

**REBUTTAL TESTIMONY OF
WALTER E. EDGE JR. MBA CPA
PRESIDENT
B&E CONSULTING, LLC**

**for
THE NARRAGANSETT BAY COMMISSION**

DOCKET # 4026

May 2009

1 **Q. What were the conditions cited by Mr. Catlin regarding his support of the**
2 **implementation of monthly billing?**

3 A. One factor cited by Mr. Catlin was that NBC did not request the funding of the “one-
4 time” conversion costs needed to implement the conversion from quarterly to monthly
5 billing. In addition, Mr. Catlin noted that the projected incremental cost of monthly
6 billing is relatively insignificant at \$387,242 or approximately \$0.25 per bill. Mr. Catlin
7 also pointed out that NBC has proposed to divide the current quarterly service charge by
8 three so there will be no adverse impact on customers.

9
10 I also agree with the points made by Mr. Catlin with respect to the benefits that will result
11 from monthly billing as follows:

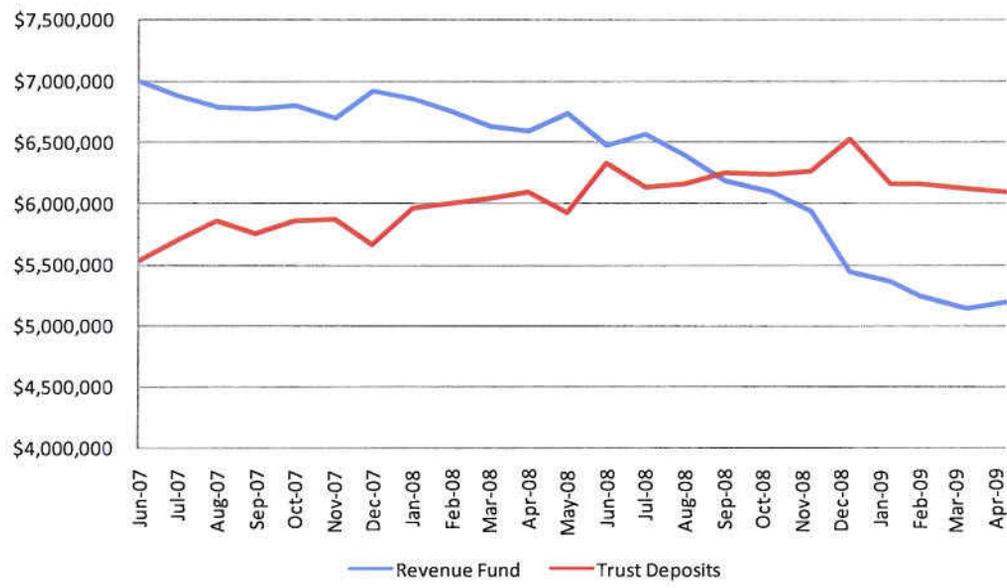
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13 1. Monthly billing will result in a significant reduction in NBC’s unbilled
14 receivables which will improve NBC’s cash flows.
- 15 2. Improvements to cash flow will enhance NBC’s liquidity and may help NBC
16 maintain or improve its AA- credit rating.
- 17 3. Conversion to monthly billing may also make it easier for customers to budget
18 and pay their NBC bills by replacing one large bill each year (or quarter) with
19 smaller bills spread out over the course of a year.

20
21 **Q. Do you have any additional comments regarding the implementation of monthly**
22 **billing?**

23 A. Yes. I would like to offer some additional information with respect to the “one-
24 time” cash flow of up to \$10 million identified by Mr. Catlin that would result from the
25 conversion. I agree that a “one-time” cash flow will be collected “over the course of the
26 **first year after** monthly billing is implemented” (bolding added for emphasis). This
27 anticipated one-time cash flow will only occur during the conversion period as the
28 consumption billings become more timely, thereby reducing the unbilled revenue.
29 Further, although it is anticipated that the conversion will result in a one-time cash flow,
30 nearly 57% of all cash receipts from user charges are restricted and must be placed in
31 restricted accounts for debt service and debt service coverage.

1 Should the one-time cash flow materialize, NBC will also be able to replenish its
 2 Revenue Fund. In accordance with the Trust Indenture, NBC makes monthly transfers
 3 from the Revenue Fund into other funds and accounts. The Revenue Fund has been
 4 decimated as a result of the declining consumption billings and, on a 12-month moving
 5 average, the current cash balance is lower than the required monthly transfer amount (see
 6 chart below). Mr. Catlin pointed out in his testimony that this “one-time” cash flow will
 7 help address the significant cash flow issues currently faced by NBC. The chart below is
 8 updated through April 2009, and reflects the impact of the increasing revenue shortfall on
 9 the Revenue Fund Cash. Since September 2008, the required monthly trust deposit
 10 amount increasingly exceeds the available cash in the revenue fund on a twelve month
 11 moving average.

Revenue Fund Cash vs. Monthly Trust Deposits
 (12-month moving average)



12

Catlin-Rate Design:

14

15 **Q. Are there any differences between your testimony and that of Mr. Catlin with**
 16 **respect to rate design?**

17 A. Yes, there is one significant difference. Mr. Catlin is proposing the recovery of the
 18 Public Utilities Commission (PUC) approved revenue requirement increases through
 19 fixed charges. My pre-filed testimony recommended the recovery of the PUC approved

1 revenue requirement increases on a straight across-the-board percentage increase to both
2 fixed and consumption rates.

3
4 **Q. Mr. Edge, are you still supporting an across-the-board rate increase?**

5 A. No I am not. After reading Mr. Catlin's pre-filed testimony and discussing the rate
6 design proposal with NBC, I agree with the Division's expert and support recovery of the
7 incremental increase through the fixed fee component.

8
9 **Q. What specific items do you agree with in Mr. Catlin's rate design testimony?**

10 A. I agree with the following observations by Mr. Catlin:

- 11
- 12 1. I agree with Mr. Catlin's methodology for allocating cost recovery between
13 residential and non-residential customers. His rate design allocates the allowed
14 increase between residential and non-residential customers in proportion to test
15 year revenues at present rates.
 - 16
 - 17 2. I also agree with Mr. Catlin's proposal to recover the revenue increase allocated to
18 the residential class through a uniform increase in the per dwelling unit charge and
19 the revenue increase allocated to the non-residential class through a uniform
20 percentage increase in the meter size based service charge.
 - 21
 - 22 3. I also agree with Mr. Catlin's observation that NBC's recent rate filings have been
23 driven primarily by NBC's need to finance the federally mandated Combined
24 Sewer Overflow (CSO) Abatement Project Phase I Facilities and the treatment of
25 stormwater. I also agree that these costs are not a function of customers'
26 wastewater volumes and that actually nearly 57% of NBC's costs are debt service
27 related. Recovering the additional revenue through fixed fees will provide NBC
28 with a more stable revenue stream, enhancing NBC's ability to meet its high level
29 of debt service obligations.
- 30

1 4. I agree with Mr. Catlin's testimony that increasing fixed rates as opposed to
2 increasing consumption based rates will enhance revenue stability, addressing the
3 concerns raised by the credit rating agency related to liquidity.

4

5 **Q. Have you identified other benefits that may result from the recovery of the**
6 **additional revenue through fixed service charges?**

7 A. Yes, I have identified them as follows:

8

9 1. Credit rating agencies may look more favorably on utilities supported by relatively
10 higher levels of fixed charges as the resulting fixed revenues provide a more
11 stable revenue stream. Please refer to the rebuttal testimony of Ms. Gurghigian
12 for more information regarding the relative importance that revenue stability plays
13 in the assessment of a utility's credit rating.

