

**Rebuttal Testimony of Julia Forgue
Docket No. 3818**

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

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

4
5 **Q. Are you the same Julia Forgue who submitted pre-filed direct testimony in this
6 docket?**

7 A: Yes I am.

8
9 **Q. What is the purpose of this testimony?**

10 A. I would like to respond to certain points or conclusions that were made in the pre-filed
11 testimony of Thomas Catlin, Christopher Woodcock, William McGlinn, and Philip
12 Driscoll. I will address some of the points raised in these testimonies and Harold Smith
13 will address certain issues in his rebuttal testimony.

14
15 **THOMAS CATLIN TESTIMONY**

16 **Q. What issues would you like to address regarding Mr. Catlin's testimony?**

17 A. There are several areas I will address. With respect to Newport's revenue request, I
18 will address the areas where we agree with the issues raised by Mr. Catlin. These
19 issues are:

- 20
- 21 • Vehicle Maintenance Charges
 - 22 • Electricity
 - 23 • Allowance for Doubtful Accounts
 - 24 • Debt Issuance Fees
 - 25 • Self Insurance

26 I will also address several areas in which Newport Water ("NWD") disagrees with the
27 positions taken by Mr. Catlin. These include:

- 28 • Sewer Charges
- 29 • City Services
- 30 • Operating Revenue Allowance

1 In addition, I will also address an issue where we agree in concept with Mr. Catlin, which
2 is the issue of increasing the frequency of water billings. However we have significant
3 concerns about implementation and the effects of his recommendation.
4

5 **Vehicle Maintenance Charges**

6 **Q. Do you agree with Mr. Catlin’s recommendation regarding adjusting the Vehicle**
7 **maintenance Charges?**

8 A. Yes – with a qualification. We are concerned that while there is lack of history for this
9 expenditure, there will be expenses that exceed Mr. Catlin’s revised amount. To that end,
10 our agreement on this expense is for this Docket only. We will review this issue in
11 Newport’s next filing when there is a better history of costs associated with First Vehicles
12 operation of the City’s equipment and vehicle maintenance operations.
13

14 **Electricity**

15 **Q. Do you agree with Mr. Catlin’s recommendation regarding funding for**
16 **Electricity Costs?**

17 A. Yes. Newport Water (“NWD”) agrees with Mr. Catlin’s testimony and position on this
18 issue. Upon further review, it appears that power supply and distribution rates will remain
19 level with only minor changes to transmission adjustments and transition charges.
20

21 **Allowance For Doubtful Accounts**

22 **Q. Do you agree with Mr. Catlin’s recommendation to exclude an Allowance for**
23 **Doubtful Accounts?**

24 A. Yes. NWD agrees with Mr. Catlin’s explanation for his recommendation to exclude
25 the \$30,000 expense for bad debt costs included as the allowance for doubtful accounts.
26 However, NWD points out that the City’s auditors recommended including the \$30,000
27 to represent the amount of revenue that is not collected in the rate year.
28
29
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31

1 **Debt Issuance Fees**

2 **Q. Do you agree with Mr. Catlin’s recommendation regarding funding for Debt**
3 **Issuance Fees?**

4 A. Yes. NWD agrees with Mr. Catlin’s testimony and position on this issue.

5

6 **Self Insurance**

7 **Q. Do you agree with Mr. Catlin’s recommendation regarding the reduction in the**
8 **allowance for Self Insurance?**

9 A. Yes. However, NWD is concerned that expenses such as these cannot always be
10 predicted, but NWD is nonetheless liable for their payment.

11

12 **Sewer Charges**

13 **Q. Do you agree with Mr. Catlin’s testimony regarding a reduction in the allowance**
14 **for Sewer Charges?**

15 A. No, I do not. First, an adjustment must be made to account for the sewer use charge
16 that was adopted by the City Council on May 23, 2007 whereby the new rate as of July 1,
17 2007 will be \$6.00/1000gallons. Also, the Station 1 WTP is responsible for the new
18 annual Combined Sewer Overflow (“CSO”) Fixed Charge established per ordinance by
19 the City Council. This fee is a flat fee charged to all users of the City’s sewer system and
20 is based upon the water meter size. The annual fee for Station 1 is \$ 3,026.00 based on a
21 6” water meter.

22

23 NWD accepts Mr. Catlin’s testimony regarding adjusting the Station 1’s annual gallons
24 of discharge to the sewer system to 22.466 Mgal. for purposes of calculating an
25 allowance. However, using the new sewer use charge and the CSO Fixed Fee the
26 allowance for Station 1 is recommended to be increased to \$137,822.00.

27

28 NWD does not agree with Mr. Catlin’s recommendation to allow for only one half, or six
29 months, of the sewer discharge volume proposed by NWD for the Lawton Valley WTP.
30 NWD agrees that the Residual Management Project will be completed by December 31,
31 2007 and therefore there will only be six months of sewer charges for FY2008. However,

1 we believe it is short sighted to not provide an allowance into FY 2009. We recognize
2 that NWD has been filing rate cases more frequently than in the past, but due to the time
3 involved in preparing a filing, litigating the case, receiving a final order and the full
4 collection of new rates, it is improbable that the issue of sewer charges for the Lawton
5 Valley WTP could be addressed for the fiscal year beginning July 1, 2008. Therefore
6 NWD recommends that the volume used in the filing documents for annual sewer
7 discharge from the Lawton Valley WTP remain at 22.831 Mgal., but adjust the allowance
8 using the sewer use charge of \$6.00/1000gal for a new allowance of \$136,986.

9
10 In summary the total adjusted allowance requested by NWD for Sewer Charges is
11 \$274,808.00.

12
13 **City Services**

14 **Q. Do you agree with Mr. Catlin's recommendation regarding allowances for City**
15 **Services?**

16 A. Partially. NWD agrees with Mr. Catlin's recommendation on the allocation of legal
17 and administrative expenses.

18
19 However, NWD disagrees with Mr. Catlin's recommendation to exclude the \$705,000 of
20 capital costs for the Data Processing or MIS allocation. The City Budget for 2007
21 included \$705,000 for capital for MIS. (See Exhibit 1) Upon further review, the City
22 agrees that \$105,000 of the capital cost should be excluded from the calculation. The
23 balance of \$600,000 applies to all Departments equally, including the Schools.

24
25 Included in the \$600,000 is \$550,000 of additional funding for the new Enterprise
26 Resource Planning ("ERP") system. The City is waiting for Best and Final Offers from
27 the two remaining finalists for providing the new ERP system. A decision by the City for
28 an award of contract is anticipated by the end of May. The current cost proposals for the
29 two finalists range from \$1.5 to \$2.0 million. Last year's capital allocation for the ERP
30 system was \$800,000.

31

1 The remaining \$50,000 is for disaster recovery services.

2

3 If we apply the Division's allocation percentage of 10.44% to the \$600,000, the result is
4 \$62,640. This amount combined with Mr. Catlin's calculation of the allocation of
5 \$94,405 for Data Processing as shown in TSC-8 results in a total of \$157,045. The
6 adjustment for Data Processing is recommended to be revised to a reduction of \$19,696
7 as opposed to \$82,336.

8

9 **Q. Please address Mr. Catlin's recommendation to move from tertiary billing to bi-**
10 **monthly billing rather than using money from the Repayment to City account to**
11 **address Newport's deficit.**

12 A. I would be glad to. First, NWD appreciates Mr. Catlin's efforts to set forth a tangible
13 plan to assist in addressing our cash flow problem. In addition, NWD recognizes, as does
14 Mr. Catlin, that increasing the billing frequency for the current tertiary accounts would
15 improve cash flow. As set forth in Mr. Smith's direct testimony, NWD currently plans to
16 spend over two million dollars in the next five years on a radio read program. NWD
17 wants to move toward a billing structure where the current tertiary accounts, which for
18 the most part are all residential accounts, would be billed at the same time rather than
19 having four sections of tertiary billing. In other words, all 13,598 tertiary accounts would
20 be billed on the same cycle. NWD would also like to increase billing frequency on these
21 accounts from tertiary to quarterly and preferably bi-monthly or monthly. We believe
22 increased billing frequency will not only improve cash flow, but also assist our customers
23 in budgeting for water costs. NWD agrees with Mr. Catlin's proposal and believes that
24 this is a long-term solution that will greatly reduce our cash flow problems. However,
25 NWD is skeptical that bi-monthly billing can be put into place quickly enough to provide
26 a short term remedy for this problem.

27

28 To begin with, NWD believes that increased billing frequency is dependent on meter
29 reading capabilities to provide reliable usage data. Thus, NWD believes the conversion
30 to a radio read meter system as proposed in the CIP is imperative to support a change in

1 billing frequency. Currently, this program is slated to be implemented over a five year
2 period.

3

4 **Q. Could Newport accelerate its radio read program so that it could increase its**
5 **billing frequency sooner?**

6 A. It is possible that NWD could complete this project sooner than projected. However,
7 this would require a change to our CIP. NWD had proposed to fund this project from
8 rates over a five year period. In order to accelerate this program, it is likely that NWD
9 would have to bond this project. As addressed in Mr. Smith's rebuttal testimony, NWD
10 has been approved for a \$2.8 million dollar loan from RICWFA. Of this amount,
11 \$750,000 is required before to the end of the current fiscal year and will be financed
12 through bond anticipation notes. In fiscal 2008, NWD is planning permanent financing of
13 the \$750,000 and the additional \$2.25 million, for a total of \$2.8 million. The permanent
14 financing of the full amount will occur when RICWFA sells its revenue bonds for the
15 Safe Drinking Water State Revolving Fund in late 2007 or early 2008.

16

17 NWD could apply for a second loan of approximately \$2.7 million dollars to finance the
18 entire radio read program. Assuming that bonds were sold in February 2008, the earliest
19 we would have available funds would be March 2008. It would then take another 2 to 3
20 months for the project to be bid, a contract awarded and for work to begin, which would
21 take us to June 2008. It is likely this project would take a minimum of eighteen months to
22 complete. So the complete installation wouldn't be finished until December 2009. Thus,
23 the earliest we would be able to start billing using radio reads would be January 2010.

24

25 **Q. Do you think you could start doing bi-monthly billing as soon as the radio read**
26 **equipment is installed?**

27 A. I cannot say for sure, but it seems doubtful. It seems to me that there will be additional
28 work to do to get the system up and running. As I indicated above, I would first like to
29 have all 13,598 tertiary accounts billed on the same cycle. In addition, we would need to
30 work with our billing software vendor to change our billing cycle. In order to do this, and
31 to provide for a learning curve, it may be wise to start billing these accounts quarterly on

1 the same cycle so that NWD staff can work out any kinks in the system. Then we could
2 move to monthly or bi-monthly billing. Even if we could start bi-monthly billing as soon
3 as the equipment were in place, the earliest we could start this increased billing with the
4 radio reads would be January 2010 as set forth above. This would be a two and a half
5 year lag from the date of decision in this Docket. Thus, we would continue to struggle for
6 two and a half more years.

