on a whole dollar level in order to insure sufficient funds.<sup>65</sup> He pointed out that he would expect that if Newport Water had a problem doing this; it would come back to the Commission as Kent County Water Authority did in the past.<sup>66</sup>

The parties also testified regarding the Cost of Service Study. At the outset of the hearing, Mr. Smith testified that Newport Water should conduct a full cost allocation study. He noted that this is important, because it ensures that rates are fair and equitable and that Newport Water is recovering costs from appropriate customers and customer classes.<sup>67</sup> Mr. Smith pointed out that Newport Water was gathering data related to costs and the demands that certain classes place on the system to allocate costs to classes in a way that reflects the way in which the customers cause Newport Water to incur those costs.<sup>68</sup> When questioned regarding a time frame for the conclusion of the study, Mr.

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<sup>63</sup> Transcript of July 24, 2007 Hearing ("Tr.1") at 85-86.

<sup>64</sup> Transcript of July 25, 2007 Hearing ("Tr.2") at 35-36.

<sup>65</sup> *Id.* at 66-67.

<sup>66</sup> *Id.* at 107-108.

<sup>67</sup> Tr.1 at 67-68.

<sup>68</sup> *Id.* at 68.

Smith testified that by September 1, 2009, Newport Water should be able to provide a well thought out study based on accurate data as opposed to estimates.<sup>69</sup>

Mr. Woodcock also testified about the study and noted that the parties had not yet met to provide input into how the data should be collected for the study. He suggested to Mr. Smith that for the study to be valid, PWFD expected that it include some of the larger residential users along Ocean Drive and commercial properties around the harbor. He noted PWFD was available to meet so that the study could get underway.<sup>70</sup>

Mr. Smith testified that consumption decreased approximately ten (10%) percent from FY 2006 to FY 2007.<sup>71</sup> He stated that the reason for this could be that customers are more aware of conservation, and that after the 2007 consumption figures came in, he reconsidered his original projection.<sup>72</sup> Mr. Smith acknowledged that prior to making his projections, he did not make any inquiries of Newport Water's customers as to what they anticipated and just analyzed the figures that he had available.<sup>73</sup> He admitted that when using a regression analysis most recent data is the most probative and that he should have talked to the Navy because of the wide fluctuations in consumption that it experienced.<sup>74</sup> Ms. Forgue also was unable to provide a definite answer for why consumption was so low.<sup>75</sup> Mr. Catlin testified that in order to evaluate why consumption was decreasing, he would inquire of PWFD and of the Navy as to why their consumption was down and as to what their expectations were.<sup>76</sup>

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<sup>69</sup> *Id.* at 69.

<sup>70</sup> Tr.2 at 83-85.

<sup>71</sup> Tr.1 at 36.

<sup>72</sup> *Id.* at 71.

<sup>73</sup> *Id.* at 91.

<sup>74</sup> *Id.* at 91-93.

<sup>75</sup> *Id.* at 210.

<sup>76</sup> Tr.2 at 32.

The parties also addressed the amount of money that Newport Water owed to the City, approximately \$2.1 million consisting of \$500,000 for the outstanding loan and \$1,584,171 for payroll, city services charges, sewer bills and other items. Mr. Woodcock testified that he objected to Newport Water paying down a portion of payables to the City, specifically those that accrued prior to July 2005.<sup>77</sup> He noted that in the previous case, when asked if revenues were not sufficient what Newport Water would do, it responded that it would not fund the Repayment to the City Account. When revenues were down, this was not done. He explained that even though this account was restricted, Newport had the option of not funding it.<sup>78</sup> Mr. Woodcock defined the pre-June 30, 2005 amounts owed to the City as a loan rather than a payable and noted that Newport Water identified them as loans in its annual report to the Commission.<sup>79</sup> The amount shown on the 2005 Annual Report to the Commission is \$709,421.<sup>80</sup> Ms. Forgue testified that Newport Water owes more money to the City at the present time than it did in June 2005.<sup>81</sup> Newport Water presented evidence that between July 2006 and June 2007, it went from a positive cash balance of \$439,949 to a negative balance of \$1,485,606.<sup>82</sup> The Division did not provide any testimony or evidence objecting to Newport Water's request to reimburse the City.

