



DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND
LITIGATION OFFICE
720 KENNON STREET SE ROOM 136
WASHINGTON NAVY YARD DC 20374-5051

IN REPLY REFER TO

June 18, 2007

Luly Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

In Re: City of Newport, Water Division
General Rate Filing
Docket No. 3818

RECEIVED
2007 JUN 20 AM 8:31
RHODE ISLAND PUBLIC UTILITIES COMMISSION

Dear Ms. Massaro

Enclosed please find the original and nine copies of the Department of the Navy's Surrebuttal Testimony and Exhibits of Larry R. Allen in the above-referenced Docket.

Sincerely,

AUDREY VAN DYKE
Counsel for the
Secretary of the Navy

Cc: (by email)
Service List

CERTIFICATE OF SERVICE

This is to certify that on June 18, 2007 copies of the Surrebuttal Testimony and Exhibits of Larry R. Allen on behalf of the Department of the Navy in Docket 3818 were sent by email to the service list.



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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**BEFORE THE
RHODE ISLAND PUBLIC SERVICE COMMISSION**

IN RE: *
CITY OF NEWPORT, UTILITIES DEPARTMENT, *
WATER DIVISION APPLICATION TO CHANGE * **CASE NO. 3818**
RATE SCHEDULES *

SURREBUTTAL TESTIMONY AND EXHIBITS

OF

LARRY R. ALLEN

ON BEHALF OF THE UNITED STATES DEPARTMENT OF THE NAVY

June 09, 2007

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INTRODUCTION

1 **Q. Please state your name and business address.**

2 A. My name is Larry R. Allen. My business address is 1322 Patterson Ave.
3 Washington Navy Yard, DC 20374.

4

5 **Q. Are you the same Larry Allen who submitted pre-filed testimony in this**
6 **case?**

7 A. Yes I am.

8

9 SCOPE AND PURPOSE OF TESTIMONY

10 **Q. What is the purpose of your testimony?**

11 A. My testimony presents the Department of the Navy's (DON's) surrebuttal of
12 Newport Water Division's rebuttal testimony in Docket No. 3818.

13

14 CONCLUSIONS AND RECOMMENDATIONS

15 **Q. Do you have any adjustments you would like to make to DON's initial filing?**

16 A. In response to the rebuttal testimony filed by Mr. Smith and Ms. Forgue on behalf
17 of NWD, I have revised my test year adjustment to \$147,547 and rate year
18 adjustment to \$161,098.

19

20 **Q. Have you provided exhibits?**

21 A. Yes. The attached exhibit Surrebuttal DON-1, details my proposed adjustments.

22

23 ADJUSTMENTS

24 **Q. Please discuss the development of your proposed revised adjustments.**

25 A. I developed the adjustments by utilizing actual booked accounts as provided in
26 Navy 1-7 Data Response. NWD Navy Response 3-4 reconciled account
27 differences in NWD RFC Schedule 2 and Navy 1-7 Data Response as noted in my

1 initial direct testimony. I reflect changes to some of the adjustments in response
2 to Mr. Smith and Ms. Forgue's rebuttal testimony.

3
4 **TEST YEAR ADJUSTMENTS**

5 **Q. Please list the adjustments that you have modified.**

6 A. I modified the following adjustments: Transfer to Equipment Replacement, and
7 Allowance for Doubtful Accounts.

8
9 **Q. Why did you modify the adjustments mentioned above?**

10 A. I accept Mr. Smith's explanations in reference to accounts: Transfer to Equipment
11 Replacement and Allowance for Doubtful Accounts, as accurate and reasonable.

12
13 **Q. Do you agree with Mr. Smith's assessment of using projected costs based on
14 what NWD should have spent is preferable to utilizing demonstrable historical
15 costs.?**

16 A. No. Mr. Smith says in his rebuttal testimony "when specific information is available
17 with respect to future costs or to why costs behaved as they did in the past,
18 projections should be based on that specific information."¹ The best method when
19 making test year adjustments is using a historical average of known expenditures, as
20 I did in my adjustments, by using five years of expense history. Basing test year
21 adjustments on what NWD might have done if it had no cash restrictions is without
22 foundation.

23
24 NWD provided in Navy 1-7 response a comprehensive listing of their FY 2002
25 through 2006 actual accounts and budget year 2007 ending account balances.
26 Analyzing the information provided, I was able to develop test year account
27 balances by using five years of actual account data and reference the budget
28 projected for 2007 by NWD. The resulting analysis enabled the development of test
29 year and rate year projections based upon a historical basis.