7

8 **Q. Is there any way Newport could start billing bi-monthly before the radio read**
9 **program is put into place?**

10 A. In theory yes. But in order to effectuate Mr. Catlin's recommendation and
11 immediately begin bi-monthly billing for the current tertiary customers, a number of
12 obstacles would have to be overcome. First, we need to address how NWD will be able to
13 perform additional meter readings to facilitate the increased billing. The most obvious
14 answer would be to hire additional staff for this purpose. This would require two new
15 meter readers at a cost of \$115,000 per year for salary and benefits. However, this money
16 is not provided for in this rate filing. In addition, NWD would need approximately
17 \$10,000 in meter reading equipment and vehicles with an amortized cost of
18 approximately \$10,000 per year, plus additional costs for billing services.

19

20 This would appear to be a long term fix to a short term problem. With NWD moving
21 toward a radio read program, these two positions will become obsolete once the program
22 is in place. Yet, NWD cannot simply eliminate these positions once they are created. This
23 would lead to NWD funding 2 new positions, plus accompanying costs, that may only be
24 needed for five years at the most and two and a half years if the program is accelerated.

25

26 Another option would appear to be the use of temporary employees. However, according
27 to the City of Newport Human Resource Administrator, after 19 weeks, temporary
28 employees become permanent classified employees and benefits have to be paid. This
29 would create the same problem as outlined above.

30

1 **Q. Is there any way Newport could immediately implement bi-monthly billing**
2 **without hiring new employees?**

3 A. Without new staff, NWD could only implement a bi-monthly billing cycle if estimated
4 readings were used for the additional billing. However, NWD has been working to
5 minimize estimated readings. Thus, the implementation of a billing system that depends
6 on estimated billings would run contrary to our existing efforts. For example, the
7 conversion to the Opal water billing software on July 1, 2005 identified certain problem
8 accounts that were based on estimated reads due to various glitches such as non
9 functioning touch pads for remote reading, lack of access to meter, etc. The meter and
10 billing staff are working systematically on addressing these accounts to reduce the
11 number of estimated bills. In addition, it is apparent that PWFD would have concerns
12 with NWD intentionally estimating bills based on the comments from Mr. Woodcock in
13 his direct testimony (pages 29-31).

14
15 In addition, while bi-monthly billings based on estimated reads may provide additional
16 revenue from the billing charge, this increased revenue could negatively impact NWD's
17 relationship with our residential customers. A majority of our customers prefer billings
18 based on actual meter reads. Based on our experience, we believe an estimated read
19 system will result in numerous requests for actual reads to replace the estimates. More
20 important, customers may object that the increased billing based on an estimated read
21 provides no added value other than an increased charge. NWD also anticipates additional
22 problems due to the number of seasonal accounts. Estimated billings are based on the
23 prior two reads. Therefore, in the fall and winter when seasonal customers are out of
24 town and use little, if any, water, they would receive bills based on summer usage. There
25 will also be a cost associated with the anticipated increase in time devoted to phone calls
26 requesting explanations of the increased estimated billing. Simply put, we are concerned
27 that our current employees will not be able to satisfactorily address these problems while
28 also performing their regular duties.

29
30 It should also be noted that NWD will not be able to gather accurate statistics on system
31 wide usage if estimated reads are used so heavily.

1 NWD recognizes that it may be possible to address some of the estimated billings issues
2 with significant programming changes. However, this would also have a cost in both the
3 expenditure of funds and staff resources. Switching to a bi-monthly billing cycle will
4 involve both procedural and database changes in the Opal billing system. NWD would
5 need to carefully lay out exactly what needs to be changed. Billing computations,
6 reporting requirements, database element changes, penalty calculations are examples of
7 what will need to be reviewed. A good amount of planning is needed to address the many
8 variables that would be involved. The program currently estimates bills using the prior
9 two reads and this methodology would need to be looked at in detail before a change to
10 the program is advisable. With limited review at this time it is difficult to estimate the
11 cost of the programming changes, but a very preliminary starting point of costs is \$5,000.

12

13 Unless these issues can be addressed or resolved, an immediate move to bi-monthly
14 billing will create new problems and create new expenses that NWD was trying to avoid
15 in requesting that the Repayment to City Account be used to address the deficit.

16

17 **Q. Do you agree with Mr. Catlin's recommendation regarding the requested**
18 **increase in the Operating Revenue Allowance?**

19 A. At the present time I do not. As set forth above, in theory NWD agrees with Mr.
20 Catlin's suggestion to increase billing frequency, and we appreciate his efforts to set forth
21 a tangible plan to address the cash flow problems. However, as I pointed out in my direct
22 testimony, in any given year, NWD incurs a number of unexpected, non-reoccurring
23 expenses. For example, we have recently incurred expenses for the Middletown property
24 tax settlement (\$187,043); a Rhode Island Department of Environmental Management
25 (RIDEM) Notice of Violation Penalty (\$50,000); and the RI Council 94 AFSCME
26 retroactive pay settlement (\$294,313). In addition, we are facing unexpected expenses
27 related to damage sustained at the Easton Pond Dam as addressed in my testimony herein
28 below.

29

30 The obstacles outlined above, and the practical problems we would face in implementing
31 this increase billing, would have to be addressed, and resolved, before NWD could fully

1 agree with Mr. Catlin. Until such time, NWD continues to request the full Operating
2 Revenue Allowance requested in our direct testimony.

3

4 **CHRISTOPHER WOODCOCK TESTIMONY**

5 **Q. What issues would you like to address with respect to the points made in Mr.**
6 **Woodcock’s pre-filed testimony?**

7 A. To begin with, I would like to respond to the misrepresentations Mr. Woodcock
8 repeatedly makes throughout his testimony regarding the City’s management of the
9 NWD. I would also like to respond to his testimony regarding the following:

- 10 • Contributions for City Services – Finance Department
- 11 • Financial Reporting
- 12 • Capital Improvement Program
- 13 • Estimated water sales
- 14 • Interest Charges

15

16 **City Management**

17 **Q. Mr. Woodcock testified that Newport Water has received no support from the**
18 **City of Newport’s Manager’s Office or the City Council as it has struggled with cash**
19 **flow problems. Do you agree with this assessment?**

20 A. No I do not. It appears that Mr. Woodcock is trying to make this a major issue in this
21 Docket as his accusations are repeated throughout his testimony. For example Mr.
22 Woodcock states:

23 “Further, a number of different factors raise concerns about the management of the
24 Department and the apparent lack of support or concern from the City.” (p. 4 lines 11-
25 12.)

26

27 “I urge the Commission to disallow any costs associated with the City Council and the
28 City Manager's office until there is some demonstrated willingness to deal with the
29 Water Department's cash flow issues in a timely manner.” (p. 15, lines 25-28)

30

31 “It would appear that there is a lack of concern from somewhere within the Water
32 Division or the City itself.” (p.32, lines 26-27)

33

34 However, there is no factual support for these accusations. Mr. Woodcock merely repeats

1 this mantra without any regard for the facts.

2

3 **Q. Can you provide an example of what you mean.**

4 A. Yes. Mr. Woodcock states in his testimony:

5 “When PWFD asked what action the City took to address the clear deficit we are
6 told (see PWFD 1-3 and 1-4):

7 - The old City Council would not address financial matters including those related
8 to the Water Department's deficit; yet Newport is asking for rate payers to fund
9 some \$10,759 of City Council costs.

10 - There were no correspondence or communications to or from the City Manager's
11 office nor to or from the Finance Director's office regarding the Water Department
12 deficits; yet Newport is asking for rate payers to fund \$45,173 for the City
13 Manager's office and \$19,073 for Finance Administration.”(p. 14, lines 10-18)

14

15 This testimony completely misrepresents the questions posed in PWFD 1-3 and 1-4 and
16 the answers provided to these requests. To begin with, the questions in PWFD 1-3 and 1-
17 4 did not ask “what action the City took to address the clear deficit” faced by Newport
18 Water. Second, we did not tell Portsmouth that there was “no communication” from the
19 City Manager’s Office or the Finance Director’s Office regarding the Water
20 Department’s deficits. As a result, I think it is important to look at the actual questions
21 and answers in their entirety:

22 **PWFD 1-3:** On page 8, lines 17-19 of Ms. Forgue’s testimony she states,
23 “[T]he old City Council would not address financial matters that would carry over
24 into the term of the new City Council.” What is this statement based on? Please
25 provide all of the facts, including any City Council minutes or other
26 correspondence or communications between the Council and any other person,
27 that indicate that the “old” City Council would not allow Newport water to file a
28 rate increase sooner. Also please provide any correspondence or communications
29 exchanged between Newport Water and the Administration between October
30 2005 and November 2006 regarding a rate filing.

31

32 **Response:** This statement is based on verbal communication from the City
33 Manager to Department Heads. The City Manager limited the action items on the
34 City Council agenda in November and December, 2006 that would be addressed
35 by the new City Council taking office in January, 2007. Furthermore, each year
36 there is only one City Council meeting scheduled in November and December,
37 rather than the customary two per month. The briefing of the City Council in
38 executive session by City staff and Newport’s Rate Attorney regarding the details
39 of the pending rate filing took place on January 10, 2007. The City Manager and
40 Finance Director were aware at the end of FY2006 that work had begun on

1 preparation for a filing. There is no formal written communication or minutes
2 from any meeting.

3
4 Prepared by: J. Forgue

5
6 **PWFD 1-4:** Was Newport’s Finance Director aware that Newport Water has had
7 insufficient funds to pay all its expenses? If so, what actions did she take to make
8 others aware of the situation and what actions did she recommend? Please
9 provide all correspondence related to Newport Water’s cash deficit and actions or
10 concerns raised by the Finance Director to any person or agency in the City.

11 **Response:** Yes the City’s Finance Director is aware of the cash flow issues in the
12 Water Fund. In fact, almost every Water Fund monthly and quarterly report
13 documents the ongoing cash flow problems. It has also been noted in the outside
14 auditor’s FY2004 and FY2005 management letters, which have previously been
15 provided to parties on the service list. The Finance Director’s actions and
16 recommendations are a regular part of discussions with Water Fund personnel.
17 Further, the finance director took part in discussions with legal counsel and with
18 the City Council. The discussions with the City Council took place with legal
19 counsel in Executive Session. The finance director has no documents responsive
20 to this request.

