

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: CITY OF NEWPORT, UTILITIES DEPARTMENT, WATER DIVISION

DOCKET NO.: 4243

SETTLEMENT AGREEMENT

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PUBLIC UTILITIES COMMISSION

The City of Newport, Utilities Department, Water Division (hereinafter "Newport Water" or "Newport"), the Division of Public Utilities and Carriers (hereinafter "Division"), and the Portsmouth Water and Fire District (hereinafter "Portsmouth") (collectively, the "Parties") have reached agreement on Newport Water's rate application filed on April 18, 2011. The Parties jointly request approval of this Settlement Agreement by the State of Rhode Island Public Utilities Commission (hereinafter "Commission").

**I. RECITALS**

1. On April 18, 2011, Newport Water filed a rate application pursuant to R.I.G.L. § 39-3-11 and Part II of the Commission's Rules of Practice and Procedure.
2. Newport Water sought to implement a multi-year rate plan pursuant to R.I.G.L. § 39-15.1-4. This multi-year rate plan proposed to increase rates annually over a four year period as follows.
  - In the first year, proposed to take effect on May 18, 2011, Newport Water requested rates designed to collect additional operating revenue in the amount of \$3,509,382 to support a total operating revenue requirement of \$15,038,048. This request would raise the cost for a typical residential customer using 14,800 gallons of water per quarter by \$140.28 per year, or 37.7 %.

- In the second year, proposed to take effect on July 1, 2012, Newport Water requested rates designed to collect additional operating revenue in the amount of \$3,045,221 to support increased debt service for capital improvements including the construction of a new Lawton Valley Water Treatment Plant and improvements to the Station One Water Treatment Plant. This request would raise the cost for a typical residential customer using 14,800 gallons of water per quarter by \$109.08 per year, or 21.3 %.
  - In the third year, proposed to take effect on July 1, 2013, Newport Water requested rates designed to collect additional operating revenue in the amount of \$2,434,531 to support increased debt service for capital improvements including the construction of a new Lawton Valley Water Treatment Plant and improvements to the Station One Water Treatment Plant. This request would raise the cost for a typical residential customer using 14,800 gallons of water per quarter by \$87.12 per year, or 14 %.
  - In the fourth year, proposed to take effect on July 1, 2014, Newport Water proposed rates designed to collect additional operating revenue in the amount of \$530,997 to support increased debt service for capital improvements including the construction of a new Lawton Valley Water Treatment Plant and improvements to the Station One Water Treatment Plant. This request would raise the cost for a typical residential customer using 14,800 gallons of water per quarter by \$19.12 per year, or 2.7 %.
  - The impact of this request on all other customers would vary based on consumption.
3. Newport filed the direct and rebuttal testimony and schedules of Julia A. Forgue, P.E., Newport's Director of Utilities, Harold J. Smith of Raftelis Financial Consulting, and rebuttal testimony of Maureen Gurghigian of First Southwest Company in support of its application.
  4. Portsmouth filed a Motion to Intervene in this Docket on May 3, 2011. Newport did not object.
  5. Portsmouth submitted direct and surrebuttal testimony from Christopher P.N. Woodcock of Woodcock & Associates, Inc.

6. The Department of the Navy (the "Navy") moved to intervene in this Docket on May 17, 2011. The Navy did not submit any testimony in this Docket.
7. The Division conducted an investigation of Newport's requested rate increase through data requests and with the assistance of its staff and an outside expert consultant, Thomas S. Catlin of Exeter Associates, Inc. Mr. Catlin filed direct and surrebuttal testimony.
8. The Parties engaged in settlement discussions after the submission of testimony.
9. The Parties gave due consideration to the testimony, exhibits, schedules, data requests, data responses, settlement discussions, and other documentation included in the filings of the parties in this Docket and agreed to a comprehensive settlement that resolves all issues relating to Newport's application to increase rates, except as provided below.
10. The Parties agree that this Settlement Agreement is a just and reasonable resolution of the issues in this proceeding and jointly request its approval by the Commission.

## II. TERMS OF SETTLEMENT

### Overview

11. The Parties agree that the Joint Settlement Schedules TSC-1 through TSC-12 [schedule TSC-10 is omitted], attached as Exhibit 1 are accurate and reflect the Parties' agreement.
12. The agreed rates allow Newport to collect additional operating revenue in the rate year (Fiscal Year 2012) in the amount of \$2,222,258 to support a total cost of service of \$12,835,200. This results in a 22.5% increase in total revenues. The cost for a

typical residential customer who uses 14,800 gallons of water per quarter will increase \$83.60 per year, from \$372.04 per year to \$455.64 per year, or 22.5%. The impact on other retail customers' bills will vary based on classification and consumption level.

