



State of Rhode Island and Providence Plantations

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Peter F. Kilmartin, Attorney General

July 17, 2011

Luly Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

RE: CITY OF NEWPORT, UTILITIES DEPARTMENT, WATER DIVISION

DOCKET NO: 4243

Dear Ms. Massaro,

Enclosed for filing with the Commission, is an original and nine (9) copies of the Direct Testimony of Thomas S. Catlin on behalf of the Division of Public Utilities and Carriers ("Division") in the above matter.

Very truly yours,

Jon G. Hagopian
Special Assistant Attorney General

JGH/dmm

Encl.
Service list

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND**

**CITY OF NEWPORT)
UTILITIES DEPARTMENT,)
WATER DIVISION)** **DOCKET NO. 4243**

**DIRECT TESTIMONY
OF
THOMAS S. CATLIN**

**ON BEHALF OF THE
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

AUGUST 2011

EXETER

ASSOCIATES, INC.
10480 Little Patuxent Parkway
Suite 300
Columbia, Maryland 20904

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BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND

CITY OF NEWPORT)	
UTILITIES DEPARTMENT,)	DOCKET NO. 4025
WATER DIVISION)	

Direct Testimony of Thomas S. Catlin

Introduction

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Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Thomas S. Catlin. I am a principal with Exeter Associates, Inc. Our offices are located at 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter is a firm of consulting economists specializing in issues pertaining to public utilities.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I hold a Master of Science Degree in Water Resources Engineering and Management from Arizona State University (1976). Major areas of study for this degree included pricing policy, economics, and management. I received my Bachelor of Science Degree in Physics and Math from the State University of New York at Stony Brook in 1974. I have also completed graduate courses in financial and management accounting.

Q. WOULD YOU PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE?

A. From August 1976 until June 1977, I was employed by Arthur Beard Engineers in Phoenix, Arizona, where, among other responsibilities, I conducted economic feasibility, financial and implementation analyses in conjunction with utility

1 construction projects. I also served as project engineer for two utility valuation
2 studies.

3 From June 1977 until September 1981, I was employed by Camp Dresser &
4 McKee, Inc. Prior to transferring to the Management Consulting Division of CDM in
5 April 1978, I was involved in both project administration and design. My project
6 administration responsibilities included budget preparation and labor and cost
7 monitoring and forecasting. As a member of CDM's Management Consulting
8 Division, I performed cost of service, rate, and financial studies on approximately 15
9 municipal and private water, wastewater and storm drainage utilities. These projects
10 included: determining total costs of service; developing capital asset and depreciation
11 bases; preparing cost allocation studies; evaluating alternative rate structures and
12 designing rates; preparing bill analyses; developing cost and revenue projections; and
13 preparing rate filings and expert testimony.

14 In September 1981, I accepted a position as a utility rates analyst with Exeter
15 Associates, Inc. I became a principal and vice-president of the firm in 1984. Since
16 joining Exeter, I have continued to be involved in the analysis of the operations of
17 public utilities, with particular emphasis on utility rate regulation. I have been
18 extensively involved in the review and analysis of utility rate filings, as well as other
19 types of proceedings before state and federal regulatory authorities. My work in
20 utility rate filings has focused on revenue requirements issues, but has also addressed
21 service cost and rate design matters. I have also been involved in analyzing affiliate
22 relations, alternative regulatory mechanisms, and regulatory restructuring issues.
23 This experience has involved electric, natural gas transmission and distribution, and
24 telephone utilities, as well as water and wastewater companies.

1 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY
2 PROCEEDINGS ON UTILITY RATES?

3 A. Yes. I have previously presented testimony on more than 250 occasions before the
4 Federal Energy Regulatory Commission and the public utility commissions of
5 Arizona, California, Colorado, Delaware, the District of Columbia, Florida, Idaho,
6 Illinois, Indiana, Kentucky, Louisiana, Maine, Maryland, Montana, Nevada, New
7 Jersey, Ohio, Oklahoma, Pennsylvania, Utah, Virginia and West Virginia, as well as
8 before this Commission. I have also filed rate case evidence by affidavit with the
9 Connecticut Department of Public Utility Control and have appeared as a witness on
10 behalf of the Louisiana Public Service Commission before the Nineteenth Judicial
11 District Court.

12 Q. ARE YOU A MEMBER OF ANY PROFESSIONAL SOCIETIES?

13 A. Yes. I am a member of the American Water Works Association (AWWA) and the
14 Chesapeake Section of the AWWA. I serve on the AWWA's Rates and Charges
15 Committee and on the AWWA Water Utility Council's Technical Advisory Group on
16 Economics.

17 Q. ON WHOSE BEHALF ARE YOU APPEARING?

18 A. I am presenting testimony on behalf of the Division of Public Utilities and Carriers
19 (the Division).

20 Q. HAVE YOU PREVIOUSLY TESTIFIED ON WATER UTILITY ISSUES
21 BEFORE THIS COMMISSION?

22 A. Yes, I have been asked by the Division to address water utility issues on several
23 occasions. I testified on revenue requirement, cost of service and/or rate design
24 issues in Newport Water Division, Docket Nos. 2029, 2985, 3457, 3578, 3675, 3818
25 and 4025; Providence Water Supply Board, Docket Nos. 2022, 2048, 2304, 2961,

1 3163, 3446, 3684, 3832 and 4061; Kent County Water Authority, Docket Nos. 2098
2 and 3942, Woonsocket Water Department, Docket Nos. 2099 and 2904; United Water
3 Rhode Island, Inc., (formerly Wakefield Water Company), Docket Nos. 2006 and
4 2873; and Pawtucket Water Supply Board, Docket Nos. 3193, 3378, 3497, 3674 and
5 4171.

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

7 A. Exeter Associates was retained by the Division to assist it in the evaluation of the rate
8 filing submitted by the City of Newport Utilities Department, Water Division
9 (Newport Water or the Water Division) on April 19, 2011. This testimony presents
10 my findings and recommendations with regard to the overall revenue increase to
11 which Newport is entitled and with regard to the design of rates to recover those
12 revenues.

13 Q. HAVE YOU PREPARED SCHEDULES TO ACCOMPANY YOUR
14 TESTIMONY?

15 A. Yes. I have prepared Schedules TSC-1 through TSC-12. Schedule TSC-1 provides a
16 summary of revenues and expenses under present and proposed rates. Schedules
17 TSC-2 through TSC-11 present my adjustments to Newport Water's claimed
18 revenues, operating expenses and debt service costs. Schedule TSC-12 presents the
19 development of the rates necessary to generate the Division's recommended
20 revenues.

21 Q. WHAT TIME PERIODS HAVE YOU UTILIZED IN MAKING YOUR
22 DETERMINATION OF NEWPORT'S REVENUE REQUIREMENTS?

23 A. Consistent with Newport Water's filing, I have utilized a test year that corresponds
24 the fiscal year ended June 30, 2010 and a rate year that corresponds to the fiscal year

1 (FY) ending June 30, 2012 as the basis for determining the Water Division's revenue
2 requirements and the revenue increase necessary to recover those requirements.

3 Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE
4 APPROPRIATE INCREASE IN REVENUES IN THIS PROCEEDING?