In its pre-filed testimony, PWFD challenged the amount of money being allocated to the Newport Water for the support it receives from various City offices.<sup>83</sup> In response to the challenge to the amount sought by Newport Water for City Services, Ms. Forgue

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<sup>77</sup> *Id.* at 102.

<sup>78</sup> *Id.* at 106-107.

<sup>79</sup> *Id.* at 109.

<sup>80</sup> Portsmouth Exhibit 15 at 4.

<sup>81</sup> Tr.1 at 165.

<sup>82</sup> Newport Water Exhibit 13.

<sup>83</sup> PWFD1, Direct Testimony of Christopher Woodcock at 15-16.

testified that she believes that the City Clerk, the City Manager and the City Council all spend ten (10%) percent of their time dealing with water issues. She based this on her interactions with these individuals. She noted that she reports to the City Manager and then he reports to the City Council on what is going on in the Water Division. She indicated that the City Council has to approve anything over \$4,000 and that when it does this there must be an accompanying explanation. She pointed out that twice a month there is a formal meeting and constant communication about water issues.<sup>84</sup>

Mr. Smith also testified in support of Newport Water's City Services request. He explained that the allocation used by him, using the relationship of Newport Water's budget and the City budget as a proxy for determining the appropriate charge from the City to Newport Water, is a common method. When questioned about the City Clerk's Office informing PWFD that it did not have the Newport Water rate filing documents, he noted that the City Clerk should know what documents are kept and did not know why that office made the representation that it did not have the documents on the rate filing.<sup>85</sup>

Mr. Smith also admitted that he never asked the City for a detailed list of the items that it bills Newport Water for and does not describe by category the services rendered by the City Council to Newport Water.<sup>86</sup>

Mr. Catlin testified that he believed it was appropriate to allocate 10% of the City Manager's, the City Council's and the City Clerk's budgets to Newport Water. He acknowledged not knowing if the City Manager, City Council or City Clerk spend 10% of their time on water issues and did not perform any evaluation or study to determine if they did. He testified that this was what was agreed to in the last docket that resulted in a

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<sup>84</sup> Tr.1 at 213-214.

<sup>85</sup> *Id.* at 79-80.

<sup>86</sup> *Id.* at 166-168.

settlement and that in the instant case; he chose not to again dispute what he had disputed previously but to focus on the larger issue of cash flow.<sup>87</sup>

PWFD spent considerable time in its testimony to the issue of water quality. Specifically, Mr. McGlenn testified in detail about the chemical processes associated with the different types of treatment methods. He also noted that PWFD customers receive water that is older than Newport Water's other customers.<sup>88</sup> Ms. Forgue's testimony also covered the water age issue, and she explained how Newport Water is working hard to deal with the water quality issues. She noted that Newport Water's consultant recommended converting from chlorine to chloramines and that Newport Water will increase monitoring to make sure that no problems with nitrification occur as a result of this conversion. She testified that Newport Water will commit to the design of a mixing system for the Lawton Valley Treatment Plant's 4 million gallon reservoir where PWFD gets all of its water.<sup>89</sup>

Mr. Smith testified regarding Newport Water's proposed Operating Reserve that would consist of 6% of Operating and Maintenance expenses. He noted that an Operating Reserve of 6% was critical to Newport Water to pay expenses in the event that revenues were not sufficient and to pay for unexpected unforeseen expenses.<sup>90</sup> The Division recommended that the Commission continue to approve a 1.5% Operating Revenue Allowance and allow money from increased billing to be used to fund an Operating Reserve.<sup>91</sup> Mr. Woodcock agreed with Mr. Catlin.<sup>92</sup>

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<sup>87</sup> Tr.2 at 41-42.

