

RHODE ISLAND PUBLIC UTILITIES COMMISSION

DOCKET NO. 3818

NEWPORT WATER DEPARTMENT

PREFILED SURREBUTTAL TESTIMONY OF

CHRISTOPHER P.N. WOODCOCK

ON BEHALF OF

PORTSMOUTH WATER & FIRE DISTRICT

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1 **Q: Are you the same Christopher Woodcock that prefiled testimony on behalf of**
2 **the Portsmouth Water and Fire District in this docket?**

3 A: Yes I am.

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5 **Q: Have you reviewed the testimony of the witnesses from the Division and the**
6 **Navy and surrebuttal testimony from Newport Water?**

7 A: Yes. I have no comments or disagreements on the testimony filed by Mr. Allen on
8 behalf of the Department of the Navy. I have several comments on Mr. Catlin's tes-
9 timony on behalf of the Division. I have more extensive comments on the rebuttal
10 testimony submitted by Ms. Forgue and Mr. Smith on behalf of the Newport Water
11 Department.

12

13 Division Testimony

14 **Q: What areas of Mr. Catlin's testimony would you like to comment on?**

15 A: In general I do not disagree with many of Mr. Catlin's proposed adjustments. There
16 are several areas I would like to discuss:

- 17 – The Division's proposed allowances on debt service,
- 18 – Newport Water's proposal to use funds in its Repayment to the City
19 Account, their proposal to continue funding \$250,000 beyond the rate
20 year, and how the current \$250,000 allowance should be treated af-
21 ter the rate year,
- 22 – City services,
- 23 – The proposed change in billing frequency, and
- 24 – Operating reserve.

25

26 **Q: Please discuss Mr. Catlin's proposed debt service allowance.**

27 A: Mr. Catlin has recognized that the rates in this docket will become effective after the
28 start of the rate year and that the debt service on the 2007 Series A bonds will in-
29 crease in FY 2009 – the year following Newport's proposed rate year. Accordingly
30 he has recommended funding the 2007 Series A bonds to include the payments in

1 March 2008 (part of the rate year) and September 2008 (FY 2009 or the year after
2 the rate year.

3
4 Newport Water selected the rate year in this docket and the timing of its filing and
5 the effective date of new rates were entirely up to Newport. As I have stated ear-
6 lier, I believe Newport should have filed this case much sooner and should try to
7 make filings where the revenues under new rates would more closely coincide with
8 the rate year they are responsible for selecting. I have certainly advocated debt
9 service allowances for utilities appearing before the Commission that consider
10 payments that will occur after the rate year. I have offered testimony that demon-
11 strates that the utility is required to make monthly deposits in advance of the actual
12 payments to bondholders, and PWFD even proffered a data request (PWFD 1-19)
13 that discussed this and asked if Newport had made any such allowance or request.
14 Newport's response to PWFD 1-19 was "The rate year request for debt service
15 should provide sufficient funds to cover all of Newport Water's debt service re-
16 quirements including the 2007 Series A Loan." Despite the suggestion in Ports-
17 mouth's data request to consider monthly deposits that must be made prior to the
18 actual payments to bond holders, Newport has remained silent on this. Newport
19 Water should be held responsible for what it asks for and the timing of the resulting
20 revenues.

21
22 That said, no one wishes Newport Water to have insufficient funds to meet its debt
23 obligations. In this case I believe that the allowance that I have suggested does
24 provide sufficient revenues. Newport's deposits to the Repayment to the City ac-
25 count are scheduled to end after FY 2008 – the rate year. Newport will continue to
26 collect revenues into FY 2009 that includes this \$250,000 allowance. This is more
27 than the \$211,000 allowance for the 2007 Series A debt that Mr. Catlin has recom-
28 mended. As I will discuss later, the determination of what happens to this "extra"
29 revenue after the rate year can and should be decided in this docket. There is no
30 need to defer that decision to a later docket. The Commission should only provide

1 the rate year allowance for debt on the 2007 Series A bonds that was requested by
2 Newport. Further, the Commission should order that after the rate year (FY 2008)
3 that some (\$211,000) if not all of the \$250,000 designated for the Repayment to the
4 City account be deposited into the debt service account. This will provide Newport
5 with sufficient funds to make its debt service payments on these bonds into FY
6 2009.

7
8 As further assurance that Newport will have sufficient funds to meet its debt service
9 payments, I believe the Commission should provide the operating reserve re-
10 quested by Newport. This will provide over \$400,000 of annual revenues that can
11 supplement any cash shortfalls and assure that Newport can meet its debt obliga-
12 tions. There is no need to provide the additional debt service allowance recom-
13 mended by Mr. Catlin.

14
15 Mr. Catlin is in agreement with my recommendation to eliminate funding for New-
16 port's so-called "2007 Series B bonds." Newport has not demonstrated that these
17 funds will be needed in the rate year. Even if Newport were to close on this loan,
18 the \$400,000 operating reserve allowance will provide sufficient funds to meet the
19 minimal interest payments in the initial years, and certainly for the rate year.

20
21 **Q: Do you agree with Mr. Catlin's recommendation that the disposition of the**
22 **\$250,000 annual deposit to the Repayment to the City account be addressed**
23 **in the next rate proceeding?**

24 A: No I do not. I don't see any reason why this matter can not be decided in this
25 docket. As all the parties have previously agreed, the payments should stop at the
26 conclusion of FY 2008 (the Rate Year), and the Commission should order that the
27 \$250,000 of revenues be deposited into the debt service account.

1 **Q: Please comment on Mr. Catlin's proposed adjustments to the City Services**
2 **expenses.**

3 A: While I agree with his adjustments to remove capital expenses from the allocations
4 of the operating costs of various departments and correct the computational errors,
5 I stand by my initial recommendations on the City Services. I will address these in
6 greater detail when I respond to Newport's testimony on this matter.

7
8 **Q: Mr. Catlin has recommended that Newport increase its billing frequency to**
9 **assist with cash flow. Do you agree with his position?**

10 A: In general I do agree. The infrequency of Newport's billing certainly contributes to
11 their cash flow issues and their ability to realize new revenues from rate increases
12 granted by the Commission. In my experience, quarterly billing is the norm for New
13 England water utilities with, many increasing the frequency of billing as meter read-
14 ing technology improves.

15
16 I am however, sympathetic to Newport's concerns regarding the cost of implemen-
17 tation along with their ability to make such a transition so quickly. This concern is
18 exacerbated by the continuing high frequency of estimated reads. Having said this,
19 I believe that Newport should transition to at least quarterly billing as soon as pos-
20 sible, and perhaps go to bimonthly billing as suggested by Mr. Catlin. Monthly bill-
21 ing is the norm for most other utilities as well as many water utilities outside of New
22 England. The technology is such that there is no reason to bill customers every
23 four months. I recognize that Newport does not have all its new meters installed
24 and I had suggested in my direct testimony that Newport bond its meter replace-
25 ment program to complete it as soon as possible rather than stretching it out over
26 several years as outlined in their capital plan. I am not sure that there is a good ar-
27 gument against this acceleration which would certainly assist with the accomplish-
28 ment of more frequent billing. Despite the very high incidence of estimated bills, I
29 believe that Newport should begin bi-monthly (or quarterly) billing as soon as possi-
30 ble, and estimate every other read if necessary. While I do not know about New-

1 port's billing system, most billing software has the ability to estimate individual bills
2 based on customer's usage history. If Newport can reduce its estimates of actual
3 reads, this estimation of every other bill as a short term solution should not be a
4 problem, and certainly should have benefits.

5
6 **Q: Mr. Catlin has suggested that the increased revenues from more frequent
7 readings should provide sufficient new cash to eliminate the need for the
8 higher operating reserve that you and Newport propose. Do you agree?**

9 **A:** I agree that the increased billing should indeed provide additional cash flow and al-
10 low Newport to recognize revenues from increased rates faster. I do not agree that
11 it should be a substitute for a more realistic operating reserve however.

