

Schacht & McElroy

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October 5, 2009

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

Re: Providence Water Supply Board – Docket No. 4061

Dear Luly:

At its October 5, 2009, open meeting, the Public Utilities Commission approved the September 10, 2009, Stipulation/Settlement entered into among the parties to this matter, except that, on a 2 to 1 vote, the Commission rejected the agreed upon 5% operating reserve allowance. Instead, the Commission proposed a modification to the Settlement that would continue the existing 3% operating reserve allowance (with 1% unrestricted and 2% restricted), but would also allow Providence Water to collect an additional 2% in rates (approximately \$92,821 per month, or \$1,113,852 per year). The Commission also required Providence Water to deposit the approximate \$92,821 per month into its IFR account in addition to the amount that Providence Water would otherwise be depositing. We understand that the \$92,821 per month would start accruing on January 1, 2010, which is the commencement of the Rate Year in this case.

The Commission limited the amount that can be collected with this additional 2% to \$2.5 million. Once Providence Water has \$2.5 million in the account, Providence Water will be required to make a filing with the Commission at that time for further instructions.

This modification to the Settlement does not affect either the revenues agreed upon in the Settlement or the tariffs filed by Providence Water. It does, however, affect one of the settlement schedules (HJS Settlement-1). The revised Settlement schedule is attached hereto. The only change in that schedule is that the operating reserve at the bottom of the schedule has been divided into two line items instead of one.

Providence Water understands that this modification will take the place of paragraph H of the Settlement.

Providence Water accepts this modification to the Settlement.

Providence Water also understands that Providence Water's rates may be increased in accordance with the settlement tariffs effective as of the open meeting date of October 5, 2009 in accordance with paragraph 10 of the settlement, which states that the change in rates may be implemented by Providence Water for consumption on and after approval by the Commission at open meeting, which occurred on October 5, 2009.

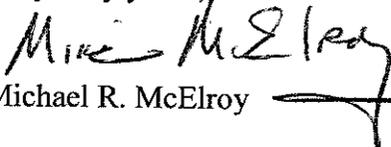
Providence Water is willing to accept this modification to the Settlement. However, Providence Water feels compelled to point out to the Commission that although this modification should make Providence Water whole (combined with the approval to draw \$1,933,548.55 from the reserve account in Docket No. 3832-A), for the \$4,345,864 shortfall that Providence Water suffered in fiscal year 2009, Providence Water firmly believes that this is a short term approach that will not fully address Providence Water's continuing and serious downturn in consumption and the corresponding loss of revenues. As Providence Water pointed out at the settlement hearings, the first two months of fiscal year 2010 were even worse than the same months in fiscal year 2009, which turned out to be the worst consumption year in Providence Water's recent history. Therefore, although the \$2.5 million should make Providence Water whole for the monies lost in FY 2009, continuing to limit the restricted reserve for revenue losses to only 2% will in all likelihood create a situation where funding will be insufficient from the reserve to cover the drop in revenues that is likely to occur FY 2010, unless there is a dramatic reversal in consumption patterns.

We have spoken with counsel for Kent County Water Authority who has indicated KCWA's approval to the Settlement modification by signing below. We have also spoken with counsel for the Division of Public Utilities and Carriers and have been informed that the Division is willing to accept this modification to the Settlement, but that they will be writing their own letter approving the modification.

An original and nine copies of this letter are enclosed. Copies have also been sent to the service list.

If you have any questions or need any further information, please feel free to call.

Very truly yours,


Michael R. McElroy

MRMc: tmg
cc: Service List

APPROVED:
KENT COUNTY WATER AUTHORITY
By its attorney



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PROVIDENCE WATER SUPPLY BOARD

Summary of Revenues and Expenses at
Present and Proposed Rates
Rate Year Ended December 31, 2010

	Rate Year Amount Per PWSB Original Filing	Settlement Adjustments	Rate Year at Present Rates	Increase from Present Rates	Rate Year at Proposed Rates
Revenue					
Retail Water Sales	\$30,829,934	\$ -	\$ 30,829,934	\$ 1,879,021	\$ 32,708,955
Wholesale Water Sales	15,697,498	-	15,697,498	953,156	16,650,654
Retail Service Charges	4,999,279	-	4,999,279	304,383	5,303,662
Private Fire Protection	1,833,075	-	1,833,075	111,319	1,944,394
Public Fire Protection	1,770,227	-	1,770,227	107,469	1,877,696
Miscellaneous	1,777,137	-	1,777,137	1,777,137	3,554,274
Total Revenue	\$56,907,150	\$ -	\$ 56,907,150	\$ 3,355,348	\$ 60,262,498
Expenses					
Operation & Maintenance	27,804,463	(607,968)	27,196,495	-	27,196,495
Insurance	2,144,150	(367,088)	1,777,062	-	1,777,062
Chemical & Sludge	2,874,631	(415,689)	2,458,942	-	2,458,942
City Service Expense	839,167	-	839,167	-	839,167
Property Taxes	6,779,095	(694,933)	6,084,162	-	6,084,162
Capital Reimbursement	(980,125)	(18,029)	(998,154)	-	(998,154)
Net Operations	\$39,461,381	\$ (2,103,707)	\$ 37,357,674	\$ -	\$ 37,357,674
Capital Improvements	2,450,000	-	2,450,000	-	2,450,000
Western Cranson Fund	62,069	-	62,069	-	62,069
Infrastructure Replacement	16,000,000	-	16,000,000	-	16,000,000
Meter Replacement	1,000,000	-	1,000,000	-	1,000,000
Equipment Replacement	600,000	-	600,000	-	600,000
Net Restricted	\$20,112,069	\$ -	\$ 20,112,069	\$ -	\$ 20,112,069
Total Expenses	\$59,573,450	\$ (2,103,707)	\$ 57,469,743	\$ -	\$ 57,469,743
Operating Reserve	2,889,816	(105,185)	2,784,630	-	1,670,778
Deferred IFR Transfer*	-	-	-	-	1,113,852
Total Cost of Service	\$62,463,266	\$ (2,208,892)	\$ 60,254,373	\$ -	\$ 60,254,373
Revenue Surplus/(Deficiency)	\$ (6,556,116)	\$ 2,208,892	\$ (3,347,223)	\$ 3,355,348	\$ 8,125

* Deferred IFR Transfer of 2% and Operating Reserve of 3% per Commission modified Settlement 10/05/09.