14

15 2. A higher credit rating should result in lower borrowing costs which helps mitigate
16 the impact of debt service on the ratepayers. Please refer to the rebuttal testimony
17 of Maureen Gurghigian for more information as to why in today's financial
18 climate an issuer's credit rating is more important than ever.

19

20 **Q. Mr. Edge, are you amending the rate design position from your pre-filed**
21 **testimony?**

22 A. Yes, I am accepting Mr. Catlin's position on rate design along with his methodology
23 for revenue allocation. I am recommending that the recovery of the additional revenue
24 requirement approved by the PUC in this docket be collected solely through increases in
25 fixed fees (i.e. dwelling units for residential users and meter charges for non-residential
26 users).

27

28 **Q. Does that complete your testimony with respect to the issues addressed by Mr.**
29 **Catlin?**

30 A. Yes.

31

1 **Q. In what order would you like to address the adjustments in Mr. Morgan's**
2 **testimony?**

3 A. Mr. Morgan has provided a summary of his adjustments for this filing in his
4 Schedule LKM-2. I would like to address his issues in the same order as they are listed
5 on this schedule.

6
7 **Morgan-Salaries and Personnel Expenses:**

8
9 **Q. Mr. Edge, the first adjustment on Mr. Morgan's Schedule LKM-2 is a reduction**
10 **in Salaries and Personnel Expenses. Do you agree with all of Mr. Morgan's**
11 **adjustments in this area?**

12 A. No. Mr. Morgan proposes to reduce the non-union salary increase in the rate year
13 from 4.25% to 2% because "NBC is under no contractual obligation to grant a 4.25
14 percent increase to those employees". NBC's Board of Commissioners, through the
15 formal adoption of the Non-Union Salary Administration Manual, has established a merit
16 based compensation program for its non-union employees. This program links
17 compensation to performance including the achievement of specific goals tied to NBC's
18 Strategic Plan. This system encourages high performance and is designed to reward
19 employees that go above and beyond, which benefits NBC and its ratepayers.

20
21 A 2% increase doesn't provide any latitude to fairly compensate higher performers and
22 sends a message that non-union employees are valued less than union employees. Further
23 the 2% proposed by Mr. Morgan for non-union employees is less than the 3% cost of
24 living adjustment for union employees. In contrast, union employees will receive higher
25 increases based solely on satisfactory performance and the length of time that they have
26 been in a position.

27
28 **Q. Are the union employee wage increases a function of cost of living (inflation)**
29 **only?**

30 A. No.

1 In accordance with the contracts, union employees will receive both a cost of living
2 increase (inflation increase) of 3% plus step increases in the rate year, totaling a 4.25%
3 increase. Mr. Morgan has agreed to accept that percentage increase for union employees.
4 For Mr. Morgan to restrict the non-union employees to raises based upon cost of living
5 only “because there is no contractual requirement” is not equitable. Clearly how much a
6 person has to pay for daycare, gas and groceries is not dependent on whether or not they
7 belong to a union.

8

9 **Q. Has NBC’s system of performance based compensation for non-union**
10 **employees resulted in any benefits to the ratepayers?**

11 A. Yes. NBC has developed and implemented award winning financial and budgeting
12 practices which has resulted in a utility that is run effectively and efficiently. In turn,
13 these sound management practices were a significant factor in NBC’s recent upgrade
14 from A+ to AA-. As discussed in the pre-filed direct and rebuttal testimony of Maureen
15 Gurghigian, NBC’s credit rating has an increasing role in NBC’s cost of borrowing and,
16 in turn, the costs to ratepayers.

17

18 In addition, NBC has received other awards for items such as management practices
19 wastewater treatment and human resource activities. These results have been
20 accomplished through the hard work and dedication of all of NBC’s employees (including
21 non-union employees) and results in excellent service at reasonable rates.

22

23 **Q. Are the other employee benefits the same for the union and non-union**
24 **employees?**

25 A. No, benefits for union and non-union employees differ primarily with respect to
26 retirement benefits. NBC’s union employees are participants in the state employees’
27 retirement plan. Accordingly, NBC’s union employees receive retiree health insurance
28 benefits while NBC’s non-union employees have no retiree health insurance benefits.

29

30

1 NBC was notified in March 2009 that the employer contribution rate for retiree health in
2 the interim year, FY 2009, had increased to 7.67%. The Division adjusted their retiree
3 health insurance cost to reflect this new rate, and my Schedule WEE-R2 also reflects this.
4 It should be noted that it is likely this rate will increase again in the rate year.

5

6 In addition, the employer pension contribution for union employees in the rate year is
7 25.03% of annual salaries. The employer pension contribution for non-union employees
8 is 10% of annual salaries which is less than half (40%) of the amount of the contribution
9 for union employees. The table below summarizes these inequities.

10

	<u>Union</u>	<u>Non-Union</u>
Salary Increase	4.25%	2.00%
Pension Contribution	25.03%	10.00%
Retiree Health Insurance Benefit	7.67%	0.00%
	<u>Total</u>	<u>36.95%</u>
		<u>12.00%</u>

11

12

13 If the PUC approves Mr. Morgan's proposal of only a cost of living increase (2%) for
14 non-union employees and 4.25% increases for union employees the PUC will be
15 exacerbating the inequality that exists between NBC's union and non-union employees.

16

17 **Q. Mr. Edge, can you identify any other problems with providing only cost of**
18 **living raises to non-union employees?**

19 A. Yes. If we look five years into the future, we would find that a five year non-union
20 employee who only received cost of living raises for those five years would then be
21 earning the same wage as a newly hired non-union employee. This clearly conflicts with
22 the compensation system designed to reward performance as opposed to longevity and is
23 unfair to a non-union employee that has performed five years of excellent service for
24 NBC. It also fails to recognize that a five-year employee is more valuable to NBC than a
25 new employee.

26

27

1 **Q. Does that conclude your comments relating to Mr. Morgan's proposed cost of**
2 **living salary increase of 2% for non-union employees?**

3 A. No. I would like to add that my rebuttal schedules continue to reflect salary
4 increases in the rate year of 4.25% for both union and non-union employees. It should be
5 noted, however, that if the PUC approves any increase other than 4.25% for the non-
6 union employees, then the FICA Max, Salary and Fringe Reimbursement, and the health
7 insurance premium co-payments must be recalculated based on the revised salary levels.

8

9 **Q. Do you disagree with any of the other adjustments made by Mr. Morgan to**
10 **Salaries and Personnel Expense?**

11 A. Yes, please see the following discussion.

12

13 **Morgan-Other Salaries and Personnel Expenses:**

14

15 **Q. What are the other issues that you found with Mr. Morgan's Salaries and**
16 **Personnel adjustments?**

17 A. I found two rather minor items that should be corrected in Mr. Morgan's schedules.
18 The first item results from the fact that Mr. Morgan switched the costs for the proposed
19 new positions between union and non-union positions in his calculations. Although this
20 minor error does not change the total salaries, it impacts other calculations in Mr.
21 Morgan's schedules that use the total union salaries and the total non-union salaries as the
22 starting point in the calculation.

23

24 The second item is also minor. Mr. Morgan used the average of his union (4.25%) and
25 non-union (2%) proposed salary increases to calculate the capital Salary and Fringe
26 Reimbursement. This logic would be appropriate if the capital Salary and Fringe
27 Reimbursement related to both union and non-union employees equally; however, nearly
28 100% of the reimbursements are for non-union employees. As a result, the non-union
29 salary percentage increase should be used in this calculation.