21
22 Prepared by: Laura Sitrin

23
24 Mr. Woodcock testifies that “There were no correspondence or communications to or
25 from the City Manager's office nor to or from the Finance Director's office regarding the
26 Water Department deficits” (p. 14, lines 15-17, emphasis added). This is simply not true,
27 and it is especially troublesome as the City of Newport’s Finance Director herself answered
28 PWFD 1-4 and clearly stated that she was aware of the cash flow issue and that her actions
29 and recommendations are a regular part of discussions with Water Fund personnel.

30
31 **Q. Why is this testimony troublesome?**

32 A. It is troublesome because, as stated above, Mr. Woodcock repeats the same baseless
33 assertions throughout his testimony. For instance, Mr. Woodcock goes onto say:

34 “Based on the lack of any communication to or from the City Manager, the City
35 Council, or the Finance Director and no willingness to consider the financial plight
36 of the Water Department by the City Council, asking rate payers to fund over
37 \$75,000 for these City agencies does not seem appropriate ... The City
38 Administration has shown little or no interest in helping the Water Department out

1 of its financial bind. With the exception of an executive session in January 2007,
2 apparently they wouldn't even mention the issue, let alone discuss it.” (p.14, lines
3 20-23, 28-30)

4 It seems that Mr. Woodcock is attempting to convince the Commission that everyone in the
5 City of Newport – the City Manager, the Finance Director, the members of the City
6 Council, and myself – sat around and turned a blind eye to the Water Department’s
7 financial troubles. Mr. Woodcock portrays all of us as being content to let the deficit grow,
8 while doing absolutely nothing about the situation. Not only is this accusation untrue, it is
9 reckless and unfounded.

10

11 **Q. Can you please explain this further?**

12 A. Yes. First, let me address Mr. Woodcock’s repeated assertions that NWD should have
13 filed a rate case sooner because this seems to be tied into his assertion that “the old City
14 Council would not address financial matters including those related to the Water
15 Department's deficit.” This issue is also addressed in Mr. Smith’s testimony, but I believe
16 it is important to address it in my testimony as well.

17

18 To begin with, it is important to note in the thirty-eight months between November 28,
19 2003 (Docket 3578) and January 29, 2007 (Docket 3818), NWD has filed three rate cases
20 with the Commission. This is an average of almost one per year.

21

22 In the last rate filing, Docket 3675, a settlement agreement was reached between the parties
23 on November 4, 2005. A settlement hearing took place on November 9, 2005; the
24 Commission rendered its decision at open meetings on November 10 and 30, 2006; and, a
25 written order was issued on April 26, 2006. Mr. Woodcock states that “Newport could have
26 and should have filed a rate case much sooner...if Newport had filed this case sooner, new
27 rates would have been in effect for the disproportionately high water use in the
28 summer...”(p. 20, lines 4-9). However, Mr. Woodcock’s testimony ignores a number of
29 important facts.

30

31 First, new rates – those granted in Docket 3675 – *were* in effect for the high usage months
32 in the summer of 2006.

1 Second, if NWD wanted additional new rates (on top of those granted in Docket 3675), to
2 be in effect during the “high use” season in the summer of 2006, it would have had to
3 prepare and file a new case on November 11, 2006, the day after the Commission’s first
4 open meeting approving the Docket 3675 Settlement Agreement. Assuming the new case
5 were filed on November 11, 2006, and the new rates were suspended 30 days after filing
6 (December 11, 2006), a decision would have been due on May 11, 2006, which would have
7 allowed NWD to start billing the new rates (on top of those granted in Docket 3675) in late
8 May, early June 2006.

9
10 Third, putting aside the practical difficulties of preparing and filing a rate case the day after
11 Docket 3675 was decided, Mr. Woodcock’s position assumes that the Commission would
12 have granted a second rate increase directly on the heels of the Docket 3675 increase. More
13 important, Mr. Woodcock’s position assumes that Portsmouth, the Navy and the Division
14 would not have objected to this immediate additional increase. Quite frankly, it is
15 impossible to believe that Portsmouth, alone, would not have objected.

16
17 **Q. Why do you say that?**

18 A. If NWD had filed another case immediately following Docket 3675, it would have been
19 solely to address the growing deficit. It is likely that NWD would have been met with the
20 objection that we had not given the Docket 3675 rate increase time to take effect. In
21 addition, it is likely that Portsmouth would have raised many of the same objections it has
22 raised in this, and past, Dockets.

23
24 **Q. What objections are you referring to?**

25 A. In this Docket, Mr. Woodcock testified that

26 “As discussed above, nearly 70% of the increase in payables from June 30, 2005
27 to June 30, 2006 was due to sales that were lower than projected. I do not know of
28 a situation where the Commission has granted additional revenues to a Rhode
29 Island water utility because sales were lower than projected. Certainly this situation
30 is not unique in Rhode Island.” (p. 23 , lines 26-30)

31
32 In Docket 3578, when asked if he considered the \$2.5 million dollar repayment to the City
33 “retroactive ratemaking,” he replied “I believe that it does. In this case, Newport was well
34 aware of its deficit long before it filed this case November 28, 2003.” (Woodcock Direct,
35 Docket 3578, p. 9, lines 23-26). In that Docket Mr. Woodcock also stated that “there are

1 “a number of items that Newport has included as annual operating costs that are really
2 one-time or infrequent expenses. As such, Newport should not be provided annual
3 funding for these items.” (*Id.* at p. 10, lines 14-16). Thus, it is entirely reasonable to
4 believe that similar, and perhaps additional, objections would have been raised by
5 Portsmouth had NWD filed a new rate case to address its deficit immediately following
6 the conclusion of Docket 3675.

7

8 **Q. If Newport did not file a new rate case immediately following Docket 3675, please**
9 **describe what Newport did do.**

10 A. First, and most obvious, we put the Docket 3675 rates into effect. We then continued to
11 monitor sales at the new rates. By the end of FY06, it was apparent that water sales were
12 lower than normal, that the new rates were not having enough of an impact, and that a new
13 rate case would be necessary. Thus, in June 2006, NWD and its consultants began work on
14 this rate filing. However, the test year in this Docket is FY06. Therefore, as I set forth in
15 my direct testimony, we had to wait until the preliminary audit information for this fiscal
16 year was ready before the rate filing could be finalized. This did not happen until December
17 2006. During this period NWD worked on the rate filing and continued to file its monthly
18 and quarterly reports so that all the parties to this Docket could also monitor NWD’s
19 financial situation.

20

21 **Q. Mr. Woodcock suggests in his testimony that Newport did not have to wait for**
22 **audited financial information to file a new rate case. Do you agree?**

23 A. This issue is covered in Harold Smith’s rebuttal as well, but it is important to note that
24 Portsmouth has been critical of NWD (and in many cases justifiably so) for not having
25 accurate financial information. In Docket 3578, Mr. Woodcock testified:

26 “In the last docket (2985), the Commission ordered Newport to under take studies
27 and adopt procedures that will allow ratepayers, like Portsmouth, to assess
28 Newport’s capital and operating expenses. Newport’s failure to follow those orders,
29 some of which are more than ten years old, makes it nearly impossible to
30 determine what increases, if any, are justifiable.” (Woodcock Direct, Docket 3675,
31 p. 3, lines 24-26)

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In Docket 2985, this Commission recognized the critical importance of gathering appropriate and reliable data to determine precisely the costs and expenses that Newport incurs in providing water services to Portsmouth and the Navy. If Newport had collected that information in accordance with the Division's mandate, all of the parties could rely on the data to arrive at fair, predictable, and reasonable rates in this case. (Woodcock Surrebuttal, Docket 3675, p. 1, lines 22-27)

As such, NWD has tried to confirm the accuracy of its financial information before it files a rate case. Even when we have taken these steps, there have been occasions when corrections are necessary. In these instances, Mr. Woodcock has been critical. In his direct testimony in this Docket he testified that Portsmouth has “significant concerns” over “incorrect or inconsistent data” that required updating. (p. 28, lines 23-26) Therefore, it is contradictory to criticize NWD for incorrect or inconsistent data, and then suggest that we should have submitted a rate filing based on unaudited financial information seeking additional rates to pay down a deficit days after an increase was granted in Docket 3675.

Q. So was Newport’s rate filing in this Docket delayed by a refusal of the City Manager or the City Council to allow a rate filing?

A. Absolutely not. Mr. Woodcock states that NWD’s “mounting losses could have been minimized if the City had acted more reasonably and allowed Council consideration of a rate filing many months ago.” (p.27 and 28, lines 30, 1 and 2, emphasis added). This suggests that the City would not *allow* NWD to file a rate case sooner than we did. In support of his position, Mr. Woodcock continually misrepresents my direct testimony and answers to data request. On page 8 of my testimony, I explained the timing of this rate filing. I explained, as I did hereinabove, that NWD was using FY06 as a rate year and that the audit was not complete until December 2006. Thus, even though NWD and its consultants had been working on the filing since June 2006, it could not be finalized until we had the audited numbers in December 2006. At that time, a new City Council had already been elected on November 7, 2006. Therefore, it made sense to present the proposed rate filing to the new City Council, which was the Council that would have to field questions from constituents, and who in all fairness would be responsible for the rate increase.

1 Even if the rate case had been ready to present to the old City Council, the earliest it
2 could have been done was at their December 2006 meeting. So, the “delay” caused by
3 this issue was no more than 30 days. Yet, these facts have not prevented Mr. Woodcock
4 from attempting to make hay with this issue. As I have stated, throughout his testimony,
5 Mr. Woodcock continues to beat the drum that “With the exception of an executive
6 session in January 2007,” the City Manager and the City Council wouldn’t even mention
7 the Water Department’s financial bind “let alone discuss it.” This is simply not true and it
8 is a distortion of reality. The City of Newport has been, and is, concerned about Newport
9 Water’s financial situation, and has taken steps to help where it could.

10

11 **Q. How has the City of Newport helped the Water Fund?**

12 A. The City has helped in a number of ways. At the outset, it is important to recall that
13 unlike in the past, the Water Fund is now a stand alone account. As set forth in my direct
14 testimony, the Water Fund’s checking account was opened on April 15, 2004, and
15 beginning on that date, NWD has had to pay all of its expenses from its collected
16 revenues. Contrary to Mr. Woodcock’s numerous protests to the contrary, the City of
17 Newport has not transferred any money from the General Fund to the Water Fund.
18 Nevertheless, the City has attempted to help. For instance, the City of Newport paid its
19 complete annual fire protection bill in one payment of \$390,000 in July 2006, even
20 though this payment could have been spread over twelve months.

