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July 15, 2014

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

Re: *Docket 4478 - Narragansett Bay Commission*

Dear Ms. Massaro:

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

1. The Narragansett Bay Commission's Response to the Division of Public Utilities And Carriers' Third Set of Data Requests.

Please note that an electronic copy of this filing has been sent to the service list. Thank you for your attention to this matter.

Sincerely,



Joseph A. Keough Jr.

JAK/kf
Enclosures

THE NARRAGANSETT BAY COMMISSION

Docket No. 4478

**Responses to Data Requests of the
Division of Public Utilities & Carriers**

Set III

(June 23, 2014)

DIV. 3-1. **Please state when NBC anticipates filing its next General Rate Filing.**

Response: NBC reviews its needs for a general rate filing yearly. The need for a general rate filing is dependent upon a number of things, namely, 1) the results of the previous rate filing, 2) projected future revenues, 3) projected future expenses, 4) debt service requirements, 5) changes in laws and regulations, 6) large customer changes, 7) the size of the projected rate year shortfall, and 8) getting approval from the NBC's board for the filing of a general rate filing and the size of that rate filing. It is difficult at this time to predict the filing of NBC's next general rate filing, but if we use history as a guide, NBC files a general rate increase filing every two to three years.

Per WEE

THE NARRAGANSETT BAY COMMISSION

Docket No. 4478

**Responses to Data Requests of the
Division of Public Utilities & Carriers**

Set III

(June 23, 2014)

DIV. 3-2. Please state when NBC anticipates filing its next Compliance Rate Filing to recover debt service requirements.

Response: NBC evaluates its need for additional financing almost weekly given the size and cost of the federally mandated capital projects and the need to keep the entire system operating efficiently. By far, the impact of additional financing is the most important financial challenge to NBC's administration. The requirements and complexity relating to NBC debt service and the debt service coverage allowance calculations (all three) have been addressed in part by the PUC with its approval of the "Compliance Rate Filing" for increases exclusively in debt service and debt service reserve costs.

Once again it is difficult to identify exactly when NBC will be going out for additional financing but over the past 10 years NBC is averaging two "Compliance Rate Filing" every three years so it is likely NBC will require additional capital financing in calendar year 2015.

Prepared by WEE

THE NARRAGANSETT BAY COMMISSION

Docket No. 4478

**Responses to Data Requests of the
Division of Public Utilities & Carriers**

Set III

(June 23, 2014)

DIV. 3-3. Please state whether it is correct that current debt service provided in response to DIV. 1-39 is less in all years than NBC's final claim of \$44,894,330 that was used to set rates in Docket No. 4364. If not, please explain.

Response: Yes, it is correct.

Prepared by WEE

THE NARRAGANSETT BAY COMMISSION

Docket No. 4478

**Responses to Data Requests of the
Division of Public Utilities & Carriers**

Set III

(June 23, 2014)

DIV. 3-4. With regard to Mr. Edge’s rebuttal testimony at pages 3-4, is it Mr. Edge’s position that the Commission is not allowed to recognize a reduction in the previously approved allowance for debt service included in rates if NBC refinances its debt and reduces its debt service requirements? If yes, please explain in detail why the Commission is not allowed to do so.

Response: No it is not Mr. Edge’s position that “the Commission is not allowed to recognize a reduction in the previously approved allowance for debt service included in rates if NBC refinances its debt and reduces its debt service requirements”. There is no refinancing in this filing. Mr. Edge is simply identifying that true-ups must be made when there are increases in borrowing so that previously approved levels for debt service and debt service reserves are not changed resulting in NBC not making the debt service ratios on a retro-active basis.

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Docket No. 4478

**Responses to Data Requests of the
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Set III

(June 23, 2014)

DIV. 3-5. **In Docket No. 3797, Mr. Edge indicated at page 2 of his rebuttal that NBC agreed with Mr. Catlin's adjustment to flow \$660,154 of excess special master funds back to ratepayers subject to two concerns being addressed. First, NBC requested a statement from the Commission indicating NBC was authorized to use \$330,077 per year of previously restricted funds for its unrestricted operating accounts. Second, NBC preferred the adjustment to be treated as an addition to revenues rather than as a reduction of amortization expense as shown by Mr. Catlin in his direct. Please explain why the remaining balance of special master funds should not be treated in a similar manner in this docket, No. 4478.**

Response: In short, circumstances have changed since Docket 3797. First of all NBC had significantly less problem making the coverage allowance given the size of the debt in Docket 3797. As the debt grew the absolute debt service coverage allowance dollars have grown and recently NBC has had to review even GAAP basis accounts for two of its coverage allowance calculations.

As in Docket 3797, I still have no ratemaking issue with Mr. Catlin's proposed adjustment however, I do see a problem with this approach as it relates to two of NBC's coverage allowance calculations. Further, since these funds are currently in a restricted fund account and NBC has a significant number of restricted funds under the Trust agreement, returning these funds to the ratepayers through another restricted account is less dangerous and a more reasonable choice. Besides, \$330,077 is insignificant to a \$100,000,000 revenue requirement (only 3 cents on a \$100 ratepayer bill). Adversely impacting the coverage allowance may be far more expensive to the ratepayers.