30

1 **Q. Mr. Edge, do you agree with Mr. Morgan's elimination of one of the two**
2 **proposed laboratory technician positions requested by NBC through your original**
3 **pre-filed direct testimony?**

4 A. No. NBC stands by their original position that both of these positions are clearly
5 needed. My original testimony discussed in detail the increased sampling requirements
6 which justify both of these positions.

7
8
9
10 **Q. Are you accepting Mr. Morgan's adjustment for retiree healthcare?**

11 A. Yes. The updated rate was provided to Mr. Morgan by NBC in response to a
12 Division data request and was not available when I completed my pre-filed direct
13 testimony in this docket.

14
15 **Q. Mr. Edge, can you summarize your position on the Salary and Personnel**
16 **Expenses?**

17 NBC maintains its original position for these adjustments, which is reflected on Schedule
18 WEE-4 and my rebuttal schedule WEE-R2. The only change reflected on WEE-R2 is the
19 change in the retiree health insurance rates.

20
21 **Morgan-Health Benefits:**

22
23 **Q. What adjustments by Mr. Morgan have you reviewed regarding health**
24 **benefits?**

25 A. Mr. Morgan reduced the rate year increase in health care insurance premiums of 10%
26 and the dental premium increase of 6% as filed by NBC. I disagree with both Mr.
27 Morgan's calculations and the logic upon which these adjustments were based.

1 **Q. What is your position with respect to the rate year increase in health insurance**
2 **premiums?**

3 A. NBC is in the process of procuring health insurance and the actual premiums will be
4 available prior to the conclusion of this docket. NBC will forward these rates to the
5 Division once they are known and I propose that the actual rates be used to calculate the
6 rate year health insurance costs, and the corresponding health insurance copay caps.

7

8 **Q. Why do you disagree with Mr. Morgan's reduction to the dental percentage**
9 **increase?**

10 A. I used the contractual maximum of 6% and Mr. Morgan used three year averages of
11 3.41% for family and 3.45% for individual. Mr. Morgan's testimony states that NBC's
12 dental insurance has not increased at the 6% rate.

13 In fact, last year, the NBC's dental insurance renewal would have been 13% if NBC did
14 not have a contracted cap of 5%. NBC anticipates that the renewal rates will be known
15 prior to the conclusion of this docket and I propose that the actual rates be used to
16 calculate rate year dental insurance costs.

17

18 **Morgan – Biosolids Disposal Costs:**

19

20 **Q. Mr. Edge, do you agree with Mr. Morgan's \$466,398 adjustment to Biosolids**
21 **Disposal Costs?**

22 A. Mr. Morgan made two adjustments to this line item based upon more recent
23 information that was available subsequent to NBC's filing and was provided in response
24 to a data request. I agree with these adjustments as long as the PUC is willing to accept
25 other recent usage information with respect to other large expense line items such as
26 electricity. It appears that Mr. Morgan correctly used the updated information to prepare
27 his Schedule LKM-5. See my rebuttal schedule WEE-R3.

28

29

30

31

1 **Morgan – Screening and Grit Costs:**

2

3 **Q. Do you agree with Mr. Morgan’s adjustment for Screening and Grit costs?**

4 A. No. I reviewed Mr. Morgan’s Schedule LKM – 6 and compared it to my original
5 Schedule WEE-7. It appears that we both failed to itemize the costs associated with the
6 purchase and disposal of the Floatables Control netting used by the Interceptor
7 Maintenance section. The nets were itemized on my revised Schedule WEE-7,
8 submitted as part of Div I-42. The cost of the netting is \$33,414 in the rate year which
9 should be added to Mr. Morgan’s schedule and is included in my rebuttal Schedule WEE
10 R-4.

11

12 **Morgan – Insurance Premiums:**

13

14 **Q. Mr. Edge, do you agree with Mr. Morgan’s adjustments regarding insurance**
15 **premiums?**

16 A. I agree with certain components of his adjustments. With respect to Workers’
17 Compensation Insurance, Mr. Morgan used a two-year average and did not include the
18 increase in one year because in his opinion, the increase was an abnormality. This is
19 certainly reasonable but it is inconsistent with his treatment of other accounts in this
20 docket as well as account analysis in prior dockets. For example, he did not eliminate
21 the one year increase of zero in his dental premium analysis that was clearly an
22 abnormality. However, I have accepted this change and it is reflected in my rebuttal
23 Schedule WEE-R5.

24

25 **Q. Are you accepting Mr. Morgan’s adjustment regarding old worker’s**
26 **compensation claims?**

27 A. No. In fact, I can no longer support my own position as filed regarding worker’s
28 compensation - old claims. In my direct testimony, I discussed a pending settlement of
29 an old claim which would have been recovered through a two-year amortization of
30 approximately \$100,000 per year. Serious issues have arisen regarding this settlement
31 and it is possible that the settlement cannot be consummated.

1 Accordingly, I am eliminating the two-year amortization adjustment and adding back the
2 annual cost for this claim of \$50,000 per year for indemnity and medical payments.
3 Given that I have agreed with Mr. Morgan's figure for the workers' compensation
4 premium as well as his figure of \$50,000 for ongoing cost for all old claims, except for
5 the old claim that may not be settled, this \$50,000 adjustment increases Mr. Morgan's
6 proposed rate year cost to \$100,000 for the Old Claims account while the Workers'
7 Compensation account remains at \$493,760. The total reduction is \$109,568. The
8 adjustments are included in my rebuttal schedule WEE-R5.

9

10 Settlement of this claim would clearly have a financial benefit to ratepayers. If NBC is
11 able to successfully settle this claim, it seems fair that the utility should be allowed to
12 recover these costs through rates. In my original pre-filed testimony, I had increased the
13 workers' compensation old claims by \$50,000 to reflect a two-year amortization of the
14 settlement amount. The actual settlement amount is closer to \$200,000 so the two-year
15 amortization should have been \$100,000 per year.

16

17 **Q. Do you agree with Mr. Morgan's arguments as to why he thought the**
18 **amortization of the settlement should be excluded?**

19 A. No, I do not agree with any of Mr. Morgan's arguments regarding the amortization of
20 old claims. For example, his argument as to retro-active rate-making is incorrect because
21 NBC is a non-profit utility that has no other source of revenue. Therefore, NBC must
22 have the ability to collect unanticipated "one-time" expenditures incurred in periods
23 between rate filings over some reasonable amount of time to avoid deficit spending by the
24 utility. Retro-active ratemaking is a term more frequently used for utilities that are "for
25 profit" because those utilities have a return on rate base (income) that can be used for this
26 type of unanticipated activity. NBC has only a small net operating reserve in the amount
27 of less than \$170,000. This net operating reserve would be inadequate to address a
28 \$200,000 "one time" increase in expense even assuming there were no other
29 unanticipated expense items that had already exhausted the net operating reserve.

30

31

1 **Morgan – Lab Supplies Expense:**

2

3 **Q. Do you agree with Mr. Morgan’s adjustment for lab supply expense?**

4 A. I am a strong believer in using the most recent information available to update both
5 revenue and expense accounts if it leads to a better projection of the rate year expense.

6 Mr. Morgan compared calendar year 2008 lab supplies information provided by NBC in a
7 data response to fiscal year 2008 costs. He then annualized the growth rate increase.

8 There are a number of problems with this approach. First of all, six months of these two
9 years (FY 2008 and CY 2008) are the same and therefore the results of Mr. Morgan’s
10 analysis may be misleading if it is those six months that have the greatest growth year
11 over year. This method would also fail to take into consideration purchasing cycles or the
12 timing of significant purchasing quantities. In addition, this method is not consistent with
13 the methods used for any other accounts in this docket or any other NBC docket. I
14 therefore have maintained my original position related to lab supplies.