21

22 **Q. Didn’t Mr. Woodcock criticize Newport for taking this action?**

23 A. Yes, he did. In fact, Mr. Woodcock testified that this payment for fire protection
24 services was “not in accordance with the approved tariff that calls for monthly billing.”
25 (p.26, lines 8-9) Furthermore, he characterized this payment as another “undocumented
26 loan from the City General Fund.” (p. 26, lines 10-12). This testimony was given even
27 though this is a clear payment for services, not a loan. Mr. Woodcock continually
28 criticizes the City of Newport for its lack of support or concern, yet when the City does
29 demonstrate its support and concern, it is criticized.

1 **Q. How else has the City attempted to assist the Water Fund?**

2 A. The City has assisted by allowing the Water Fund to make payroll reimbursements
3 when funds become available. As the Commission knows, although NWD is a regulated
4 utility, it is still a department of the City of Newport. As such, the Water Department
5 employees are actually municipal employees of the City of Newport. In essence, the City
6 provides employees to the Water Department, and the Water Department reimburses the
7 City for their wages.

8

9 However, the City has an obligation to pay *all* of its municipal employees in a timely
10 manner, including those employed in the Water Division. Therefore, each Water Division
11 Payroll is tracked by the City Controller and the Water Fund is responsible for
12 reimbursement. However, with the ongoing cash flow problems, NWD has a number of
13 competing entities seeking payment and reimbursement, including outside vendors. As
14 set forth above, all bills incurred by the Water Division, including payroll, are the
15 responsibility of the Water Division, and are paid from the Water Fund checking account.
16 Given our cash flow difficulties, the Water Division is constantly choosing among a
17 number of competing financial obligations at any one time, and these obligations are met
18 as revenues are received. As a result, a majority of these payments have been late. This
19 includes payroll. However, the City has allowed itself to be placed at the bottom of the
20 “food chain” with respect to payroll reimbursements. If it did not, NWD would not be
21 able to pay outside vendors.

22

23 **Q. Are there any other ways the City of Newport has attempted to assist Newport**
24 **Water with its financial troubles?**

25 A. Yes. As set forth in our direct testimony, the City of Newport agreed to forgo the June
26 30, 2007 installment of \$500,000 on the \$2.5 million dollar repayment due this year
27 under the terms of the Report and Order in Dockets 3578 and 3675. This subject is
28 covered more fully in Harold Smith’s rebuttal testimony, but I think it is important to
29 address this topic in my testimony as well.

30

1 As has been addressed in this filing, NWD has been carrying a deficit for the past year
2 that varies as invoices are paid and new invoices are received, but which has been in the
3 range of approximately \$1,000,000. NWD sought to take money from the Repayment to
4 the City account to pay down this deficit. By using funds from this account, which are
5 already in the current water rates, NWD could avoid building additional funds into our
6 rates to address this deficit. NWD did not want to increase rates over the long term to
7 address – what we hope – is temporary problem. Thus, if NWD took the estimated
8 balance in this account and combined it with the \$500,000 installment that is due to be
9 made on June 30, 2007, these funds could be applied toward the deficit.

10 Obviously, this would have a negative impact on the City of Newport. The City would
11 not receive its \$500,000 installment in June 2007, and it would only be getting \$250,000
12 per year for 4 more years. Thus, the \$2.5 million dollars owed to the City would be repaid
13 three years later than ordered by the Commission in Docket 3675. In return, the City
14 would be partially reimbursed funds for payroll and city services that rightfully should
15 have already been paid by NWD.

16 **Contributions for City Services – Finance Department**

17 **Q. Do you agree with Mr. Woodcock’s adjustments regarding Newport Water’s**
18 **payments to the City of Newport for services provided by the City Finance**
19 **Department?**

20 A. No I do not. In his testimony, Mr. Woodcock sates that:

21 “Referring again to the November 9, 2005 transcript (pg. 79), Ms. Wilson-Frias asks,
22 based on the new position of Deputy Utility Director of Finance, if it is Newport Water's
23 intent to reduce its reliance on the City Finance Department regarding various
24 commission activities. Ms. Fourge (sic) answers in the affirmative stating "She would be
25 taking most of the responsibilities that fell onto the City's Finance Director" and that she
26 would "have access to all records that are related to the water fund." Despite these
27 assertions, Newport Water is proposing that the Finance Department costs be allocated
28 the same way they were in the settlement of the last docket.” (p. 15, lines 14-21)
29

30 Mr. Woodcock is correct that NWD is requesting that Finance Department costs be
31 allocated the same as in the settlement of Docket 3675. However, as Mr. Woodcock
32 should know, the adjustment he is suggesting in this Docket was already made in Docket
33 3675 to account for the Deputy Utility Director - Finance.

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As Harold Smith set forth in his Docket 3675 rebuttal testimony:

“To the extent that Newport Water is indeed allowed to recover the costs associated with a new Deputy Director - Finance position, I would agree to a 50% reduction in the Finance Department budget that is subject to allocation to the Water Department. This reduction, in conjunction with the previously discussed adjustment to the allocation percentage, would reduce the allocation of Finance Department costs by more than 50% from \$51,679 to \$23,323.” (page 12, lines 6-12)

In his Docket 3675 surrebuttal, Mr. Woodcock testified as follows:

Q: Mr. Smith has agreed to reduce the allocation of the Finance Department to 1/2 of that for other departments, contingent on the funding for the Deputy Director - Finance. Do you agree with this?

A: In general I do and that is the position I presented in my direct testimony. (p.6, lines 1-4)

Therefore, we are asking for the same allocation as in Docket 3675, but it is the allocation that was set *after* making the adjustment related to the Deputy Director – Finance.

Q. Mr. Woodcock acknowledges that the City Finance Director has assisted in this rate filing, but he wonders why the Deputy Utility Director of Finance has not taken a more active role. Can you answer this question?

A. Yes, but I don't know why Mr. Woodcock would pose this question in the first place. He clearly knows that the Deputy Director of Finance is no longer employed with Newport Water, and this position is currently vacant. This fact was reported to Portsmouth in response to PWFD 3-8, which was sent on May 2, 2007. The City of Newport Human Resources Department has begun the recruitment process for a replacement for this position. The closing date for the job posting was April 13, 2007 and interviews of the candidates have been scheduled. The start date will depend on the results of the interviews and availability of the selected candidate. It is anticipated that an offer for employment will be issued in early June.

1 **Financial Reporting**

2 **Q. On page 15 of his testimony, Mr. Woodcock seems to suggest that Newport**
3 **Water has not complied with the reporting requirements established in Docket 3675.**
4 **Do you agree with his assessment?**

5 A. Absolutely not. Once again, Mr. Woodcock has selectively set forth partial and untrue
6 information to fit Portsmouth's position. In particular, Mr. Woodcock states that:

7 "The Commission's Transcript of the November 9, 2005 hearing in Docket 3675
8 (pg. 73) indicates that Ms. Wilson-Frias asked Ms. Fourge [sic] if the new Deputy
9 Utility Director of Finance would be able to provide the stipulated accrual based
10 accounting reports by May of 2006. Ms. Fourge [sic] answered "yes". The
11 management letters from the City's Auditors for FY 2004 and FY 2005
12 recommended monthly accrual based reporting. To date we are told that Newport
13 can not present an accrual based monthly reports." (p. 15., lines 6-12).

14
15 It is important to carefully analyze Mr. Woodcock's testimony to reveal the true status of
16 Newport's financial reporting compliance.

17

18 First, Ms. Wilson-Frias did ask whether the new Deputy Director would be able to provide
19 the new accrual accounting reports by May, and I did say yes. However, in the next line of
20 the transcript our Attorney attempted to clarify the record by stating "With input from the
21 Commission." (p. 73). This sparked an exchange in which all the parties, Portsmouth
22 included, acknowledged that the Settlement Agreement stated that "the parties have agreed
23 to let the Commission decide the parameters of the financial reporting that NWD must
24 supply." Ms. Wilson-Frias went on to say "Is everyone in agreement that the process that
25 was used following the last rate case for coming up with the format of the reports was
26 adequate and what the parties expected, in other words, Mr. Nault sitting down with the
27 parties, working on the format and then having the Commission approve it an open
28 meeting?" (p.73-74). At this point all the parties agreed, even Portsmouth, and this is the
29 process that was followed. NWD provided the Commission with the proposed form of the
30 new accrual reports, the Commission approved the form, and NWD has filed each and
31 every required monthly report in this format since that date.

32

33 Next, Mr. Woodcock is correct that the City's auditors did recommend the full accrual
34 method of accounting and the monthly reconciliation of receivables in the June 30, 2004
35 and June 30, 2005 year-end management letters. However, corrective action plans were

1 prepared in response to the auditors' comments. The respective corrective action plans
2 were provided along with the management letters in response to Navy 1-11 and are
3 attached again to my testimony. (See Exhibit 2) The corrective action plan for 2005
4 indicated that the new billing system implemented in July 2005 allowed the City to
5 migrate to a full accrual based method of accounting and that monthly reconciliations of
6 receivables had begun. Furthermore, the June 30, 2006 year-end management letter and
7 corrective action plan, which were also provided in response to Navy 1-11, did not repeat
8 the comment because the issue had been addressed. Yet, Mr. Woodcock fails to mention
9 this development in his testimony.

10
11 However, Mr. Woodcock's most troublesome comment is that "To date we are told that
12 Newport cannot present an accrual based monthly reports [sic]." There is no basis for this
13 statement, and Mr. Woodcock knows that this is not true.

14
15 **Q. What do you mean?**

16 A. First, NWD has never told anyone that we couldn't produce accrual based monthly
17 reports. What Mr. Woodcock should have stated is that: "To date Newport cannot present
18 an accrual based monthly report that is satisfactory to Portsmouth, or that Portsmouth
19 deems acceptable." As set forth above, NWD does produce an accrual based monthly
20 report approved by the Commission. However, it is my understanding that Portsmouth
21 has not been happy with this Commission approved report. It is further my
22 understanding that our Attorney became aware of Portsmouth's displeasure and contacted
23 Mr. Woodcock to discuss this matter. As a result of this conversation, our Attorney
24 contacted the Water Department and Finance Department to ask whether additional
25 monthly accrual based reports could be created, which would be filed in addition to the
26 Commission approved monthly cash flow and trial balance reports. The Finance
27 Department then provided our attorney with two new accrual based reports. These sample
28 reports were provided to Mr. Woodcock electronically on December 29, 2006, and they
29 are attached to my testimony as Exhibits 3. It is my understanding that our Attorney
30 followed up on January 12, 2007 asking if there was any reaction to these reports.