¹ Rebuttal Testimony of Harold J. Smith, Docket No. 3818, P7, Lines 12-14

1 **RATE YEAR ADJUSTMENTS**

2 **Q. Do you agree with Mr. Smith's assessment of the adjustments you made to the**
3 **Rate Year in your direct filed testimony?**

4 A. No. I used a five year historical average utilizing a CPI inflator factor to reflect
5 urban northeastern inflationary rates. However, the CPI and averaging were not the
6 only factors I considered. I also considered whether an expense was recurring or
7 non-recurring, the frequency of an expense and finally the certainty of the expense.
8 Basing adjustments on known and verifiable information is more reasonable using
9 unsupported information.

10
11 **Q. Did you make any adjustments to the Rate Year?**

12 A. Yes. In response to Mr. Smith's testimony I adjusted Salaries and Wages to reflect
13 the AFSCME employee's contract as reported in Navy 1-16. It should be noted that
14 not all employees are members of AFSCME, some are non-union and others belong
15 to the NEA, which according to the data response has not negotiated a contract. In
16 the absence of further information and in the interest of simplicity, I have elected to
17 use the AFSCME wage increase of 3.5 percent as a proxy for all employees.

18
19 **Q. Please explain why you did not modify the Self Insurance adjustment?**

20 A. During the past five years, Self Insurance has had a total of \$14,493 in expense. I
21 believe that a five year historical average presents a reasonable level of expense.
22 There is no support for the apparently arbitrary amount of \$10,000 proposed by Mr.
23 Catlin and agreed to by Ms. Forgue. Therefore I have declined to modify my
24 adjustment for Self Insurance.

25
26 **Q. Please explain why you did not modify the adjustment to Unemployment**
27 **Claims.**

28 A. During the past five years, Unemployment Claims has averaged \$1,478 in expense.
29 Therefore, I have added \$656 to normalize the test year. Ms. Forgue in her initial
30 direct testimony stated that the state has charged NWD \$11,414 in unemployment

1 claims so far in FY07. I have declined to modify my adjustment for two reasons,
2 first the historical data provided by NWD, suggests that this amount of \$11,414 is
3 unusual and nonrecurring. However there was an amount of \$11,000 in FY 2004,
4 charged to the Unemployment Claims account, which was included in the
5 calculation. Secondly, the \$11,414 is outside the test year and not included in rate
6 year calculations.

7 .
8 **COST ALLOCATION AND RATE DESIGN**

9 **Q. Does the DON have any concerns regardingt NWD’s Cost Allocation and Rate**
10 **Design time table?**

11A. A. Yes. NWD has not successfully filed a cost of service (COS) study for the past
12 several years. It is patently inequitable to all customer classes to pass on rate
13 increases equally “across the board”. These “across the board” rate increases
14 exacerbate any class subsidy that could be occurring. An approved COS study will
15 mediate these inequities. The continued delay of conducting the study will make
16 the implementation of cost based rates much more difficult, as the subsidized class
17 will face larger rate corrections and rate adjustments could seem unfair and favoring
18 those classes that may have been overpaying for years. The DON suggests that
19 NWD include a fully allocated COS study in its next general rate filing.

20
21 **Q. Does this conclude your testimony?**

22 A. Yes.

CITY OF NEWPORT - WATER DIVISION
 Summary of the Department of the Navy
 Adjustments to Test Year and Rate Year

Docket No. 3818
 City of Newport Water Division
 Surrebutal Exhibit DON-1

Account	Docket # 3675	Navy DR 1-7	Test Year Normalizing Adjustments	Normalized Test Year	Rate Year Adjustment	Navy Rate Year
Operating Revenue Requirements						
Administration	\$ 1,718,060	\$ 1,676,862	\$ 67,759	\$ 1,744,621	\$ 7,649	\$ 1,752,271
Customer Service	\$ 536,815	\$ 432,954	\$ 22,432	\$ 455,386	\$ 27,332	\$ 482,717
Source of Supply - Island	\$ 455,087	\$ 436,981	\$ 7,418	\$ 444,399	\$ 9,184	\$ 453,584
Treatment - Newport Plant	\$ 95,663	\$ 196,976	\$ 1,083	\$ 198,059	\$ 386	\$ 198,445
Treatment - Lawton Valley	\$ 1,352,566	\$ 1,197,712	\$ 12,674	\$ 1,210,386	\$ 39,000	\$ 1,249,385
Water Laboratory	\$ 1,026,354	\$ 980,680	\$ 18,008	\$ 998,688	\$ 34,667	\$ 1,033,356
Transmission & Distribution Maintenance	\$ 213,952	\$ 183,552	\$ 177	\$ 183,729	\$ 6,933	\$ 190,662
Fire Protection	\$ 838,893	\$ 804,296	\$ 17,095	\$ 821,391	\$ 34,737	\$ 856,128
	\$ 14,000	\$ 8,790	\$ 900	\$ 9,690	\$ 1,210	\$ 10,900
Total Operating Requirements	\$ 6,251,390	\$ 5,918,803	\$ 147,547	\$ 6,066,350	\$ 161,098	\$ 6,227,448