15

16 **Morgan – Electric Costs:**

17

18 **Q. Mr. Edge, do you accept Mr. Morgan’s \$735,281 adjustment relating to electric
19 costs?**

20 A. No. This is NBC’s second largest operating expense line item and given the
21 electricity usage this year I have serious concerns about the magnitude of the adjustment
22 made by Mr. Morgan.

23

24 **Electricity Supply Rate**

25 Mr. Morgan made two adjustments to this account. The first adjustment related to the
26 cost of electricity supply. Mr. Morgan testified that NBC’s electricity supply rate as filed
27 at \$0.12 per kWh was too high and he adjusted the supply rate to \$0.07195 per kWh. Last
28 week NBC completed the electricity supply procurement process and executed a three-
29 year contract at a rate of \$0.08125 per kWh beginning January 2010. This is slightly
30 higher than the rate used by Mr. Morgan in his testimony and I have used this contracted

1 rate in the preparation of the attached rebuttal schedule WEE-R6 which calculates the
2 electricity expense for the rate year.

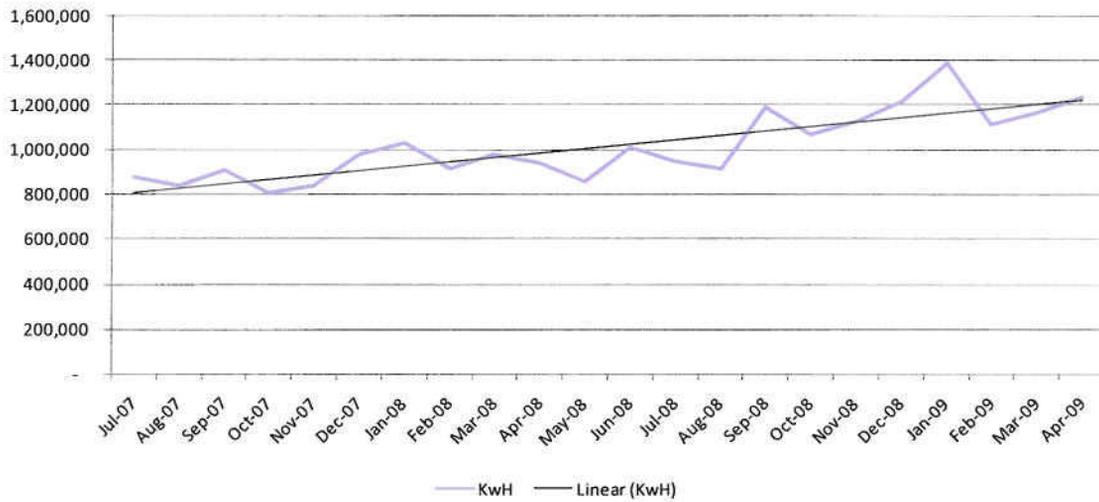
3
4 **Electricity Rate Year Usage**

5 The second adjustment made by Mr. Morgan related to the projected electricity usage
6 during the rate year. He adjusted the projected usage at the Tunnel Pump Station (TPS)
7 which became operational in November 2008. He testified that it was not realistic to use
8 the maximum electricity usage at the Tunnel Pump Station because it would result in an
9 over recovery of actual electricity and adjusted the usage figure downward based on an
10 average of the minimum and maximum. Mr. Morgan is correct that is not realistic to use
11 the projected maximum electricity usage because the **actual usage is even higher**.

12
13 Without trying to make this too complicated, electricity at the Ernest St. Pump Station
14 and the Field's Point Wastewater Treatment Plant used to be measured by a single meter.
15 A new meter was put on-line to measure the electricity usage at both the Tunnel Pump
16 Station and the Ernest St. Pump Station. Therefore, the usage of the Tunnel Pump
17 Station alone is not available on any single meter. As a result, I have reviewed the
18 combined electricity usage at the two meters to determine the impact of the new CSO
19 Phase I Facilities. Since the facilities came on-line in November 2008, the average
20 monthly usage in kWh increased by 346,900 kWh which is 71,263 kWh higher than the
21 projection for the Tunnel Pump Station alone but slightly less than projected usage for the
22 combined Field's Point, Ernest St. Pump Station, Tunnel Pump Station and the CSO
23 Phase I Facilities Impact on Field's Point.

24
25 The updated electricity usage also shows a 24% increase in electrical usage at Bucklin
26 Point. As is dramatically evident in the following chart Bucklin Point electricity usage is
27 trending upward with actual electricity usage through April 2009 (10 months) higher than
28 my entire projected rate year (12 months) as I originally filed.

Bucklin Point Kwh



1

2 Mr. Morgan made a significant downward adjustment to biosolids, NBC's largest
 3 operating line item, based upon updated figures and I argue that this logic should also
 4 apply to electricity. NBC does not have the ability to absorb these huge variations in
 5 electricity usage when one month of electricity costs on average approximately \$330,000
 6 and NBC's currently approved operating reserve is less than \$170,000.

7 Based upon actual usage in FY 2009 (interim year), I have adjusted the kWh in the rate
 8 year as is shown in the table below:

	Projected kWh	
	As Filed	Updated
Field's Point/TPS	17,666,486	18,244,800
CSO Impact on WWTF	759,885	-
Subtotal FPWWTF and TPS	18,426,371	18,244,800
Bucklin Point	11,099,333	13,591,200
COB	1,244,867	1,358,640
IM	834,405	824,780
Total	31,604,976	34,019,420

9

10

1 **Q. Mr. Edge, is there any other compelling evidence as to why Mr. Morgan's**
2 **proposed adjustment to electricity is unrealistic?**

3 A. Yes. Mr. Morgan has proposed a rate year expense level for electricity of \$3.5
4 million. Through April, 2009 the NBC has spent \$2.9 million on electricity, which when
5 straight-lined is \$3.5 million for the year. However, the FY 2009 electricity expense does
6 not include the higher contracted supply rate (approximately \$228,000) and only reflects
7 six months of operation of the CSO Phase I Facilities (a full 12 months would be an
8 additional \$158,000). Given these facts, the \$3.5 million amount is clearly inadequate
9 since the FY 2009 actual use straight lined is already \$3.5 million and when adjusted for
10 the increased supply rate and TPS/CSO impact the amount totals nearly \$4 million.

	Monthly Average Use in kWh	Monthly Ave. Cost	6 Months Cost
Impact of TPS/CSO Facilities	346,000	\$ 38,060	\$ 228,360
	Updated Annual Use in kWh	Supply Rate Increase Impact	6 Months Cost
Supply Rate Impact	34,019,420	\$ 316,381	\$ 158,190
Total			\$ 386,550

11
12

13 **Q. Mr. Edge, what is your rebuttal position for electricity expense in the rate year?**

14 A. I have attached rebuttal Schedule WEE-R6 to reflect the contracted supply rate and
15 updated electricity usage.

16

17 **Morgan - Management Audit Services:**

18

19 **Q. Mr. Edge, have you reviewed Mr. Morgan's adjustment Schedule LKM-10**
20 **regarding management audit services?**

21 A. Yes, I have reviewed the schedule and I found that there is a subtraction error. I
22 corrected the error and as a result the adjustment is decreased from \$195,990 to \$33,793.
23 I can accept Mr. Morgan's adjustment with the correction in the amount of \$33,793 to
24 management audit services. See WEE-R7.

25

1 **Morgan – Net Operating Reserve:**

2

3 **Q. Do you agree with Mr. Morgan's adjustment to the net operating reserve?**

4 A. No. It is unrealistic to think that a \$170,000 net operating reserve for a utility that
5 has projected expenses the rate year of \$76,454,165 (per the Division) is prudent. I
6 understand that Mr. Morgan's position reflects the PUC approved operating reserves for
7 NBC in previous dockets but the result of his calculation should have given him some
8 concern.

