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September 18, 2007

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

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

Dear Ms. Massaro:

I am writing in response to the recent correspondence submitted by the Division of Public Utilities and Carriers (Division) and the Portsmouth Water and Fire District (PWFD) regarding Newport Water's compliance filing in Docket 3818.

At the outset, it should be noted that the schedules do not contain a computational error. The rates presented in these schedules were calculated in the same manner as the schedules presented with Harold Smith's supplemental testimony. The schedules do identify a *potential* \$117,000 in excess revenues. However, this revenue is not the result of a calculation error. Rather, it is the result of Newport Water issuing an additional bill during the rate year to each of its tertiary residential customers. This approach to calculating rates is consistent with the approach used when Newport Water was contemplating a move to bi-monthly billing. The only difference in the compliance schedules is they show the revisions ordered by the Commission regarding allowed expenses; the reduction in the amount allowed to fund an operating reserve; and, the Commission's directive to move to quarterly billing.

Furthermore, the notion that the increased billing charges represent a "surplus" is completely speculative. As the Commission has seen in past Dockets, what is set forth in compliance filings does not always come to fruition. Once again, Newport, like all water utilities, is in a precarious situation where its revenue is dependent on consumption. Newport recognizes that the Commission lowered the projected consumption figures in this Docket. Nevertheless, Newport's ability to collect the revenues identified in its compliance filing is completely dependent on the most uncontrollable variable of all – the

weather. If Newport's consumption does not meet the levels set by the Commission, there won't be any surplus.

The Commission will recall that during the litigation of Docket 3818, the idea for increased revenue from bi-monthly billing originated with the Division. It was Mr. Catlin's position that bi-monthly billing charges would provide several financial benefits. In addition to improving cash flow, Mr. Catlin suggested that increased billing would provide additional revenue in two forms.

First, Mr. Catlin suggested that converting to bi-monthly billing could reduce Newport's unbilled revenues "by something approaching half" which would result in a significant bump in revenue. Newport took the position that this bump was speculative at best. With the Commission's rejection of bi-monthly billing it will be non-existent.

Second, Mr. Catlin estimated that if Newport moved to bi-monthly billing in FY 08, Newport would generate \$300,000 of additional revenue if the billing charge remained at \$13.25. Mr. Catlin recommended that this money be used to fund a restricted operating reserve. Mr. Woodcock also adopted this position during his live testimony. At no time did anyone suggest that revenue from increased billing be used to reduce the overall increase needed as suggested by PWFD in its September 13, 2007 letter.

Given that a "surplus" is merely hypothetical at this time, Newport Water asks that the Commission reject the recommendations of PWFD and the Division. Newport Water asks that the Commission not lower the overall increase as requested by PWFD. To do so could expose Newport to yet another financial crisis caused by the undercollection of revenue. Newport also asks that the Commission not restrict this revenue as requested by the Division. Restricting these funds could lead to a situation where Newport is once again funding a restricted account to the detriment of its unrestricted O&M expenses. Newport Water requests that the Commission accept and approve its compliance filing as submitted.

Thank you for your attention to this matter.

Sincerely,

Joseph A. Keough, Jr.

JAK/kf