5 A. As shown on Schedule TSC-1, it is my recommendation that Newport Water receive
6 a revenue increase of \$1,698,903 in this proceeding. This amount is \$2,216,097 less
7 than the increase of \$3,915,000 that Newport Water has identified as necessary based
8 on rate year revenues at present rates.

9 Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO HOW THE
10 ADDITIONAL REVENUES SHOULD BE RECOVERED?

11 A. I have accepted Newport Water's proposal to recover the allowed increase through a
12 uniform percentage increase in existing rates and charges for metered water services
13 and fire protection services.

14 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

15 A. In the remainder of my testimony, I document and explain each of the adjustments to
16 rate base and operating income which I have made to arrive at the test year revenue
17 surplus shown on Schedule TSC-1. My discussion of these adjustments is organized
18 into sections corresponding to the issue being addressed. These sections are set forth
19 in the Table of Contents for this testimony.

20

21 **Employee Vacancies**

22 Q. PLEASE SUMMARIZE THE BASIS FOR NEWPORT WATER'S RATE
23 YEAR CLAIM FOR SALARIES AND WAGES.

24 A. Newport Water has calculated its claim for salaries and wages based on the projected
25 FY 2012 projected salaries for its full complement of 48 full time employees,

1 including the four employees that are shared with the City of Newport wastewater
2 utility. This is the same number of employees requested in Newport Water's prior
3 rate case in Docket No. 4025.

4 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO WATER'S
5 CLAIMED SALARIES AND WAGES?

6 A. As in Docket No. 4025, I am proposing to adjust rate year salaries and wages to
7 recognize that not all of the 48 employee positions will be filled throughout the rate
8 year. As I noted in my Direct Testimony in that docket, Newport had at least two
9 unfilled positions in every quarter of FY 2007, FY 2008 and FY 2009. During the FY
10 2010 test year in this case, Newport Water had two positions (an Assistant WQP
11 Supervisor and a Water Plant Foreman Operator) vacant for the entire year and at
12 least one other position vacant for a portion of the year. (In addition to one
13 Distribution/Collection Operator position, it appears from the salary information
14 provided in response to Div. 1-2 that the two laboratory positions were vacant for a
15 portion of the year.) According to the response to Div. 1-3, Newport Water currently
16 has five vacant positions. Such employee vacancies occur as the result of normal
17 employee turnover and it is unreasonable to assume that no employee vacancies will
18 occur during the FY 2012 rate year.

19 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO
20 NEWPORT'S CLAIMED COST OF SERVICE TO RECOGNIZE VACANT
21 EMPLOYEE POSITIONS DURING THE RATE YEAR?

22 A. I am proposing to reduce rate year salaries and wages and benefits expense to reflect
23 an average of two vacant positions. To calculate the adjustment to rate year expenses
24 for these vacant positions, I have utilized the average wages and benefits for the
25 Distribution/Collection Operator position for one vacancy and the average wages and

1 benefits for the Source of Supply Laborer for the second vacancy. I have chosen
2 these positions to calculate my adjustment because they represent three of the five
3 vacancies and the salaries for these positions are among the lowest at Newport Water.
4 (There are two Distribution/Collection Operator positions and one Source of Supply
5 Laborer position vacant in addition to an Assistant WQP Supervisor and a Water
6 Plant Foreman Operator.) As shown on Schedule TSC-3, this adjustment reduces rate
7 year expense by a total of \$130,088. I would note that in calculating the benefits
8 costs associated with the two vacancies, I have utilized the updated health dental and
9 life insurance premiums provided by Newport Water in discovery, as discussed
10 subsequently.

11 Q. DO YOU HAVE ANY OTHE COMMENTS WITH REGARD TO
12 NEWPORT WATERS TEST YEAR LABOR COSTS?

13 A. Yes. My review of Newport Water's estimates of overtime hours for Customer
14 Service and Source of Supply-Island divisions and the temporary labor hours for the
15 Service and Source of Supply-Island and Source of Supply-Mainland are likely to be
16 overstated based on historical experience. However, the adjustment to expenses
17 would be relatively small. Therefore, to be conservative, I have accepted Newport's
18 estimates.

19
20 **Employee Benefits**

21 Q. WHAT ADJUSTMENT HAVE YOU MADE TO EMPLOYEE BENEFITS
22 EXPENSE?

23 A. In response to Div. 1-9, Newport Water provided an update to the employee benefits
24 expense included in its filing to reflect updated health, dental and life insurance
25 premiums for the rate year. I have adjusted employee benefits expense to reflect this

1 updated costs provided by Newport Water. As shown on Schedule TSC-4, this
2 adjustment reduces test year expenses by \$112,284.

3
4 **Consultant Fees**

5 Q. PLEASE SUMMARIZE NEWPORT WATER'S FILED CLAIM FOR
6 CONSULTANT FEES.

7 A. Newport Water has included \$338,400 in rate year Administration costs for
8 consultant fees. A breakdown of this request is shown in Table A. In addition to the
9 amounts included in Administration costs shown in Table A below, Newport Water
10 has also included \$185,000 for legal and financial service in FY 2012 as part of its
11 capital improvement program, as shown on RFC Schedule 4.

	<u>Current</u> <u>Rate Case</u>	<u>Other</u>
Legal Fees	\$ 70,200	\$ 54,800
Financial Consultant	28,800	99,600
Other (Division Fees)	24,500	42,300
Bond Advisor	--	10,000
Code Red	--	8,200
Total	<u>\$123,500</u>	<u>\$214,900</u>

Sources: RFC Schedule B-1 and DIV. 1-10.

12 Q. DO THE AMOUNTS INCLUDED IN THE RATE YEAR FOR THE
13 CURRENT RATE CASE REPRESENT THE TOTAL COSTS FOR THIS
14 RATE CASE?

15 A. No. The costs associated with the current rate case are split more or less equally
16 between FY 2011 and FY 2012. This effectively results in a two years amortization or

1 normalization of rate case expense and I have accepted this component of Newport
2 Water's claimed consultant fees.

3 Q. HOW DO THE AMOUNTS FOR OTHER THAN THE CURRENT RATE
4 CASE COMPARE TO CONSULTANT FEES IN RECENT YEARS?

5 A. The non-rate case amounts for legal fees, financial consultant and other (Division of
6 Public Utilities and Carriers or DPUC) fees are all significantly above FY 2010 actual
7 amounts and, with the exception of legal fees, projected FY 2011 expenses.
8 According to the responses to Div. 2-2 and PWFD 3-3, FY 2012 consultant fees are
9 higher because they include amounts for the design build process associated with the
10 new treatment plant projects and the need to submit filings with the Commission.
11 The amounts for financial consulting and Division fees also include \$56,000 and
12 \$32,300, respectively, for the ongoing demand study.

13 Q. WHAT ADJUSTMENTS ARE YOU PROPOSING TO NEWPORT
14 WATER'S CLAIM FOR NON-RATE CASE CONSULTANT FEES?

15 A. I am proposing several adjustments to the amounts included for non-rate case related
16 consultant fees. First, in response to DIV. 1-10, Newport Water indicated it now
17 expects its costs for Code Red (the City's emergency notification system) to be
18 \$3,000 rather than \$8,200 as reflected in the filing. I have made reflected this change
19 as part of my adjustment.

