

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: CITY OF NEWPORT, UTILITES :  
DEPARTMENT, WATER DIVISION'S : DOCKET NOS. 4243 & 4355  
APPLICATION TO CHANGE RATE SCHEDULES :

ORDER

(Multi-Year Rate Plan Compliance Filing (Final Step) and  
Tariff Advice Related to Monthly Billing)

**I. Newport Water, Docket No. 4243 Filing – Final Year of Multi-Year Rate Plan**

On November 29, 2011, the Public Utilities Commission (PUC) approved a Settlement Agreement that included a multi-year rate plan which generally allows the City of Newport, Utilities Department, Water Division (Newport Water) to increase rates to support debt service payments without filing a full rate case after filing “updated information regarding its borrowings including but not limited to the anticipated interest rates, borrowing costs, draw schedules, project costs as well as the anticipated date and source of the borrowings.”<sup>1</sup>

In its Order, the PUC stated that:

the multi-year rate plan, designed to address upcoming debt service requirements, is a balanced way to allow the utility to seek financing based on an anticipated rate schedule while providing protection to ratepayers against excessive rates in the event the debt service issuance schedule or costs change. In this docket, the [PUC] is approving the proposed multi-year rate plan, subject to Newport Water submitting compliance filings as required by R.I.G.L. § 39-15.1-4 (c) and the Settlement Agreement. Because Newport Water will be required to make compliance filings prior to implementing new rates, the [PUC] will have the opportunity to review the more precise debt service requirement, the updated estimated interest rates and updated estimated costs of issuance. This will allow Newport Water an expedited review of its debt service request to ensure adequate rates to fund its capital projects while also ensuring just and reasonable rates for ratepayers. The [PUC] notes that while the multi-year rate plan anticipates rate increases on July 1, 2012, July 1, 2013, and July 1, 2014, these dates and the amounts set forth in the plan may change.<sup>2</sup>

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<sup>1</sup>Order No. 20636 (Feb. 3, 2012) <http://www.ripuc.org/eventsactions/docket/4243-NWD-Ord20636%202-3-12.pdf>.

<sup>2</sup> *Id.* at 25.

Subsequently, the PUC approved Newport Water's Petition to amend the multi-year rate plan, delaying the scheduled increase from July 1, 2012 to April 1, 2013.<sup>3</sup> The second step of the multi-year rate plan became effective on May 1, 2013 to coincide with the effective date of a then-pending rate design docket, Docket No. 4355.<sup>4</sup>

On March 4, 2014, Newport Water filed its final compliance rates under the multi-year rate plan for effect July 1, 2014.<sup>5</sup> Newport Water included the pre-filed testimony of Harold J. Smith, Vice President of Raftelis Financial Consultants, in support of its filing. Mr. Smith explained that Newport Water was seeking a \$3,075,984 revenue increase through rates to meet the level of funding in the debt service restricted account necessary to make debt service payments from September 2014 through September 2018 on the treatment plant projects. Mr. Smith noted that in order to make the last payment in 2018, Newport Water would need to make a one-time transfer from the capital spending restricted account to the debt service restricted account in the amount of \$125,000. While the debt service restricted account would fall short again in 2022, Newport Water expects to submit a full rate filing prior to that time.<sup>6</sup>

## **II. Newport Water Docket No 4355 Filing – Transition to Monthly Billing**

Also on March 4, 2014, Newport Water made a Tariff Advice filing and Petition for Relief from Order No. 21104, in which the PUC approved rates based on a fully allocated cost-of-service study.<sup>7</sup> The order approved tariffs for quarterly and monthly billing.<sup>8</sup> However, as Newport Water explained in its petition, because its base charge was approved when Newport

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<sup>3</sup> Order No. 20819 (Sept. 27, 2012) [http://www.ripuc.org/eventsactions/docket/4243-NWD-Ord20819\(9-27-12\).pdf](http://www.ripuc.org/eventsactions/docket/4243-NWD-Ord20819(9-27-12).pdf).

<sup>4</sup> Order No. 21024 (May 1, 2013) [http://www.ripuc.org/eventsactions/docket/4243-NWD-Ord21024\(5-1-13\).pdf](http://www.ripuc.org/eventsactions/docket/4243-NWD-Ord21024(5-1-13).pdf).

<sup>5</sup> Multit-Year Rate Plan Compliance Rate Filing, [http://www.ripuc.org/eventsactions/docket/4243-%20NWD-PhaseIII-RateFiling\\_3-4-14.pdf](http://www.ripuc.org/eventsactions/docket/4243-%20NWD-PhaseIII-RateFiling_3-4-14.pdf).

<sup>6</sup> Pre-filed testimony of Harold J. Smith at 5-7, Schedule D-6.