9

10 I do not understand why the PUC has chosen time and again to reduce NBC's net
11 operating reserve far lower than all of the water utilities currently regulated by the PUC.
12 To my knowledge, NBC is the only sewer utility regulated by the PUC, but again to my
13 knowledge there are no water utilities that are regulated by the PUC that are treated so
14 severely when it comes to the net operating reserve.

15

16 It is my understanding that the larger water utilities that provide consumption information
17 to NBC have recently received net operating reserves in excess of 3% of operating
18 expenses less debt service while NBC is allowed only 1% of operating expenses less debt
19 service and personnel costs. In the past, a utility was allowed a 1.5% net operating
20 reserve unless they had done something wrong and the PUC penalized the utility by
21 eliminating .5% of the net operating reserve. NBC has not mismanaged its finances and
22 is in fact one of the best run utilities regulated by the PUC.

23

24 **Q. Are there any specific items that give you pause when you look at the proposed
25 net operating reserve proposed by the Division in this case?**

26 A. Yes, I note that the rate year chemical expense filed in this case will most likely be
27 higher than the amount that I originally filed. Further, I am concerned by the Division's
28 adjustment to Biosolids expense (NBC's largest expense line item) because changes in
29 rainfall as well as the unknown long-term effects of operating the CSO Phase I Facilities
30 for a full year could eat up the net operating reserve in a New York minute.

31

1 As I mentioned earlier in my testimony, NBC projects that the monthly electric bill in the
2 rate year will be approximately \$330,000 which is nearly twice as large as the net
3 operating reserve. A company with monthly operating expenditures of this level should
4 have a net operating reserve that is greater than the \$170,000 as proposed by the Division
5 in this docket. I have calculated my net operating reserve for my rebuttal testimony by
6 taking 1.5% of my rebuttal rate year expenditures (less debt service) which is consistent
7 with my initial net operating reserve calculation.

8

9 **Q. Mr. Edge, as you know the PUC approved the Operating Reserve for Revenue**
10 **Stability Fund, so why does NBC also need a net operating reserve?**

11 A. The net operating reserve is designed to address unknown or unanticipated expenses
12 during the rate year that may be related to price increases or increased usage. In NBC's
13 case, there are large line items such as bio-solids, electricity, gas, and chemicals that are
14 related to treatment. These expenses are required to meet permit and are impacted by
15 factors such as rainfall which is outside of NBC's control. The Operating Reserve for
16 Revenue Stability Fund serves a completely different purpose. This fund is designed to
17 address significant shortfalls in revenues that may result from variability in consumption
18 revenue. It allows for cash transfers so that NBC may make the required monthly trust
19 deposits to comply with the Trust Indenture.

20

21 **Q. Does that conclude your testimony?**

22 A. Yes.

Narragansett Bay Commission
Rebuttal Rate Year

Schedule WEE-R1

ACCT. NUMBER	ACCOUNT	Test Year FY 2008	Test Year Adjustments	Adjusted Test Year	Rate Year Adjustments	FY 2010 Rate Year	Rebuttal Adjustments	NBC Rebuttal Rate Year
Revenue								
41000	FLAT FEES RESIDENTIAL	\$ 13,204,222	\$ -	\$ 13,204,222	\$ 1,484,373	\$ 14,688,595	-	\$ 14,688,595
41100	CONSUMPTION FEE - RESIDENTIAL	22,908,786	-	22,908,786	506,219	23,415,005	-	23,415,005
41501 & 41502	FLAT FEES COMMERCIAL & INDUSTRIAL	8,029,548	-	8,029,548	900,818	8,930,366	-	8,930,366
41510	CONSUMPTION FEE - COMMERCIAL	19,077,998	-	19,077,998	(187,415)	18,890,583	-	18,890,583
41511	CONSUMPTION FEE - INDUSTRIAL	1,242,431	-	1,242,431	(309,320)	933,111	-	933,111
42000	PRETREATMENT FEES	1,115,529	-	1,115,529	-	1,115,529	-	1,115,529
42500	CONNECTION PERMIT FEES	181,290	-	181,290	-	181,290	-	181,290
43000	BOD/TSS SURCHARGE	116,096	-	116,096	(73,000)	43,096	-	43,096
43500	SEPTAGE INCOME	372,711	-	372,711	-	372,711	-	372,711
42603	MISCELLANEOUS OPERATING INCOME	6,423	-	6,423	-	6,423	-	6,423
45100 & 45200	INTEREST INCOME	2,195,656	(1,840,913)	354,743	-	354,743	-	354,743
45500	LATE CHARGE PENALTY	741,834	-	741,834	-	741,834	-	741,834
46500	ENVIRONMENTAL ENFORCEMENT	75,500	(75,500)	-	-	-	-	-
47500	GRANT	27,653	(27,653)	-	-	-	-	-
42600	ABATEMENT FEE	5,364	-	5,364	-	5,364	-	5,364
49005	CAPITAL CONTRIBUTIONS	-	-	-	-	-	-	-
	SPECIAL MASTER AMORTIZATION	-	330,000	330,000	(330,000)	-	-	-
49002	MISCELLANEOUS INCOME	82,832	-	82,832	-	82,832	-	82,832
	TOTAL REVENUE	69,383,873	(1,614,066)	67,769,807	1,991,675	69,761,482	-	69,761,482
PERSONNEL SERVICES								
52100	UNION SALARY	4,739,757	-	4,739,757	433,004	5,172,761	-	5,172,761
52150	UNION OVERTIME	417,126	-	417,126	37,174	454,300	-	454,300
52300	NON-UNION REGULAR	7,495,396	(27,653)	7,467,743	727,439	8,195,182	-	8,195,182
52350	NON-UNION OVERTIME	82,718	-	82,718	9,530	92,248	-	92,248
52400	NON-UNION LIMITED	32,074	-	32,074	2,701	34,775	-	34,775
52800	UNION PENSION	961,531	-	961,531	333,211	1,294,742	-	1,294,742
52810	FICA	923,995	-	923,995	131,386	1,055,381	-	1,055,381
52820	UNEMPLOYMENT INSURANCE	21,662	-	21,662	-	21,662	-	21,662
52920	NON UNION PENSION	680,745	-	680,745	151,475	832,220	-	832,220
52940	UNION RETIREMENT HEALTH	277,897	-	277,897	32,986	310,883	85,868	396,751
52950	HEALTH INSURANCE	2,632,931	-	2,632,931	447,583	3,080,514	-	3,080,514
52970	DENTAL INSURANCE	196,601	-	196,601	23,034	219,635	-	219,635
52980	VISION INSURANCE	33,737	-	33,737	-	33,737	-	33,737
52990	DISABILITY INSURANCE	35,314	-	35,314	-	35,314	-	35,314
53000	SUPP PENSION RETIREES	1,015	-	1,015	-	1,015	-	1,015
53690	WORKMAN'S COMP. - OLD CLAIMS	59,935	-	59,935	42,652	102,587	(2,587)	100,000
	TOTAL PERSONNEL SERVICES	18,592,434	(27,653)	18,564,781	2,372,175	20,936,956	83,281	21,020,237
59000	SALARY REIMBURSEMENT	(995,137)	-	(995,137)	(83,791)	(1,078,928)	-	(1,078,928)
59001	FRINGE REIMBURSEMENT	(544,437)	-	(544,437)	(46,114)	(590,551)	-	(590,551)
	NET PERSONNEL SERVICES	17,052,860	(27,653)	17,025,207	2,242,271	19,267,478	83,281	19,350,759