<sup>88</sup> *Id.* at 161-169, 174-187.

<sup>89</sup> Tr.1 at 175-206.

<sup>90</sup> *Id.* at 38-40.

<sup>91</sup> Tr.2 at 6-7.

<sup>92</sup> *Id.* at 96-97.

The Division proposed increasing the current tertiary billing to bimonthly billing in order to add to cash flow by reducing unbilled revenues.<sup>93</sup> Mr. Catlin noted that in addition to the acceleration of the collection of the receivables, the additional customer fee would produce approximately \$300,000.<sup>94</sup> He testified that he believed that bimonthly billing was a fair way to increase what ratepayers would pay. He pointed out that normal costs that are recovered through the customer charge include cost of the meter and cost of the service line as well as the billing costs which he noted would be more than \$80 per year.<sup>95</sup> One of the reasons that Mr. Catlin recommended accelerating billing was to use that money to reduce the payable balance.<sup>96</sup> Mr. Woodcock agreed with Mr. Catlin that the increased billing be used in place of the 6% operating reserve proposed by Newport Water. He did not believe that the increased billing should be allowed in conjunction with this proposed 6% reserve. He also objected to the increased billing revenues be used to pay down payables existing prior to June 2005.<sup>97</sup>

PWFD also requested that the Commission interpret the current tariff regarding payment due dates and when interest begins to accrue. During his testimony, Mr. Woodcock testified that PWFD was looking for clarification of the language. He noted that PWFD interprets the tariff to provide for interest to accrue if a bill is not paid within thirty (30) days after its due date as opposed to Newport Water's interpretation that payment of a bill is due within thirty (30) days of the date the bill is issued.<sup>98</sup>

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<sup>93</sup> Tr.2 at 11.

<sup>94</sup> *Id.* at 20.

<sup>95</sup> *Id.* at 26-27.

<sup>96</sup> *Id.* at 36-38.

<sup>97</sup> *Id.* at 96-100.

<sup>98</sup> *Id.* at 140-142.

Another issue that was discussed during the course of the hearing was that of prorating bills. Ms. Forgue testified that after the last docket, Newport Water did not prorate bills.<sup>99</sup> Mr. Woodcock estimated that Newport Water lost approximately \$100,000 by not prorating bills, and both he and Mr. Catlin described prorating as common practice among regulated utilities.<sup>100</sup> There was also discussion and testimony regarding customer service costs charged to the Waste Water Department. Mr. Smith testified that as required by the Commission in the last docket, Newport Water was billing the Waste Water Department for half of its customer service costs. Ms. Forgue testified that a decision of whether to bill the Waste Water Department for half of the capital costs of the remote radio read program would have to be discussed with the City Manager and Finance Director.<sup>101</sup> Mr. Woodcock suggested that the remote radio read program be debt funded and that the sewer fund contribute to this project.<sup>102</sup>

Another issue addressed during the hearing was whether Newport Water's planned capital expenditures should be funded through rates or through debt. Mr. Smith testified that Newport Water expects \$924,000 in capital expenses for its new treatment plant over a five year period which he proposed in pre-filed testimony be funded through rates.<sup>103</sup> Mr. Woodcock disagreed suggesting that the remote radio read program and the cost of the new Lawton Valley Treatment Plant be funded through debt, because the plant, especially, is a long term asset that should be paid over the life of the asset. He pointed out that this would help with cash flow projections.<sup>104</sup> Mr. Smith testified that

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<sup>99</sup> Tr.1 at 171.

<sup>100</sup> Tr.2 at 12, 82.

<sup>101</sup> Tr.1 at 82-83, 131-137.

<sup>102</sup> Tr.2 at 95-96.

<sup>103</sup> Tr.1 at 62.