13. The Parties agree that the Commission should approve Newport's multi-year rate plan for Fiscal Years 2013, 2014 and 2015 subject to the compliance requirements of R.I.G.L. § 39-15.1-4. Newport will comply with the mandates of R.I.G.L. § 39-15.1-4 before implementing the step increases approved by the Commission. In its compliance with the mandates of R.I.G.L. § 39-15.1-4, before increasing rates Newport will provide the Commission and the Parties simultaneously with 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.
14. The allocation of City Service paid by Newport Water to the City of Newport for the City Manager, City Solicitor (fifty percent (50%) of costs), Finance Administration (eighty percent (80%) of costs), and MIS (other costs), is currently based on the relationship between Newport Water's budget and the overall City budget including debt service and capital costs. The parties agree that for this docket and in all future dockets the allocation of City Service payments will not include or be based on debt service and capital expenses included, identified or anticipated in this docket and identified in RFC Schedule 4 Rebuttal and RFC Schedule 5 Rebuttal. In this docket, as

reflected in the Settlement Schedules, this modification results in a rate year decrease of \$11,527 for City Service allocations.

15. The Parties agree that the process of constructing the new Treatment Plant at Lawton Valley and the improvements to the Station One Plant (collectively "Treatment Plant Projects") may require the City of Newport to provide increased services to Newport Water. Thus, Newport Water will collect \$11,527, which will be paid to the City for services provided by the City Manager, City Solicitor, Finance Administration, and MIS department until Newport's next rate filing, exclusive of the step increase filings referenced in paragraph 13.
16. Newport and Portsmouth disagree in this Docket concerning the reports Newport files with the Commission. Both parties made their positions known to the Commission and will abide by the Commission's decision and order on whether Newport should continue to file these reports.
17. As part of this Settlement Agreement, Newport agrees to (1) answer Data Requests 5-5 and 5-6 from Portsmouth to Newport, and (2) separate pumping costs from treatment costs in all future rate filings.
18. The Parties agree that Newport will continue to fund the restricted Salary and Wage Increase Account. However, the annual funding of this account will be reduced to \$80,931.

### **III. Effect of Settlement**

19. This Settlement Agreement is the result of a negotiated agreement. The Parties conducted the discussions that produced this Settlement Agreement with the

explicit understanding that all offers of settlement and discussion relating thereto are and shall be privileged, shall be without prejudice to the position of any party or participant presenting such offer or participating in any such discussion, and are not to be used in any manner in connection with these or any other proceedings.

20. The agreement by any party to the terms of this Settlement Agreement shall not be construed as an agreement as to any matter of fact or law beyond the terms thereof. By entering into this Settlement Agreement, matters or issues other than those explicitly identified in this agreement have not been settled upon or conceded by any party to this Settlement Agreement, and nothing in this agreement shall preclude any party from taking any position in any future proceeding regarding such unsettled matters.

21. This settlement agreement is the product of negotiation and compromise. The making of this agreement establishes no principal or precedent. This agreement shall not be deemed to foreclose any party from making any contention in any future proceeding or investigation.

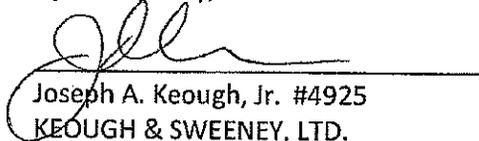
22. In the event that the Commission rejects this Settlement Agreement, or modifies this agreement or any provision therein, this agreement shall be deemed withdrawn and shall be null and void in all respects.

IN WITNESS WHEREOF, the Parties agree that this Settlement Agreement is reasonable, in the public interest and in accordance with law and regulatory policy, and have caused this agreement to be executed by their respective representatives, each being authorized to do so.

Dated at Warwick, Rhode Island this 1st day of November, 2011.

CITY OF NEWPORT,  
UTILITIES DEPARTMENT,  
WATER DIVISION

By its Attorney,

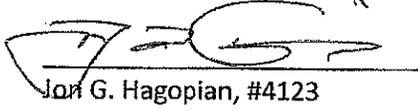


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DIVISION OF PUBLIC UTILITIES  
AND CARRIERS,

By its Attorney,

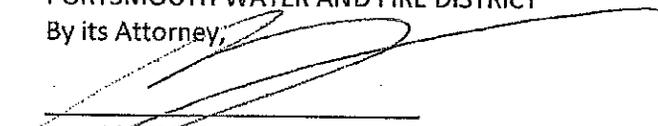


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PORTSMOUTH WATER AND FIRE DISTRICT

By its Attorney,



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CITY OF NEWPORT-WATER DIVISION  
 Summary of Revenues and Expenses at  
 Present and Proposed Rates  
 Rate Year Ended June 30, 2012