20 Second, I have reduced the amount included for Division fees from \$42,300 to
21 \$10,000 to exclude the \$32,300 identified as being related to the demand study. I
22 have also removed the \$56,000 included in financial consultant fees for amounts
23 related to the demand study. Newport Water has separately identified the total costs
24 of the demand study in Item 2.9(m) of the filing as \$158,613 for the period FY 2009
25 through FY 2012. I am proposing to amortize those costs over four years and have

1 included \$40,000 year (rounded) in lieu of \$86,300 included as a test year expense for
2 Division and financial consultant fees.

3 Finally, I have adjusted the remaining \$43,600 of financial consulting and
4 \$54,800 of legal fees to remove amounts in excess of historical levels that are
5 attributable to design/build, financial and bonding issues related to capital
6 improvements program. In FY 2010, Newport Water identified roughly \$23,000 of
7 legal fees as being for non-rate case activities and all financial consulting costs as
8 being rate case related. To be conservative, I have included \$35,000 total for non-rate
9 case legal and financial consulting. Accordingly, I have removed \$63,400 as capital
10 improvement program related. Those amounts are properly recognized as
11 construction program and/or bond issuance costs.

12 Q. HAVE YOU PREPARED A SCHEDULE SUMMARIZING YOUR
13 ADJUSTMENT TO CONSULTANT FEES?

14 A. Yes. Schedule TSC-5 shows the derivation of my adjustment. As shown there, I
15 have included \$221,500 for rate year consultant fees. This represents a reduction of
16 \$116,900 compared to Newport Water's claimed expense.

17

18 **Chemical Costs**

19 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO
20 CHEMICAL EXPENSES COSTS?

21 A. In its filing, Newport Water used estimated chemical prices for FY 2012 to develop
22 its projection of chemical costs for the rate year. Actual FY 2012 prices are now
23 known based on bids received on May 3, 2011 and provided in response to DIV. 1-
24 27. I have updated estimated rate year chemical costs to reflect these updated unit

1 prices. As shown on Schedule TSC-6, this adjustment results in a reduction in
2 chemical costs of \$85,522.

3
4 **Sewer Charges**

5 Q. HOW DID NEWPORT WATER DEVELOP ITS ESTIMATE OF SEWER
6 CHARGES FOR WASTEWATER DISCHARGED FROM ITS TWO
7 WATER TREATMENT PLANTS?

8 A. Newport Water developed its estimate of rate year sewer charges at its Lawton Valley
9 and Station One water treatment plants (WTPs) based on historical average
10 wastewater volumes (rounded up to next highest million gallons) and an estimate of
11 the FY 2012 sewer rate to be charged by City of Newport Water Pollution Control
12 Division.

13 Q. WHAT CHANGES ARE YOU PROPOSING TO MAKE TO NEWPORT
14 WATER'S ESTIMATE OF SEWER CHARGES?

15 A. I am proposing two changes to Newport Water's estimate of sewer charges for the
16 rate year. First, I have reduced the wastewater volumes for the Station One WTP
17 from 27 million gallons (MG) to 26 MG based on the average volumes in FY 2009
18 and FY 2010. I have excluded FY 2008 from the average because wastewater
19 volumes from Station One have declined each year since FY 2008 and were only
20 24.1 MG in the 12 months ended April 2011. I have accepted the Newport's estimate
21 of 32 MG for Lawton Valley. This estimate reflects FY 2009 and FY 2010 volumes
22 because wastewater discharge did not begin until January 2008 and it is consistent
23 with experience for the 12 months ended April 2011.

24 The second change I have made to Newport Water's estimate of sewer
25 charges is to reflect the approved sewer rate for FY 2010 that was adopted subsequent

1 to Newport Water’s filing. Newport Water used an estimate of \$11.75 per thousand
2 gallons and the final approved rate was \$11.27 per thousand gallons. As shown on
3 Schedule TSC-7, the two changes I have made reduce rate year sewer charges by
4 \$23,980 for Station One and \$15,360 for Lawton Valley for a total reduction of
5 \$39,340.

6
7

City Services

8 Q. PLEASE EXPLAIN WHAT ADJUSTMENTS YOU HAVE MADE TO
9 NEWPORT WATER’S CLAIM WITH REGARD TO PAYMENTS TO THE
10 CITY OF NEWPORT FOR LEGAL AND ADMINISTRATIVE SERVICES
11 AND DATA PROCESSING SERVICES?

12 A. In general, Newport Water has calculated the charges for City of Newport legal and
13 administrative services and data processing services in a manner consistent with the
14 methodology approved by the Commission in Docket No. 4025. However, in
15 reviewing Newport Water’s calculations, I identified two corrections that need to be
16 made to the determination of the Water Division percentage of the City budget
17 utilized to allocate costs to the Water Division that is shown on RFC Schedule D.
18 First, Newport Water included the Water Fund budget in its calculation of the
19 percentage. I have revised the calculation to reflect Newport Water’s total operating
20 expenses as determined in this proceeding, consistent with the calculation approved
21 by the Commission in Docket No. 4025.

22 Second, the budget amount included by Newport Water for the WPC Fund is
23 only the “Other Cash Outlays” component of the WPC budget, not the total budget.
24 I have revised the WPC Fund budget to start with the total budget of \$28,400,882.
25 I have then subtracted out the amount included in that budget for capital outlays from

1 revenue bonds of \$12,600,000 to avoid double counting of these amounts as cash
2 outlays and on an ongoing basis as bond principal payments. This is consistent with
3 the manner in which the capital outlays for the Water Division are determined.

4 Q. HAVE YOU PREPARED A SCHEDULE THAT PRESENTS YOUR
5 CALCULATION OF THE APPROPRIATE CHARGES FOR CITY
6 SERVICES?

7 A. Yes. Schedule TSC-8 presents my analysis of the charges for City Services after
8 making the two corrections to the budget allocation percentage discussed above. As
9 indicated there, I am proposing an allowance of \$309,376 for legal and administrative
10 City services and \$143,425 for data processing services compared to Newport
11 Water's claims of \$347,400 and \$191,200, respectively.

12
13 **Debt Service Expense**

14 Q. HOW DID NEWPORT WATER DEVELOP ITS CLAIMED RATE YEAR
15 LEVEL OF DEBT SERVICE EXPENSE?

16 A. Newport Water included the debt service for its existing revenue bonds and three
17 State Revolving Fund (SRF) loans. To these amounts, it added the estimated debt
18 service for a new SRF loan to be issued to fund its FY 2012 capital improvements
19 program (the 2012 SRF loan). Newport Water estimated the required 2012 SRF loan
20 amount based on capital improvement program costs to be financed of \$16.458
21 million plus issuance costs of 13 percent for a total loan amount of \$18.598 million.
22 Payments were based on a loan repayment period of 20 years with interest at six
23 percent. Newport Water included a full year of principal and interest being paid in
24 FY 2012, the first fiscal year that the debt is issued.