<sup>104</sup> Tr.2 at 71-73.

the \$250,000 Newport Water will continue to receive after its loan is paid to the City should be put into the debt service account to meet current and proposed future borrowings like the remote radio read program and the Easton's Pond Dam repairs.<sup>105</sup>

PWFD also requested the Commission to order Newport Water to publish reports for monthly activity. Mr. Driscoll testified that the current reports do not reflect monthly data. He believes that if Newport monitors its actual revenue and expenses they will better understand their indebtedness and be able to come to the Commission if needed as opposed to continuing to borrow money from the City.<sup>106</sup>

## **XII. Commission Findings**

At an Open Meeting on August 30, 2007, the Commission addressed the numerous issues raised by the parties during the hearing and in the pre-filed testimony. The Commission noted that in four areas increases were not contested by the parties: salaries, benefits, sewer charges and chemical costs. Regarding salary and wage expenses, Newport Water requested an additional \$166,356 or a nine percent increase which was explained as being primarily driven by contractual increases for union employees. Additionally, and related to the salary and wage increase, was the \$290,499 or 36% increase in employee benefit expense which was explained by Newport Water as a result of increases in employee health care costs. Newport Water requested an increase of \$160,996 or 141% for sewer charges resulting from a new combined sewer overflow charge implemented by the wastewater division. Finally, Newport Water requested an increase of \$143,882 or a 40% increase for chemical expenses, because the cost of chemicals has increased fairly substantially. None of the parties contested or rebutted

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<sup>105</sup> Tr.1 at 25-26.

<sup>106</sup> Tr.2 at 192.

Newport Water's explanation of these increases, and the Commission finds the justification for such increases to be reasonable and approves the same.

The Commission also considered whether whole dollar funding of Newport Water's restricted accounts would continue. In a prior Commission Order, Order No. 18580, the Commission ordered Newport Water to use "whole dollar funding" for its restricted accounts. Even though this results in less money being available to meet operating expenses when sales are less than projected and revenues are down, it assures that money is available for its intended purpose. The Commission recognizes the benefits and drawbacks of the whole dollar funding mechanism and finds that Newport Water should continue with whole dollar funding of its restricted accounts. In the event that Newport Water finds itself suffering a severe shortage of funds to cover operating expenses, it should seek relief from the funding requirement with the Commission.

In Docket No. 2985 which was filed in 1999, the Commission ordered Newport Water to prepare a Cost of Service Study. Even at the end of the instant proceeding, Newport Water had not completed such a study. The Commission finds that this Study is crucial to ensuring equity among customer classes. The Commission directs that Newport Water file the results of its Cost of Service Study by September 1, 2009. Until such Study is filed, Newport Water shall file quarterly reports with the Commission, with copies to all parties to this case, outlining the progress of the Study.

In previous cases, the Commission has usually used multi-year averaging to project rate year consumption. While this has been the norm, the Commission has also deviated from this practice when presented with evidence that another method would provide a better projection of rate year consumption. In the instant case, Newport

Water's filing used the test year (FY 2006) to project rate year consumption even though the consumption of 2,085,969 thousand gallons was lower than any of the preceding six years. At the close of FY 2007, consumption had declined further to 1,896,780. While these figures were available to Newport Water during the hearing, the original calculations based on the test year figures were never modified, and Newport Water never requested that it be allowed to recalculate its figures to reflect the continual decline. However, in light of the continual decline in consumption, the Commission finds that FY 2007 figures more closely project future consumption, especially since there has been a consistent decline over the past six years. Therefore, the Commission will base Newport Water's revenue requirement on FY 2007 consumption.

As for the money owed to the City of Newport, Newport Water's final request did not include any amount in rates to accomplish repayment of this amount other than a funding mechanism to pay off the \$500,000 loan. The Commission finds that the \$1,584,171 should be paid back to the City. The Commission will not include this repayment to the City in Newport Water's revenue requirement, but if Newport Water realizes savings from efficiencies, and such funds are not required for expenses included in the revenue requirement, it may use such savings to pay down the accounts payable balance owed to the City.