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Docket No. 3818
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Account	Docket # 3675	Navy DR 1-7	Test Year Normalizing Adjustments	Normalized Test Year	Rate Year Adjustment	Navy Rate Year
005 Permanent - Part Time	\$ 5,200	\$ 12,750	\$ -	\$ 12,750	\$ -	\$ 12,750
770 Accrued Benefits Buyout	\$ 70,000	\$ -	\$ 31,889	\$ 31,889	\$ 18,111	\$ 50,000
001 Salaries & Wages	\$ 1,952,331	\$ 1,847,167	\$ 107,816	\$ 1,954,983	\$ 68,424	\$ 2,023,407
002 Overtime	\$ 172,000	\$ 159,496	\$ -	\$ 159,496	\$ 5,582	\$ 165,078
003 Holiday Pay	\$ 30,000	\$ 28,653	\$ -	\$ 28,653	\$ -	\$ 28,653
004 Temp Salaries	\$ 22,000	\$ 38,041	\$ -	\$ 38,041	\$ -	\$ 38,041
044 Standby Salaries	\$ 9,641	\$ 2,520	\$ -	\$ 2,520	\$ 63	\$ 2,583
056 Injury Pay	\$ 1,200	\$ 408	\$ -	\$ 408	\$ -	\$ 408
100 Employee Benefits	\$ 869,916	\$ 799,701	\$ -	\$ 799,701	\$ 79,153	\$ 878,854
103 Retiree Insurance Coverage	\$ 209,626	\$ 183,634	\$ -	\$ 183,634	\$ 20,200	\$ 203,834
105 Workers Compensation Insurance	\$ 50,129	\$ 58,301	\$ -	\$ 58,301	\$ 13,409	\$ 71,710
205 Copy & Binding	\$ 1,000	\$ 340	\$ -	\$ 340	\$ -	\$ 340
207 Advertisement	\$ 1,500	\$ 10	\$ -	\$ 10	\$ -	\$ 10
210 Dues & Subscriptions	\$ 2,500	\$ 1,145	\$ -	\$ 1,145	\$ -	\$ 1,145
212 Conferences and Training	\$ 20,500	\$ 8,613	\$ -	\$ 8,613	\$ 1,000	\$ 9,613
214 Tuition Reimbursement	\$ 2,000	\$ -	\$ 800	\$ 20,830	\$ -	\$ 20,830
220 Consultant Fees	\$ 100,000	\$ 129,883	\$ -	\$ 129,883	\$ 957	\$ 130,840
225 Contract Services (Support Services)	\$ 27,500	\$ 20,030	\$ -	\$ 20,030	\$ -	\$ 20,030
230 E Main Recons Escrow	\$ -	\$ 39,851	\$ -	\$ 39,851	\$ (39,851)	\$ -
238 Postage & Delivery	\$ 25,000	\$ 22,550	\$ -	\$ 22,550	\$ 206	\$ 22,756
239 Fire & Liability Insurance	\$ 89,725	\$ 85,547	\$ -	\$ 85,547	\$ 7,699	\$ 93,246
251 Telephone & Communication	\$ 10,200	\$ 9,461	\$ -	\$ 9,461	\$ (97)	\$ 9,364
252 Water	\$ 620	\$ 794	\$ -	\$ 794	\$ 166	\$ 960
254 Contribution to Electricity Restricted Accto	\$ 434,202	\$ 358,055	\$ -	\$ 358,055	\$ 569	\$ 358,624
255 Natural Gas	\$ 71,300	\$ 68,191	\$ -	\$ 68,191	\$ -	\$ 68,191
260 Heavy Equipment Rental	\$ 14,660	\$ 1,351	\$ -	\$ 1,351	\$ -	\$ 1,351
261 Property Taxes	\$ 214,811	\$ 187,181	\$ -	\$ 187,181	\$ (57,026)	\$ 130,155
265 Sewer Charge	\$ 210,000	\$ 113,812	\$ -	\$ 113,812	\$ -	\$ 113,812
266 Legal & Administrative	\$ 285,005	\$ 243,429	\$ -	\$ 243,429	\$ 40,149	\$ 283,578
267 Data Processing	\$ 189,994	\$ 162,771	\$ -	\$ 162,771	\$ (13,253)	\$ 149,518
268 Mileage Reimbursement	\$ 2,500	\$ 154	\$ -	\$ 154	\$ 283	\$ 437
271 Gas/Vehicle Maintenance	\$ 114,449	\$ 100,437	\$ -	\$ 100,437	\$ -	\$ 100,437
275 Repair & Maint - Equipment	\$ 208,500	\$ 100,080	\$ (500)	\$ 99,580	\$ 13,053	\$ 112,633
277 Reservoir Maintenance	\$ 36,000	\$ 13,075	\$ 1,083	\$ 14,158	\$ -	\$ 14,158
280 Regulatory Expense	\$ 20,000	\$ 18,451	\$ -	\$ 18,451	\$ 838	\$ 19,289
281 Regulatory Assessment	\$ 75,000	\$ 65,262	\$ -	\$ 65,262	\$ -	\$ 65,262
295 Repairs/Main Maintenance	\$ 75,000	\$ 15,348	\$ 2,000	\$ 17,348	\$ -	\$ 17,348
296 Service Maintenance	\$ 33,500	\$ 49,583	\$ -	\$ 49,583	\$ -	\$ 49,583
297 #N/A	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
298 Gate Maintenance	\$ 6,690	\$ 711	\$ -	\$ 711	\$ -	\$ 711
299 Meter Maintenance	\$ 11,000	\$ 2,313	\$ -	\$ 2,313	\$ -	\$ 2,313
311 Operating Supplies	\$ 81,390	\$ 55,758	\$ (3,337)	\$ 52,421	\$ (577)	\$ 51,844