1 Q. WERE SIMILAR ASSUMPTIONS MADE IN DETERMINING THE DEBT
2 SERVICE IN SUBSEQUENT YEARS?

3 A. Yes. As discussed by Ms. Forgue, Newport Water is requesting approval of a multi-
4 year rate plan to allow it to recover the debt service on bonds it expect to issue in
5 subsequent years to finance the costs of its ongoing capital improvements program
6 without having to file full rate cases every year. In projecting the revenue increases
7 that will be required in subsequent years, Newport has Water has made the same
8 assumptions regarding the issuance costs, interest rate and first year principal and
9 interest payments (i.e. that a full year of principal and interest will be due in the fiscal
10 year in which the debt is issued).

11 Q. DO YOU AGREE THAT NEWPORT WATER'S ESTIMATE OF THE
12 ADDITIONAL DEBT SERVICE IN THE RATE YEAR IS REASONABLE?

13 A. No. I have two areas of concerns with regard to the additional debt service that
14 Newport Water has included in rate year expense. First, debt service is overstated
15 due to the inclusion of a full year of principal and interest on the planned new SRF
16 loan. Second, Newport Water's estimates of issuance costs and the interest rate
17 which it will pay on the new loan cause the projected debt service to be overstated.

18 Q. PLEASE EXPLAIN YOUR CONCERN WITH REGARD TO THE
19 INCLUSION OF A FULL YEAR OF PRINCIPAL AND INTEREST ON
20 THE 2012 SRF LOAN.

21 A. There are several factors that make it unlikely that Newport Water will make any
22 significant debt service payments in the FY 2012 rate year or during the 12 months
23 ended January 2013, which represents the first year the rates approved in this
24 proceeding will be in effect.

25 • In response to DIV. 2-7 and PWFD 1-4, Newport Water has indicated
26 that it will not determine the timing of the borrowing or the schedule

1 for drawing down the loan proceeds until after a design/build
2 contractor for the Lawton Valley WTP is selected in late 2011 and a
3 contract signed in early 2012.

- 4 • SRF loans are normally issued in May of each year. To the extent that
5 Newport Water requires funding before May 2012, it expects to utilize
6 Bond Anticipation Notes (BANs), which would then be paid off with
7 the SRF loan proceeds.

- 8 • SRF loans have semi-annual payments of interest in September and
9 March and annual payments of principal in September. Interest is only
10 paid on the proceeds that have been drawn down and principal
11 repayment typically begins only after the loan proceeds are fully
12 drawn down.

13 Based on the above, the debt service payments on the 2012 SRF loan during the first
14 year the rates approved in this case are in effect would be limited to a nominal interest
15 payment in September 2012. In the first few months following that year, there would
16 be an interest payment due in March 2013. The amount of that interest payment will
17 depend on the extent to which the loan proceeds have been drawn down. However, it
18 would seem likely that the March 2013 payment will reflect six months of interest on
19 less than the full loan amount. This means that the March payment will be no more
20 than an amount in the range of \$300,000 to \$400,000.

21 Q. PLEASE EXPLAIN YOUR SECOND CONCERN WITH REGARD TO
22 NEWPORT WATER'S ESTIMATE OF ISSUANCE COSTS AND THE
23 INTEREST RATE.

24 A. In developing its estimate of the amount of debt that it expects to issue to finance its
25 capital improvement in FY 2012 through FY 2015, Newport Water included a 13
26 percent adder for issuance costs such as loan organization fees, reserve fund deposits,
27 and financial and legal fees. According to the response to PWFD 1-3, these costs
28 have historically added seven to nine percent to the amount to be borrowed. That
29 response goes on to indicate that the higher percentage was utilized to account for the

1 possible additional costs of issuing BANs in advance of receiving SRF loan proceeds.
2 However, the response to PWFD 4-1 indicates that the costs associated with an
3 existing BAN of \$4,037,000 were \$181,595. If a similar BAN was used in advance
4 of the planned 2012 SRF loan to fund \$16,458,000 of capital improvements, the
5 added cost would add less than one percent to the amount to be borrowed.

6 With regard to the interest rate, Newport Water has used an estimate of six
7 percent. This interest rate assumes that Newport Water will not receive SRF
8 subsidized loans even though both Lawton Valley WTP project and the Station One
9 improvements are both on the funding priority list. Newport indicates that it has
10 made this assumption to be conservative. While I understand that there is no
11 certainty that SRF loans will be available to fund all of the costs, it is reasonable to
12 expect that such funds will be available for a portion of Newport Water's projects.
13 Moreover, the six percent interest rate appears overly conservative considering that
14 interest rates on AAA municipal bonds have recently averaged in the four to five
15 percent range according to Mergent Bond Record.

16 Q. WHAT IS OUR RECOMMENDATION WITH REGARD TO THE
17 ALLOWANCE FOR DEBT SERVICE TO BE INCLUDED IN THE RATE
18 YEAR?

19 A. I am proposing to include an allowance for debt service of \$1,390,000. This amount
20 is based on the principal and interest payments on existing debt of \$1,389,051 for FY
21 2012. As shown on Schedule TSC-9, this results in a reduction in debt service
22 expense of \$1,620,483.

23 Q. WHY ARE YOU PROPOSING TO LIMIT THE ALLOWANCE FOR DEBT
24 SERVICE TO THE AMOUNT ASSOCIATED WITH EXISTING DEBT?

1 A. I am limiting the allowance for debt service to principal and interest payments on
2 existing debt for several reasons. First, as discussed in detail above, it is unlikely that
3 Newport Water will incur any significant additional debt service payments in 2012.
4 Second, the debt service on the existing debt declines by approximately \$182,000 to
5 approximately \$1.206 million for during the rate effective period based on the
6 principal and interest payments in March and September of 2012. Hence, a debt
7 service allowance of \$1,390,000 should cover any interest on the 2012 SRF loan in
8 2012. Third, the balance in the debt service restricted account as of June 30, 2011 is
9 \$1,989,949. Recognizing that the existing debt service restricted account
10 contributions will remain in excess of the current debt service levels until rates are
11 reset, this balance will increase during FY 2012. Hence, to the extent Newport Water
12 does incur any additional debt service, it will have more than adequate funds
13 available.

14 Q. HOW DO YOU RECOMMEND NEWPORT WATER SEEK RECOVERY
15 OF THE ADDITIONAL DEBT SERVICE ASSOCIATED WITH ITS
16 CAPITAL IMPROVEMENT PROGRAM?

17 A. As noted previously, Newport Water has requested that the Commission approve a
18 multi-year rate plan to allow it to recover the increasing debt service associated with
19 its capital improvement program. The Division does not object to that proposal.
20 Accordingly, Newport Water can file updated debt service estimates each year when
21 it seeks approval of the annual rate increases under its multi-year rate plan. For
22 example, when it files in 2012 for the step increase to take effect in 2013, it should be
23 able to provide a reasonably accurate estimate of the debt service requirements in
24 2013 that will include the debt service associated with the 2012 SRF loan.

1 Q. HAVE YOU PREPARED AN ESTIMATE OF THE DEBT SERVICE THAT
2 WILL BE INCURRED IN 2013 AND SUBSEQUENT YEARS AS NEW
3 DEBT IS ISSUED?