1 However, we never received any feedback from PWFD on these reports until recently
2 when we were told that they were not acceptable to Portsmouth.

3

4 **Capital Improvement Program**

5 **Q. In his testimony, Mr. Woodcock has stated that the capital improvement
6 program is slipping, would you like to respond to this assertion?**

7 A. Yes I would. Significant work on NWD's capital improvement program has occurred
8 over the last five years. Projects have been initiated and completed. It is acknowledged
9 that the studies that Mr. Woodcock refers to in his testimony on page 10, lines 7-8 have
10 been delayed. However he does not point out the number of projects that have been
11 completed.

12

13 **Q. Can you describe the capital projects that have been completed or are
14 underway?**

15 A. Yes. The completed projects include the following:

- 16 • Replacement of the Freight Elevator at LVWTP
- 17 • Chlorine feed improvements at the LVWTP
- 18 • Station 1 Improvements including: SCADA system, VFD's for all raw water
19 pumps, and new 6mgd high service pump
- 20 • Paradise raw Water Pump Station Upgrade
- 21 • Bathymetric Survey of Island Reservoirs
- 22 • Vulnerability Assessment
- 23 • Improvements to Sedimentation Basin #2 at LVWTP
- 24 • Lawton Valley Reservoir Intake Structure Improvements
- 25 • Construction of Ocean Ave Water Mains- Phases 1 & 2
- 26 • Comprehensive Compliance Evaluation Report for LVWTP and Station 1
- 27 • Infrastructure Replacement Plan Update
- 28 • Joint Water System Study
- 29 • System wide leak detection program
- 30 • Purchase of leak detection equipment
- 31 • Reservoir Road Water Storage Tank Improvements
- 32 • Remote Radio Meter Read Pilot

33

34 The capital projects currently underway include:

- 35 • Construction of Ocean Avenue Water Mains- Phase 3

- 1 • Easton Pond Dam & Moat Study
- 2 • pH Adjustment Improvements for LVWTP and Station 1
- 3 • Water Age Study
- 4 • Chloramine Conversion

5

6 **Q. Would you like to comment on other improvements to the treatment plants ?**

7 A. Yes. There have been numerous improvements made by in house staff over the past
8 five years. I will not go into a detail listing all, but key examples at the LVWTP include:

- 9 • Removed Mercury wells on Filters 1-6 and upgrade to Honeywell electronic
10 transmitter for loss of head and rate of flow
- 11 • New ultra sonic level & recorder for the 4 Mgal reservoir
- 12 • Replace plant influent and effluent mercury well transmitters and replace with
13 Honeywell electronic transmitter and recorder
- 14 • Pipe changes in front of LVWTP to meet CT for RIDOH
- 15 • Install 3 new alum pumps flow paced with raw water 4-20 signal
- 16 • Lime flow paced with plant effluent 4-20 signal

17

18 **Q. Were there any issues that you had to address that have affected progress on**
19 **some of the Capital projects?**

20 A. Yes. As set forth in my Docket 3675 direct testimony, prior to that rate filing NWD
21 only had one Deputy Director position which was an engineering position. In December
22 2004, the Deputy Director resigned. At that time, we were working on a number of
23 financial issues, and it was determined that an additional Deputy Director position should
24 be added to manage the financial functions of the Water Department. As such, it was
25 decided that NWD should immediately create the new position of Deputy Director-
26 Finance using the funds available from the vacant Deputy Director-Engineering position,
27 and then request funding for to restore the other Deputy Director-Engineering. The
28 Deputy Director–Finance position was filled in November, 2005 and the Deputy
29 Director-Engineering position was filled in April, 2006. As such, during the period of
30 December 2004 to April 2006, the Water Department was without the technical
31 assistance from a Deputy Director-Engineering to manage capital projects. As a result, I
32 assumed the responsibilities of the Deputy Director–Engineering in addition to my other
33 duties.

34

35

36

1 **Q. Is there anything else you would like to add regarding the Capital Improvement**
2 **Program?**

3 A. Yes. NWD is working towards maintaining the CIP schedule as proposed despite the
4 on going criticism of NWD's priorities for the water system as a whole. It must also be
5 understood that NWD does not have unlimited resources available for managing the CIP.
6 NWD has had to perform studies that were added to the proposed CIP based on the
7 settlement agreements in Dockets 3578 and 3675. NWD is responsible for managing
8 these studies, which uses resources that would otherwise be devoted to our CIP projects.
9 These additional studies impacted the CIP schedule previously developed by NWD, and
10 in some instances shifted our priorities to complete the added projects. For example,
11 NWD conducted a Comprehensive Compliance Evaluation that was carried out by CDM
12 and was completed in February 2004. In Docket 3578, the settlement agreement of June
13 2, 2004 required a Joint Water Study that cost approximately \$100,000, and which
14 essentially reached the same conclusion as the Comprehensive Compliance Evaluation –
15 that NWD continue with what it was already doing. Nevertheless, NWD was required to
16 divert staff efforts to complete the Joint Water Study and other studies identified in the
17 CIP were deferred.

18
19 NWD attempts to be responsive to the requests of our wholesale customers. However, we
20 believe PWFd is leaning towards micro management of the NWD despite Mr.
21 Woodcock's protests to the contrary on page 31, line 9-10 of his testimony.

22
23 **Q. Is Newport currently facing any other challenges regarding its Capital**
24 **Improvement Program?**

25 A. Yes, as often happens, new issues have arisen, which may affect the priority of
26 projects in our CIP. The following are three examples.

27
28 (1) In October, 2006 The City of Newport awarded a contract to Fuss & O'Neill for the
29 Easton Pond Dam & Moat Study. The study included an assessment to evaluate the
30 structural integrity of the dam, spillways and intake structures. The study also included
31 identifying short and long-term improvements to the dam and its structures with
32 estimated costs to be incorporated into NWD's CIP. The completion date for the Dam &
33 Moat study is June 2007. It should be noted that NWD included \$100,000 in this filing
34 for dam improvements in anticipation of recommendations from the study which were
35 not known at the time of the filing.

36

1 However, Newport (as well as the entire Northeast) was hit with a severe Nor'easter on
2 April 15 and 16, 2007. This storm resulted in significant damage to the northern and
3 western embankments of the Easton Pond Dam. Approximately 900 LF of the north
4 embankment and 1800 LF of the west embankment were damaged either on the upstream
5 side of the embankment or crest. NWD took emergency action by placing sandbags at the
6 upstream face of the embankments where severe erosion occurred and where the
7 embankment crest width had been severely reduced. At the time of the storm damage
8 Fuss & O'Neill was preparing to present the results of the draft report at a City Council
9 workshop. After the storm damage NWD staff met with the engineers from Fuss &
10 O'Neill to review options for repairing the damaged sections of the dam. Basically, it was
11 determined that there are no viable, cost effective intermediate steps that can be taken to
12 address the damage. As such, the recommendation is to proceed as soon as possible with
13 the long term repairs identified in the report for the damaged sections of the north and
14 west embankments. The improvements include increasing the crest height 12 inches and
15 the crest width to have a total width of 12 feet; installing riprap slope protection on the
16 north embankment; driving sheet piling to reconstruct the west embankment; and,
17 reinforce the toe of slope and bench areas of both the north and west embankments. The
18 estimated cost at this time for repairing the damaged sections of the dam is \$6 million.
19 NWD is proceeding with the preliminary engineering work which includes additional
20 field investigations that will advance the design and refine anticipated construction costs
21 to repair the damaged sections. The cost for the preliminary engineering work is \$
22 77,500.

23

24 (2) NWD is under a Consent Agreement with RIDEM to address sediment in the Lawton
25 Brook resulting from the residual discharges that have occurred in the past. The Residual
26 Management Project will address the issue on a going forward basis. NWD is currently
27 having a Sediment Assessment Proposal developed for RIDEM review in accordance
28 with the Consent Agreement.

29

30 (3) Also at the Lawton Valley Treatment Plant ("LVWTP"), NWD is appealing the
31 RIPDES permit standard for Aluminum. Despite the improvements resulting from the
32 Residual Management Project, the remaining filter backwash discharge from the LVWTP
33 will not be able to meet the aluminum standard of 70ppb. NWD believes we will be able
34 to maintain aluminum levels of 12-14 ppm after the improvements are completed. With
35 our consultant, the Maguire Group, we are attempting to convince the RIDEM that it
36 would be better for us to invest in the new LVWTP to address aluminum levels rather

1 that provide treatment now that is technologically and economically burdensome.

2
3 We believe the above examples illustrate the overall challenges, and the changing
4 conditions, NWD faces on system wide basis. While they may not affect our wholesale
5 customers individually, NWD has to address these issues as they arise.

6
7 **Q. What is the status of the restricted account for Capital projects?**

8 A. At this time this account is not accumulating balance. This is in contrast to Docket
9 3578 when concerns were expressed about the significant cash surplus in this account (T.
10 Catlin Direct Testimony Docket #3578, page 24, line21-22).

11
12 **Estimated Water Sales**

13 **Q. Mr. Woodcock expressed concerns with estimated water sales and NWD's inability**
14 **to provide the number of accounts estimated in a billing cycle. Would you like to**
15 **comment on this?**

16 A. Yes. Based on PWFd's Data Request 2-10, NWD reviewed this issue with the
17 software programmer and with some procedural changes with the exporting of files,
18 NWD has been able to go back and extract information to allow the compilation of the
19 number of accounts which received estimated reads. NWD has tracked the number of
20 estimated bills since December 2006. In this timeframe, estimated bills have averaged
21 13.9% of all bills. NWD will continue compiling this data going forward.

22
23 **Interest Charges**

24 **Q. Would you please address the issue of interest charges that Mr. Woodcock raised**
25 **in his testimony?**

26 A. Yes. Enclosed as Exhibit 4 is Mr. McGlenn's correspondence to me dated March 2,
27 2006 and our attorney's response dated March 20, 2006. I believe that these documents
28 succinctly address this issue. The only thing I can add is that Portsmouth appears to be
29 advocating for a sixty day window to pay its water bill. Obviously, this would apply to all
30 customers, not just Portsmouth, and would only exacerbate our cash flow problem. If no
31 interest is applied until sixty days after a bill is due, there will be no incentive for customers
32 to pay before sixty days. NWD does not believe that this is the intent of the tariff, but to the
33 extent that the tariff is unclear, NWD urges the Commission to declare that interest can be
34 applied beginning on the 31st day after a bill is sent.