12
13 As the Commission is aware, the increased revenues from more frequent billings
14 was an issue in Docket 3626 (Woonsocket Water). Because Newport remains in a
15 negative cash position, I have no problem with increasing the revenues due to more
16 frequent billing to help them out of this negative position. This is only a short term
17 solution however, and I do not believe it is an appropriate substitute for a realistic
18 operating reserve allowance. Newport must be given a realistic opportunity to re-
19 cover the allowed revenues in the face of dropping sales and with the recovery of
20 unexpected future expenses. I believe that the operating reserve allowance with
21 the constraints outlined in my prefiled direct testimony will provide that.

22
23 As a footnote to the operating reserve discussion, I would note that the General As-
24 sembly's proposed Water Supply Development, Planning and Protection Act ad-
25 dresses the operating reserve issue for regulated water utilities. While passage is
26 certainly not assured, there is clear interest in this matter at the legislative level.

1 Newport Water Testimony – Ms. Forgue

2 **Q: What areas of Ms. Forgue’s rebuttal testimony would you like to address?**

3 A: First, in several instances, Newport’s rebuttal testimony suggests that Newport
4 makes decisions based upon criticisms that Newport thinks it might receive from
5 Portsmouth. For instance, Ms. Forgue suggests that one reason Newport should
6 not move to more frequent billing based on estimates is because “it is apparent that
7 PWFD would have concerns.” (Forgue rebuttal, page 8). This approach is inap-
8 propriate. Newport should not make decisions based on what it thinks Portsmouth
9 would say or do. Even though there have been communication issues between the
10 parties, this should not preclude Ms. Forgue from picking up the phone and calling
11 Mr. McGlinn to get his thoughts on various matters. At the very least, it would
12 eliminate incorrect assumptions about how the Portsmouth Water and Fire District
13 feels about potential solutions or issues that Newport is considering.

14

15 The concern about estimated bills raised in my prefiled testimony was related to in-
16 accurate and inconsistent data from Newport, management oversight, the accuracy
17 of the test year sales that revenues are to be based on, and most importantly, my
18 recommendation that the proposed radio read meter program be accelerated and
19 funded with a bond issue. As stated above, PWFD would not object if Newport Wa-
20 ter estimated every other bill as a short term solution to help reduce its cash flow
21 problem while an accelerated radio read meter system is installed.

22

23 Ms. Forgue’s rebuttal testimony grouped her issues with my positions as follows:

- 24 – City Management
- 25 – Contributions for City Services – Finance
- 26 – Financial Reporting
- 27 – Capital Improvement Program
- 28 – Estimated Water Sales
- 29 – Interest Charges (Tariff Interpretation)

30 I’ll address these in the order Ms. Forgue has presented.

1

2 **Q: What is the major difference on “City Management”?**

3 A: First, I have not questioned the “City Management” in Newport; I have raised issues
4 with the management of the Water Division and with the apparent lack of financial
5 support provided by the City to the Water Division. To characterize my testimony
6 as related to “City Management” is incorrect.

7

8 As Ms. Forgue has indicated in her rebuttal testimony, I am concerned with the ap-
9 parent lack of support or indifference from the City of Newport to address Newport
10 Water’s cash shortages. In large part this concern is based on Newport’s re-
11 sponses to two data requests that were clearly trying to determine what had been
12 said or written regarding the revenue issues among various City agencies. My tes-
13 timony was based on Newport’s responses that there was nothing to provide. In
14 light of the lack of any information from Newport, I was surprised to see Ms. Forgue
15 characterize my testimony on this as having “no factual support” (page 10), “simply
16 not true” (page 12), that the revenue issues were “a regular part of discussions with
17 Water Fund personnel” (page 12), “baseless assertions” (page 12), and “reckless
18 and unfounded” (page 13). To this date, I have yet to see anything from Newport
19 that supports Ms. Forgue’s characterizations of my testimony.

20

21 **Q: Will you address Ms. Forgue’s testimony on pages 13-14 regarding your sug-
22 gession that Newport should have filed for increased rates sooner?**

23 A: I’d be glad to. First, the fact that Newport has filed a number of cases before the
24 Commission between 2003 and the present is irrelevant. My testimony was about
25 the delay in filing *this* case.

26

27 Next, Ms. Forgue takes issue with my claim that a timelier filing in this docket would
28 provide revenues under new rates for the higher summer uses. Ms. Forgue dis-
29 misses this by noting that the rates from Docket 3675 were in effect for the high
30 summer uses in 2006. My testimony clearly was suggesting that a timelier filing in

1 this docket would have resulted in higher revenues during the summer of 2007 in-
2 stead of rates becoming effective this fall after use drops down again. She then
3 goes on to assume (1) that I was suggesting they file a new case “the day after
4 Docket 3675 was decided”; (2) that the Commission would not have allowed an in-
5 crease; and (3) that all the other parties would have objected. Clearly no one sug-
6 gested that Newport file a new case “the day after Docket 3675 was decided.” To
7 assume what other parties would think based on such hyperbole is not helpful.

8
9 In addition, Ms. Forgue asserts that they “would have had to prepare and file a new
10 case November 11, 2006, the day after the Commission’s first open meeting ap-
11 proving the Docket 3675 Settlement Agreement.” This is extremely misleading.
12 The open meetings were November 10 and 30, 2005 (not 2006). The Order was
13 issued April 26, 2006. Rates were approved “for consumption on and after Novem-
14 ber 11, 2005.” Newport had a year to put the filing together to have rates in place
15 for the summer of 2007 water use – not a day as Ms. Forgue claims.

16
17 **Q: Ms. Forgue and Mr. Smith have provided further testimony as to why they**
18 **waited to file this case. Has any of that changed your position that Newport**
19 **waited too long to file this case?**

20 **A:** No it has not. The suggestion that “actual” means audit could have easily been re-
21 solved with a call to the Commission or even to Newport’s own counsel. The
22 Commission made it clear to Newport that it should contact them before it got into
23 deeper trouble. If Newport had done so it probably would have been advised that it
24 did not need to wait for final audit figures. Ms. Forgue’s protestations about Ports-
25 mouth’s desire for accurate information are equally hollow. “Accurate” does not
26 mean the data has to be audited. My testimony that Newport could have and
27 should have filed this case much sooner stands. Newport has provided no mean-
28 ingful rebuttal to this position. Newport did not have to wait for audit results and the
29 Commission should not permit Newport to hide behind this excuse.

1 **Q: Ms. Forgue has suggested that the City did indeed help out the water fund.**
2 **Do you agree with these claims?**

3 A: No I do not. The "prepayment" for public fire service was not in conformance with
4 Newport's tariffed rates. If this "prepayment" can be characterized as a sign of
5 support it was too little and too late. Newport Water would be better off if the City
6 had raised concerns about Newport Water's unpaid bills, asked some questions as
7 to what was being done, and authorized a rate filing before the new City Council
8 took its seats.

9

10 Ms. Forgue also suggests that the City assisted by making the payroll payments
11 when the Water Department had insufficient funds. The City was doing this long
12 before this case was filed and the City should have supported a rate filing much
13 sooner rather than simply covering the Water Department's obligations. I under-
14 stand that Newport Water does not consider this a "loan," but if someone were to
15 pay bills I could not afford to pay, I would certainly consider it a loan. If it looks,
16 walks, and quacks like a duck, it probably is a duck.

17

18 As far as Ms. Forgue's assertion that the City was willing to forego its June 30,
19 2007 payment, it must be remembered that in place of this, Newport Water is ask-
20 ing the Commission to allow the City to be paid some \$798,395 to cover its "ac-
21 counts payable." Accordingly, this can hardly be considered a helpful or magnani-
22 mous gesture.

23

24 **Q: Ms. Forgue also disagrees with your position on the allocation of the Finance**
25 **Department costs to Newport Water. Has her testimony changed your posi-**
26 **tion?**

27 A: No it has not. First she cites the settlement in the prior docket that all parties, in-
28 cluding Newport, agreed were not binding in future cases. She suggests that be-
29 cause Newport's proposed allocation of the Finance Director's costs are the same

1 as those used in Docket 3675 that it should be allowed again. The settlement
2 agreement specifically excluded this logic.