<sup>7</sup> Tariff Advice filing and Pet. for Relief, [http://www.ripuc.org/eventsactions/docket/4355-NWD-TariffAdvice-ReliefPetition\\_3-5-14.pdf](http://www.ripuc.org/eventsactions/docket/4355-NWD-TariffAdvice-ReliefPetition_3-5-14.pdf).

<sup>8</sup> Order No. 21104 (written order issued July 16, 2013), [http://www.ripuc.org/eventsactions/docket/4355-NWD-Ord21104\\_7-16-13.pdf](http://www.ripuc.org/eventsactions/docket/4355-NWD-Ord21104_7-16-13.pdf).

Water was billing only 816 of its 14,546 customers on a monthly basis, transitioning quarterly billing customers to monthly billing would cause it to collect almost twice what was approved by the PUC in Newport Water's revenue requirement.<sup>9</sup> For this reason, Newport Water requested relief from the order and approval of revised tariffs which reduced the monthly base charge in order to collect the same amount from the total base charge as allowed in Order No. 21104. Newport Water requested an effective date of July 1, 2014 to coincide with the revenue increase related to the final step of the multi-year rate plan.<sup>10</sup>

Included in its filing was pre-filed testimony of Julia Forgue, P.E., Director of Utilities, and Mr. Smith. Ms. Forgue explained that Newport Water has substantially completed its installation of radio read meters, giving it the capability of reading meters monthly. Considering customers, Ms. Forgue indicated that monthly bills allow them to detect leaks more quickly, to examine high usage patterns and consider conservation measures, and to budget more effectively.<sup>11</sup> Mr. Smith provided schedules to support the proposed reduction to the monthly base charge. He also provided the bill impacts both with and without the revenue increase related to the multi-year rate plan.<sup>12</sup>

### **III. Parties' Submissions**

Following exchange of discovery, on May 7, 2014, the Division of Public Utilities and Carriers (Division) filed two memoranda, one authored by Alberico Mancini, Engineering Specialist, and the other by Thomas S. Catlin, Exeter Associates, the Division's consultant. Mr. Mancini reviewed Newport Water's infrastructure needs and associated capital spending. He determined that the projects in Newport Water's infrastructure replacement plan and capital

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<sup>9</sup> Pet. at 1.

<sup>10</sup> *Id.*

<sup>11</sup> Pre-filed Test. of Julia Forgue at 3-4.

<sup>12</sup> Pre-filed Test. of Harold Smith at 3-4, HJS Schedule E-1.

improvement plan, currently funded in rates, are still necessary. He opined that any funds that have accrued in the capital spending account should be used for these projects without the delay that would be caused if the funds were instead applied to the debt service requirements associated with the treatment plant projects.<sup>13</sup>

Mr. Catlin relied on Mr. Mancini's assessment. Mr. Catlin noted further that the proposed increase related to the multi-year rate plan "reflects actual payment 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."<sup>14</sup> Mr. Catlin noted that the PUC has previously required rate increases outside of a general rate filing to be applied to all rate classes across-the-board, where all rate classes experience the same percentage increase. However, in this case, he supported Newport Water's application of the increase based on the cost-of-service study approved by the PUC in Order No. 21104 due to the significant time and effort taken over many years to reach an agreement on cost allocation.<sup>15</sup> Under this allocation, certain rate classes will experience a higher percentage change than others based on the allocation of the costs to that rate class. He stated that, "[w]hile this approach is favorable to Portsmouth [Water and Fire District] and the Navy, it will allow rates to more accurately reflect costs and, presumably, avoid the need to adjust rates to match the allocated cost of service when Newport Water files its next rate case."<sup>16</sup>

Subsequently, on May 23, 2014, Newport Water filed a revised tariff reducing Portsmouth Water and Fire District's (PWFD) base charge from \$65.07 per month to \$2.86 per month. The

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<sup>13</sup> Mem. of Alberico Mancini (May 7, 2014), [http://www.ripuc.org/eventsactions/docket/4243-DPU-Mancini\\_5-7-14.pdf](http://www.ripuc.org/eventsactions/docket/4243-DPU-Mancini_5-7-14.pdf).

<sup>14</sup> Mem. of Thomas S. Catlin (May 7, 2014), [http://www.ripuc.org/eventsactions/docket/4243-4355-DPU-Catlin\\_5-7-14.pdf](http://www.ripuc.org/eventsactions/docket/4243-4355-DPU-Catlin_5-7-14.pdf).

<sup>15</sup> *Id.* at 2-3.