35

1 **WILLIAM MCGLINN'S TESTIMONY**

2 **Q. Do you have any issues you would like to address regarding Mr. McGlinn's**
3 **testimony?**

4 A. Yes I do. At the outset, I would like to say that NWD takes all treatment issues very
5 seriously. As I testified in Dockets 3578 and 3675, it must be stressed that NWD is
6 committed to providing safe drinking water for all its customers. Further, the EPA and
7 the Rhode Island Department of Health (RIDOH) are the regulatory agencies that are
8 primarily responsible for ensuring public drinking water quality and safety, and for
9 verifying that water utilities maintain compliance with drinking water standards. NWD
10 regularly works with these agencies to address water quality issues.

11
12 As the Commission noted in its Docket 3675 Order, the RIDOH is the primary authority
13 over water quality issues, and the Commission is the primary authority over rate setting.
14 This is not to say that water quality issues could not, or should not, be addressed by the
15 Commission. However, as the Commission's Order in Docket 3675 stated the
16 Commission will not interfere in water quality issues unless evidence is presented that
17 RIDOH is not fulfilling its statutory oversight responsibilities. In this Docket, Portsmouth
18 has not presented any evidence that RIDOH is not fulfilling its duties, yet Mr. McGlinn is
19 once again raising water quality issues in a Commission rate filing. Therefore, I will
20 address the water quality issues discussed in his testimony. Specifically I will speak to
21 pH, TTHM's, and water age. However, it is NWD's position that addressing water
22 quality issues in a rate proceeding before the Commission only serves to divert time and
23 resources to address issues that really belong before the RIDOH or the EPA.

24
25 **Q. Mr. McGlinn states that the stable and higher pH appears to have made a**
26 **difference in the lead levels in the PWFD. Would you like to respond to this**
27 **assertion?**

28 A. Yes I would. Without a comprehensive study, this is unsubstantiated. There are many
29 factors that could impact lead solubility, including applicable water quality parameters
30 (e.g., pH, alkalinity, chlorine residual, calcium, temperature) over time, sampling
31 protocol (e.g., sampling instructions, location within the house, methodology), and the
32 nature of the sampling (Tier 1) locations (e.g., have the locations changed over time, has
33 the homeowner made recent plumbing improvements, etc.).

34
35 Further, NWD has not changed its operating protocol to raise the pH. Routine monitoring
36 data provides no evidence that the pH has been raised. A review of the Lawton Valley

1 Treatment Plant Effluent (TPE) data shows that the pH range has become tighter since
2 improvements were made in January 2006 to the flow-pacing system as shown in Figure
3 3-4B attached. Because of these improvements, the minimum pH levels leaving the WTP
4 have increased, thus affecting the average pH values. More accurate indicators of the pH
5 are the median and mode values, as shown on Table 1 attached. In addition, the standard
6 deviation prior to the flow-pacing improvements had been typically ± 0.6 (which
7 translated into a range of 0 – 1.2 pH units), whereas it is now typically ± 0.4 (range of 0 –
8 0.8 pH units).

9
10 **Q. What would you like to address with respect to the TTHM problems?**

11 A. NWD recognizes and shares the concerns of our wholesale customers with respect to
12 the TTHM levels. As directed by the RIDOH we need to look at how a change in
13 treatment to address one regulation effects overall water quality regulatory compliance.
14 In NWD's case, we need to be concerned with the effect that the conversion to
15 chloramines for TTHM control will have on lead levels. We know we need to raise the
16 pH for compatibility with the use of chloramines. However, it would be irresponsible of
17 NWD to go forward with raising the pH and knowingly create a lead problem.

18
19 Further complicating the issue is the results of the lead scale analysis on pipes in the
20 distribution system performed in late 2005 which found a preponderance of tetravalent
21 lead (Pb IV). Based on these findings, and as discussed at the Expert Panel Meeting in
22 March 2006, that Portsmouth participated in, we know for certain that changing the pH
23 for a conversion to chloramines is a guarantee of a massive increase in lead levels
24 throughout the system. All parties recognize that a massive lead release would result in a
25 significant public health problem as lead is a proven and well documented hazard. As
26 pointed out during the Expert Panel Meeting there is no quick fix to addressing the issues.
27 Due to the challenges NWD is facing with regulations that have the potential to conflict,
28 EPA's Research and Development Section is funding the construction of the pipe loops
29 necessary for a complex testing program. The cost for the construction of the pipe loops
30 is approximately \$300,000 and does not include the cost of the EPA's staff expertise in
31 the design. NWD staff has been harvesting lead service lines that meet the criteria
32 established by NWD's engineering consultant, CDM, for inclusion in the pipe loops. As
33 Mr. McGlenn states the pipe loop testing is scheduled to begin June, 2007.

1 **Q. Mr. McGlenn states that water age is still a concern and that PWFD has a**
2 **number of concerns and questions regarding the (water age) report and possible**
3 **solutions to the water age issue. Would you like to respond to this assertion?**

4 A. Yes I would. NWD's engineering consultant, CDM, evaluated water age at the
5 Lawton Valley Water Treatment Plant (WTP) storage facilities: the 2-million gallon
6 (MG) standpipe and the 4-MG reservoir. The goal of the study was to optimize the
7 configuration and operation of the existing storage structures to provide the highest
8 possible water quality – as it relates to water age – to NWD and its wholesale customers.
9 NWD held a meeting with the wholesale customers on May 15, 2007 to review the draft
10 report and comments.

11
12 A representative estimation of a system's water age is the amount of time that it takes for
13 90% of the water to move through the tank. This is defined as T90. The CDM water age
14 study concluded that the current T90 of the 2 MG standpipe is approximately 1 day while
15 that of the 4-MG reservoir is 2.8 days. After establishing this baseline of current
16 conditions, CDM evaluated alternative configurations and operations to optimize water
17 age within each storage facility. CDM concluded that the existing 2-MG standpipe was
18 relatively well mixed in terms of water age and no improvements were warranted for the
19 cost involved. For the 4-MG reservoir, CDM identified an alternative configuration that
20 could potentially decrease the T90 by 43% to 1.6 days. Previous testing has demonstrated
21 that the majority of TTHM formation occurs within the first day after chlorination.
22 Therefore even though the 4-MG reservoir has a greater T90 than the 2-MG standpipe
23 (even with the alternative/improved configuration), both structures share the same
24 potential whereby the majority of TTHMs will form in the first 24 hours. Because the 4-
25 MG reservoir has a substantially larger volume than the 2-MG standpipe, it is not likely
26 that exactly equal water age can be attained among the two storage facilities at the
27 Lawton Valley WTP. Major changes such as abandoning the 4-MG reservoir would
28 require extensive and costly hydraulic analysis to ensure that the WTP could meet
29 demands and that adequate fire flow and pressures could be maintained within NWD's
30 distribution system, a portion of which is fed by gravity from the 2-MG storage tank.

31
32 **PHILIP DRISCOLL'S TESTIMONY**

33 **Q. Do you wish to address the specific issues raised in Phillip Driscoll's testimony?**

34 A. No, at this time I do not think it is at all productive to engage in a protracted
35 discussion, examination and challenge of Mr. Driscoll's assertions. NWD prefers to look

1 forward, rather than backward. Suffice to say that NWD does not agree that its financial
2 and operational difficulties will exist “perpetually.” Certainly, NWD has had problems,
3 and we have worked (and will continue to work) diligently to address and solve these
4 problems.

5

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

7 A. No it does not. As the parties will recall, at the scheduling conference for this Docket,
8 NWD expressed some concern with the procedural schedule. In particular, the Division
9 and Intervenors were given until May 8, 2007 to file their rebuttal testimony. This was
10 more than four months after the case was filed. NWD was then given twenty-two days to
11 file its surrebuttal. This window would not allow NWD enough time to file data requests
12 and receive responses in the twenty one day period allowed under the Commission’s
13 Rules of Practice and Procedure. Thus, NWD asked the Division and Intervenors to
14 respond to any data requests issued as quickly as possible so that NWD could have its
15 surrebuttal submitted by May 30, 2007. On May 11, 2007, NWD issued its first set of
16 data requests to PWFD and on May 15, 2007 issued its second set of data requests to
17 PWFD. As of this date, NWD has received no responses. Thus, NWD reserves the right
18 to supplement its rebuttal testimony, and I may have to supplement this testimony once
19 these answers are received.

Table 1
pH at Lawton Valley Treatment Plant Effluent (TPE)
Based on Daily Grab Samples

Period	No. of Samples	Minimum	Maximum	Average ^[1]	Median ^[2]	Mode ^[3]	Standard Deviation ^[4]
All of 2003	365	5.9	9.3	8.1	8.2	8.4	0.5
All of 2004	335	6.0	9.3	8.1	8.2	8.3	0.6
All of 2005	365	6.5	9.7	8.2	8.3	8.6	0.6
December 2005	31	6.5	9.4	8.6	8.6	8.6	0.5
January 2006	31	7.7	9.3	8.5	8.6	8.7	0.3
February 2006	28	6.9	9.2	8.4	8.4	8.4	0.6
March 2006	31	7.4	9.3	8.4	8.4	8.3	0.4
April 2006	30	8.0	9.2	8.6	8.6	8.5	0.3
May 2006	31	7.4	9.1	8.4	8.5	8.6	0.4
June 2006	30	7.8	9.0	8.4	8.5	8.6	0.4
2006 - January through June 2006	181	6.9	9.3	8.5	8.5	8.6	0.4
July 2006	31	7.6	8.9	8.4	8.5	8.6	0.4
August 2006	31	7.6	9.1	8.3	8.3	8.1	0.4
September 2006	30	6.6	8.9	8.3	8.3	8.0	0.4
October 2006	31	8.0	9.4	8.5	8.4	8.4	0.4
November 2006	30	7.5	9.6	8.5	8.5	8.4	0.4
December 2006	31	7.4	9.5	8.7	8.7	8.8	0.5
2006 - June through December 2006	184	6.6	9.6	8.4	8.5	8.4	0.4
All of 2006	365	6.6	9.6	8.4	8.5	8.4	0.4
January 2007	31	8.0	10.0	8.7	8.7	8.5	0.4
February 2007	28	8.0	9.1	8.6	8.5	8.5	0.3
March 2007	31	8.1	9.6	8.7	8.7	8.9	0.4
April 2007	29	7.7	9.5	8.6	8.6	8.5	0.4
2007 - January through April 2007	119	7.7	10.0	8.7	8.5	8.5	0.4

^[1] Average:	The arithmetic mean; calculated by adding a group of numbers and then dividing by the count of those numbers.
^[2] Median:	A measure of central tendency. The middle number of a group of numbers; that is, half the numbers have values that are greater than the median, and half the numbers have values that are less than the median.
^[3] Mode:	The most frequently occurring number in a group of numbers.
^[4] Standard Deviation:	The standard deviation is a measure of how widely values are dispersed from the average value (the mean).