As for City Services provided to Newport Water, Newport Water requested that it be allowed to recover in rates amounts allocated to its budget from the various city departments. This percentage amount is based on Newport Water's budget percentage as compared to the total City budget. In this instance, Newport Water's budget was 10.39% of the City budget. The Commission reviewed the request, Newport Water's testimony

in support of the request and the various parties' arguments in support of and in opposition to the methodology proposed by Newport Water. The Commission directs that Newport Water be allocated 10.39% of the budgets of the various departments with the exception of the City Clerk, City Manager and City Council.

Under R.I.G.L. §39-3-12, the burden of proof to support requests for funding through rates lies with the utility. With regard to the City Clerk, Newport Water did not present sufficient evidence to establish that 10.39% of the City Clerk's Office time and resources are devoted to Newport Water. In fact, PWFD presented contrary evidence and based on that evidence, proposed allocating only 1% of City Clerk's Office budget to Newport Water. Subsequent to the testimony regarding the City Clerk's Office, Newport Water did not present any evidence, either testimony or documentary, that countered PWFD proposal and supported its request for a greater allocation. The Commission is satisfied that allocating 1% of the City Clerk's Office budget to Newport Water is fair and reasonable.

Additionally, as for the City Council and the City Manager, Newport Water did not present sufficient evidence or testimony to justify 10.39% of those Offices' budgets being allocated to Newport Water. Other than the testimony of Ms. Forgue that she discusses with the City Manager and reports to the City Council the operations of Newport Water, no other evidence was presented to justify the requested allocation. The burden lies with Newport Water, and it did not satisfy that burden. Having not been presented with sufficient evidence to justify its proposed request, the Commission denies the same. The Commission finds that it is more consistent with the testimony and evidence presented by Newport Water to allocate 10.39% of each of the individual base

salaries of the City Manager and the City Council Members to be borne by the ratepayers. By utilizing this methodology, Newport Water is justified to pay the City \$219,177 for legal and administrative services and \$156,368 for data processing services for a total city services allowance of \$375,545. This amount shall remain fixed until Newport Water's next rate filing.<sup>107</sup>

Furthermore, in order to ensure that ratepayers are not paying for services they are not receiving, the City is encouraged to create a Cost Allocation Manual ("CAM") explaining how costs are allocated to the City's various department. This CAM shall be filed with the Commission by May 1, 2008. In the event the CAM is not filed, Newport Water shall risk the Commission denying future requests for City Services allocations.

The Commission agrees that increased billing will assist Newport Water in alleviating some of its financial woes but does not agree with the Division that the number of billings be doubled, while keeping the customer charge the same. The Commission finds that increasing the billing frequency from three to four times annually while maintaining a customer charge of \$13.25 per bill is reasonable and fair to all ratepayers. The Commission notes that this is consistent with the billing frequency of the other regulated municipally-owned water utilities and should assist Newport Water in managing its cash flow. Additional revenue of \$300,000 is expected in the rate year and additional revenue of \$500,000 is expected each year thereafter as a result of the

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<sup>107</sup> As in prior cases, the Commission must note that in setting rates, the Commission reviews the evidence and, when necessary, explores issues on its own initiative. As the parties in any rate proceeding are well aware, the Commission can reject the expert opinion of witnesses and utilize its own expertise. *See Wakefield Water Co. v. PUC*, 457 A.2d 251, 253 (R.I. 1983) and *Valley Gas Co. v. Burke*, 446 A.2d 1024, 1033 (R.I. 1982). In both cases, the Commission decision was upheld although the position it adopted was not advocated by a party in the proceeding.

additional billings. Also a one time benefit of \$700,000-\$900,000 is expected as a result of accelerated collections.