|                              | Rate Year                         |          | Updated             |                 | Proposed              |                                  | Division                         |                                  | PWFD                         |                              | Settlement                     |                              | Division                     |                                | PWFD                         |                              | Settlement                     |  | Division<br>Rate Year<br>at Proposed<br>Rates |
|------------------------------|-----------------------------------|----------|---------------------|-----------------|-----------------------|----------------------------------|----------------------------------|----------------------------------|------------------------------|------------------------------|--------------------------------|------------------------------|------------------------------|--------------------------------|------------------------------|------------------------------|--------------------------------|--|---|
|                              | Amount Per<br>Newport<br>Rebuttal | Adjusted | Division<br>Adjust. | PWFD<br>Adjust. | Settlement<br>Adjust. | Rate Year<br>at Present<br>Rates | Rate Year<br>at Present<br>Rates | Rate Year<br>at Present<br>Rates | Proposed<br>Rate<br>Increase | Proposed<br>Rate<br>Increase | Settlement<br>Rate<br>Increase | Proposed<br>Rate<br>Increase | Proposed<br>Rate<br>Increase | Settlement<br>Rate<br>Increase | Proposed<br>Rate<br>Increase | Proposed<br>Rate<br>Increase | Settlement<br>Rate<br>Increase |  |   |
| <b>Revenue</b>               |                                   |          |                     |                 |                       |                                  |                                  |                                  |                              |                              |                                |                              |                              |                                |                              |                              |                                |  |   |
| Customer Charge              | \$ 987,572                        |          | \$ (1,133)          | \$ (1,577)      | \$ (1,133)            | \$ 986,439                       | 985,995                          | \$ 986,439                       | \$ 208,756                   | \$ 202,866                   | \$ 221,643                     | \$ 208,756                   | \$ 202,866                   | \$ 221,643                     | \$ 1,195,195                 |                              |                                |  |   |
| Retail Consumption           | 5,908,519                         |          | 151,609             | 148,107         | 22,821                | 6,060,128                        | 6,056,626                        | 5,931,340                        | 1,283,593                    | 1,245,935                    | 1,334,269                      | 1,283,593                    | 1,245,935                    | 1,334,269                      | 7,343,720                    |                              |                                |  |   |
| Wholesale/Bulk Sales         | 1,584,457                         |          | 93,688              | 95,840          | 95,841                | 1,678,145                        | 1,680,297                        | 1,680,298                        | 355,503                      | 345,344                      | 378,045                        | 355,503                      | 345,344                      | 2,033,647                      |                              |                              |                                |  |   |
| Fire Protection              | 1,276,686                         |          | 3,151               | 3,151           | 3,151                 | 1,279,837                        | 1,279,837                        | 1,279,837                        | 271,013                      | 263,555                      | 288,439                        | 271,013                      | 263,555                      | 1,550,850                      |                              |                              |                                |  |   |
| Miscellaneous                | 735,029                           |          | -                   | (189)           | -                     | 735,029                          | 734,861                          | 735,029                          | -                            | -                            | -                              | -                            | -                            | 735,029                        |                              |                              |                                |  |   |
| <b>Total Revenue</b>         | \$ 10,492,263                     |          | \$ 247,314          | \$ 245,353      | \$ 120,679            | \$ 10,739,577                    | 10,737,616                       | \$ 10,612,942                    | \$ 2,118,865                 | \$ 2,057,700                 | \$ 2,222,396                   | \$ 2,118,865                 | \$ 2,057,700                 | \$ 2,222,396                   | \$ 12,858,442                |                              |                                |  |   |
| <b>Expenses</b>              |                                   |          |                     |                 |                       |                                  |                                  |                                  |                              |                              |                                |                              |                              |                                |                              |                              |                                |  |   |
| Water Administration         | 2,382,868                         |          | (61,527)            | (85,778)        | (52,254)              | 2,354,036                        | 2,297,090                        | 2,330,614                        | -                            | -                            | -                              | -                            | -                            | -                              | 2,354,036                    |                              |                                |  |   |
| Customer Accounts            | 613,500                           |          | -                   | (343)           | -                     | 613,500                          | 613,157                          | 613,500                          | -                            | -                            | -                              | -                            | -                            | -                              | 613,500                      |                              |                                |  |   |
| Source of Supply-Island      | 643,800                           |          | -                   | (4,777)         | -                     | 643,800                          | 639,023                          | 643,800                          | -                            | -                            | -                              | -                            | -                            | -                              | 643,800                      |                              |                                |  |   |
| Treat & Pump-Mainland        | 167,925                           |          | -                   | (130)           | -                     | 167,925                          | 167,795                          | 167,925                          | -                            | -                            | -                              | -                            | -                            | -                              | 167,925                      |                              |                                |  |   |
| Treat & Pump-Station One     | 1,830,797                         |          | -                   | (312)           | -                     | 1,830,797                        | 1,830,485                        | 1,830,797                        | -                            | -                            | -                              | -                            | -                            | -                              | 1,830,797                    |                              |                                |  |   |
| Water Laboratory             | 1,614,014                         |          | -                   | (918)           | -                     | 1,614,014                        | 1,613,096                        | 1,614,014                        | -                            | -                            | -                              | -                            | -                            | -                              | 1,614,014                    |                              |                                |  |   |
| Transmission & Distr. Maint  | 223,700                           |          | -                   | (130)           | -                     | 223,700                          | 223,570                          | 223,700                          | -                            | -                            | -                              | -                            | -                            | -                              | 223,700                      |                              |                                |  |   |
| Fire Protection              | 1,053,248                         |          | -                   | (376)           | -                     | 1,053,248                        | 1,052,872                        | 1,053,248                        | -                            | -                            | -                              | -                            | -                            | -                              | 1,053,248                    |                              |                                |  |   |
| Subtotal                     | \$ 8,543,352                      |          | \$ (61,527)         | \$ (92,764)     | \$ (52,254)           | \$ 8,514,520                     | 8,450,588                        | \$ 8,497,098                     | \$ -                         | \$ -                         | \$ -                           | \$ -                         | \$ -                         | \$ -                           | \$ 8,514,520                 |                              |                                |  |   |
| Debt Service                 | 1,589,369                         |          | -                   | -               | -                     | 1,589,369                        | \$1,589,369                      | 1,589,369                        | -                            | -                            | -                              | -                            | -                            | -                              | 1,589,369                    |                              |                                |  |   |
| Capital Outlays              | 2,500,000                         |          | -                   | -               | -                     | 2,500,000                        | \$2,500,000                      | 2,500,000                        | -                            | -                            | -                              | -                            | -                            | -                              | 2,500,000                    |                              |                                |  |   |
| <b>Total Expenses</b>        | \$ 12,652,721                     |          | \$ (61,527)         | \$ (92,764)     | \$ (52,254)           | \$ 12,603,889                    | \$ 12,539,957                    | \$ 12,580,467                    | \$ -                         | \$ -                         | \$ -                           | \$ -                         | \$ -                         | \$ -                           | \$ 12,603,889                |                              |                                |  |   |
| Operating Reserve            | 256,301                           |          | (865)               | (2,783)         | (1,568)               | 255,436                          | 253,518                          | 254,733                          | -                            | -                            | -                              | -                            | -                            | -                              | \$ 255,436                   |                              |                                |  |   |
| <b>Total Cost of Service</b> | \$ 12,889,022                     |          | \$ (62,392)         | \$ (95,547)     | \$ (53,822)           | \$ 12,859,324                    | 12,793,475                       | \$ 12,835,200                    | \$ -                         | \$ -                         | \$ -                           | \$ -                         | \$ -                         | \$ -                           | \$ 12,859,324                |                              |                                |  |   |
| Rev. Surplus/(Deficiency)    | \$ (2,396,760)                    |          | \$ 309,706          | \$ 340,900      | \$ 174,501            | \$ (2,119,747)                   | \$ (2,055,859)                   | \$ (2,222,258)                   | \$ 2,118,865                 | \$ 2,057,700                 | \$ 2,222,396                   | \$ 2,118,865                 | \$ 2,057,700                 | \$ 2,222,396                   | \$ (883)                     |                              |                                |  |   |