3
4 Next Ms. Forgue uses the excuse that the Deputy Utilities Director of Finance is no
5 longer employed by Newport Water. However, she also states (page 20) that the
6 position is again posted and interviews for a replacement have been scheduled.
7 This position will likely be filled in the rate year, making this claim by Ms. Forgue
8 somewhat moot.

9
10 **Q: Ms. Forgue says your testimony “seems to suggest that Newport Water has**
11 **not complied with the reporting requirements” established by the Commis-**
12 **sion and that you have submitted “partial and untrue information” (page 21)**
13 **regarding the financial reporting required by Newport. Will you comment on**
14 **that?**

15 A: This issue goes to the accrual reporting that Newport agreed to provide in the last
16 Docket. I had simply repeated transcribed testimony that indicated that Newport
17 Water would be able to provide this. Nowhere have I said that Newport has not
18 complied with its reporting requirements. Further, she has not provided any infor-
19 mation in her testimony that what I have stated was “untrue.” Ms. Forgue is cer-
20 tainly correct that the parties agreed to let the Commission decide the parameters
21 of the reporting, but this was clearly as to form, and not the substance. At no time
22 did Portsmouth suggest that cash based P&L reports were acceptable during the
23 “exchange” Ms. Forgue has referred to. This would have been contrary to the posi-
24 tion that Portsmouth quite clearly espoused during that docket. In fact, the settle-
25 ment agreement clearly stated that “Newport has offered to provide monthly trial
26 balance and a monthly statement of operations on an accrual basis.” (Item 19B)
27 Ms. Forgue stated in response to Ms. Wilson-Frias that Newport Water “would be
28 able to provide the stipulated accrual based accounting reports by May of 2006.”
29 My understanding is that the monthly operating reports of revenues and expenses
30 submitted by Newport are NOT on an accrual basis, but are still on a cash basis.

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Q: Ms. Forgue has disagreed with Mr. Catlin’s recommendation to exclude capital costs from the allocations of Data Processing and MIS. Didn’t you also express a similar concern to Mr. Catlin’s?

A: I did. I have suggested that all capital items be eliminated from the departmental budgets for the purpose of allocating costs to the Water Department. There is very little, if any, correlation between annual capital expenses and the services provided to the Water Department. A review of Exhibit 1 to Ms. Forgue’s rebuttal testimony (Newport’s 2007 – 2011 CIP Schedule) shows enormous variability from year to year. For 2006-07 the total is more than \$16.5 million while 2010-11 indicates only \$3.3 million – 1/5th as much! The 2006-07 year used as a basis by Newport in its filing is the highest year by far. This is not at all representative of the rate year which is less than half as much. If the capital costs are included in the allocations as proposed by Newport, the allocations of City Service costs will have extreme variations depending on the capital plan for the year selected. This makes no sense.

Q: The next area that Ms. Forgue has addressed is your contention that Newport’s capital improvement plan is slipping. Has her rebuttal testimony on that matter changed your position?

A: No it has not. Ms. Forgue certainly does face challenges related to Newport Water’s Capital Program and she has outlined a number of projects that have been completed in recent years. Despite the employee problems she has outlined, Newport has started or completed many projects. However, Ms. Forgue has missed the point of my testimony on this matter. My point was that Newport has not met the capital expenditure goals it has historically presented to the Commission. This was shown in regards to the \$3 million bond issue attached to my prefiled direct testimony and in Portsmouth’s response to NWD 1-1 (as supplemented). The purpose of raising this issue was to demonstrate that Newport’s actual capital expenditures have historically lagged as compared to what they have presented to the Commission. Accordingly, the rate funded revenue requirement of \$1.715 million that they

1 have requested for the rate year should be reduced because many of those ex-
2 penses would likely fall into the later years. Despite the successes that Ms. Forgue
3 has outlined, Newport has clearly demonstrated significant slippage in what it says
4 it will spend and what it actually spends. I believe that the \$1 million annual allow-
5 ance for rate funded capital improvements (along with bonding several other items)
6 that I have proposed has been shown to be reasonable. Nothing in Ms. Forgue's
7 testimony suggests that Newport will need more than this in the next few years.

8
9 **Q: Ms. Forgue has indicated that the number of estimated bills has averaged**
10 **13.9% since December 2006. Does this resolve the concern you raised?**

11 A: The point of my prefiled testimony on this matter related to several management
12 and operational issues, and on this matter, was specifically concerned with the use
13 of test year sales that contained such a high percentage of estimated readings. If
14 Newport's test year sales are significantly different from actual sales due to these
15 estimates, Newport could face continued revenue shortfalls with a greater percent-
16 age of actual meter readings.

17
18 My concern about the large percentage of estimated bills was also related to my
19 suggestion that the meter replacement not be funded from current rate revenue out
20 to the year 2011, but instead be bonded and completed faster. This recommenda-
21 tion would hopefully reduce the number of estimated reads, provide a more accu-
22 rate history of metered sales that rates can be based on, and allow for the more
23 frequent billing that Mr. Catlin has suggested.

24
25 While it appears there may have been a recent reduction in the number of esti-
26 mated bills, even 13.9% is a very high percentage of estimated bills. I provided tes-
27 timony that indicated similar Rhode Island water utilities, that bill more frequently
28 than Newport, have an estimated bill rate that was less than 2%.

1 **Q: What do you suggest be done about the relatively high number of estimated**
2 **bills and unaccounted-for water?**

3 A: For Newport Water, rather than dismiss or minimize the concerns that have been
4 raised regarding the estimated bills and high unaccounted for water, an acknowl-
5 edgement of the problem would be a good first step. Next, a plan to remedy the
6 concerns would be helpful. Reprogramming the software will give us all a better
7 feel for the percentage of estimated bills, but it won't do anything to reduce that
8 number. I believe the suggestion that the installation of the remote read metering
9 system be completed faster would be a good first step; however, neither Ms.
10 Forgue nor Mr. Smith addressed this issue in their rebuttal testimony.

11

12 **Q: The last issue you noted was the Interest Charges/Tariff Interpretation. Can**
13 **you discuss this?**

14 A: In her rebuttal testimony Ms. Forgue has attached the correspondence on this mat-
15 ter and stated that "Portsmouth appears to be advocating for a sixty day window to
16 pay its water bill." Ms. Forgue's assumption regarding Portsmouth's position is
17 again incorrect. Portsmouth's concern is that Newport is NOT following its ap-
18 proved tariff in regards to the application of the interest charge – I specifically char-
19 acterized this as matter of tariff interpretation in my testimony. As I stated on page
20 34 of my testimony we are simply looking for a clear interpretation of the tariff lan-
21 guage and a uniform application by Newport.

22

23 Newport Water Testimony – Mr. Smith

24 **Q: What areas of Mr. Smith's testimony would you like to address?**

25 A: Mr. Smith has first provided testimony on matters covered by more than one wit-
26 ness and has then addressed specific portions of my testimony:

- 27 – Newport Water Preliminary Capital Plan
- 28 – Timing of the Rate Filing
- 29 – Repayment to the City, and
- 30 – Adjustments to Miscellaneous Revenues.

1 I will first address areas where there were more than one witness providing opin-
2 ions and then discuss the areas where he specifically addressed my testimony.

3
4 **Q: Mr. Smith has included a number of comments regarding the allocation of**
5 **City Service expenses. The first has to do with your recommendation to ex-**
6 **clude capital and debt service costs when determining the allocation factors**
7 **for legal and administrative services. Mr. Smith suggests that the issuance of**
8 **debt by Newport Water “does require additional effort on the part of other City**
9 **Departments”; will you please comment?**

10 A: In support of this rather broad claim, Mr. Smith suggests the City Council has an
11 “additional effort” to authorize SRF loans, “the City Clerk must prepare and maintain
12 the documentation for City Council authorization”, and the Finance Department
13 “must work with the City’s financial advisors, bond counsel, and the RICWFA staff.”
14 Based on this, Mr. Smith concludes that the inclusion of the water capital and debt
15 service costs is appropriate to reflect in the allocations.