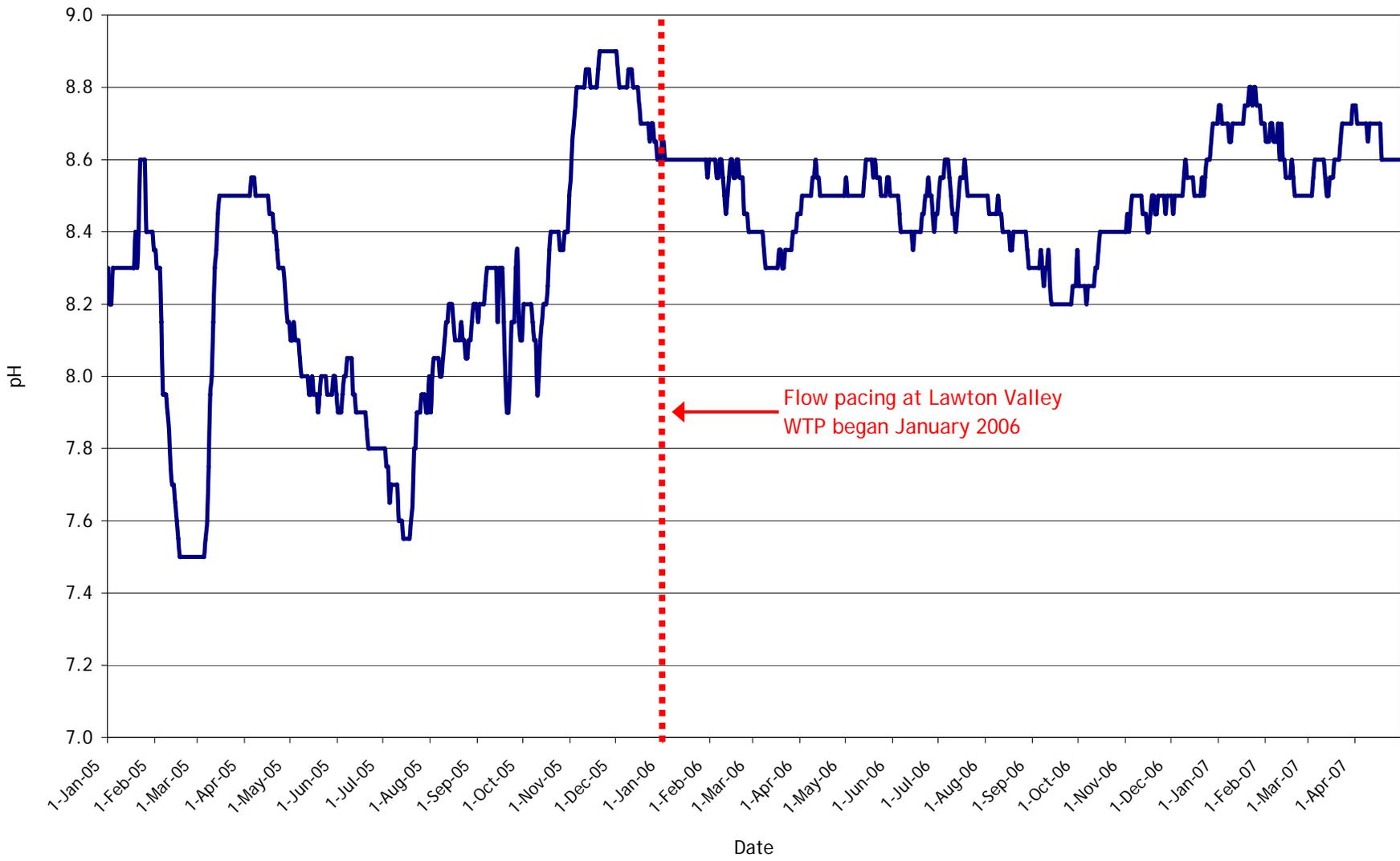


Figure 3-4B
Lawton Valley WTP
Finished Water pH History
30-Day Median (2005 - April 2007)

EXHIBIT 1

**TABLE 3
CITY OF NEWPORT
Adopted CIP Schedule
FY 2007 ~ 2011**

Project Title	Funding Source	Adopted 2006-07	Proposed 2007-08	Proposed 2008-09	Proposed 2009-10	Proposed 2010-11	Total 06/07-10/11
SCHOOL PROJECTS:							
Fire Code Upgrades	General	200,000	250,000	300,000			750,000
Building Renovations	General	400,000	500,000	600,000	700,000	800,000	3,000,000
Total School Projects		600,000	750,000	900,000	700,000	800,000	3,750,000
LIBRARY PROJECTS							
Library Entrance	General	50,000					50,000
Total Library Projects		50,000					50,000
GENERAL FUND:							
City Hall Furnishings	General	20,000	15,000	15,000	15,000	15,000	80,000
Building Improvements	General	363,217	327,306	325,000	225,000	225,000	1,465,523
Rhode Island Fire Code Updates	General	150,000	100,000				250,000
Building Improve - Parks & Rec.	General	115,000	200,000	50,000	50,000	50,000	465,000
Total Admin Services		648,217	642,306	390,000	290,000	290,000	2,260,523
Information Systems/Network	General	705,000	970,000	215,000	340,000	225,000	2,455,000
Total Finance Department		705,000	970,000	215,000	340,000	225,000	2,455,000
Central Newport Plan	General		100,000	100,000			200,000
North End Redevelopment	General	50,000	50,000	50,000	50,000	50,000	250,000
Broadway	General	100,000	50,000				150,000
Total Planning/Zoning/Dev & Inspect		150,000	200,000	150,000	50,000	50,000	600,000
Roadway/Sidewalk Improvements	Bonds	12,000,000					12,000,000
Seawall Repairs	General	300,000	1,500,000	1,500,000			3,300,000
Bridge Repairs	General	250,000					250,000
Roadway/Sidewalk Improvements	General	1,500,000	1,590,000	1,545,000	1,500,000	1,500,000	7,635,000
Total Public Works		14,050,000	3,090,000	3,045,000	1,500,000	1,500,000	23,185,000
Parks Improvement & Access.	General	157,000	245,000	190,000	200,000	175,000	967,000
Total Parks/Recreation		157,000	245,000	190,000	200,000	175,000	967,000
Equipment Replacement - Gen	Other/Gen	245,000	563,950	496,500	728,000	258,500	2,291,950
Total Equipment Replacement		245,000	563,950	496,500	728,000	258,500	2,291,950
Total School, Library & General Fund		16,605,217	8,481,256	5,386,500	3,808,000	3,298,500	35,559,473
WATER FUND:							
Meter Replacement Program	Water	50,000	50,000	50,000	50,000		200,000
Distribution Main Improvements	Water	1,500,000	3,500,000	3,500,000	3,500,000		12,000,000
Fire Hydrant Replacement	Water				16,000		16,000
Water Trench Restoration	Water	62,400	64,896	67,492	70,192		264,980
Leak Detection Program	Water	30,000					30,000
GIS & Hydraulic Modeling	Water	100,000					100,000
Remote Meter Reading Pilot	Water	20,000					20,000
Water Supply - Safe Yield Study	Water						-
Fire Code Upgrades (70 Halsey St)	Water						-
Finished Water Storage Tank Impn	Water	81,000	575,000				656,000
Lawton Valley - New Water Treatm	Water	250,000	75,000		100,000		425,000
Lawton Valley Residual Manage.(SRF)		572,954					572,954
Chloramine Conversion		202,044					202,044
Lawton Valley SCADA (SRF)		529,154					529,154
Gardiner Pond Intake Improvements		9,278	129,888				139,166
LVWater Treat. Plant Chemical Feed Imp.(SRF)		374,634					374,634
Lawton Valley Raw Water Main (SRF)		702,734					702,734

PROJECT DETAIL

PROJECT TITLE <i>Municipal Government Informations Systems</i>	DEPARTMENT OF DIVISION <i>Finance & Support Services</i>		LOCATION <i>Citywide</i>			
PROJECT DESCRIPTION <i>These funds will be utilized to continue upgrading the City's computer hardware and software; video over the network; the replacement of financial/payroll/license/probate & municipal court software; the evaluation and implementation of new software; the digitization of maps and documents; the implementation of computer disaster/recovery capability; video conferencing.</i>						
	Year 1	Year 2	Year 3	Year 4	Year 5	
ERP (Fin/Pay/Hr/License/Interface)	450,000	300,000	50,000			
Local Area Network Improvements	100,000	500,000				
Printers/Copiers	30,000	20,000	15,000	15,000		
Servers / PCs	75,000	50,000	50,000	50,000	50,000	
Security Devices		50,000	50,000			
Digitize Maps/Documents				100,000	100,000	
Disaster / Recovery	50,000	50,000		50,000		
Probate Court Req/RFP/Software			50,000	75,000		
Municipal Court Req/RFP/Software				50,000	75,000	
TOTALS	705,000	970,000	215,000	340,000	225,000	
GOALS & OBJECTIVES <i>Technological Improvements</i>						
STATUS/OTHER COMMENTS <i>Improved Financial/HR/Payroll functionality & remote access; Document preservation; New automated capabilities; Automate annual processes; IT Disaster/Recovery; Digitization of maps.</i>			OPERATING COSTS/SAVINGS <i>Additional Operating Costs ~ \$50,000 annually.</i>			
PLANNED FINANCING						
SOURCE OF FUNDS	2006/07	2007/08	2008/09	2009/10	2010/11	TOTAL
Transfer from General Fund	705,000	970,000	215,000	340,000	225,000	2,455,000
TOTAL COST	705,000	970,000	215,000	340,000	225,000	2,455,000
Total GF Transfer	705,000	970,000	215,000	340,000	225,000	2,455,000

EXHIBIT 2

City of Newport, Rhode Island
Corrective Action Plan
for
Business Advisory Letter
Year Ended June 30, 2004

Water Fund:

Recommendations:

- Hire full-time controller – the position of Deputy Director of Utilities – Finance has been created and was temporarily filled. That person decided to return to previous job. Second choice was not interested. Position will be readvertised.
- Maintain book's using accrual method of accounting – new billing system in place and full accrual accounting during year started on July 1, 2005. Note that conversion to full accrual always took place at year-end.
- The City Manager, consultants, legal counsel for City and outside legal counsel for water, and consulting outside legal counsel, Mayor, City Councillors, finance director and director of public works and utilities have had and continue to have discussions as to future of water fund. Monthly and quarterly reports are prepared and issued to interested parties including the PUC.