Previously, Newport Water was allowed to collect an operating revenue allowance of 1.5% of all expenses. In the instant proceeding, Newport Water requested an allowance of 6% of Operating and Maintenance Expense which is approximately 4.3% of total expenses. The Commission finds no reason to depart from the norm of allowing 1.5% of all expenses to create an operating reserve, as has been the historical practice of the Commission, especially in light of the fact that the Commission approved using FY 2007 figures to project consumption. By utilizing FY 2007 consumption to project rate year sales, the required revenue increase is approximately \$540,000 greater as compared to the required increase calculated by using FY 2006 consumption to project rate year sales.

Newport Water shall pay \$500,000 to the City from the Repayment to the City Account pending Commission review in June 2008 as required by Order No. 17992 in Docket No. 3675. In the event the Commission finds Newport Water in non-compliance with any of the Commission's Orders, the Commission reserves the right to deny repayment of any or all of the installment. After June 2008, any remaining funds in the Repayment to the City Account shall be transferred to the Debt Service Account at which time the Repayment to the City Account will be dissolved, and annual funding in the Debt Service Account will be increased by \$250,000. This additional \$250,000 will be used for borrowings for the Radio Read Program and Easton Pond Dam repairs.

The Commission recognizes that the water age issue is of considerable importance to PWF; however, water quality is within the jurisdiction of the DOH. No

evidence was presented at this hearing that DOH was not performing its statutorily mandated duties with respect to the water quality issues brought up at this hearing. Although the Commission has neither the authority nor the expertise to evaluate the water quality issues presented by Newport Water and PWFD, it believes that the ratepayers would be better served by Newport Water proactively addressing this issue rather than waiting until a problem occurs. The Commission strongly encourages Newport Water to perform a mixing system feasibility study to reduce the age of the water supplied and notes that Newport Water committed to performing such a study during the hearing. Furthermore, such study should include cost associated with implementing any alternatives identified in the study. Newport Water shall advise the Commission about its progress on this study within six (6) months of the Open Meeting decision.

Another issue before the Commission regarded a billing dispute between PWFD and Newport Water, wherein PWFD was billed \$267 in late fees. Although, typically a dispute between a customer and a utility would belong before the Division, the Commission looked at the language of the tariff. The Commission finds that the different interpretations of the tolling of the thirty (30) days within which payment was due justified its modification of the existing language. The Commission orders Newport Water to modify the language in Schedule G to read:

Amounts not paid by the DUE DATE will accumulate a penalty of 10% per year (0.833% per month) from the DUE DATE through the PAYMENT DATE. DUE DATE is 30 days after the BILLING DATE and is listed on each billing statement and the BILLING DATE is the date on which the billing statement was mailed and also is listed on each billing statement.

This language is consistent with that contained in Pawtucket Water Supply Board's Tariffs. Additionally, the Commission finds that in light of the confusion regarding the tariff language, the \$267 Newport Water alleges it is owed by PWFDD shall be waived.

During the hearing, Newport Water informed the Commission that it did not prorate bills in 2005 when it was granted its last rate increase. This resulted in an approximate loss of revenue of \$100,000. In the current matter, the Commission directs Newport Water to prorate customer bills for the increase that is being allowed in this docket. This is consistent with the approved practices of other regulated municipally-owned water utilities.

The Commission also reviewed Newport Water's costs for its proposed remote radio read program and its plans to use ratepayer money to fund the entire cost of this project without seeking any funds from the Wastewater department. As the Wastewater department will accrue the benefits associated with this program, specifically using the data gathered to prepare sewer bills, just as it does with the current method of meter reading, the Commission finds that the Wastewater department should bear a portion of the costs for the same. The Commission directs that Newport Water collect from the Wastewater department one half of the cost incurred by Newport Water in installing and implementing the remote radio read program. Additionally, because Newport Water is increasing its billing frequency to quarterly billing, it is only fair and reasonable that the Wastewater department bear half of the \$27,000 cost associated with this increase.