16
17 First, in listing the departments above there is no mention of the City Manager, the
18 City Solicitor, the Assessor, the Collector, Administrative Services, Facilities Main-
19 tenance, Planning, Human Resources, Accounting, Purchasing, MIS or Data Proc-
20 essing. However, with the exception of Assessment, Collections and Administrative
21 Services, Mr. Smith suggests that these entire departments’ allocation should re-
22 flect the water department capital and debt service costs. No reason is given as to
23 why the amount of debt issued by Newport Water has any impact on the services
24 provided to the Water Department by City Manager, the City Solicitor, Facilities
25 Maintenance, Planning, Human Resources, Accounting, Purchasing, MIS or Data
26 Processing.

27
28 Second, Newport Water does not issue debt every year. At this point there are only
29 two bond issues – the 2005 bonds and the 2007 Series A bonds. To base an allo-
30 cation on something that happens rather rarely is not reasonable.

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Lastly, I believe the Commission is fully aware of the role that Ms. Gurghigian, First Southwest, the RICWFA Staff, and bond counsel, not to mention Mr. Smith and hopefully Newport Water’s Deputy Director of Finance play in the preparation for and issuance of Water Department debt. If Mr. Smith can produce City Council minutes and correspondence that indicate anything but a perfunctory discussion and vote to authorize on any of the past Water Department bond issues, I would reconsider my position as it relates to the City Council allocation. By the same token, if Mr. Smith can produce anything that demonstrates the City Clerk’s office does much more than forward documents to the City Council and/or file documents related to the past bond issues I would be glad to examine this “additional effort.” Lastly, I suspect that Ms. Sitrin’s office does indeed provide some service related to Newport Water’s bond issuances. As I have suggested however, Newport Water has been granted funds for a Deputy Director of Finance that we are told can perform many of the duties that Ms. Sitrin has taken care of in the past. Because the position is vacant does not mean there have not been rate payer funds collected for that position, nor does it mean that the allocation of the Finance Department costs should be skewed due to what is (hopefully) a temporary vacancy. I have recommended that nearly 4% of the Finance Administration office be allocated to the Water Fund as support for the Deputy Director of Finance. I believe this is sufficient to reflect the support of Ms. Sitrin’s office to a department with a Deputy Director of Finance position with an annual base salary of \$77,163 (RFC Rebuttal Sch. C).

Q: Mr. Smith says you “arbitrarily excluded \$27,900 from the Collections Department budget in your proposed allocations to the Water Department”; was this an arbitrary number? (see page 12, line 7 and line 13)

A: No it was not arbitrary. As noted on Schedule 4 of Exhibit C to my prefiled testimony, this exclusion was for “office supplies and copying & binding costs.” On Page 17 of my prefiled direct testimony I stated: “From Newport’s testimony and data responses it appears that outside vendors print and are responsible for bill-

1 ings. Accordingly, I have proposing removing \$25,000 of copying and binding costs
2 and \$2,900 of office supplies costs from the Collector's Office Budget. According to
3 NWD's response to Comm 1-24, postage on billings is paid through the Water De-
4 partment budget. I do not see any line item for postage in the Collection's budget; I
5 have assumed that it is probably within the copying/binding item or supplies."

6
7 **Q: Mr. Smith points out that your direct testimony (page 17) indicates that you**
8 **believe only 5% of the Administrative Services costs should be assigned to**
9 **the Water Department but you show 11.1% on your schedule 4. Which is cor-**
10 **rect?**

11 A: Mr. Smith is correct that I did make a mistake on my Schedule 4, that the allocation
12 of the Administrative Services should only be 5%. As I have indicated a number of
13 times, I believe it was quite clear that the City Services allocations used in the last
14 docket were not binding on any of the parties and should not form the rationale or
15 basis for this case. However, in Docket 3675, during the course of discovery it was
16 determined that only 25% of a person's time from Administrative Services was as-
17 sociated with the Water Department and that only 5% of the Administrative Ser-
18 vices costs should be assigned to the Water Department. In continuing this rec-
19 ommendation in my prefiled direct and surrebuttal testimony I am NOT relying on
20 the result of the settlement agreement in Docket 3675, rather I am relying on the
21 evidence in that docket that (as far as I can tell) is still applicable today and should
22 continue to form the basis in this docket for the allocation of Administrative Ser-
23 vices.

24
25 **Q: On page 13 of his rebuttal testimony, Mr. Smith states that some of your rec-**
26 **ommendations "are unsubstantiated or based on incorrect information." Will**
27 **you comment on this?**

28 A: This is not dissimilar to Ms. Forgue's statements that I addressed earlier. To be ef-
29 fective, the regulatory process must have full and frank responses from the parties.
30 Portsmouth Water submitted data requests to Newport Water that were clearly in-

1 tended to determine what, if any, correspondence or communication had taken
2 place between various City Departments and to or from the City Council regarding a
3 rate filing and/or what was being done about Newport Water's continuing negative
4 cash position. In two separate answers Newport Water asserted that there were no
5 communications or documents. Based on Newport Water's responses to these
6 questions I concluded that there were no discussions and certainly no documenta-
7 tion of any such discussions among the parties within the City. Based on the re-
8 sponses, I believe my conclusion was a fair and reasonable one.

9
10 Mr. Smith has suggested that my testimony on this matter is based on incorrect in-
11 formation. The information I based my testimony on was provided by Newport Wa-
12 ter. I am certainly aware that the City's Finance Director, Ms. Sitrin, receives a copy
13 of Mr. Keough's monthly and quarterly reports to the Commission. I do not see the
14 City Manager, City Clerk, or any member of the City Council on the distribution list.
15 Based on Newport Water's responses to Portsmouth's data requests, I think my
16 conclusion that they are not transmitted to the Manager, the City Clerk, or the City
17 Council is not unreasonable. Aside from the Executive Session with the City Coun-
18 cil around the time of the filing, Newport provided no evidence of ANY correspon-
19 dence between Ms. Sitrin's office and "any person or agency in the City."

20
21 **Q: Mr. Smith has criticized you for providing four pages of testimony on why**
22 **there should be little or no allowance for the 2007 Series B bonds. Will you**
23 **comment on this?**

24 A: On page 15, Mr. Smith concedes that the amount requested for the proposed 2007
25 Series B SRF is overstated and that he agreed to correct it in later submissions.
26 This is not apparent from Mr. Smith's response to PWFD 1-18 where he says he
27 will correct the amount for the *Series A* (not the series B) loan, and he later states
28 that once the term and structure of the series B loan has been determined he will
29 modify his calculation of debt based on that determination.

1 Despite this claim to adjust his model to the actual debt service, Mr. Smith has NOT
2 done this. The actual debt service for the 2007 Series A bonds are as shown on
3 Schedule 2 attached to my prefiled testimony. Mr. Smith's RFC Schedule 2 Rebut-
4 tal shows a claim of \$1,221,000 for the FY 2008 Rate Year debt service. An ex-
5 amination of the spreadsheet provided by Mr. Smith clearly shows that this is NOT
6 the actual rate year debt service for the 2005, 2007 Series A, and 2007 Series B
7 bonds. Mr. Smith has chided me for providing four pages of testimony on this, says
8 he will correct his filing to the actual debt service in a data response and in his re-
9 buttal testimony, and then he fails to make those corrections. Perhaps most dis-
10 turbing, Mr. Smith concludes by accusing me of making "inaccurate assumptions
11 and misleading statements."
12

13 **Q: To back his claim, Mr. Smith says you have "insinuated that Newport Water is
14 not proceeding an appropriate manner" to secure the 2007 Series B loan.**

15 **How do you respond to this?**

16 A: My testimony was based on discussions with RICWFA and the fact that Newport
17 Water claimed in a data response (PWFD 1-18) that it had not submitted a draw-
18 down schedule to RICWFA. I suggested that the absence of the drawdown sched-
19 ule suggested that the application had not been submitted. Apparently, Newport
20 did submit such a drawdown schedule, and as of the time of preparing this testi-
21 mony, I understand that Newport will correct or supplement its earlier response. As
22 I indicated earlier, the regulatory process is made more difficult if data responses
23 are incomplete or inaccurate.
24

25 **Q: Does Mr. Smith's testimony provide you with the assurances that funds re-
26 stricted for capital or debt will only be used for those purposes?**

27 A: No it does not. The purpose of my testimony was to raise the concern that should
28 the Commission allow funding for more than the actual debt service, based on his-
29 toric precedence, funds may be used for other purposes. I noted that my "review of
30 Newport dockets over the past decade (showed) that bond issues were promised

1 but never materialized.” I went on to say that there should be assurances that
2 money set aside for debt should be used for debt. Clearly Newport used funds in
3 its debt service account to fund the repayment to the City account. I was only call-
4 ing for assurances that debt service money not be transferred to some other pur-
5 pose in the future. This is not inaccurate as Mr. Smith suggests. The docket files
6 clearly document these past transfers. Newport’s protestations (rather than accep-
7 tance of this suggestion) make me question why Newport is unwilling to provide the
8 requested assurance.