4 A. Yes. Schedule TSC-10 presents an estimate of the annual debt service in calendar
5 year 2013 and subsequent years including the SRF loans Newport Water plans to
6 utilize to finance its capital improvement plan in 2012 through 2015. For purposes of
7 preparing this schedule, I have assumed that issuance costs will be 10 percent of the
8 principal required to fund the capital projects and that interest will average four
9 percent on a combination of SRF subsidized and non-subsidized interest. I have also
10 assumed that a full year's principal and interest payments on the 2012 SRF loan
11 would be required in calendar year 2013, the full payments on the 2013 SRF loan
12 would be required in calendar year 2014, etc. Although the principal and interest
13 payments on the existing debt are for fiscal years rather than calendar years, for
14 simplicity, I have assumed the fiscal year debt service applies in the calendar year.
15 (That is, I have treated FY 2012 debt service as being paid in calendar year 2012,
16 etc.) This assumption is conservative because the existing debt service declines over
17 the next several years.

18 Q. WHAT ADDITIONAL RATE INCREASES WILL BE REQUIRED TO
19 MEET THE ADDITIONAL DEBT SERVICE?

20 A. Ignoring changes in revenue and other expenses, Schedule TSC-10 indicates that the
21 following revenue increases will be required to cover the additional debt service
22 requirements:

23	CY 2013:	\$1.5 million
24	CY 2014:	\$3.0 million
25	CY 2015:	\$2.6 million
26	CY 2016:	\$0.4 million

1 However, it should be emphasized that these are estimates based on the assumptions
2 discussed above with regard to capital requirements, issuance costs and interest rates.
3 The required rate increases will need to be requested by Newport Water based on its
4 actual future debt service requirements.

5

6

Revenue Requirement Offsets

7 Q.

WHAT ADJUSTMENT ARE YOU RECOMMENDING TO THE
8 REVENUE REQUIREMENT OFFSETS THAT NEWPORT WATER HAS
9 RECOGNIZED IN THE RATE YEAR?

10 A.

Newport Water has included the amounts that it recovers for the cost of providing
11 metering and customer accounting services to Newport’s Water Pollution Control
12 (WPC) Division and the Middletown Sewer Department (Middletown) as a revenue
13 requirement offset. In response to PWFD 2-5, Newport Water indicated that in
14 calculating the rate year revenue requirement offset, the cost of a remote reading
15 laptop computer should have been included in the costs to be billed to WPC and
16 Middletown, but was not. Accordingly, I have adjusted customer service billings to
17 reflect this change. In addition, in response to PWFD 2-4, Newport Water indicated
18 that the amount of debt service assigned to metering and customer accounting
19 services was incorrectly identified. I have also corrected the debt service included in
20 the calculation of the billings to Middletown and WPC. Finally, I have updated
21 customer service costs to reflect the effect of the reduction in medical dental and life
22 insurance premiums shown on Schedule TSC-4. As shown on Schedule TSC-11,
23 making these corrections increases the cost of service offset for customer service
24 billings by \$8,582.

25

1 Operating Reserve Allowance

2 Q. WHAT ADJUSTMENT HAVE YOU MADE TO NEWPORT WATER'S
3 CLAIMED OPERATING REVENUE ALLOWANCE?

4 A. Newport Water has requested an operating revenue allowance equal to three percent
5 of total O&M expense as approved by the Commission in Docket No. 4025. I have
6 adjusted this allowance to reflect the changes to O&M expense that I have
7 recommended on behalf of the Division.

8
9 Rate Design

10 Q. HAVE YOU DEVELOPED RECOMMENDED RATES TO RECOVER
11 THE REVENUE INCREASE THAT YOU HAVE IDENTIFIED AS
12 NECESSARY?

13 A. Yes. I am proposing that the allowed revenue increase be recovered through a
14 uniform percentage increase in all rates for water service and fire service. The
15 calculations of my rate recommendations are presented on Schedule TSC-12. As
16 shown on page 1 of that schedule, the revenue increase of \$1,698,903 that I have
17 recommended on behalf of the Division represents an increase of 16.34 percent over
18 the rate year revenue at existing water and fire service rates. Page 2 of Schedule
19 TSC-12 presents the calculation of the rates necessary to generate this increase and
20 provides a proof of revenue at proposed rates.

21 Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

22 A. Yes, it does.

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**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND**

**CITY OF NEWPORT)
UTILITIES DEPARTMENT,)
WATER DIVISION)** **DOCKET NO. 4243**

**SCHEDULES ACCOMPANYING THE
DIRECT TESTIMONY
OF
THOMAS S. CATLIN**

**ON BEHALF OF THE
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

AUGUST 2011

EXETER
ASSOCIATES, INC.
10480 Little Patuxent Parkway
Suite 300
Columbia, Maryland 20904

CITY OF NEWPORT--WATER DIVISION

Summary of Revenues and Expenses at
Present and Proposed Rates
Rate Year Ended June 30, 2012

	Rate Year Amount Per Newport	Division Adjustments	Rate Year at Present Rates	Proposed Rate Increase	Rate Year at Proposed Rates
Revenue					
Customer Charge	\$ 987,572	\$ -	\$ 987,572	\$ 161,263	\$ 1,148,834
Retail Consumption	6,294,755	-	6,294,755	1,028,743	7,323,498
Wholesale/Bulk Sales	1,837,150	-	1,837,150	300,118	2,137,268
Fire Protection	1,276,686	-	1,276,686	208,522	1,485,208
Miscellaneous	726,885	8,582	735,467	-	735,467
Total Revenue	\$ 11,123,048	\$ 8,582	\$ 11,131,630	\$ 1,698,645	\$ 12,830,276
Expenses					
Water Administration	2,509,900	(210,496)	2,299,404	-	2,299,404
Customer Accounts	629,500	(15,106)	614,394	-	614,394
Source of Supply-Island	723,490	(78,958)	644,532	-	644,532
Source of Supply-Mainland	168,000	(75)	167,925	-	167,925
Treatment & Pumping-Station One	1,932,154	(103,417)	1,828,737	-	1,828,737
Treatment & Pumping-Lawton Valley	1,675,300	(67,765)	1,607,535	-	1,607,535
Water Laboratory	229,800	(5,587)	224,213	-	224,213
Transmission & Distribution Maintenance	1,125,700	(88,529)	1,037,171	-	1,037,171
Fire Protection	13,500	-	13,500	-	13,500
Subtotal	\$ 9,007,344	\$ (569,933)	\$ 8,437,411	\$ -	\$ 8,437,411
Debt Service	3,010,483	\$ (1,620,483)	1,390,000	-	1,390,000
Capital Outlays	2,750,000	-	2,750,000	-	2,750,000
Total Expenses	\$ 14,767,827	\$ (2,190,416)	\$ 12,577,411	\$ -	\$ 12,577,411
Operating Reserve	270,220	(17,098)	253,122	-	253,122
Total Cost of Service	\$ 15,038,047	\$ (2,207,514)	\$ 12,830,533	\$ -	\$ 12,830,533
Revenue Surplus/(Deficiency)	\$ (3,915,000)	\$ 2,216,097	(\$1,698,903)	\$ 1,698,645	(\$257)

CITY OF NEWPORT--WATER DIVISION

Summary of Division Adjustments to
Rate Year Expenses
Rate Year Ended June 30, 2012