Narragansett Bay Commission
Rebuttal Rate Year

Schedule WEE-R1

ACCT. NUMBER	ACCOUNT	Test Year FY 2008	Test Year Adjustments	Adjusted Test Year	Rate Year Adjustments	FY 2010 Rate Year	Rebuttal Adjustments	NBC Rebuttal Rate Year
OPERATING SUPPLIES/EXPENSES								
	CONVERSION TO MONTHLY BILLING				387,242	387,242	-	387,242
52610	MEDICAL SVCS.	12,480	-	12,480	-	12,480	-	12,480
53210	POSTAGE	162,635	-	162,635	-	162,635	-	162,635
53240	DUES & SUBSCRIPTIONS	56,944	-	56,944	-	56,944	-	56,944
53250	FREIGHT	33,351	-	33,351	-	33,351	-	33,351
53310	PRINTING & BINDING	93,620	-	93,620	-	93,620	-	93,620
53320	ADVERTISING	15,417	-	15,417	-	15,417	-	15,417
53330	RENTAL- EQUIPMENT	26,460	-	26,460	-	26,460	-	26,460
53340	RENTAL- CLOTHING	36,610	-	36,610	-	36,610	-	36,610
53350	RENTAL-OUTSIDE PROPERTY	4,664	-	4,664	-	4,664	-	4,664
53360	MISCELLANEOUS EXPENSE	64,229	-	64,229	-	64,229	-	64,229
53370	PUBLIC OUTREACH EDUCATION	25,247	(10,588)	14,659	-	14,659	-	14,659
53410	LOCAL TRAVEL	3,141	-	3,141	-	3,141	-	3,141
53420	LONG DISTANCE TRAVEL	65,466	-	65,466	-	65,466	-	65,466
53470	BLDG. & GRND. MAINT.	100,189	-	100,189	1,901	102,090	-	102,090
53480	BIOSOLIDS DISPOSAL	4,409,679	-	4,409,679	623,976	5,033,655	(466,398)	4,567,257
53490	SCREENING & GRIT DISPOSAL	128,151	-	128,151	96,509	224,660	(18,346)	206,314
53200	BAD DEBT EXPENSE	77,534	-	77,534	-	77,534	-	77,534
57600	LOSS ON DISPOSAL OF ASSETS	(12,484)	12,484	-	-	-	-	-
53510	VEHICLE FUEL & MAINTENANCE	185,068	-	185,068	-	185,068	-	185,068
53610	REPAIR-BLDG & STRUCTURE	506,856	-	506,856	23,638	530,494	-	530,494
53620	REPAIR-HIGHWAY & WALKS	15,894	-	15,894	-	15,894	-	15,894
53630	MAINTENANCE/SERVICE AGREE.	444,142	-	444,142	66,700	510,842	-	510,842
53650	HIGHWAY & LANDSCAPE	6,633	-	6,633	213	6,846	-	6,846
53660	INSURANCE	346,404	-	346,404	-	346,404	-	346,404
53680	WORKERS' COMP. INSURANCE	403,936	66,873	470,809	129,932	600,741	(106,981)	493,760
53900	CENTRAL PHONE SVCS.	4,050	-	4,050	-	4,050	-	4,050
54000	TELEPHONE	135,773	-	135,773	-	135,773	-	135,773
54020	FUEL OIL #2 - DIESEL FOR EQUIPMENT	20,140	-	20,140	-	20,140	-	20,140
54060	FUEL-GAS	359,495	-	359,495	162,438	521,933	-	521,933
54090	ELECTRICITY	2,847,148	-	2,847,148	1,398,574	4,245,722	(289,193)	3,956,528
54110	WATER	69,184	-	69,184	900	70,084	-	70,084
54200	CLOTHING	33,319	-	33,319	551	33,870	-	33,870
54330	CHEM., HOUSE & LAUNDRY SUPPLIES	25,419	-	25,419	1,214	26,633	-	26,633
54332	CHEMICALS - CHLOR. / HYPOCHLORITE	401,017	-	401,017	88,255	489,272	-	489,272
54337	CHEMICALS - SODIUM BIFULFITE	194,139	-	194,139	120,500	314,639	-	314,639
54340	LAB SUPPLIES	220,850	-	220,850	72,841	293,691	-	293,691
54370	SUPPLIES BUILDING & MAINTENANCE	168,001	-	168,001	-	168,001	-	168,001
54410	EDUCATIONAL SUPP. & EXP.	53,093	-	53,093	-	53,093	-	53,093
54420	COMPUTER SUPPLIES	76,648	-	76,648	-	76,648	-	76,648
54430	OTHER OPERATING SUPPLIES & EXP.	10,822	(2,658)	8,165	-	8,165	-	8,165
54440	SAFETY EQUIPMENT	23,534	-	23,534	-	23,534	-	23,534
54500	OFFICE EXPENSE	67,800	-	67,800	-	67,800	-	67,800
TOTAL OPERATING SUPPLIES/EXPENSES		11,922,698	66,112	11,988,810	3,175,384	15,164,194	(880,919)	14,283,275

**Narragansett Bay Commission
Rebuttal Rate Year**

Schedule WEE-R1

ACCT. NUMBER	ACCOUNT	Test Year FY 2008	Test Year Adjustments	Adjusted Test Year	Rate Year Adjustments	FY 2010 Rate Year	Rebuttal Adjustments	NBC Rebuttal Rate Year
PROFESSIONAL SERVICES								
57800	BOND AND NOTE ISSUANCE COST	24,720	-	24,720	-	24,720	-	24,720
52600	REGULATORY EXPENSE	230,990	-	230,990	-	230,990	-	230,990
52650	SECURITY SERVICES	28,307	-	28,307	-	28,307	-	28,307
52660	LEGAL SERVICES	177,532	-	177,532	-	177,532	-	177,532
52670	MGMT/AUDIT SERVICES	2,077,054	-	2,077,054	329,057	2,406,111	(33,793)	2,372,318
52680	CLERICAL SERVICES	50,956	-	50,956	-	50,956	-	50,956
52690	OTHER SERVICES	99,232	(714)	98,518	-	98,518	-	98,518
TOTAL PROFESSIONAL SERVICES		2,688,791	(714)	2,688,077	329,057	3,017,134	(33,793)	2,983,341
TOTAL OPERATIONS & MAINTENANCE		31,664,349	37,745	31,702,094	5,746,712	37,448,805	(831,431)	36,617,375
CAPITAL OUTLAYS								
57500	DEPRECIATION	7,124,163	(7,124,163)	-	-	-	-	-
57010	AMORTIZATION	339,482	(329,792)	9,690	-	9,690	-	9,690
16500	EQUIPMENT	-	-	-	-	-	-	-
16510	AUTOMOTIVE EQUIP.	-	69,950	69,950	(69,950)	-	-	-
16520	BLDG. & PLANT EQUIP.	-	272,964	272,964	(272,964)	-	-	-
16570	LABORATORY EQUIP.	-	49,417	49,417	(49,417)	-	-	-
16580	OFFICE FURN&EQUIP. COMPUT.	-	17,081	17,081	(17,081)	-	-	-
16583	COMPUTER SOFTWARE	-	379,246	379,246	(379,246)	-	-	-
16585	COMPUTER HARDWARE	-	363,469	363,469	(363,469)	-	-	-
16590	OTHER EQUIPMENT	-	19,746	19,746	(19,746)	-	-	-
16600	REPLACEMENT RESERVE	-	-	-	-	-	-	-
16610	BUILDING & OTHER STRUCT.	-	65,525	65,525	(65,525)	-	-	-
16630	IMP.-NOT BLDG OR STRUCT.	-	509,045	509,045	(509,045)	-	-	-
TOTAL CAPITAL OUTLAYS		7,463,645	(5,707,512)	1,756,133	(1,746,443)	9,690	-	9,690
DEBT SERVICE								
57913	LEASE INTEREST EXPENSE	37,983	-	37,983	-	37,983	-	37,983
57915	PROGRAMMED NEW DEBT INTEREST EXPENSE	-	2,670,346	2,670,346	-	2,670,346	-	2,670,346
57920	DEBT SERVICE PRINCIPAL COVERAGE	13,083,478	-	13,083,478	-	13,083,478	-	13,083,478
		-	16,800,972	16,800,972	-	16,800,972	-	16,800,972
		-	8,138,699	8,138,699	-	8,138,699	-	8,138,699
TOTAL DEBT SERVICE		13,121,461	27,610,017	40,731,478	-	40,731,478	-	40,731,478
<i>Net Operating Reserve</i>		-	146,866	146,866	415,012	561,877	(12,471)	549,406
TOTAL EXPENSES		52,249,455	22,087,115	74,336,570	4,415,281	78,751,850	(843,902)	77,907,948
NET INCOME		\$ 17,134,418	\$ (23,701,181)	\$ (6,566,763)	\$ (2,423,605)	\$ (8,990,368)	\$ 843,902	\$ (8,146,466)
						12.89%	11.68%	