9
10 **Q: Turning to Mr. Smith’s four specific concerns with your testimony, will you**
11 **please respond to issue of the capital plan?**

12 A: Mr. Smith has raised two somewhat inter-related issues here: how much should be
13 funded with rate revenues and how much should be funded with debt.

14
15 **Q: Are you recommending a reduction in Newport’s capital plan?**

16 A: No I am not. I do recognize that the Newport Water’s capital expenditures have
17 historically fallen behind the plan they have presented. That is not to say that pro-
18 jects are simply dropped or ignored, however they do not historically get completed
19 as quickly as Newport initially proposes. I think this “slippage” needs to be recog-
20 nized when looking at realistic funding levels.

21
22 **Q: Why is this necessary? If the Commission provides the funds in one year,**
23 **won’t they then be available in later years if projects slip?**

24 A: There are two concerns with this. The first has to do with the possibility that the
25 money will be transferred to another account or used for different purposes -- as we
26 have seen in the past. The second, and perhaps more important issue, has to do
27 with Newport’s estimated rate funded capital projects. As shown in my prefiled di-
28 rect testimony, Newport’s proposed rate funded capital costs drop considerably af-
29 ter the rate year.

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	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
NWD Proposed	\$1,715,056	\$1,227,460	\$864,886

If the full \$1,715,000 is allowed for the rate year, there will be some \$500,000 of excess in FY 2009 and nearly \$850,000 in FY 2010. While Newport may have projects that could use these extra funds, we do not know what they are nor when they will be started or if they may be better funded from a bond issue.

Despite Mr. Smith’s claim that my concern about the slippage is “unsubstantiated”, PWFd has provided voluminous evidence that substantiates this past slippage. My prefiled testimony presented a funding scenario with \$1.465 million of capital needs in the rate year and a little over \$500,000 in FY 2009. Given the abundant evidence that Newport will not complete \$1.465 million in FY 2008, I think the \$1 million per year allowance will be more than sufficient, particularly considering the operating reserve allowance we have recommended.

Q: Mr. Smith says that you are unaware of the careful planning that designated which projects are to be rate funded vs. debt funded. Will you comment on that?

A: Mr. Smith claims that the planning took into account a number of factors. Other than Mr. Smith’s declaration, Newport has provided no rationale or evidence of this “careful planning” .

There are only two projects that I have suggested be moved from rate funding to debt funding:

- The new Lawton Valley Treatment Plant project will cost nearly \$1 million over the next four years. This is presumably a major undertaking that will have lasting benefit. A project of this type and life seems to be the kind of project that should be debt funded so they costs are more equally spread

1 over its useful life in a bond issue. The Lawton Valley Sedimentation basins
2 are only \$300,000 in total, yet they are proposed to be debt funded. The
3 Lawton Valley chloramines conversion is only \$360,000, yet it is proposed to
4 be bond funded. Similarly, the Station 1 pH adjustment is \$224,000 and
5 proposed for bond funding. Based on this, the “careful planning” that takes
6 into account the type of project is not evident.

- 7 – The second project that I have suggested be moved from rate funding to
8 debt funding is the remote radio read meter installation project. For reasons
9 that I have discussed, I believe this project should be accelerated and paid
10 through a bond issue.

11 Newport has provided no testimony as to why these projects should not be bond
12 funded rather than rate funded.

13
14 **Q: Mr. Smith’s second specific concern has to do with the timing of Newport’s**
15 **filing in this docket. Will you please address that?**

16 A: Mr. Smith does not agree with my assertion that Newport could have reduced its
17 current financial difficulties if it had filed this case sooner. I do not understand his
18 position. Clearly, if Newport had filed this case in the early fall of 2006 it would
19 have had new rates in effect sooner, which would have provided additional reve-
20 nues to offset the deficits that are continuing to grow. Further, even if Newport filed
21 its case in September or October 2006, just three or four months earlier, the in-
22 crease would have been effective on the higher water use this (2007) summer
23 rather than after the peak summer demands drop down in the fall.

24
25 **Q: Will you comment on the graph comparing FY 2003 and FY 2006 consumption**
26 **on page 23 of Mr. Smith’s rebuttal testimony?**

27 A: As Mr. Smith indicates, the graph does appear to be based on the same data that
28 was presented on the graph on page 26 of my direct testimony. I find it curious,
29 however, that Mr. Smith excluded FY 2004 and FY 2005 and chose to look at fiscal
30 years rather than a calendar year (as I did) -- where the drop in summer use is

1 more apparent. The purpose of the graph I presented was to show that based on
2 production records, it was clear that use in the calendar 2006 months was generally
3 below every comparable month in the prior three years. This should have been an
4 indication that sales were below historic amounts and probably below the amounts
5 used by the Commission to set the rates in Docket 3675.

6
7 I can not explain why Mr. Smith chose to ignore FY 2004 and FY 2005, other than
8 such a comparison would have reinforced the point I had made – Newport had tools
9 it could have used to see the mounting deficit and should have done something
10 sooner.

11
12 **Q: Mr. Smith says that Commission rule 2.6 states that a test year must consti-**
13 **tute “a historic year of actual data” and that this suggested to him that he had**
14 **to use data that had been audited or confirmed in some other manner. Do**
15 **you agree with this interpretation?**

16 A: No I do not. I think the fallacy of Mr. Smith’s claim can be seen in the very next rule
17 (2.7) where there is no requirement for audited values, simply an attestation.

18
19 **Q: Mr. Smith’s third concern with your testimony has to do the request to repay**
20 **the City of Newport. Will you address this please?**

21 A: Again, Newport has chosen to characterize my testimony in negative terms rather
22 than addressing the issue I have raised. Semantics have once again been used to
23 confuse the issue. Based on Newport’s testimony and its responses to data re-
24 quests, the bottom line is that Newport Water is looking to transfer or pay the City of
25 Newport \$3,298,395 rather than the \$2,500,000 originally authorized. It matters lit-
26 tle if this is called a loan or the pay-off of an “accounts payable” or “reimbursement
27 to the City.” In the end, Newport Water is seeking to use rate payer funds to in-
28 crease the amounts transferred to the City by some \$798,395.

1 It is also undisputed that Newport Water is seeking to raise an additional \$250,000
2 per year through 2011 – three years beyond the point when the final payment to the
3 City was to be made.

4
5 It really doesn't matter what Newport chooses to call these payments either. Once
6 again, Newport is asking the Commission to allow an additional \$750,000 in rate
7 payer contributions (\$250,000 per year for three years) in order to reimburse the
8 City of Newport. All the parties, including Newport, agreed that the rates approved
9 in Docket 3578 were sufficient for FY 2005. To assure that no additional requests
10 would be made, the settlement agreement approved by the Commission said:

11 *"Newport Water further agrees that it will not seek to recover in rates any additional*
12 *monies that it may borrow from the City of Newport up through and including June*
13 *30, 2005."* It doesn't matter if this is an undocumented loan or a reimbursement;
14 the end result is that at the end of FY 2005 Newport Water had a deficit, they paid
15 (some or all of) it from revenues the next year which created an ongoing deficit that
16 has since blossomed. As discussed in my prefiled direct testimony (unrefuted by
17 Newport), only \$341,048 of the current deficit was due to reduced sales in FY 2006
18 (not FY 2005). Much of the current deficit was there at the end of FY 2005, and
19 Newport should not be allowed to use semantics and "Enron accounting" to dismiss
20 the promises it made in Docket 3578.