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Account	Docket # 3675	Navy DR 1-7	Test Year Normalizing Adjustments	Normalized Test Year	Rate Year Adjustment	Navy Rate Year
320 Uniforms & Protective Gear	\$ 5,950	\$ 1,235	\$ 1,546	\$ 2,781	\$ -	\$ 2,781
335 Contribution to Chemical Restricted Accol	\$ 333,000	\$ 392,390	\$ -	\$ 392,390	\$ -	\$ 392,390
339 Laboratory Supplies	\$ 10,302	\$ 3,804	\$ -	\$ 3,804	\$ -	\$ 3,804
361 Office Supplies	\$ 36,000	\$ 12,291	\$ 998	\$ 13,289	\$ 1,060	\$ 14,349
380 Customer Service Supplies	\$ 5,000	\$ 173	\$ -	\$ 173	\$ -	\$ 173
435 Other Improvements	\$ -	\$ 63,832	\$ -	\$ 63,832	\$ -	\$ 63,832
442 Fire Hydrants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
444 Meter Replacement	\$ -	\$ 4,718	\$ -	\$ 4,718	\$ -	\$ 4,718
445 Billing Study	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
448 Chloramine Conversion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
452 Bond Interest	\$ -	\$ 15,829	\$ -	\$ 15,829	\$ -	\$ 15,829
561 Self Insurance	\$ -	\$ 164,941	\$ -	\$ 164,941	\$ -	\$ 164,941
563 Unemployment Claims	\$ 52,000	\$ 404	\$ 4,596	\$ 5,000	\$ 175	\$ 5,175
564 General Contingency	\$ -	\$ 822	\$ 656	\$ 1,478	\$ 52	\$ 1,530
175 Annual Leave Buy-back	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfer to Equip Replacement	\$ 22,550	\$ 22,137	\$ -	\$ 22,137	\$ 751	\$ 22,888
850 IFR Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
851 IFR Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ADI Accd Comp Absences	\$ -	\$ 231,370	\$ -	\$ 231,370	\$ -	\$ 231,370
999 Allowance for Doubtful Accounts	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Requirements	\$ 6,251,390	\$ 5,918,803	\$ 147,547	\$ 6,066,350	\$ 161,098	\$ 6,227,447