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February 7, 2013

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

Re: *Newport Water - Docket 4243*

Dear Ms. Massaro:

Enclosed please find an original and nine (9) copies of the following documents:

1. Reply Testimony of Harold J. Smith.

Please note that an electronic copy of this document has been sent to the service list.

Thank you for your attention to this matter.

Sincerely,


Joseph A. Keough Jr.

JAK/kf
Enclosure
cc: Docket 4243 Service List (via electronic mail)

PREFILED REPLY TESTIMONY

OF

**HAROLD J. SMITH
RAFTELIS FINANCIAL CONSULTING**

IN SUPPORT OF

**THE CITY OF NEWPORT, UTILITIES DEPARTMENT, WATER DIVISION
MULTI-YEAR RATE PLAN COMPLIANCE FILING AND NOTICE OF CHANGE IN
RATES PURSUANT TO R.I.G.L. § 39-15.1-4**

BEFORE THE

RHODE ISLAND PUBLIC UTILITIES COMMISSION

Docket No. 4243

FEBRUARY 7, 2013



1 **Q. Please state your name and business address.**

2 A. My name is Harold J. Smith and my business address is 1031 South Caldwell Street,
3 Charlotte, North Carolina 28203.

4

5 **Q. Are you the same Harold Smith who submitted pre-filed direct testimony in this**
6 **docket?**

7 A. Yes, I am.

8

9 **Q. What is the purpose of this testimony?**

10 A. I would like to respond to the comments submitted by the Division of Public Utilities
11 and Carriers ("Division"), and the pre-filed testimony submitted by the Portsmouth
12 Water and Fire District ("Portsmouth" or "PWFD") regarding Newport Water's Multi-
13 Year Rate Plan Compliance Filing And Notice Of Change In Rates Pursuant To R.I.G.L. §
14 39-15.1-4.

15

16 **Q. Before you address the positions taken by the Division and PWFD, would you like to**
17 **make any changes to your direct testimony?**

18 A. Yes. On Page 7, lines 4 through 15, I testified as follows:

19

20 **Q. When does Newport anticipate implementing its final phase of the multi-year**
21 **rate increase?**

22 A. We anticipate that Newport will need to implement the final increase in the
23 multi-year plan in July of 2015 (beginning of FY16). As shown on HJS Schedule 3 CF,
24 the current assumption for the final increase currently assumes that contributions
25 to the Debt Service Restricted account will need to be increased by approximately
26 110% in order to ensure a sufficient balance in the account to make the assumed
27 debt service payments due in September 2016. When Newport files its compliance
28 filing for this final increase, it will be able to "true up" its multi-year plan. At that
29 time, Newport will have borrowed all the money needed for the Treatment Plant

1 Projects, and it will know the actual interest rates for the borrowings, as well as the
2 amount and timing of the actual payments.”
3

4 The dates I used in my testimony are incorrect. Newport needs to implement the final
5 increase in its multi-year rate plan in July 2014 (the beginning of FY15). The correct date
6 for this proposed increase is accurately memorialized in HJS Schedule 3 CF, but my
7 testimony referred to the wrong dates. Thus, if the Commission orders the same filing
8 date requested by the Division for this compliance filing (120 days prior to the
9 requested increase date), Newport will submit its next compliance filing on March 1,
10 2014.
11

12 **Q. What is your response to the Division's comments?**

13 A. I agree with the Division's position as memorialized in its written comments. The
14 Division correctly states that we do not know the actual interest rate for the
15 \$31,000,000 borrowing at this time. The estimated 4.5% interest rate may prove to be
16 conservative. However, Newport needs to build up sufficient funds in its restricted debt
17 service account to make the required debt payments in September 2013 and 2014. As
18 indicated above, Newport needs to implement the final increase of its multi-year rate
19 plan in July 2014, which will require another compliance filing with the Commission. At
20 that time, Newport will know the actual interest rate for the \$31,000,000 loan, and it
21 will have borrowed all the money needed for the Treatment Plant Projects. Thus,
22 Newport can “true up” the amount needed to service the Treatment Plant Projects debt
23 on a long term basis.
24
25
26
27

1 **Q. What is your response to Mr. Woodcock's testimony?**

2 A. Mr. Woodcock did not make any counter proposal in his testimony other than to
3 suggest that Newport present a plan to adjust its rates revenues to more closely match
4 its actual debt service expenses.

5

6 **Q. Do you agree with his suggestion?**

7 A. At this time, I do not.

8

9 **Q. Why not?**

10 A. Because there is almost no adverse impact to granting Newport's request, yet there is
11 an enormous downside to reducing Newport's request. As demonstrated in HJS
12 Schedule 3 CF, submitted with my original testimony, Newport will barely build up
13 enough funds to make the September 2014 payment under current assumptions. While
14 these assumptions may be conservative, a reduction of Newport's proposed revenue
15 increase leaves very little room for error. Notably, Mr. Woodcock does not make any
16 suggestion on the dollar amount the Commission should authorize to ensure Newport
17 has enough money to make the September 2014 payment.

18

19 **Q. What is your response to Mr. Woodcock's position that Newport will eventually
20 build an excessive balance in its debt service account?**

21 A. Once again, Mr. Woodcock may be correct, but that balance will not build
22 immediately. The Commission, and the intervening parties, will have ample opportunity
23 to address this issue in Newport's next Multi-Year Rate Plan Compliance Filing when the
24 actual interest rates for the Treatment Plant Projects borrowings are known. As the
25 Division recognized, the Commission can make debt service adjustments resulting from

1 lower interest rates in Newport's next compliance filing. Newport's debt service fund is
2 restricted, and it cannot use "excess" funds that may result from lower interest rates.
3 Thus, Newport urges the Commission to grant the \$2,145,647 in revenues requested in
4 this compliance filing.

5

6 **Q. Does this conclude your testimony?**

7 A. Yes it does.

CERTIFICATION

I hereby certify that on February 7, 2013, I sent a copy of the within to all parties set forth on the attached Service List by electronic mail and copies to Luly Massaro, Commission Clerk, by electronic mail and regular mail.

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