21
22 **Q: On page 27 of his rebuttal testimony Mr. Smith says the City has not loaned**
23 **the Water Department funds to pay its employees, doesn't he?**

24 A: In response to the question "hasn't the City loaned Newport Water the money to
25 pay its employees" he responds "No." He then goes on to say the City paid the
26 employees and Newport Water could not reimburse the City and it was "erroneous"
27 of me to suggest that was a loan. The Merriam-Webster Dictionary defines "loan"
28 as:

- 29 – **1 a** : money lent at interest **b** : something lent usually for the bor-
30 rower's temporary use

1 – **2 a** : the grant of temporary use

2 The City of Newport paid Newport Water employees because Newport Water had
3 insufficient funds to meet its payroll. Now Newport Water wants to reimburse the
4 City for the temporary use of its money. No matter how one views this or what they
5 call it, Newport Water received a loan from the City of Newport to make its payroll.
6 Newport Water was required to document this loan under terms of the Settlement
7 Agreement and the Commission Report and Order in Docket 3675 and Newport did
8 not do so. Newport repeatedly attempts to cover this up with semantics and by cas-
9 tigating my testimony but it does not change the facts:

- 10 1. Newport promised not to seek rate payer funds to cover losses for fiscal
11 year 2005. By using 2006 revenues to pay 2005 bills they did use rate
12 payer funds to cover their losses.
- 13 2. Newport Water has not been able to pay its bills and has received un-
14 documented loans from the City of Newport in violation of the Commis-
15 sion's Report and Order.
- 16 3. Newport Water has been in a deficit since FY 2005 and failed to try to
17 remedy this situation in a timely manner, preferring to wait until a new City
18 Council was seated while going further into debt.

19
20 **Q: If you assume for a moment that Newport Water's "payables" are not a loan**
21 **from the City, do you have any concerns with the "reimbursement" of**
22 **\$798,395 from the Repayment to the City Account and the continued collec-**
23 **tion of \$250,000 per year in order to complete the payments to the City?**

24 **A:** Yes I do. Under this scenario I believe that Newport is asking the Commission to
25 engage in retroactive rate making. In effect they are asking the Commission to pro-
26 vide \$750,000 (\$250,000 per year over three years) in order to pay past years' bills.
27 Using future rate payer funds to cover past expenses seems to me to be the classic
28 example of retroactive rate making -- something the Commission has historically
29 frowned upon.

1 **Q: You have voiced problems and concerns with the plans to get Newport Water**
2 **out of its deficit. Do you have any suggestions?**

3 A: This is not Portsmouth's problem to solve. It is a problem that was created by
4 Newport and has been exacerbated by Newport's inaction over the past year. The
5 City of Newport's lack of attention to this growing deficit is its own doing. I recog-
6 nize that Newport Water's witnesses have chastised me for suggesting that the City
7 Administration has done little if anything to remedy the growing deficit of the Water
8 Department. Putting aside the strident pronouncements, Newport Water has yet to
9 provide any evidence of communication or correspondence within the Administra-
10 tion or to or from the Water Department or City Council relating to the growing Wa-
11 ter Department deficit. The monthly and quarterly reports that Newport Water pre-
12 pares have indicated problems for well over a year and yet the City did little or noth-
13 ing through most of the 2006 calendar year while the problem grew.

14

15 I suspect that every party to this Docket would like to see Newport Water eliminate
16 all its "payables" and "reimbursements" and start these new rates in a positive cash
17 position. I think there are several alternatives that the Commission could consider:

- 18 1. The repayment of the \$2.5 million to the City was not guaranteed. In order to
19 continue receiving the payments, Newport had to meet certain conditions. I be-
20 lieve the record in this and prior dockets are more than sufficient to cancel the fi-
21 nal payment to the City and use those funds to pay past bills.
- 22 2. The payment for City Services could be reduced or adjusted to allow the catch-
23 up on amounts owed by Newport Water.
- 24 3. A temporary surcharge on Newport's Public Fire Charges (not other towns or the
25 Navy) could be imposed to allow funds to be temporarily collected to reduce the
26 deficit. This problem was caused by Newport. Perhaps if the City budget is
27 forced to pay for the mess it will give some needed attention to the Water De-
28 partment in the future.

- 1 4. A temporary surcharge on all Newport (only) rate payers could be levied until the
2 deficit is reduced. If Newport citizens get angry enough at this surcharge, per-
3 haps the voters will get the attention of the City Manager and City Council.
4 5. Allow Newport to use any additional revenues from more frequent billing to pay
5 down its deficit.

6
7 In short, I don't believe there is an ideal solution to this problem. A combination of
8 the above may help resolve the problem; it will probably take more than just one
9 solution. Newport's latest monthly report showed "known" payables in excess of
10 \$1.8 million!

As of May 1, 2007, known past due payables include:	
Payrolls to be transferred to the City	1,337,169.03
FY2006-2007 2nd & 3rd Qtr OH Allocation	237,499.50
Equipment Charges Jan-March to be transferred to the City	59,246.30
Vendors	172,337.19

11
12 I think the record is clear that this problem is the making of Newport and not the
13 rate payers in Middletown and Portsmouth, nor the Department of the Navy. Ports-
14 mouth and the Navy have had to devote far too many resources to the issues cre-
15 ated by Newport Water. They should not have to be burdened with bailing out the
16 Water Department as well.

17
18
19 **Q: Mr. Smith has testified that Newport Water was required to make deposits to**
20 **the Repayment to the City Account rather than pay its employees and ven-**
21 **dors. Do you agree with his conclusion?**

22 **A:** Absolutely not. As the Commission is aware there have been other water utilities
23 that have been unable to fund restricted accounts due to revenue shortfalls. New-
24 port is simply hiding behind the Commission's Report and Order to assure that it
25 had sufficient funds to repay the City of Newport. As pointed out in my prefiled tes-
26 timony, the possibility of insufficient revenues was discussed with Newport in June
27 2004. The City Finance Director testified that if revenues were insufficient that the
28 Repayment to the City account would be the last priority for funding and that New-

1 port Water would come back to the Commission for an increase. Mr. Smith was at
2 that hearing on June 2, 2004 and knows that the City made these statements; in
3 fact Mr. Smith was asked the very next question by Ms. Wilson-Frias. At no time
4 did the Commission suggest that in the case of a revenue shortfall, NOT funding
5 the Repayment to the City account would be a problem. In fact the Commission's
6 Counsel apparently anticipated this and got a determination before the fact. New-
7 port has once again made an incorrect assumption that could have easily been re-
8 solved with a call to the Commission. Instead Newport chose to fully fund the ac-
9 count to repay the City, hide behind the Commission's Order claiming "we had no
10 choice", and resolve the deficit by having the City pay its bills.

11
12 **Q: Mr. Smith's fourth specific issue with your testimony had to do with the ad-**
13 **justments to miscellaneous revenues that you had proposed. Will you ad-**
14 **dress these please?**

15 A: Mr. Smith has suggested that my adjustment to the Water Quality Protection reve-
16 nues is faulty because Newport had only received \$22,887 in FY 2007 revenues at
17 the time he filed his testimony. He then goes on to say that since the "Water Qual-
18 ity Protection revenues are based on billings and consumption in the rate year they
19 should be similar to consumption in FY 2007." Apparently Mr. Smith has forgotten
20 that Newport Water has used the FY 2006 consumption as the basis for the rate
21 year consumption – not FY 2007 (see RFC Schedule F Rebuttal). Because the
22 Water Quality Revenues are based on sales they should thus be the same in the
23 rate year as they were in FY 2006.