Narragansett Bay Commission
Salary and Other Personnel Costs

Schedule WEE-R2

Salaries

	Union	Non-Union	Total
Salary Adjusted Test Year	\$ 4,739,757	\$ 7,495,396	\$ 12,235,153
Increase	1.0400	1.0400	1.0400
FY 2009	4,929,347	7,795,212	12,724,559
Increase	1.0425	1.0425	
Rate Year Existing Positions	\$ 5,138,845	\$ 8,126,508	\$ 13,265,353
Customer Service Rep	33,916	-	33,916
2 Lab Technician	-	68,674	68,674
Rate Year All Positions	\$ 5,172,761	\$ 8,195,182	\$ 13,367,943

Capital Salary & Fringe Reimbursement

	Salary	Fringe
Adjusted Test Year	\$ 995,137	\$ 544,688
Increase	1.0400	1.0400
FY 2009	1,034,942	566,476
Increase	1.0425	1.0425
Rate Year	\$ 1,078,928	\$ 590,551

Overtime and Limited

	Union OT	Non-Union OT	Limited
Adjusted Test Year	\$ 417,126	\$ 82,718	\$ 32,074
	1.0400	1.0400	1.0400
FY 2009	433,811	86,027	33,357
	1.0425	1.0425	1.0425
Rate Year	452,248	89,683	34,775
Tunnel Impact on Field's Point	2,052	2,565	-
Rate Year	\$ 454,300	\$ 92,248	\$ 34,775

**Narragansett Bay Commission
Salary and Other Personnel Costs**

Schedule WEE-R2

FICA and Medicare

	Total	FICA	Medicare
Rate Year Salary	\$ 13,367,943	\$ 13,367,943	\$ 13,367,943
Rate Year Overtime & Limited	581,322	581,322	581,322
Over FICA limit (FY 2010 Estimate \$111,300)	(189,318)	(189,318)	-
	<u>13,759,947</u>	<u>13,759,947</u>	<u>13,949,265</u>
FICA %		6.20%	1.45%
Rate Year	<u>\$ 1,055,381</u>	<u>\$ 853,117</u>	<u>\$ 202,264</u>

Pension

Union Salary	\$ 5,172,761	25.03%	\$ 1,294,742
Union OT	454,300	0%	-
Rate Year			<u>\$ 1,294,742</u>
Total Non-Union Salary and Limited	\$ 8,322,205	10%	<u>832,220</u>
Rate Year			<u>\$ 832,220</u>

Retiree Health

Union Salary	\$ 5,172,761	7.67% *	<u>\$ 396,751</u>
		Retiree Health Rate Year as Filed	310,883
		<u>Rebuttal Adjustment</u>	<u>\$ 85,868</u>

*The FY 2009 actual rate provided by the State of Rhode Island as of March 2009

**Narragansett Bay Commission
Biosolids Disposal**

Schedule WEE-R3

	7/1/2009 to 12/31/2009	1/1/2010 to 6/30/2010	Total Cost
Field's Point DT	4,332	4,332	
Field's Point Tunnel Impact	219	219	
Bucklin Point DT	1,208	1,208	
Total DT	5,759	5,759	
Rate Per Ton	\$ 393.19	\$ 399.87	
Rebuttal Rate Year	\$ 2,264,381	\$ 2,302,876	\$ 4,567,257
Rate Year as Filed			5,033,655
Rebuttal Adjustment			\$ (466,398)

**Narragansett Bay Commission
Screening & Grit**

Schedule WEE-R4

	Tons	Proj. Rate	Total Costs
Field's Point	761	\$ 65.00	\$ 49,465
Tunnel Pump Station	764	65.00	49,660
Interceptor Maintenance (IM)	773	65.00	50,245
IM Floatables Control Netting			33,414
Bucklin Point	362	65.00	23,530
Rebuttal Rate Year			206,314
Rate Year as Filed			224,660
Rebuttal Adjustment			\$ (18,346)

**Narragansett Bay Commission
Workers' Compensation Insurance**

	Rebuttal Rate Year Calculation	Rebuttal Rate Year	Rate Year as Filed	Rebuttal Adjustment
FY 2009 Workers' Comp. Escalation Rate (Per LKM-7)	\$ 452,180 <u>1.0920</u>	\$ -	\$ -	\$ -
Rate Year Account 53680	493,760	493,760	600,741	(106,981)
Workers' Comp Old Claims				
Annual Old Claims	50,000			
Non-settlement of Old Claim	<u>50,000</u>			
Rate Year Account 53690	100,000	100,000	102,587	(2,587)

**Narragansett Bay Commission
Electricity**

Schedule WEE-R6

	Ytd. FY 2009 kWh	Rate Year kWh	Rate per kWh	Rate Year
Bucklin Point (July 08 - April 09)	11,326,000	13,591,200	\$ 0.12	\$ 1,566,004
Field's Point (Nov. 08 - April 09)	9,122,400	18,244,800	0.11	2,096,733
Interceptor Maintenance (July 08 - March 09)	618,585	824,780	0.16	132,991
COB (July 08 - April 09)	1,132,200	1,358,640	0.12	160,801
CSO Impact on FPWWTF*				-
Rate Year				3,956,528
Rate Year as Filed				<u>4,245,722</u>
Rate Year Adjustment				<u>\$ (289,193)</u>

* CSO Impact on FPWWTF is included in Field's Point line item above and is based upon actual electricity usage data

**Narragansett Bay Commission
Management & Audit Services**

Schedule WEE-R7

	<u>Amount</u>
FY 2009 BP Mgmt Contract less Soda Ash	\$ 1,523,340
FY 2009 Soda Ash	<u>649,837</u>
FY 2009 BP Mgmt Contract Expense	2,173,177
CPI	<u>101.70%</u>
FY 2010 BP Mgmt Contract Expense	2,210,121
Other Mgmt/Audit Svcs	<u>162,197</u>
Rebuttal Rate Year	2,372,318
Rate Year as Filed	2,406,111
<u>Rebuttal Adjustment</u>	<u>\$ (33,793)</u>