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                     | \$ -             | Schedule TSC-3        |
| Benefits                               | -                | Schedule TSC-4        |
| Consultant Fees                        | (50,000)         | Schedule TSC-5        |
| Chemical Costs                         | -                | Schedule TSC-6        |
| Sewer Charges                          | 84               | Schedule TSC-7        |
| City Services--Legal & Administrative  | (5,106)          | Schedule TSC-8        |
| City Services--Data Processing         | (6,421)          | Schedule TSC-8        |
| Settlement Adjustment to City Services | 11,527           | Schedule TSC-8        |
| Debt Service                           | -                |                       |
| Eliminate Rounding Increase            | (2,338)          | Settlement Adjustment |
| Operating Reserve                      | <u>(1,568)</u>   | See Note (1)          |
| Total Expense Adjustments              | \$ (53,822)      |                       |
| Revenue Offsets                        | <u>-</u>         | Schedule TSC-11       |
| Total Division Adjustments to Income   | <u>\$ 53,822</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

**Adjustment Included In Newport Rebuttal Schedules**

| <u>Current Vacant Positions (1)</u>                          | <u>Salary (2)</u> | <u>Benefits (2)</u> |
|--|-------------------|---------------------|
| Source of Supply Laborer<br>Distribution/Collection Operator | \$ -<br>-         | \$ -<br>-           |
| Average  | \$ -              | \$ -                |
| Normal Employee Vacancies (3)                                | <u>2</u>          | <u>2</u>            |
| Reduction in Claimed Salaries and Benefits                   | \$ -              | \$ -                |
| Total Adjustment to Rate Year Expense                        |                   | <u><u>\$ -</u></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

**Adjustment Included In Newport Rebuttal Schedules**

|   | <u>Amount Per<br/>Filing (1)</u> | <u>Updated<br/>Expense (2)</u> | <u>Adjustment</u> |
|---|----------------------------------|--------------------------------|-------------------|
| Water Administration                    | \$ 128,203                       | \$ 128,203                     | -                 |
| Customer Accounts                       | 168,794                          | 168,794                        | -                 |
| Source of Supply-Island                 | 160,316                          | 160,316                        | -                 |
| Source of Supply-Mainland               | 2,525                            | 2,525                          | -                 |
| Treatment & Pumping-Station One         | 280,507                          | 280,507                        | -                 |
| Treatment & Pumping-Lawton Valley       | 288,218                          | 288,218                        | -                 |
| Water Laboratory                        | 64,213                           | 64,213                         | -                 |
| Transmission & Distribution Maintenance | 277,540                          | 277,540                        | -                 |
| Fire Protection                         | -                                | -                              | -                 |
| Adjustment to Customer Service Expense  | \$ 1,370,316                     | \$ 1,370,316                   | \$ -              |