24
25 In my prefiled direct testimony I noted that the adjustment I proposed was based on
26 the actual FY 2006 Revenues that Newport reported for FY 2006 in the Annual Re-
27 port to the Commission that it revised after PWFD's questions about inconsisten-
28 cies. Mr. Smith has totally ignored the fact that Newport Water responded to
29 PWFD 2-7 that the Water Quality Protection revenues in FY 2006 were \$41,200.

1 He has provided no evidence in his rebuttal testimony that would substantiate his
2 claim that is based on a partial and incorrect year.

3

4 As a result of Mr. Smith's rebuttal testimony and the response to PWFD 6-1, I
5 agree that my proposed adjustment to the Rental of Property income was incorrect
6 and I accept the values that Newport has proposed. The attached schedules cor-
7 rect this.

8

9 As Mr. Smith did not dispute the adjustment I had made to the Miscellaneous line
10 item of Miscellaneous Revenues; I conclude that he concurs with this adjustment.

11

12 **Q: Does this conclude your testimony?**

13 A: Yes, unless Newport supplements its testimony or data responses.

14

CERTIFICATION

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I hereby certify that I sent by electronic mail a copy of the within Surrebuttal Testimony of Christopher Woodcock to all parties set forth on the attached Service List on June 19, 2007.

SERVICE LIST - RIPUC DOCKET NO. 3818 Updated 2/22/07
City of Newport Water Division – General Rate Filing

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1

EXHIBIT

1

Summary of Revenue Requirements

Account	<u>Docket # 3675</u>	<u>NWD Claimed</u> <u>Rate Year</u>	<u>PWFD</u> <u>Adjustments</u>	<u>PWFD</u> <u>Proposed</u>	<u>Notes</u>
Operating Revenue Requirements					
Administration	\$ 1,718,060	\$ 1,785,992	\$ (301,056)	\$ 1,484,935	(1)
Customer Service	\$ 536,815	\$ 614,997		\$ 614,997	
Customer Accounts	\$ -	\$ -		\$ -	
Source of Supply - Island	\$ 455,087	\$ 568,165		\$ 568,165	
Source of Supply - Mainland	\$ 95,663	\$ 107,100		\$ 107,100	
Treatment - Newport Plant	\$ 1,352,566	\$ 1,437,499		\$ 1,437,499	
Treatment - Lawton Valley	\$ 1,026,354	\$ 1,229,718		\$ 1,229,718	
Pumping - Lawton Valley	\$ -	\$ -		\$ -	
Water Laboratory	\$ 213,952	\$ 220,400		\$ 220,400	
Transmission & Distribution Maintenance	\$ 838,893	\$ 940,395		\$ 940,395	
Fire Protection	\$ 14,000	\$ 14,000		\$ 14,000	
Total Operating Requirements	\$ 6,251,390	\$ 6,918,266	\$ (301,056)	\$ 6,617,210	
Capital Revenue Requirements					
Contribution to Debt Service Account	\$ 1,378,768	\$ 1,304,900	\$ (209,656)	\$ 1,095,243	(2)
Contribution to Repayment to City Account	\$ 250,000	\$ 250,000		\$ 250,000	
Contribution to Capital Spending Account	\$ 1,267,088	\$ 1,715,056	\$ (715,056)	\$ 1,000,000	(3)
Total Capital Requirements	\$ 2,895,856	\$ 3,269,956	\$ (924,712)	\$ 2,345,243	
Subtotal Revenue Requirements	\$ 9,147,246	\$ 10,188,222	\$ (1,225,769)	\$ 8,962,453	
Additional Rev Requirements (Operating Revenue)	\$ 137,209	\$ 415,096	\$ (18,063)	\$ 397,033	(4)
Revenue Requirements before Offsets	\$ 9,284,455	\$ 10,603,318	\$ (1,243,832)	\$ 9,359,486	
Less: Revenue Offsets	\$ (313,704)	\$ (443,076)	\$ (5,523)	\$ (448,599)	(5)
Net Revenue Requirements	\$ 8,970,751	\$ 10,160,242	\$ (1,249,355)	\$ 8,910,887	
Revenue From Current Rates (RFC Sch. E)		\$ 8,579,346		\$ 8,579,346	
Increase Needed		\$ 1,580,896		\$ 331,541	
% Increase		18.4%		3.9%	

(1) City Services adjustments -- see CW Sch 4

(2) Debt Service Adjustment -- see CW Sch 2

(3) Adjustment to rate funded capital -- see CW Sch 3

(4) Adjustment to misc. revenues -- see CW Sch 5

EXHIBIT

2

Debt Service Adjustments

2007 Series B Bonds

	<u>NWD Claimed</u>		<u>PWFD Adjustment</u>	
	<u>Rate</u>	<u>Year</u>		
Principal & Fees	\$ 99,158	\$	1,460	\$ (97,698) (1)
Interest	\$ 107,899	\$	10,950	\$ (96,949) (1)
	<u>\$ 207,056</u>	<u>\$</u>	<u>12,410</u>	<u>\$ (194,646)</u>

2007 Series A Bonds

Principal & Fees	\$ -	\$	11,074	\$ 11,074 (2)
Interest	\$ 87,911	\$	61,828	\$ (26,084) (2)
	<u>\$ 87,911</u>	<u>\$</u>	<u>72,901</u>	<u>\$ (15,010)</u>

Totals \$ 294,968 \$ 85,311 \$ (209,656)

- (1) Interest on projected full 2007 project cost of \$292,000 for a full year,
Fees at 0.5% of outstanding loan
- (2) See PWFD 1-18