<u>Description</u>	<u>Amount</u>	<u>Source</u>
Employee Vacancies	\$ (130,088)	Schedule TSC-3
Benefits	(112,284)	Schedule TSC-4
Consultant Fees	(116,900)	Schedule TSC-5
Chemical Costs	(85,522)	Schedule TSC-6
Sewer Charges	(39,340)	Schedule TSC-7
City Services--Legal & Administrative	(38,024)	Schedule TSC-8
City Services--Data Processing	(47,775)	Schedule TSC-8
Debt Service	(1,620,483)	Schedule TSC-9
Operating Reserve	<u>(17,098)</u>	See Note (1)
Total Expense Adjustments	\$ (2,207,514)	
Revenue Offsets	<u>8,582</u>	Schedule TSC-11
Total Division Adjustments to Income	<u>\$ 2,216,097</u>	

Note:

(1) Based on 3.0% of total O&M expenses as reflected on Schedule TSC-1.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Salaries and Wages to
Reflect Normal Employee Vacancies
Rate Year Ended June 30, 2012

<u>Current Vacant Positions (1)</u>	<u>Salary (2)</u>	<u>Benefits (2)</u>
Source of Supply Laborer	\$ 36,757	\$ 28,262
Distribution/Collection Operator	41,384	23,685
Average	\$ 39,071	\$ 25,974
Normal Employee Vacancies (3)	<u>2</u>	<u>2</u>
Reduction in Claimed Salaries and Benefits	\$ 78,141	\$ 51,947
Total Adjustment to Rate Year Expense		<u>\$ (130,088)</u>

Notes:

- (1) Per response to Div. 1-3.
- (2) Per responses to Div. 1-2 and 1-9.
- (3) Refer to testimony.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Benefits Expense
 Rate Year Ended June 30, 2012

	<u>Amount Per Filing (1)</u>	<u>Updated Expense (2)</u>	<u>Adjustment</u>
Water Administration	\$ 136,000	\$ 128,203	(7,797)
Customer Accounts	183,900	168,794	(15,106)
Source of Supply-Island	172,500	160,316	(12,184)
Source of Supply-Mainland	2,600	2,525	(75)
Treatment & Pumping-Station One	304,200	280,507	(23,693)
Treatment & Pumping-Lawton Valley	312,600	288,218	(24,382)
Water Laboratory	69,800	64,213	(5,587)
Transmission & Distribution Maintenance	301,000	277,540	(23,460)
Fire Protection	-	-	-
Adjustment to Customer Service Expense	\$ 1,482,600	\$ 1,370,316	\$ (112,284)

Notes:

(1) Per RFC Schedules B-1 through B-9.

(2) Per response to Div. 1-9.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Consulting Fees
 Rate Year Ended June 30, 2012

	<u>Amount Per Newport (1)</u>	<u>Amount Per Division (2)</u>	<u>Adjustment</u>
<u>Rate Case Expense</u>			
Legal	\$ 70,200	\$ 70,200	\$ -
Financial	28,800	28,800	-
Other (Division)	24,500	24,500	-
Subtotal	<u>\$ 123,500</u>	<u>\$ 123,500</u>	<u>\$ -</u>
<u>Non Rate Case Related</u>			
Legal	54,800	25,000	(29,800)
Financial	43,600	10,000	(33,600)
Other (Division)	10,000	10,000	-
Subtotal	<u>\$ 108,400</u>	<u>\$ 45,000</u>	<u>\$ (63,400)</u>
<u>Demand Study</u>			
Financial	56,000		
Other (Division)	32,300		
Subtotal	<u>\$ 88,300</u>	<u>\$ 40,000</u>	<u>\$ (48,300)</u>
Bond Advisor	10,000	10,000	-
Code Red	8,200	3,000	(5,200)
Adjustment to Expense	<u>\$ 338,400</u>	<u>\$ 221,500</u>	<u>\$ (116,900)</u>

Notes:

(1) Per response to Div. 1-10 and PWFD 3-3.

(2) Refer to testimony.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Chemicals Expense
 Rate Year Ended June 30, 2012

	<u>Estimated Quantity (1)</u>		<u>Fy 2012 Unit Price (2)</u>		<u>Annual Cost</u>
Station One					
Aluminum Sulfate	373,000	\$	0.1745	\$	65,089
Chlorine	52,200		0.4250		22,185
Flouride	20,200		0.4200		8,484
Sodium Chlorite	147,000		0.7800		114,660
Polymer	1,300		7.6500		9,945
Sodium Hydroxide	79,000		0.6893		54,455
GAC	1,640		48.41		79,392
Total Station One				\$	<u>354,210</u>
Lawton Valley					
Aluminum Sulfate	312,000	\$	0.1745	\$	54,444
Chlorine	34,000		0.4250		14,450
Flouride	10,000		0.4200		4,200
Sodium Chlorite	65,000		0.7800		50,700
Sodium Hydroxide	67,000		0.6893		46,183
Lawton Valley Total				\$	<u>169,977</u>
Source of Supply Island					
Copper Sulfate	39,000		1.8650	\$	<u>72,735</u>
Total FY 2012 Updated Chemical Costs				\$	596,922
Amount per Newport Water Filing (3)					<u>682,444</u>
Adjustment to Chemicals Restricted Account Contribution				\$	<u>(85,522)</u>

Notes:

(1) Per RFC Schedules B-3, B-5 and B-6.

(2) Per response to Div. 1-27.

(3) Per RFC Schedule 2.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Sewer Charges
Rate Year Ended June 30, 2012

	<u>Station One</u>	<u>Lawton Valley</u>
Wastewater Volume (1,000 Gallons) (1)	26,000	32,000
Rate per 1,000 Gallons (2)	<u>\$ 11.27</u>	<u>\$ 11.27</u>
Annual Cost Per Division	\$ 293,020	\$ 360,640
Annual Cost per Newport Water (3)	<u>317,000</u>	<u>376,000</u>
Adjustment	<u><u>\$ (23,980)</u></u>	<u><u>\$ (15,360)</u></u>

Notes:

- (1) Lawton Valley amount per RFC Schedule B-6. Station One amount reduced by 1 MG. Refer to testimony.
- (2) Per response to PWFD 2-12.
- (3) Per RFC Schedules B-5 and B-6.

CITY OF NEWPORT--WATER DIVISION

Adjustment to City Services Costs
 Rate Year Ended June 30, 2012

<u>Legal and Administrative Services</u>	<u>Allocable Budget (1)</u>	<u>Percent (2)</u>	<u>Allocation to Water Division</u>
Audit Fees	69,200	6.18%	4,277
City Council	79,521	5.75%	4,572
City Clerk	332,461	1.00%	3,325
City Manager	407,653	13.73% (2)	55,953
Human Resources	294,475	10.09%	29,713
City Solicitor	154,082	13.73% (2)	21,149
Finance Administration (50%)	149,278	13.73% (2)	20,489
Finance Administration (5%)	18,660	37.00%	6,904
Purchasing	96,838	18.60%	18,012
Assessment	117,494	5.00%	5,875
Collections	302,778	15.26%	46,204
Accounting (5%)	10,503	100.00%	10,503
Accounting	410,372	16.90%	69,353
Facilities Maintenance	887,556	1.47%	13,047
Total Allocated on Budget	<u>\$ 3,330,871</u>		<u>\$ 309,376</u>
Amount per Newport Water			<u>347,400</u>
Adjustment to Legal & Administrative			<u>\$ (38,024)</u>

<u>Data Processing Services</u>	<u>Allocable Budget (1)</u>	<u>Percent (2)</u>	<u>Allocation to Water Division</u>
MIS - Communications Costs	261,578	7.90%	20,665
MIS - Other Costs	894,384	13.73% (2)	122,761
	<u>\$ 1,155,962</u>		<u>\$ 143,425</u>
Amount per Newport Water			<u>191,200</u>
Adjustment to Data Processing Services			<u>\$ (47,775)</u>

Notes:

(1) Amounts per RFC Schedule D except where noted.