1 NARRAGANSETT BAY COMMISSION

2
3 PRE-FILED REBUTTAL TESTIMONY
4 OF MAUREEN GURGHIGIAN
5

6 **Q. Please state your name.**

7 A. My name is Maureen E. Gurghigian, Managing Director with First Southwest
8 Company.
9

10 **Q. Could you please describe your educational and employment background?**

11 A. I hold a masters degree in business administration from the University of Rhode
12 Island. Prior to joining First Southwest on June 8, 2001, I worked for 16 years at
13 Fleet Bank and/or Fleet Securities, all in municipal finance. From 1993 through
14 2000, I served as Manager of the New England Investment Banking Group of
15 Fleet Securities, Inc. Prior to joining Fleet, I spent 8 years in Rhode Island State
16 government, including four years as Director of the Governor's Policy Office
17 under then Governor J. Joseph Garrahy.
18

19 Among other duties, I provide financial advisory services to issuers of municipal
20 debt, primarily in the State of Rhode Island. Annually, I am involved in more that
21 20 publicly offered bond issues. In addition, I have supervisory responsibility for
22 First Southwest's involvement with borrowings by the State of Rhode Island,
23 numerous public agencies and 30 Rhode Island municipalities. Our office assists
24 clients with the origination of more than \$800 million in public financing issues
25 each year.
26

27 **Q. Would you describe the organization of First Southwest Company and the
28 types of services that it provides?**

29 A. For more than 62 years, First Southwest Company has served as financial advisor
30 to many issuers such as schools, cities, airports, hospitals, sports complexes, water
31 and wastewater authorities and districts and toll roads. Currently the firm serves

1 more than 2,000 municipalities and agencies, including more than 400 in New
2 England.

3
4 **Q. Do you hold any special licenses or certifications?**

5 A. I am a registered Municipal Principal with the Municipal Securities Rulemaking
6 Board and hold the Series 52, 53 and 63 licenses.

7
8 **Q. Have you testified previously before the Rhode Island Public Utilities
9 Commission (PUC)?**

10 A. Yes. I have provided testimony before the PUC and/or the Division of Public
11 Utilities and Carriers on matters relating to the Pawtucket Water Supply Board,
12 the Providence Water Supply Board, the Kent County Water Authority and the
13 Narragansett Bay Commission (NBC).

14
15 **Q. What is your relationship with the NBC?**

16 A. I have served as financial advisor to the NBC for the past 19 years. I began
17 providing financial advisory services to NBC in 1989 while working for Fleet
18 Bank. In my capacity as NBC's financial advisor, I have assisted the NBC with a
19 number of long-term borrowings from the Rhode Island Clean Water Finance
20 Agency (RICWFA), several short-term borrowings, the \$70 million Variable Rate
21 Demand Bonds (VRDB) issued in April 2004, the \$45 million Open Market
22 Revenue Bond Issue in August 2005 and the \$42.5 million Open Market Revenue
23 Bond Issue in February 2007. I also assisted the NBC with the recent refunding
24 of the 2004 Series A VRDBs. My services have included the facilitation of the
25 credit rating process, loan structuring and other functions.

26
27 **Q. What is the purpose of your testimony?**

28 A. The NBC requested that I provide additional testimony in support of the
29 Division's recommendation for NBC to convert to monthly billing.

1 **Q. Please discuss how NBC's conversion to monthly billing might impact its**
2 **credit rating?**

3 A. As stated in my direct testimony, credit rating agencies consider several factors
4 when establishing agencies marketability. One of those factors is financial
5 flexibility or liquidity. NBC's operational risk or revenue and expense volatility
6 is increasing as a result of its current revenue shortfalls. For NBC, the conversion
7 to monthly billing would equate to increasing the ability to meet its debt service
8 coverage liability. Improving NBC's cash flow will help to enhance its liquidity
9 and help NBC to maintain its recently upgraded credit rating.

10

11 **Q. How would NBC's revenue recovery shift to fixed fees be perceived by the**
12 **market?**

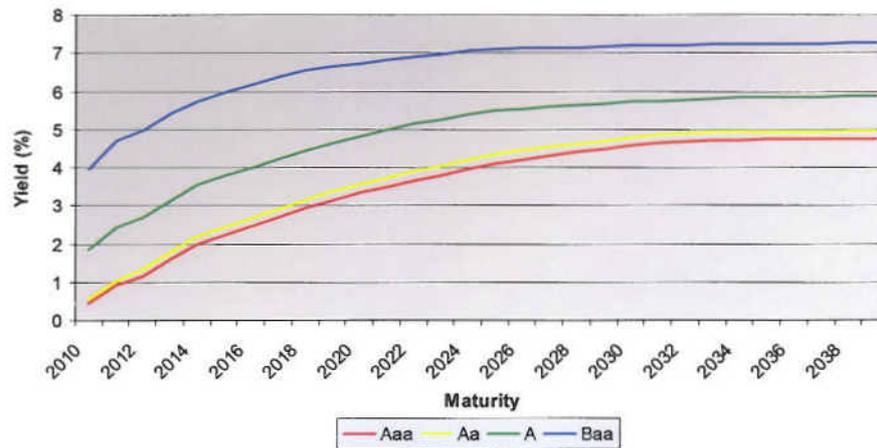
13 A. We believe that shifting a greater portion of the revenue recovery to fixed fees
14 would increase revenue stability and would be viewed favorably by the rating
15 agencies. Nationally, the sector is experiencing declining consumption, due in
16 part to economic conditions, resulting in strained or negative revenue growth for
17 water and wastewater utilities. An increase in the portion of NBC's revenues to
18 fixed fees not dependent upon consumption will help moderate the impact of such
19 declines on NBC's revenue base. As noted in the pre-filed testimony, a major
20 impact of the fallout in the financial markets and ratings downgrades of AAA
21 rated municipal bond insurers is increased scrutiny of an issuer's credit and larger
22 interest rate spreads between lower and higher quality credits.

23

24 **Q. Why is it more important than ever for NBC to maintain its current credit**
25 **rating of AA- or higher?**

26 A. As I previously stated in my filed direct testimony, the financial markets have
27 experienced a number of significant disruptions, beginning with the sub-prime
28 mortgage markets that rippled through to the municipal market. Significant
29 market losses occurred, which adversely impacted the bond insurers' credit
30 ratings. NBC's upgraded credit rating coupled with the current economic
31 volatility gives it strength and opens the market to additional investors. Failure to

1 make debt service payments or meet the coverage requirements will have severe
 2 consequences not only to NBC, but its bondholders and ratepayers. The AA
 3 credit rating has more financial value than ever to NBC and its ratepayers. While
 4 many rating factors remain outside the control of NBC and the Commission and
 5 Division, and we cannot predict the impact of such factors at this time; actions
 6 such as the shift of more revenues to fixed fees should bolster NBC's credit
 7 profile and help to maintain the rating during these difficult times. Credit Spreads
 8 have widened further since the pre-filed testimony. The yield curve below shows
 9 that the interest rate spreads between A and AA rated issues was between 90 and
 10 140 basis points as of April 9, 2009, as compared to 100 basis points in December
 11 2008.



12
 13

14 **Q. How does this improve or aid NBC's achieving its debt service coverage?**
 15 A. NBC's Trust Indenture requires coverage of 125% and NBC's deteriorating
 16 coverage ratio is a cause for concern. As Mr. Edge discusses, NBC's debt service
 17 is clearly a fixed cost as principal and interest payments are fixed, and represents
 18 nearly 60% of NBC's cost of service. For utilities such as NBC with increasing
 19 debt service profiles, debt service coverage may be low for a time as the utility
 20 increases rates to provide for higher debt service in future years. The trend over a
 21 period of years is a more important indicator to the rating agencies than the level
 22 of the coverage ratio at any one point in time. Debt service coverage is an

1 indication of the system's ability to service its debt which is a major consideration
2 for bondholders and investors.

3

4 **Q. Does this conclude your pre-filed testimony?**

5 **A. Yes.**

6