Currently, Newport Water provides the parties with a cash reconciliation and an accrued trial balance on a monthly basis. On a quarterly basis, Newport Water provides the parties with a balance sheet, profit and loss statement, cash flow statement, restricted

account analysis and an analysis of conference and training expenses. The Commission finds this current financial reporting method to be sufficient. In addition to the current reporting system, the Commission directs Newport Water to prepare and provide to the parties quarterly reports on its capital projects and a quarterly report on Newport Water's progress in completing a cost of service study. Lastly, Newport Water anticipates spending \$925,000 to develop plans to build a new treatment plant to replace the existing Lawton Valley Plant. Newport Water proposed that the cost of this be funded through rates while PWFD argued in support of the funding to be through debt. The Commission believes that a project of this magnitude, reviewed in conjunction with Newport Water's financial situation, should be funded through debt and so orders. The Commission also discussed Newport Water's management and operations and believes that it would be in the best interest of the ratepayers for the Commission to conduct a management study in order to review its operations, management and ownership in accordance with R.I.G.L. §§39-1-3(a), 39-1-19(a) and 39-1-26(a).

Finally, the Commission commends all of the parties in this docket for their well and thorough preparation and presentation of the evidence to the Commission. The hard work and professionalism of the parties was extremely helpful to the Commission and was noted on the record by the Chairman at the conclusion of the hearing.

### **XIII. Compliance Filing**

In preparing its Compliance Filing, Newport Water did not include the additional revenues from the increased billings ordered by the Commission in its calculation of "Rate Year at Current Rates." The Division requested that the Commission provide clarification as to the additional revenue. Each party was given the opportunity to

comment. Newport Water requested that the additional funds not be restricted and rates not be recalculated and lowered. PWFD suggested that rates be lowered. The Division suggested either reducing rates or restricting funds in an operating reserve. After consideration and review of the parties' positions, the Commission voted unanimously to approve the compliance filing as submitted.<sup>108</sup> Regarding the excess revenues generated as a result of changing from tri-annual to quarterly billing, that money shall be kept in a restricted account to fund a management study of Newport Water.

Accordingly, it is hereby

(19240) ORDERED

1. Newport Water's Application for a General Rate Increase, filed on January 29, 2007, is hereby denied and dismissed.
2. Newport Water is authorized to collect additional revenue of \$911,458 for a total cost of service of \$9,401,731 effective September 1, 2007.
3. Newport Water shall restrict \$3,735,281 annually, in the following manner: Debt Service - \$980,000; Capital - \$1,297,182; Chemicals - \$504,200; Electricity - \$423,903; Repayment to City of Newport \$250,000; Accrued Benefits Buyout - \$69,996; and Retiree Insurance - \$210,000.
4. Newport Water shall fund its Restricted Accounts monthly at the dollar amounts allowed by the Commission and not on a percentage of collections basis.

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<sup>108</sup> The compliance filing of September 10, 2007 included the change in Schedule G addressing late charges.

5. Newport Water shall complete and file with the Commission a Cost of Service Study by September 1, 2009 and shall file quarterly status reports until such time as the final Study is complete.
6. Newport Water may repay \$1,584,171 to the City of Newport. This repayment shall not be made a part of Newport Water's revenue requirement, but may be made from savings from efficiencies if such funds are not required for expenses included in the revenue requirement.
7. The annual amount Newport Water shall be allowed to pay the City for city services is \$375,545 (legal and administrative - \$219,177 and data processing - \$156,368). These amounts shall remain fixed until Newport Water's next rate filing. These amounts are calculated as follows:  
  
Newport Water is authorized to be allocated 10.39% of the budgets of the various City Departments with the following exceptions:
  - (a) 1% of the City Clerk's Office budget shall be allocated to Newport Water, and
  - (b) The allocation allowed for the City Manager and City Council shall be equal to 10.39% of the base salary/stipend of each these individuals and not 10.39% of the office budget.
8. Newport Water shall increase its billing frequency to four times per year and the customer charge for each bill shall remain at \$13.25 per bill. Newport Water shall collect half of the cost associated with this billing from the Wastewater Department.