(2) Based on revised budget allocation percentage as shown on page 2 of this Schedule.

CITY OF NEWPORT--WATER DIVISION

Calculation of Budget Percentage
 to Determine Water Division Allocation of City Services
 Rate Year Ended June 30, 2012

<u>Budget Element</u>		FY 2011 Adopted Budget (1)	<u>Percentage</u>
General Fund Including School & Library		\$ 58,247,167	63.57%
Maritime		876,406	0.96%
Water Fund	See Note (2)	12,577,411	13.73%
WPC	See Note (3)	15,800,882	17.24%
Parking		3,125,729	3.41%
Beach		1,006,214	1.10%
Total Budget		\$ 91,633,809	100.00%

Notes:

- (1) Amounts per RFC Schedule D except where noted.
- (2) Reflects Total Expenses per Division as shown on Schedule TSC-1.
- (3) Amount per City of Newport 2010-11 Adopted Budget adjusted to exclude Cash Outlays from Revenue Bonds.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Debt Service Expense
Rate Year Ended June 30, 2012

	<u>Total</u>
Recommended Debt Service per Division	\$ 1,390,000
Amount per Newport Water Filing (2)	<u>3,010,483</u>
Adjustment to Debt Service Restricted Account Contribution	<u>\$ (1,620,483)</u>

Notes:

(1) Reflects FY 2012 Debt Service per RFC Schedule 5.

(2) Per RFC Schedule 2.

CITY OF NEWPORT—WATER DIVISION
Estimate of Future Debt Service Requirements

Year	EXISTING			2009 SRF A, \$3.3 M			2012 SRF A (Dam Repair, City Acent, Sta 1 Improvements and New Plant)			2013 SRF A (Sta 1 Improvements and New Plant)			2014 SRF A (Sta 1 Improvements and New Plant)			2015 SRF A (Sta 1 Improvements and New Plant)			Total Annual Debt Service
	Revenue Bonds	2007 SRF A \$3.0 M Fed Dir. Loan	2008 SRF B \$5.9 M Loan	Rate	Interest	Total	Rate	Interest	Total	Rate	Interest	Total	Rate	Interest	Total	Rate	Interest	Total	
2009	959,782	211,318	66,753	4.00%	1,213	1,609,566	4.00%	1,438,800	1,798,500	3,237,300	35,970,000	1,254,000	2,821,500	223,916	503,811	5,597,900	1,239,066		
2010	910,552	211,749	157,915	4.00%	2,388	1,568,999	4.00%	1,353,087	1,798,500	3,195,289	35,970,000	1,213,754	2,787,254	217,801	497,696	5,597,900	1,282,604		
2011	642,596	211,990	411,824	4.00%	61,108	1,545,364	4.00%	1,307,658	1,798,500	3,106,158	35,970,000	1,184,139	2,714,639	211,442	491,337	5,597,900	1,327,518		
2012	571,079	211,081	424,856	4.00%	182,028	1,522,229	4.00%	1,260,401	1,798,500	3,058,901	35,970,000	1,108,577	2,676,077	204,828	484,723	5,597,900	1,389,045		
2013	388,755	211,034	424,365	4.00%	181,966	1,498,169	4.00%	1,211,254	1,798,500	3,009,754	35,970,000	1,068,515	2,594,350	197,949	470,691	5,597,900	2,835,462		
2014	182,325	210,828	424,365	4.00%	181,518	1,473,146	4.00%	1,160,140	1,798,500	2,958,640	35,970,000	1,028,850	2,551,019	180,796	463,251	5,597,900	3,645,901		
2015		211,441	424,945	4.00%	181,416	1,447,122	4.00%	1,051,699	1,798,500	2,850,199	35,970,000	938,454	2,505,964	175,618	455,513	5,597,900	4,826,851		
2016		210,861	424,070	4.00%	181,648	1,420,058	4.00%	994,204	1,798,500	2,792,704	35,970,000	891,586	2,459,086	167,572	447,467	5,597,900	5,870,158		
2017		184,069	423,727	4.00%	181,504	1,391,910	4.00%	934,408	1,798,500	2,732,908	35,970,000	842,844	2,410,344	159,203	439,098	5,597,900	6,663,871		
2018		184,052	422,898	4.00%	181,058	1,362,637	4.00%	872,222	1,798,500	2,606,047	35,970,000	792,152	2,359,632	150,499	430,394	5,597,900	7,506,365		
2019		210,815	422,537	4.00%	181,105	1,332,193	4.00%	807,547	1,798,500	2,538,786	35,970,000	739,433	2,306,933	141,448	421,343	5,597,900	8,483,179		
2020		210,360	422,607	4.00%	180,896	1,303,551	4.00%	740,286	1,798,500	2,468,834	35,970,000	684,605	2,252,105	141,448	421,343	5,597,900	9,468,045		
2021		210,677	423,085	4.00%	180,444	1,287,603	4.00%	670,334	1,798,500	2,400,424	35,970,000	627,583	2,195,083	141,448	421,343	5,597,900	10,452,900		
2022		210,752	421,968	4.00%	180,521	1,269,742	4.00%	597,584	1,798,500	2,320,424	35,970,000	568,281	2,135,781	141,448	421,343	5,597,900	11,447,804		
2023		210,583	421,274	4.00%	180,357	1,252,181	4.00%	521,924	1,798,500	2,241,738	35,970,000	508,607	2,074,107	141,448	421,343	5,597,900	12,442,709		
2024		210,169	421,946	4.00%	180,701	1,233,357	4.00%	443,238	1,798,500	2,159,904	35,970,000	442,465	2,009,965	141,448	421,343	5,597,900	13,437,614		
2025		209,543	420,969	4.00%	180,056	1,216,118	4.00%	361,404	1,798,500	2,074,797	35,970,000	375,758	1,943,259	141,448	421,343	5,597,900	14,432,519		
2026		209,336	421,064	4.00%	180,151	1,198,928	4.00%	276,297	1,798,500	2,009,965	35,970,000	306,383	1,873,883	141,448	421,343	5,597,900	15,427,424		
2027		209,832	420,053	4.00%	180,205	1,183,357	4.00%	216,991	1,798,500	1,943,259	35,970,000	241,738	1,808,965	141,448	421,343	5,597,900	16,422,329		
2028		209,832	419,321	4.00%	179,974	1,167,742	4.00%	166,991	1,798,500	1,873,883	35,970,000	181,518	1,738,883	141,448	421,343	5,597,900	17,417,234		
2029		209,832	418,589	4.00%	179,512	1,152,181	4.00%	126,991	1,798,500	1,808,965	35,970,000	126,991	1,663,965	141,448	421,343	5,597,900	18,412,139		
2030		209,832	417,857	4.00%	179,050	1,136,620	4.00%	86,991	1,798,500	1,738,883	35,970,000	71,518	1,588,883	141,448	421,343	5,597,900	19,407,044		
2031		209,832	417,125	4.00%	178,588	1,121,059	4.00%	46,991	1,798,500	1,663,965	35,970,000	16,991	1,513,965	141,448	421,343	5,597,900	20,401,949		
2032		209,832	416,393	4.00%	178,126	1,105,498	4.00%	6,991	1,798,500	1,588,883	35,970,000	1,991	1,438,883	141,448	421,343	5,597,900	21,396,854		
2033		209,832	415,661	4.00%	177,664	1,089,937	4.00%		1,798,500	1,513,965	35,970,000		1,363,965	141,448	421,343	5,597,900	22,391,759		
2034		209,832	414,929	4.00%	177,202	1,074,376	4.00%		1,798,500	1,438,883	35,970,000		1,288,883	141,448	421,343	5,597,900	23,386,664		
2035		209,832	414,197	4.00%	176,740	1,058,815	4.00%		1,798,500	1,363,965	35,970,000		1,213,965	141,448	421,343	5,597,900	24,381,569		
2036		209,832	413,465	4.00%	176,278	1,043,254	4.00%		1,798,500	1,288,883	35,970,000		1,138,883	141,448	421,343	5,597,900	25,376,474		
2037		209,832	412,733	4.00%	175,816	1,027,693	4.00%		1,798,500	1,213,965	35,970,000		1,063,965	141,448	421,343	5,597,900	26,371,379		