EXHIBIT

3

Capital Improvements Plan

	Rate Year					Totals
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
Studies						
Safe Yield Study	\$ -	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ 200,000
GIS and Hydraulic Modeling	\$ -	\$ 100,000	\$ 200,000	\$ -	\$ -	\$ 300,000
IRP Update	\$ -	\$ -	\$ -	\$ 75,000	\$ -	\$ 75,000
Easton Pond Dam and Moat Study	\$ 47,000	\$ 100,000	\$ -	\$ -	\$ -	\$ 147,000
Lawton Valley WTP- Water Age Study	\$ 46,730	\$ -	\$ -	\$ -	\$ -	\$ 46,730
Joint Water Study	\$ 9,250	\$ -	\$ -	\$ -	\$ -	\$ 9,250
Financial Management Study	\$ 45,000	\$ -	\$ -	\$ -	\$ -	\$ 45,000
Raw Water Supply and Transmission						
Lawton Valley Raw Water Main Replacement/Residuals	\$ 1,401,250	\$ 1,360,250	\$ -	\$ -	\$ -	\$ 2,761,500
Intake at Gardiner Pond	\$ -	\$ 190,000	\$ -	\$ -	\$ -	\$ 190,000
Main from Gardiner to Paradise	\$ -	\$ -	\$ -	\$ 100,377	\$ 1,405,284	\$ 1,505,661
Intake at Paradise	\$ -	\$ -	\$ -	\$ -	\$ 190,000	\$ 190,000
Lawton Valley Reservoir Aeration	\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Paradise Pump Station	\$ 57,000	\$ -	\$ -	\$ -	\$ -	\$ 57,000
Treatment						
Lawton Valley WTP - Chloramine Conversion Design	\$ 46,000	\$ 43,500	\$ -	\$ -	\$ -	\$ 89,500
Lawton Valley WTP - Chloramine Conversion Construct	\$ -	\$ 90,000	\$ 90,000	\$ -	\$ -	\$ 180,000
Lawton Valley WTP - pH Adjustment Design	\$ 54,200	\$ -	\$ -	\$ -	\$ -	\$ 54,200
Lawton Valley WTP - pH Adjustment Construction	\$ 180,000	\$ 180,000	\$ -	\$ -	\$ -	\$ 360,000
Lawton Valley WTP - New WTP						
Lawton Valley Sed Basin Imp	\$ -	\$ 300,000	\$ -	\$ -	\$ -	\$ 300,000
Station 1 - Chloramine Conversion Design	\$ 46,000	\$ 43,500	\$ -	\$ -	\$ -	\$ 89,500
Station 1 - Chloramine Conversion Construct	\$ -	\$ 81,000	\$ 81,000	\$ -	\$ -	\$ 162,000
Station 1 - pH Adjustment Design	\$ 54,200	\$ -	\$ -	\$ -	\$ -	\$ 54,200
Station 1 - pH Adjustment Construction	\$ 112,000	\$ 112,000	\$ -	\$ -	\$ -	\$ 224,000
Station 1 - Additional Pretreatment/Clarification Train	\$ -	\$ 186,094	\$ 106,339	\$ 1,200,000	\$ 2,636,934	\$ 4,129,367
Station 1 - General Improvements	\$ -	\$ -	\$ -	\$ -	\$ 1,329,241	\$ 1,329,241
Station 1 - UV	\$ -	\$ -	\$ -	\$ 651,860	\$ -	\$ 651,860
Station 1 SCADA and Pumps	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ 30,000
Transmission, Storage and Distribution						
Distribution Main Improvements (Ocean Ave.)	\$ 1,591,000	\$ 365,000	\$ -	\$ -	\$ -	\$ 1,956,000
Distribution Main Improv.(Sherman St) Design & Construct	\$ 22,179	\$ 150,000	\$ -	\$ -	\$ -	\$ 172,179
Distribution Main Improvements (System-wide)	\$ -	\$ 250,000	\$ 3,250,000	\$ 300,000	\$ 3,200,000	\$ 7,000,000
Remote Radio Read Pilot/Install	\$ 20,000	\$ 250,000	\$ 625,000	\$ 500,000	\$ 500,000	\$ 1,895,000
Meter Replacement	\$ 38,000	\$ 64,000	\$ 66,560	\$ 69,222	\$ 71,991	\$ 309,774
Water Trench Restoration	\$ 15,000	\$ 65,000	\$ 67,600	\$ 70,304	\$ 73,116	\$ 291,020
Fire Hydrant Replacement	\$ -	\$ -	\$ -	\$ -	\$ 16,000	\$ 16,000
Finished Water Storage Tank Maintenance	\$ 14,910	\$ 81,000	\$ 575,000	\$ -	\$ -	\$ 670,910
Miscellaneous						
Equipment and Vehicle Replacement	\$ 157,000	\$ 184,056	\$ 93,300	\$ 50,360	\$ 19,000	\$ 503,716
Fire Code Upgrades	\$ 35,000	\$ -	\$ -	\$ -	\$ -	\$ 35,000
Total CIP Funding Needs	\$ 4,021,719	\$ 4,645,400	\$ 5,329,799	\$ 3,117,123	\$ 9,941,566	#####
NWD Proposed Funded From Rates	\$ 2,226,559	\$ 1,715,056	\$ 1,227,460	\$ 864,886	\$ 1,164,107	
3 year avg =	\$ -	\$ 1,269,134				
PWFD Proposed Funded From Rates	\$ 2,226,559	\$ 1,465,056	\$ 527,460	\$ 284,886	\$ 164,107	
2 year avg =	\$ -	\$ 1,000,000				
Proposed PWFD Adjustment =		\$ 715,056				

Items shown as **BOLDFACE** are proposed to be moved from rate funded to debt funded

EXHIBIT

4

City Services Cost Allocations

Based on Docket 3675 settlement calculation:

	Including Debt/Capital		Excluding Debt/Capital	
	FY 2007 Adopted Budget	Percentage	FY 2007 Adopted Budget	Percentage
General Fund Less School & Library	\$ 48,523,621	69.49%	\$ 46,334,438	73.15%
Harbor	\$ 667,883	0.96%	\$ 667,883	1.05%
Water Fund	\$ 9,359,486	13.40%	\$ 7,014,242	11.07%
WPC	\$ 8,633,784	12.36%	\$ 6,687,784	10.56%
Parking	\$ 1,681,564	2.41%	\$ 1,681,564	2.65%
Beach	\$ 959,973	1.37%	\$ 959,973	1.52%
Total Budget	\$ 69,826,311	100.00%	\$ 63,345,884	100.00%

	FY 2007 Adopted		FY 2007 Adopted	
	Budget	Percentage	Budget	Percentage
General Fund Including School & Library	\$ 74,007,978	77.65%	\$ 71,818,795	80.85%
Harbor	\$ 667,883	0.70%	\$ 667,883	0.75%
Water Fund	\$ 9,359,486	9.82%	\$ 7,014,242	7.90%
WPC	\$ 8,633,784	9.06%	\$ 6,687,784	7.53%
Parking	\$ 1,681,564	1.76%	\$ 1,681,564	1.89%
Beach	\$ 959,973	1.01%	\$ 959,973	1.08%
Total Budget	\$ 95,310,668	100.00%	\$ 88,830,241	100.00%

PWFD Proposal

Divisions/Functions to be Allocated:	NWD Proposed		NWD Reduction to		PWFD Reduction to Budget (1)	Allocable Dept Budget	% Allocation to Water Fund	Allocation to Water Fund
	Allocation	Total City Budget	Budget Allocation					
City Council	\$ 10,759	\$ 149,932	\$ (51,962)	\$ (16,000)	\$ 81,970	0.00%	\$ -	
City Manager	\$ 45,173	\$ 451,350	\$ (40,000)		\$ 411,350	0.00%	\$ -	
City Solicitor	\$ 21,105	\$ 384,374	\$ (192,187)		\$ 192,187	7.90%	\$ 15,176	
City Clerk	\$ 38,602	\$ 538,658	\$ (187,143)	\$ (78,022)	\$ 273,493	1.00%	\$ 2,735	
Finance Administration	\$ 19,073	\$ 347,357	\$ (173,679)		\$ 173,679	3.95%	\$ 6,857	
Assessment	\$ 22,366	\$ 303,983	\$ (100,314)		\$ 203,669	7.90%	\$ 16,082	
Collections	\$ 30,090	\$ 274,005	\$ -	\$ (27,900)	\$ 246,105	11.07%	\$ 27,251	
Administrative Services	\$ 28,379	\$ 258,420	\$ -		\$ 258,420	5.00%	\$ 12,921	
Facilities Maintenance	\$ 32,705	\$ 654,108			\$ 654,108	5.00%	\$ 32,705	
Human Resources	\$ 14,695	\$ 304,957			\$ 304,957	4.82%	\$ 14,695	
Accounting	\$ 46,178	\$ 359,013			\$ 359,013	12.86%	\$ 46,178	
Purchasing	\$ 10,522	\$ 90,000			\$ 90,000	11.69%	\$ 10,522	
MIS	\$ 176,741	\$ 904,412	\$ (775,100)		\$ 129,312	7.90%	\$ 10,211	
	\$ 496,389						\$ 195,332	

(1) For City Council - Citizen Survey
 For City Clerk - Probate
 For Collections: Office Supplies and Copying & Binding costs
 For MIS: capital items, supplies and MIS equipment

EXHIBIT

5

Miscellaneous Revenues

	AS FILED BY NWD RFC-Sch D			PWFD Adjustments	
	Normalized Test Year FY 2006	Rate Year Adjustment	NWD FY 2008 Rate Year	TY 2006 per NWD Response to PWFD 2-7	PWFD 2008 Rate Year
Customer Services	\$ -	\$ -	\$ -		\$ -
Transfer from Water Pollution Control Division	\$ 134,204	\$ 173,295	\$ 307,499		\$ 307,499
Rental of Property *	\$ 85,000	\$ (9,900)	\$ 75,100		\$ 75,100
Water Penalty	\$ 5,495	\$ 14,505	\$ 20,000		\$ 20,000
Miscellaneous	\$ 3,120	\$ 12,380	\$ 15,500		\$ 5,000
Lease Purchase Proceeds	\$ -	\$ -	\$ -		\$ -
Invest Interest Income	\$ -	\$ -	\$ -		\$ -
Water Quality Protection Fees	\$ 24,977	\$ -	\$ 24,977	\$ 41,200	\$ 41,000
	\$ 252,796	\$ 190,280	\$ 443,076		\$ 448,599

* Adjustment based on NWD Data response to PWFD 2-7 and loss of \$10,000 cell tower revenue per Comm 1-26