Notes:

(1) Per RFC Schedules B-1 through B-9 Rebuttal (before rounding)

(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<br/>Newport (1)</u> | <u>Amount Per<br/>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                            | 28,000                             | (26,800)           |
| Financial                    | 43,600                            | 20,400                             | (23,200)           |
| Other (Division)             | 10,000                            | 10,000                             | -                  |
| Subtotal                     | <u>\$ 108,400</u>                 | <u>\$ 58,400</u>                   | <u>\$ (50,000)</u> |
| <u>Demand Study</u>          |                                   |                                    |                    |
| Financial                    |                                   |                                    |                    |
| Other (Division)             |                                   |                                    |                    |
| Subtotal                     | <u>\$ 40,000</u>                  | <u>\$ 40,000</u>                   | <u>\$ -</u>        |
| Bond Advisor                 | 10,000                            | 10,000                             | -                  |
| Code Red                     | 3,000                             | 3,000                              | -                  |
| Adjustment to Expense        | <u>\$ 284,900</u>                 | <u>\$ 234,900</u>                  | <u>\$ (50,000)</u> |

Notes:

(1) Per response to Div. 1-10 and PWFD 3-3, updated per RFC Schedule B-1 Rebuttal.

(2) Refer to testimony.

CITY OF NEWPORT—WATER DIVISION

Adjustment to Chemicals Expense  
 Rate Year Ended June 30, 2012

Adjustment Included In Newport Rebuttal Schedules

|   | Estimated<br>Quantity (1) |    | Fy 2012<br>Unit Price (2) |    | Annual<br>Cost |
|---|---------------------------|----|---------------------------|----|----------------|
| <b>Station One</b>                                      |                           |    |                           |    |                |
| 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                                       |                           |    |                           | \$ | 354,210        |
| <b>Lawton Valley</b>                                    |                           |    |                           |    |                |
| 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                                     |                           |    |                           | \$ | 169,977        |
| <b>Source of Supply Island</b>                          |                           |    |                           |    |                |
| Copper Sulfate  | 39,000                    |    | 1.8650                    | \$ | 72,735         |
| Total FY 2012 Updated Chemical Costs                    |                           |    |                           |    | \$ 596,922     |
| Amount per Newport Water Filing (3)                     |                           |    |                           |    | 596,922        |
| Adjustment to Chemicals Restricted Account Contribution |                           |    |                           |    | \$ -           |

Notes:

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

**Adjustment Included In Newport Rebuttal Schedules**

|                                       | <u>Station One</u> | <u>Lawton<br/>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>293,020</u>     | <u>360,640</u>           |
| Adjustment                            | <u>\$ -</u>        | <u>\$ -</u>              |

|   |              |
|---|--------------|
| <b>Administration Sewer Charge Increase</b> | <b>\$ 84</b> |
|---|--------------|

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 Rebuttal (before rounding).

CITY OF NEWPORT--WATER DIVISION

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

| <u>Legal and Administrative Services</u> | <u>Allocable<br/>Budget (1)</u> | <u>Percent (1)</u> | <u>Allocation to<br/>Water Division</u> |
|--|---------------------------------|--------------------|---|
| Audit Fees                               | 69,200                          | 6.18%              | 4,277                                   |
| City Council                             | 79,521                          | 5.75%              | 4,572                                   |
| City Clerk                               | 332,481                         | 1.00%              | 3,325                                   |
| City Manager                             | 407,653                         | 13.06% (2)         | 53,238                                  |
| Human Resources                          | 294,475                         | 10.06%             | 29,624                                  |
| City Solicitor                           | 154,082                         | 13.06% (2)         | 20,122                                  |
| Finance Administration (50%)             | 149,278                         | 13.06% (2)         | 19,495                                  |
| 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>\$ 304,551</u>                       |
| Amount per Newport Water                 |                                 |                    | <u>309,657</u>                          |
| Adjustment to Legal & Administrative     |                                 |                    | <u>\$ (5,106)</u>                       |

| <u>Data Processing Services</u>                   | <u>Allocable<br/>Budget (1)</u> | <u>Percent (1)</u> | <u>Allocation to<br/>Water Division</u> |
|---|---------------------------------|--------------------|---|
| MIS - Communications Costs                        | 261,578                         | 7.90%              | 20,665                                  |
| MIS - Other Costs                                 | 894,384                         | 13.06% (2)         | 116,803                                 |
|   | <u>\$ 1,155,962</u>             |                    | <u>\$ 137,467</u>                       |
| Amount per Newport Water                          |                                 |                    | <u>143,888</u>                          |
| Adjustment to Data Processing Services            |                                 |                    | <u>\$ (6,421)</u>                       |
| Settlement Adjustment to Offset Adjustments Above |                                 |                    | <u>\$ 11,527</u>                        |