<sup>16</sup> *Id.* at 3-4.

annual difference is \$746.52, which Newport Water was not allocating to other customers. According to Newport Water, this filing was consistent with a Memorandum of Understanding entered into between Newport Water and PWFD in which the parties agreed that PWFD does not benefit from costs incurred by Newport Water and allocated to the services category.<sup>17</sup>

On May 27, 2014, the Division filed a letter indicating that it would not object to the Memorandum of Understanding, but reserving its right to review the cost allocations changes in the Newport Water's next rate filing "to ensure they are justified."<sup>18</sup> The Division opined that no evidentiary hearing was necessary.<sup>19</sup>

#### **IV. Commission Findings**

At an open meeting held on May 30, 2014, the PUC reviewed Newport Water's filings and the Division's responses.<sup>20</sup> The PUC found Newport Water's filing to collect additional revenues for debt service related to the water treatment plant projects to be in compliance with Commission Order Nos. 20636 and 20819. Newport Water is allowed a total cost of service of \$18,056,831, which equates to a revenue increase of \$3,075,984 over the cost of service approved by the PUC in Order No. 21104, effective for usage on and after July 1, 2014.

The PUC also approved Newport Water's revised request to reduce the base charge on its monthly billing tariff in anticipation of transitioning customers from quarterly billing to monthly billing. Newport Water will absorb the approximate \$700 difference between the original filing and the revised one. Otherwise, the effect of the proposal, absent the final step increase, on Newport Water is designed to be revenue neutral. Once transitioned, Newport Water customers

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<sup>17</sup>Memorandum of Understanding and revised tariff, [http://www.ripuc.org/eventsactions/docket/4243-4355-NWD-Reply\\_5-21-14.pdf](http://www.ripuc.org/eventsactions/docket/4243-4355-NWD-Reply_5-21-14.pdf).

<sup>18</sup> Letter from Karen O Lyons, Special Assistant Attorney General, to Luly Massaro, Commission Clerk, at 2 (May 23, 2014). [http://www.ripuc.org/eventsactions/docket/4355-DPU-SupplementComments\\_5-23-14.pdf](http://www.ripuc.org/eventsactions/docket/4355-DPU-SupplementComments_5-23-14.pdf).

<sup>19</sup> *Id.*

<sup>20</sup> On May 5, 2014, the PUC conducted a hearing in Newport to take public comment regarding the tariff change to reduce the monthly billing charge in anticipation of transitioning more customers from quarterly to monthly billing.

will have the advantage of being able to detect leaks more quickly and review their bills more frequently to determine if they need to take additional measures to conserve water in order to reduce their usage. The effect of these decisions on a typical residential customer currently billed quarterly and using 60,000 gallons of water per year is an increase of \$119.60 per year, raising the annual bill from \$540.28 to \$659.88, or 22.1%. For other customers, the impact will vary based on customer rate class and consumption levels.

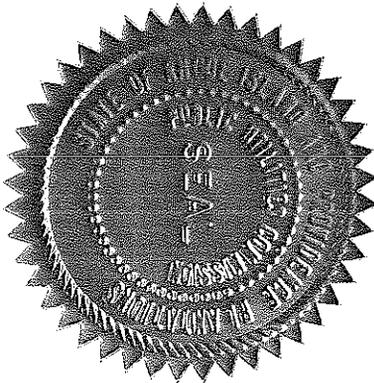
According, it is hereby

(21523) ORDERED

1. The City of Newport, Utilities Department, Water Division's Multi-Year Rate Plan Compliance Filing is hereby approved.
2. The City of Newport, Utilities Department, Water Division's revised Schedule C, Base Charge, filed on May 23, 2014, is hereby approved for effect July 1, 2014.
3. The City of Newport, Utilities Department, Water Division is allowed a total cost of service of \$18,056,831, which equates to a revenue increase of \$3,075,984 over the cost of service approved by the PUC in Order No. 21104, effective for consumption on and after July 1, 2014.
4. The City of Newport, Utilities Department, Water Division's compliance tariffs filed on June 3, 2014 and June 5, 2014 are hereby approved.
5. The City of Newport, Utilities Department, Water Division shall comply with all other findings and instructions as contained in this Report and Order and with all terms of the Settlement Agreement incorporated herein.

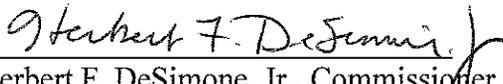
EFFECTIVE AT WARWICK, RHODE ISLAND ON JULY 1, 2014 PURSUANT TO  
OPEN MEETING DECISIONS ON MAY 30, 2014 AND JUNE 10, 2014. WRITTEN ORDER  
ISSUED JULY 22, 2014.

PUBLIC UTILITIES COMMISSION



  
Margaret E. Curran, Chairperson

  
Paul J. Roberti, Commissioner

  
Herbert F. DeSimone, Jr., Commissioner

**NOTICE OF RIGHT OF APPEAL** Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within 7 days from the date of the order, petition the Supreme Court of Rhode Island for a Writ of Certiorari to review the legality and reasonableness of the decision or order.