CITY OF NEWPORT--WATER DIVISION

Adjustment to Revenue Offsets
Rate Year Ended June 30, 2012

	Amount per Newport Water (1)	Division Adjustments	Adjusted Amount
Operation and Maintenance (2)	\$ 629,500	\$ (15,106)	\$ 614,394
Debt Service (3)	182,028	19,600	201,628
Remote Reading Laptop (4)	69,490	13,000	82,490
	<hr/>	<hr/>	<hr/>
Total Customer Service Costs	\$ 881,018	\$ 17,494	\$ 898,512
	<hr/>	<hr/>	<hr/>
Customer Service Costs at 50%	\$ 440,509	\$ 8,747	\$ 449,256
	<hr/>	<hr/>	<hr/>
Charge to WPC	291,366	5,785	297,151
Charge to Middletown	140,852	2,797	143,649
Total	<u>\$ 432,218</u>	<u>\$ 8,582</u>	<u>\$ 440,800</u>

Notes:

(1) Per RFC Schedule 6.

(2) Adjusted to reflect Division Customer Service O&M per Schedule TSC-1.

(3) Based on debt service for 2008 Series A Loan and \$2.8 out of \$5.9 million used for the radio read project per response to PWFD 2-4.

(4) Per response to PWFD 2-5.

CITY OF NEWPORT--WATER DIVISION

Calculation of Uniform Percentage Increase in Rates
 Required to Generate Additional Revenues
 Rate Year Ended June 30, 2012

<u>Customer Class</u>	<u>Existing Rate</u>	<u>Rate Year Sales (1) (1,000 gals)</u>	<u>Rate Year Revenues at Existing Rates</u>
Retail	\$ 5.250	1,199,001	\$ 6,294,755
Navy	\$ 3.228	215,637	696,076
Portsmouth	\$ 2.573	443,480	<u>1,141,074</u>
Metered Sales Revenues at Existing Rates			\$ 8,131,906
<u>Type of Charge</u>	<u>Existing Charge</u>	<u>Number Billed (1)</u>	<u>Rate Year Revenues at Existing Rates</u>
Billing Charge	\$ 15.31	64,505	987,572
Fire Protection Charges (Public)	\$ 869.00	1,034	898,546
Fire Protection Charges (Private)			
less than 2"	\$ 17.05	-	-
2"	72.00	3	216
4"	442.00	57	25,194
6"	884.00	245	216,580
8"	2,023.00	62	125,426
10"	3,340.00	-	-
12"	5,362.00	2	<u>10,724</u>
Total Private Fire Service			\$ 378,140
Total Rate Year Revenues from Existing Rates and Charges			<u>\$ 10,396,163</u>
Net Rate Year Revenue Requirements (2)			<u>\$ 12,095,066</u>
Additional Revenue Needed			\$ 1,698,903
% Revenue Increase Required			<u><u>16.34%</u></u>

Notes:

(1) Per Schedule RFC 7.

(2) Per Schedule TSC-1. Equals total cost of service less miscellaneous revenue.

CITY OF NEWPORT--WATER DIVISION

Calculation of Proposed Rates and
 Proof of Revenue at Proposed Rates
 Rate Year Ended June 30, 2012

<u>Customer Class</u>	<u>Existing Rate</u>	<u>Percent Increase (1)</u>	<u>Proposed Rate (4)</u>	<u>Rate Year Sales (2) (1,000 gals)</u>	<u>Rate Year Revenues at Proposed Rates</u>
Retail	\$ 5.250	16.34%	\$ 6.108	1,199,001	\$ 7,323,498
Navy	3.228	16.34%	\$ 3.756	215,637	809,933
Portsmouth	2.573	16.34%	\$ 2.993	443,480	1,327,336
Metered Sales Revenues at Proposed Rates					\$ 9,460,766
<u>Type of Charge</u>	<u>Existing Charge</u>	<u>Percent Increase (1)</u>	<u>Proposed Rate</u>	<u>Number Billed</u>	<u>Rate Year Revenues at Proposed Rates</u>
Billing Charge	\$ 15.31	16.34%	\$ 17.81	64,505	1,148,834
Fire Protection Charges (Public)	\$ 869.00	16.34%	\$ 1,011.00	1,034	1,045,374
Fire Protection Charges (Private)					
less than 2"	\$ 17.05	16.34%	\$ 20.00	-	-
2"	72.00	16.34%	84.00	3	252
4"	442.00	16.34%	514.00	57	29,298
6"	884.00	16.34%	1,028.00	245	251,860
8"	2,023.00	16.34%	2,354.00	62	145,948
10"	3,340.00	16.34%	3,886.00	-	-
12"	5,362.00	16.34%	6,238.00	2	12,476
Total Private Fire Service					\$ 439,834
Total Rate Year Revenues from Proposed Rates and Charges					\$ 12,094,808
Net Rate Year Revenue Requirements (3)					\$ 12,095,066
Difference					\$ (257)

Notes:

- (1) Per page 1 of this schedule.
- (2) Per Schedule RFC 7.
- (3) Per Schedule TSC-1. Equals total cost of service less miscellaneous revenue.
- (4) For comparison purposes, the rates per hundred cubic feet (HCF) are shown below.

	<u>Per 1,000 gal</u>	<u>Per HCF</u>
Retail	\$ 6.108	\$ 4.569
Navy	\$ 3.756	\$ 2.809
Portsmouth	\$ 2.993	\$ 2.239