Notes:

(1) Amounts per RFC Schedule D Rebuttal 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>                   | <u>FY 2011<br/>Adopted<br/>Budget (1)</u> | <u>Percentage</u> |
|---|---|-------------------|
| General Fund Including School & Library | \$ 57,608,901                             | 75.14%            |
| Maritime                                | 632,833                                   | 0.83%             |
| <u>Water Fund</u>                       | <u>10,012,212</u>                         | <u>13.06%</u>     |
| WPC                                     | 6,145,059                                 | 8.02%             |
| Parking                                 | 1,438,810                                 | 1.88%             |
| Beach                                   | 827,832                                   | 1.08%             |
| Total Budget                            | \$ 76,665,647                             | 100.00%           |

Notes:

(1) Amounts per CW Surrebuttal Schedule D.

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)                  | \$ 1,589,369     |
| Amount per Newport Water Filing (2)                        | <u>1,589,369</u> |
| Adjustment to Debt Service Restricted Account Contribution | <u>\$ -</u>      |

Notes:

- (1) Reflects FY 2012 Debt Service per RFC Schedule 5 Rebuttal. Division has accepted updated amount per Newport Water Rebuttal.
- (2) Per RFC Schedule 2.

CITY OF NEWPORT—WATER DIVISION

Adjustment to Revenue Offsets  
Rate Year Ended June 30, 2012

**Adjustment Included in Newport Rebuttal Schedules**

|                                     | Amount per<br>Newport<br>Water (1) | Division<br>Adjustments | Adjusted<br>Amount |
|-------------------------------------|------------------------------------|-------------------------|--------------------|
| Operation and Maintenance (2)       | \$ 613,500                         | \$ -                    | \$ 613,500         |
| Debt Service (3)                    | 201,627                            | -                       | 201,627            |
| Remote Reading Laptop (4)           | 69,490                             | -                       | 69,490             |
| <b>Total Customer Service Costs</b> | <b>\$ 884,617</b>                  | <b>\$ -</b>             | <b>\$ 884,617</b>  |
| Customer Service Costs at 50%       | \$ 442,309                         | \$ -                    | \$ 442,308         |
| Charge to WPC                       | 291,366                            | -                       | 291,366            |
| Charge to Middletown                | 140,852                            | -                       | 140,852            |
| <b>Total</b>                        | <b>\$ 432,218</b>                  | <b>\$ -</b>             | <b>\$ 432,218</b>  |

Notes:

(1) Per RFC Schedule 6 Rebuttal

(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<br/>Rate</u>   | <u>Rate Year<br/>Sales (1)<br/>(1,000 gals)</u> | <u>Rate Year<br/>Revenues at<br/>Existing Rates</u> |
|--|----------------------------|---|---|
| Retail   | \$ 5.250                   | 1,129,779                                       | \$ 5,931,340  |
| Navy   | \$ 3.228                   | 178,971   | 577,718   |
| Portsmouth   | \$ 2.573                   | 428,519   | 1,102,579   |
| Metered Sales Revenues at Existing Rates                 |                            | 1,737,269                                       | \$ 7,611,638  |
| <u>Type of Charge</u>                                    | <u>Existing<br/>Charge</u> | <u>Number<br/>Billed (1)</u>                    | <u>Rate Year<br/>Revenues at<br/>Existing Rates</u> |
| Billing Charge   | \$ 15.31                   | 64,431  | 986,439   |
| Fire Protection Charges (Public)                         | \$ 869.00                  | 1,035   | 899,415   |
| Fire Protection Charges (Private)                        |                            |   |   |
| less than 2"   | \$ 17.05                   | -   | -   |
| 2"   | 72.00                      | 4   | 288   |
| 4"   | 442.00                     | 62  | 27,404  |
| 6"   | 884.00                     | 245   | 216,580   |
| 8"   | 2,023.00                   | 62  | 125,426   |
| 10"  | 3,340.00                   | -   | -   |
| 12"  | 5,362.00                   | 2   | 10,724  |
| Total Private Fire Service                               |                            |   | <u>\$ 380,422</u>                                   |
| Total Rate Year Revenues from Existing Rates and Charges |                            |   | <u>\$ 9,877,913</u>                                 |
| Net Rate Year Revenue Requirements (2)                   |                            |   | <u>\$ 12,100,171</u>                                |
| Additional Revenue Needed                                |                            |   | \$ 2,222,258  |
| % Revenue Increase Required                              |                            |   | <u>22.50%</u>                                       |

Notes:

