
EXETER

ASSOCIATES, INC.

CONSULTING ECONOMISTS
10480 Little Patuxent Parkway
Suite 300
Columbia, Maryland 21044
(410) 992-7500
(410) 992-3445 FAX
topcat@exeterassociates.com

Thomas S. Catlin
Steven L. Estomin
Dwight D. Etheridge
Jerome D. Mierzwa
Christina R. Mudd
Kevin L. Porter

REF: 3515

May 7, 2014

Memorandum

To: Luly Massaro, Clerk
Rhode Island Public Utilities Commission

From: Thomas S. Catlin, Exeter Associates
Consultant to the Division of Public Utilities and Carriers

Subject: City of Newport, Utilities Department, Water Division (Newport Water)
Tariff Advice Filing and Miscellaneous Petition for Relief and
Multi-Year Rate Plan Compliance Filing
Docket Nos. 4243 and 4355

Introduction

On March 4, 2014, Newport Water submitted a Tariff Advice filing and Miscellaneous Petition for Relief (Tariff Advice Filing) and a Multi-Year Rate Plan Compliance Filing (Compliance Filing). In the Tariff Advice filing, Newport Water is seeking approval to reduce its monthly service charges (also referred to as base charges) to prevent the over-recovery of revenues that would otherwise occur as it converts all remaining customers billed on a quarterly basis to monthly billing. Newport proposes to reduce the current monthly service charges to collect the same amount of revenue approved for collection through quarterly and monthly service charges by the Commission in Docket No. 4355. Newport Water's Compliance Filing requests approval of an increase in revenues of \$3,075,984 to recover additional debt service

costs pursuant to the multi-year rate plan approved by the Commission in Docket No. 4243. I have reviewed these filings and my findings are presented below.

Findings

With regard to Newport Water's Tariff Advice Filing, I examined the rates utilizing Newport Water's cost of service study without the increase in debt service. Based on that review, I determined that the new monthly service charges produce the same overall service charge revenues approved in Docket No. 4355, subject to rounding.¹ I also confirmed that without the increase in rates needed to recover the increased debt service there is no change in commodity or fire service rates. As a result, the rates will produce the same overall revenue requirement approved in Docket No. 4355.

The Compliance Filing in Docket No. 4243 represents the third and final phase of the multi-year rate plan approved by the Commission in that docket. Newport Water has requested an increase of \$3,075,984, which is the amount of additional revenues necessary to meet its debt service requirements in each year from FY 2015 through FY 2018.² In reviewing this filing, I have verified that the additional debt service reflects actual repayment schedules for all bond issues and that the proposed rates are designed to generate the revenues required to meet the currently authorized revenue requirements adjusted to include the additional debt service. Two points regarding Newport Water's proposal are worth noting. First, the availability of funds in

¹ The initial model did contain a cell reference error that caused the model to show total service charge revenues of \$1,385,943, not the \$1,456,356 identified in the filing. Correcting the cell reference error resulted in the correct revenue.

² In FY 2015, the Debt Service reserve Fund is projected to be \$105,881 after the debt service payment in September 2014. This amount declines in FY 2016 and FY 2017, and by FY 2018, Newport Water estimates that it will be required to transfer \$125,000 from the restricted Capital Spending account to meet the October 2017 debt service payment.

the restricted Capital Spending account was reviewed to determine whether any excess funds exist that could be withdrawn to help reduce the increase required in this proceeding. A review of the detailed cost of service study underlying Newport Water's filing shows the balance of the restricted Capital Spending account to be \$3.48 million with spending equal to the approved funding allowance of \$2.5 million per year for the next several years.³ However, in response to Division 1-3, Newport Water stated that the funds are required to fund its Capital Spending Plan, which includes \$5.8 million of funding requirements in FY 2015. As discussed in more detail in the accompanying memorandum from Alberico Mancini, the Division has verified that these funds are needed for planned projects. As a result, no excess funds are available to moderate the increase.

Second, the Commission has historically required that revenue increases that are authorized in compliance filings be generated by an across-the-board uniform percentage increases in rates. However, Newport Water has not developed rates based in that manner. Rather, Newport Water has calculated its proposed rates using the cost of service model that was agreed upon in the Settlement Agreement in Docket No. 4355, adjusted to reflect its updated debt service requirements. Because of the significant time and effort it has taken over several dockets to reach an agreement on cost allocation, I recommend that the Commission accept the cost of service model used by Newport to calculate rates in this case instead of using an across the board increase. While this approach is favorable to Portsmouth and the Navy, it will allow rates to more accurately reflect costs and, presumably, avoid the need to adjust rates to match the

³ This balance is shown in the complete cost of service study provided in response to an informal data request and is the December 31, 2013 balance as identified in response to PWFD 1-4.

allocated cost of service when Newport Water files its next rate case (which Newport Water has indicated it expects to be in October 2015.)

Filename: Newport Water 4243 and 4355 Petition DPUC Memo Final
Directory: C:\Documents and Settings\lyons_k\My Documents
Template: C:\Documents and Settings\lyons_k\Application
Data\Microsoft\Templates\Normal.dotm
Title: EXETER
Subject:
Author: Exeter Associates, Inc.
Keywords:
Comments:
Creation Date: 4/30/2014 4:51:00 PM
Change Number: 2
Last Saved On: 4/30/2014 4:51:00 PM
Last Saved By: steve.scialabba
Total Editing Time: 2 Minutes
Last Printed On: 5/5/2014 10:27:00 AM
As of Last Complete Printing
Number of Pages: 4
Number of Words: 762 (approx.)
Number of Characters: 4,345 (approx.)