9. Newport Water is allowed to continue to fund an operating reserve of 1.5% of all expenses.
10. Newport Water shall, on May 30, 2008, file a report with the Commission showing that it has complied with each of the reporting requirements of the Commission prior to making the 2008 payment in the amount of \$500,000 to the City of Newport against the debt accrued to the City of Newport during the period prior to FY 2004. In the event the Commission finds Newport Water in non-compliance with any of the Commission's Orders, the Commission reserves the right to deny repayment of any or all of the installment. Subsequent to the 2008 payment, the Repayment to the City Account shall be abolished, any remaining funds in the account shall be transferred to the Debt Service Account and Annual Debt Service funding shall be increased by \$250,000.
11. The additional \$250,000 in the Debt Service Account after payment of the 2008 payment to the City of Newport shall be used for borrowings for the Radio Read Program and Easton Pond Dam repairs.
12. Newport Water shall advise the Commission about its progress in completing a mixing system feasibility study to reduce water age within six (6) months for the decision at the Open Meeting.
13. Newport Water shall modify the language in its tariff regarding billing as set forth above and shall waive the \$267 late payment fee assessed against PWFD.
14. Newport Water shall prorate bills consistent with this Order.

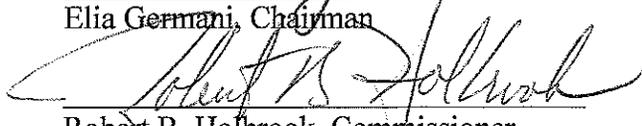
15. Newport Water shall collect one half of the costs associated with the Remote Radio Read Program from the Wastewater Department.
16. Newport Water shall comply with the following periodic reporting requirements:
  - (a) Newport Water shall continue providing a reconciliation of each restricted account on a quarterly basis within 30 days of the end of the quarter.
  - (b) Newport Water shall continue providing a balance sheet, income statement, cash flow statement and restricted account analysis on a quarterly basis within 30 days of the end of the quarter.
  - (c) Newport Water shall continue providing updates on its Conference and Training Costs in its quarterly reports within 30 days of the end of the quarter.
  - (d) On a monthly basis, Newport Water shall continue providing a monthly cash reconciliation to include cash inflow and cash outflows within 15 days of the end of the month. Inflows and outflows should be compared to budget with an explanation of any deviation from the budget by more than 10%, on a quarterly basis within 15 days of the end of the quarter.
  - (e) Newport Water shall continue to provide monthly statements on an accrual basis consistent with the format and due date previously approved by the Public Utilities Commission.

- (f) Newport Water shall provide reports of its capital projects on a quarterly basis within 30 days of the end of the quarter.
17. Newport Water shall provide the parties to the docket with a copy of all reports made to the Commission in compliance with this Order.
18. Newport Water's Tariffs, filed on September 10 and September 13, 2007 are hereby approved and excess revenues generated as a result of changing from tri-annual to quarterly billing be kept in a restricted account to fund a management study of Newport Water.
19. In the event that Newport Water experiences or anticipates a deterioration in its financial position, it shall immediately notify the Commission and parties with an explanation of the deterioration and a proposed remedy for the deterioration.
20. Newport Water shall comply with all other findings and instructions as contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND, IMMEDIATELY, PURSUANT TO AN OPEN MEETING DECISIONS ON AUGUST 30, 2007 AND SEPTEMBER 27, 2007. WRITTEN ORDER ISSUED MARCH 24, 2008.

PUBLIC UTILITIES COMMISSION

  
Elia Germani, Chairman

  
Robert B. Holbrook, Commissioner

  
Mary E. Bray, Commissioner