- (1) Sales based on average for FY 2009 through FY 2011 as shown on RFC Schedule A Rebuttal. Billing charge count per response to Div. 3-3. Fire Protection counts per Div. 3-2.
- (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 (3)</u> | <u>Rate Year Sales (1)<br/>(1,000 gals)</u> | <u>Rate Year Revenues at Proposed Rates</u> |
|--|------------------------|-----------------------------|--------------------------|---|---|
| Retail   | \$ 5.250               | 22.50%                      | \$ 6.431                 | 1,129,779                                   | \$ 7,265,609                                |
| Navy   | 3.228                  | 22.50%                      | \$ 3.954                 | 178,971                                     | 707,651                                     |
| Portsmouth   | 2.573                  | 22.50%                      | \$ 3.152                 | 428,519                                     | 1,350,692                                   |
| Metered Sales Revenues at Proposed Rates                 |                        |                             |                          | 1,737,269                                   | \$ 9,323,952                                |
| <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               | 22.50%                      | \$ 18.75                 | 64,431                                      | 1,208,081                                   |
| Fire Protection Charges (Public)                         | \$ 869.00              | 22.50%                      | \$ 1,065.00              | 1,035                                       | 1,102,275                                   |
| Fire Protection Charges (Private)                        |                        |                             |                          |   |   |
| less than 2"   | \$ 17.05               | 22.50%                      | \$ 21.00                 | -   | -   |
| 2"   | 72.00                  | 22.50%                      | 88.00                    | 4   | 352   |
| 4"   | 442.00                 | 22.50%                      | 541.00                   | 62  | 33,542                                      |
| 6"   | 884.00                 | 22.50%                      | 1,083.00                 | 245   | 265,335                                     |
| 8"   | 2,023.00               | 22.50%                      | 2,478.00                 | 62  | 153,636                                     |
| 10"  | 3,340.00               | 22.50%                      | 4,091.00                 | -   | -   |
| 12"  | 5,362.00               | 22.50%                      | 6,568.00                 | 2   | 13,136                                      |
| Total Private Fire Service                               |                        |                             |                          |   | \$ 466,001                                  |
| Total Rate Year Revenues from Proposed Rates and Charges |                        |                             |                          |   | \$ 12,100,309                               |
| Net Rate Year Revenue Requirements (2)                   |                        |                             |                          |   | \$ 12,100,171                               |
| Difference   |                        |                             |                          |   | \$ 138                                      |

Notes:

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

|            | <u>Per 1,000 gal</u> | <u>Per HCF</u> |
|------------|----------------------|----------------|
| Retail     | \$ 6.431             | \$ 4.810       |
| Navy       | \$ 3.954             | \$ 2.958       |
| Portsmouth | \$ 3.152             | \$ 2.358       |

CITY OF NEWPORT—WATER DIVISION  
 Calculation of Estimated Future Year Increases  
 Rate Year Ended June 30, 2012

**FY 2013 Increase**

FY 2012 Revenue Requirement \$ 12,100,171

Step Increases for 2013

|                             |                      |                    |
|-----------------------------|----------------------|--------------------|
|                             | Net New Debt Service | <u>\$4,272,500</u> |
| FY 2013 Revenue Requirement | \$                   | 16,372,671         |
| Revenues at FY 2012 Rates   | \$                   | 12,100,309         |
| Revenue Deficiency          | \$                   | 4,272,362          |
| Percent Increase            |                      | 35.31%             |

|                                   |                                     | FY 2012 Rates | Proposed FY<br>2013 Rates | Step Increase |
|-----------------------------------|-------------------------------------|---------------|---------------------------|---------------|
| Billing Charge (per bill)         |                                     |               |                           |               |
|                                   | Quarterly \$                        | 18.75         | \$ 25.37                  | \$6.62        |
|                                   | Monthly \$                          | 18.75         | \$ 25.37                  | \$6.62        |
| Commodity Rates (per 1,000 gals.) |                                     |               |                           |               |
|                                   | Residential \$                      | 6.43          | \$ 8.70                   | \$2.27        |
|                                   | Commercial \$                       | 6.43          | \$ 8.70                   | \$2.27        |
|                                   | Governmental \$                     | 6.43          | \$ 8.70                   | \$2.27        |
|                                   | Navy \$                             | 3.95          | \$ 5.35                   | \$1.40        |
|                                   | Portsmouth Water & Fire District \$ | 3.15          | \$ 4.26                   | \$1.11        |
| Fire Protection                   |                                     |               |                           |               |
|                                   | Public (per hydrant) \$             | 1,065.00      | \$ 1,441.03               | \$376.03      |
|                                   | Private (Connection Size)           |               |                           |               |
|                                   | Less than 2" \$                     | 21.00         | \$ 28.41                  | \$7.41        |
|                                   | 2" \$                               | 88.00         | \$ 119.07                 | \$31.07       |
|                                   | 4" \$                               | 541.00        | \$ 732.02                 | \$191.02      |
|                                   | 6" \$                               | 1,083.00      | \$ 1,465.38               | \$382.38      |
|                                   | 8" \$                               | 2,478.00      | \$ 3,352.93               | \$874.93      |
|                                   | 10" \$                              | 4,091.00      | \$ 5,535.45               | \$1,444.45    |
|                                   | 12" \$                              | 6,568.00      | \$ 8,887.02               | \$2,319.02    |