School Department:

Recommendations:

- City Council and School Committee need to continue to work together to develop an action plan to address cumulative deficits and ongoing issues related to school funding – Many actions taken including a full study of school operations and finances.
- School Business Manager and City Finance Director meet at least quarterly – this is done.

Disaster Recovery Plan:

Recommendations:

- City's MIS Department should develop written disaster recovery plan – various safeguards are in place. Development of written plan is on 10-year IT plan but is not scheduled until 2008. This will be accomplished earlier should competing priorities allow.

Payroll Processing System:

Recommendations:

- Evaluate various payroll processing systems currently available including the possible use of an outside payroll processing company – System Needs Assessment contract to be awarded in August. This is the first phase of evaluating and replacing payroll, human resources, financial, accounts payable and other programs. This will be at least a two year process.

City of Newport, Rhode Island
Corrective Action Plan
for
Business Advisory Letter
Year Ended June 30, 2005

Water Fund:

Recommendations:

- The City maintain the Water Fund's books and records using the accrual method of accounting. The Water Fund migrated to a new utility billing system effective 7/1/05. The new system allowed us to change to a full accrual method of accounting and to identify revenues by source. We are in the process of setting up a system whereby the accounts receivable detail is reconciled to the general ledger control account on a monthly basis. Two members of the Finance Department have "read-only" access to the billing system to allow additional monitoring of the utility billings and collections. Receivables are in the process of being reconciled by the Water Fund Deputy Director of Finance and will be reviewed by the City Director of Finance. The Finance Senior Accountant will then work with the Water Fund finance personnel to ensure a monthly reconciliation. The Finance Director will continue to review water fund accounts and activity for accuracy.
- The City Manager, Finance Director, Director of Public Works and Utilities, the City's Water Fund Financial Consultant and the Division of Public Utilities personnel all review cash flow on a monthly basis, as well as allowable expenses under any category. We anticipate that an approved rate increase in November 2005 of just over 20% will assist in cash flow problems. However, we do not think that the Water Fund's cash flow problems will be quickly eliminated.

Overspending of Awarded Bid Contracts:

Recommendations:

- We will stress to departments that compliance with Section 9-23 of the City Charter is required. We will continue to monitor bid contracts.

Water Pollution Control Fund:

Recommendations:

- The Utility and Finance Departments are working to develop written procedures to process billing and collections for major wastewater treatment customers. These customers are billed according to contract and the provisions do not easily lend themselves to automated billing. The City is evaluating accounts receivable system-wide and will be developing written procedures and policies as part of the new ERP system pre-implementation process.

EXHIBIT 3

UNAUDITED

City of Newport

Water Fund Statement of Revenues, Expenses and Changes in Fund Net Assets

July 1, 2006 - November 30, 2006

Operating Revenues:

User Fees	4,428,573.51
Other Revenues	47,226.07

Total Operating Revenues	<u>4,475,799.58</u>
--------------------------	---------------------

Operating Expenses:

Administration	812,487.10
Customer Services	229,810.76
Supply Island	134,435.18
Supply Mainland	68,463.23
Treatment-Newport	457,246.72
Treatment-Lawton Valley	407,909.93
Laboratory	78,513.31
Distribution	969,549.88
Fire Protection	484.30

Depreciation	310,923.41
--------------	------------

Total Expenses	<u>3,469,823.82</u>
----------------	---------------------

Revenue Surplus (Deficiency)	<u>1,005,975.76</u>
------------------------------	---------------------

Total Net Assets-11/1/06	35,143,853.89
--------------------------	---------------

Total Net Assets-11/30/06	<u>36,149,829.65</u>
---------------------------	----------------------

UNAUDITED
City of Newport
Water Fund Statement of Net Assets
July 1, 2006 - November 30, 2006

ASSETS

Current assets:	
Cash and cash equivalents - unrestricted	419,704.66
Cash and cash equivalents - restricted	1,040,781.07
Accounts receivable:	
User fees	2,216,607.60
Allowance for doubtful accounts	(225,000.00)
Other	0
Due from other funds	0
Inventories	345,008.36
Prepaid expenses	0
 Total current assets	 <u>3,797,101.69</u>
Noncurrent assets:	
Capital assets	66,520,088.03
Less accumulated depreciation	(26,877,127.36)
 Total noncurrent assets	 <u>39,642,960.67</u>
 TOTAL ASSETS	 <u>43,440,062.36</u>

LIABILITIES:

Current liabilities:	
Accounts payable	299,348.75
Accrued expenses	911,488.72
Due to other funds	595,079.12
Deferred revenues	
Current portion advances	
Current portion bonds payable	
 Total current liabilities	 <u>1,805,916.59</u>
Long-term liabilities:	
Avances from other funds	1,000,000.00
Bonds payable	4,484,316.11
 Total long-term liabilities	 <u>5,484,316.11</u>
 TOTAL LIABILITIES	 <u>7,290,232.70</u>
 NET ASSETS:	
Balance-11/1/06	35,143,853.89
Net income (loss) - 7/1-11/30/06	1,005,975.76
TOTAL NET ASSETS	<u>36,149,829.65</u>
 TOTAL LIABILITIES & NET ASSETS	 <u>43,440,062.35</u>

EXHIBIT 4

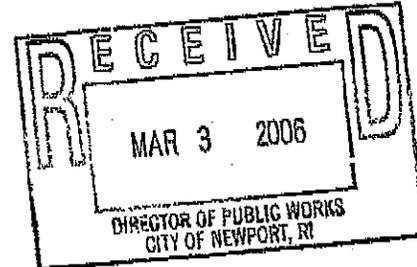
Portsmouth Water and Fire District

1944 East Main Road
P.O. Box 99
Portsmouth, Rhode Island 02871-0099

March 2, 2006

(401) 683-2090
Fax (401) 682-1550
E-mail: info@portsmouthwater.org

Julia Forgue, P.E.
Director of Public Works
70 Halsey Street
Newport, RI 02840



Re: Water Service by Stipulation Order

Dear Ms. Forgue:

I am writing to see if you can clear up a billing issue that we have not been able to resolve with your office staff.

It appears that Portsmouth Water is being charged interest when its payments for water service are not received or processed by the City by the due date stipulated on the invoice. Although the invoices are unclear and do not list specific interest charges or payment credits, it is clear from the invoice totals and from discussions with your staff that interest has been charged for the payments related to the January and February 2006 invoices.

I have reviewed the Tariffs for PUC Docket No. 3675 and prior dockets and find that interest is not chargeable until the account balance is "over 30 days overdue". I have included the Tariff Schedule G for your reference.

It is evident from the dates that our checks cleared the bank that the January and February payments were not "over 30 days overdue" based on the due date stipulated on the invoices. It appears that Newport water is charging interest when the balance is merely one day overdue, rather than "over 30 days overdue", as approved by the Commission.

It appears that we are dealing with a timing issue on the payment. It seems that it may occur for the months when the Portsmouth Water Administrative Board meets only once per month and/or for the months when Newport Water issues its invoices in the middle of the month rather than the beginning of the month. In any event, please be assured that Portsmouth Water is sensitive to Newport Water's cash flow needs and, to that end, the Newport Water invoices are reviewed and approved by the Administrative Board as soon as possible after they are received. The checks are then mailed within two days of the Board meeting. A review of our payment history indicates that our payments normally clear our bank one week before your invoice due date, which, by the way, is approximately five weeks before late charges should start to apply.

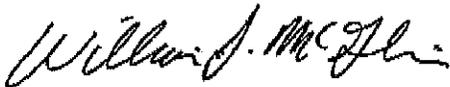
March 2, 2006
Julia Forgue, P.E.
Page 2

Regardless, we believe that the PUC Tariff is clear in its wording and intent. Accordingly, for the Portsmouth Water account we respectfully request that any interest charges resulting from January and February payments be credited out and that Newport Water not impose interest charges in the future unless the account balance is "over 30 days overdue", per the Tariff approved by the Commission.

Please respond in writing as to your concurrence or disapproval of our request within ten (10) days, so that we know your official position on this matter.

Thank you for your attention on this matter.

Sincerely,
PORTSMOUTH WATER AND FIRE DISTRICT



William J. McGlenn, P.E.
General Manager and Chief Engineer

WJM/jd
cc: Edward F. Lavallee

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*ADMITTED TO PRACTICE IN
RHODE ISLAND & MASSACHUSETTS

March 20, 2006

Gerald Petros, Esq.
Hinckley, Allen & Snyder
1500 Fleet Center
Providence RI 02903

Re: Portsmouth Water and Fire District Interest Charges

Dear Attorney Petros:

I am in receipt of correspondence from William J. McGlinn, P.E. to Julia Fogue, P.E. dated March 2, 2006 (a copy of which is enclosed). In his letter, Mr. McGlinn requests that Newport Water credit interest charges incurred by Portsmouth Water and Fire District. Mr. McGlinn also challenges the manner in which Newport Water charges interest on overdue bills.

Please be advised that after reviewing this matter, Newport Water must deny Portsmouth's request that the interest charges be reversed. Further, please note that it is Newport Water's position that the manner in which it charges interest conforms to both the letter and intent of its tariffs.

At the outset, it should be noted that according to Mr. McGlinn's correspondence, there should be no reason to even address this problem. As stated by Mr. McGlinn, Portsmouth's "payments normally clear [their] bank one week before [Newport's] invoice due date..." Thus, if the bills are paid in a timely manner, no interest will accrue on Portsmouth's bills.

However, a review of Portsmouth's account indicates that the interest charges are due to two invoices that were not paid in a timely fashion. These recent invoices, their due dates and their corresponding payment dates are set forth herein below:

Invoice Date	Due Date	Payment Date
December 15, 2005	January 15, 2005	January 23, 2006
January 10, 2005	February 10, 2006	February 13, 2006

Mr. McGlinn correctly states that interest is charged when payments for water service are not received by the due date stipulated on the invoice. In fact, Newport's failure to charge interest after the due date would render this deadline meaningless. Mr. McGlinn appears to read the tariff in a manner that would give Newport's customer's sixty days to pay invoices. Obviously, this is not consistent with the applicable tariff.

My review of Portsmouth's account indicates that the interest charges in dispute total approximately \$267. However, it is important that Newport remain consistent in its interest calculations for all customers. Furthermore, as referred to in Mr. McGlinn's letter, Newport has struggled with cash flow. Thus, it is important that all customers pay their bills by the due date.

If you would like to discuss this matter further, please do not hesitate to contact me.

Sincerely,

Joseph A. Keough, Jr.

JAK:prc

Enclosure

cc: Julia Forgue