**FY 2014 Increase**

FY 2013 Revenue Requirement \$ 16,372,671

Step Increases for 2014

|                             |                      |             |
|-----------------------------|----------------------|-------------|
|                             | Net New Debt Service | \$2,395,490 |
| FY 2014 Revenue Requirement | \$                   | 18,768,161  |
| Revenues at FY 2013 Rates   | \$                   | 16,372,671  |
| Revenue Deficiency          | \$                   | 2,395,490   |
| Percent Increase            |                      | 14.63%      |

|                                   |                                     | FY 2013 Rates | Proposed FY<br>2014 Rates | Step Increase |
|-----------------------------------|-------------------------------------|---------------|---------------------------|---------------|
| Billing Charge (per bill)         |                                     |               |                           |               |
|                                   | Quarterly \$                        | 25.37         | \$ 29.08                  | \$3.71        |
|                                   | Monthly \$                          | 25.37         | \$ 29.08                  | \$3.71        |
| Commodity Rates (per 1,000 gals.) |                                     |               |                           |               |
|                                   | Residential \$                      | 8.70          | \$ 9.97                   | \$1.27        |
|                                   | Commercial \$                       | 8.70          | \$ 9.97                   | \$1.27        |
|                                   | Governmental \$                     | 8.70          | \$ 9.97                   | \$1.27        |
|                                   | Navy \$                             | 5.35          | \$ 6.13                   | \$0.78        |
|                                   | Portsmouth Water & Fire District \$ | 4.26          | \$ 4.89                   | \$0.62        |
| Fire Protection                   |                                     |               |                           |               |
|                                   | Public (per hydrant) \$             | 1,441.03      | \$ 1,651.87               | \$210.84      |
|                                   | Private (Connection Size)           |               |                           |               |
|                                   | Less than 2" \$                     | 28.41         | \$ 32.57                  | \$4.16        |
|                                   | 2" \$                               | 119.07        | \$ 136.49                 | \$17.42       |
|                                   | 4" \$                               | 732.02        | \$ 839.12                 | \$107.10      |
|                                   | 6" \$                               | 1,465.38      | \$ 1,679.79               | \$214.40      |
|                                   | 8" \$                               | 3,352.93      | \$ 3,843.50               | \$490.57      |
|                                   | 10" \$                              | 5,535.45      | \$ 6,345.34               | \$809.89      |
|                                   | 12" \$                              | 8,887.02      | \$ 10,187.28              | \$1,300.26    |

**FY 2015 Increase**

FY 2014 Revenue Requirement \$ 18,768,161

Step Increases for 2015

|                             |                      |            |
|-----------------------------|----------------------|------------|
|                             | Net New Debt Service | \$519,744  |
| FY 2015 Revenue Requirement | \$                   | 19,287,905 |
| Revenues at FY 2014 Rates   | \$                   | 18,768,161 |
| Revenue Deficiency          | \$                   | 519,744    |
| Percent Increase            |                      | 2.77%      |

|                                   |                                     | FY 2014 Rates | Proposed FY<br>2015 Rates | Step Increase |
|-----------------------------------|-------------------------------------|---------------|---------------------------|---------------|
| Billing Charge (per bill)         |                                     |               |                           |               |
|                                   | Quarterly \$                        | 29.08         | \$ 29.89                  | \$0.81        |
|                                   | Monthly \$                          | 29.08         | \$ 29.89                  | \$0.81        |
| Commodity Rates (per 1,000 gals.) |                                     |               |                           |               |
|                                   | Residential \$                      | 9.97          | \$ 10.25                  | \$0.28        |
|                                   | Commercial \$                       | 9.97          | \$ 10.25                  | \$0.28        |
|                                   | Governmental \$                     | 9.97          | \$ 10.25                  | \$0.28        |
|                                   | Navy \$                             | 6.13          | \$ 6.30                   | \$0.17        |
|                                   | Portsmouth Water & Fire District \$ | 4.89          | \$ 5.02                   | \$0.14        |
| Fire Protection                   |                                     |               |                           |               |
|                                   | Public (per hydrant) \$             | 1,651.87      | \$ 1,697.61               | \$45.74       |
|                                   | Private (Connection Size)           |               |                           |               |
|                                   | Less than 2" \$                     | 32.57         | \$ 33.47                  | \$0.90        |
|                                   | 2" \$                               | 136.49        | \$ 140.27                 | \$3.78        |
|                                   | 4" \$                               | 839.12        | \$ 862.35                 | \$23.24       |
|                                   | 6" \$                               | 1,679.79      | \$ 1,726.30               | \$46.52       |
|                                   | 8" \$                               | 3,843.50      | \$ 3,949.93               | \$106.44      |
|                                   | 10" \$                              | 6,345.34      | \$ 6,521.08               | \$175.72      |
|                                   | 12" \$                              | 10,187.28     | \$ 10,469.40              | \$282.11      |