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Docket No. 4478

**Responses to Data Requests of the
Division of Public Utilities & Carriers**

Set III

(June 23, 2014)

DIV. 3-6. **Please provide the quantities of carbon and polymer (caustic) purchased for Field's Point in each month subsequent to the amounts provided in response to DIV. 1-26, and identify the cost of those purchases.**

Response: Please note that "caustic" is another name for sodium hydroxide. Polymer is a different compound. See below:

IFAS PROCESS CHEMICALS 2014

Carbon (Micro C)

Month	Gallons	Cost per gallon	Cost
May-14	32,177.00	\$1.52	\$ 48,909.04
Jun-14	9,692.00	\$1.52	14,731.84
Total	41,869.00		\$ 63,640.88

Caustic (Sodium Hydroxide)

Month	Gallons	Cost per gallon	Cost
May-14	9,966.96	\$1.4300	\$ 14,252.75
Jun-14	19,716.76	\$1.4300	28,159.47
	29,683.72		\$ 42,412.22

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**Responses to Data Requests of the
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Set III

(June 23, 2014)

DIV. 3-7. Please identify the quantity and cost of carbon and polymer (caustic) in inventory for Field's Point at the end of the May through October 2013 permit period and as of the most recent month available.

Response: The following is based upon information in the "PI" system: NBC had 30,370 gallons of Micro C (carbon) in inventory on 11/1/2013 at a price of \$2.09/gallon (\$63,473). NBC had 27,210 gallons of sodium hydroxide (caustic) on 11/1/2013 at a price of \$1.95/gallon (\$53,060). NBC currently has 28,029 gallons of Micro C (carbon) in inventory at a price of \$1.52/gallon (\$42,604). NBC currently has 36,220 gallons of sodium hydroxide (caustic) in inventory at a price of \$1.43/gallon (\$51,795).

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Docket No. 4478

**Responses to Data Requests of the
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Set III

(June 23, 2014)

DIV. 3-8. Please state whether Mr. Edge agrees that accrual basis accounting would include as an expense only the quantities and costs of chemicals used in a given time period and not the amounts purchased which remained in inventory. If not, please explain in detail why not.

Response: Mr. Edge agrees that if you are using the accrual basis of accounting and if you account for inventory balances that this statement is correct. However, NBC expenses all purchases of chemicals (when purchased) and does not use an inventory account for chemicals in its general ledger.

Inventories are maintained, secured, and closely monitored at the plant but the inventory balances are not posted to the books of original entry. NBC is regulated on a cash basis and inventories are not required for reporting in the financial statements.

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Docket No. 4478

**Responses to Data Requests of the
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Set III

(June 23, 2014)

DIV. 3-9. Please identify the quantities of carbon and polymer (caustic) that NBC projects it will utilize during the May through October 2014 permit period. Provide details and supporting documentation showing the derivation of those quantities.

Response: NBC has used 40,420 gallons of Micro C (carbon) and 15,309 gallons of sodium hydroxide (caustic) thus far in 2014. As of mid-June, these chemicals are not being used. According to NBC's Operations Manager - Field's Point, it is likely that they will not need to be used for the remainder of the permit season. Documentation of the chemical use was obtained thru the PI system.

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Docket No. 4478

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Set III

(June 23, 2014)

DIV. 3-10. Provide the same information requested in the prior question for the May through October 2015 permit period.

Response: According to NBC's Operations Manager – Field's Point, the BNR process is extremely weather-dependent. Warmer water temperatures allow the micro-organisms to acclimate more quickly prior to the May – October permit season and colder water temperatures have the opposite effect. Based on Operation's recent experience this year, NBC plans to use approximately the same amount of Micro C (carbon) and sodium hydroxide (caustic) during the 2015 permit season as it used during the current permit season – 40,000 gallons of Micro C and 15,000 gallons of sodium hydroxide. According to the Operation's Manager, however, NBC must meet permit and actual usage may vary with alkalinity and temperature.

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Docket No. 4478

**Responses to Data Requests of the
Division of Public Utilities & Carriers**

Set III

(June 23, 2014)

DIV. 3-11. **Please identify NBC's current estimate of its payments to employees for compensated absences in FY 2014 and update to actual when known. Also please provide the projected payouts in FY 2015 and FY 2016.**

Response:

Position	Date	Total
PRETREATMENT TECHNICIAN	9/6/2013	\$274.55
CHEMIST	11/30/2013	42,156.18
O AND M CLERK	9/20/2013	20,423.95
SENIOR CONSTRUCTION COORDINATOR	9/20/2013	21,041.56
EMDA CLERK	8/24/2013	1,806.84
SOLUTIONS ARCHITECT	8/14/2013	5,793.23
OPERATOR II	8/6/2013	967.44
O AND M SUPERVISOR	7/31/2013	26,176.85
LAB SAMPLE COMPLIANCE COORDINATOR	7/27/2013	3,963.23
O AND M SUPERVISOR	2/7/2014	10,774.10
MECHANIC II	2/25/2014	3,328.19
OPERATOR II	4/18/2014	233.76
PROCESS MONITOR	5/2/2014	41,124.39
IM OPERATOR II	5/9/2014	620.35
PROCESS MONITOR	5/30/2014	49,745.11
CUSTOMER SERVICE REPRESENTATIVE	6/6/2014	141.28
CUSTOMER SERVICE REPRESENTATIVE	6/27/2014	31,910.42
OPERATOR II	6/27/2014	37,945.12
		<u>\$298,426.55</u>

NBC is projecting payouts in FY 2015 and FY 2016 of \$100,000. Incentives for union employees are being reduced and NBC expects that union retirements will decrease.

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**Responses to Data Requests of the
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Set III

(June 23, 2014)

DIV. 3-12. **Please state whether it is correct that under accrual basis accounting, a portion of the claimed \$250,000 increase in uncompensated absences should have been accrued in years prior to FY 2015 at the time the compensation was earned.**

a. If not, please explain in detail why not.

Response: It is not correct. The \$250,000 represents only the increase in the salary level for the current year and none of the \$250,000 was accrued in previous years. The balance sheet reflects all of the prior year's accrued compensated absences while the \$250,000 reflects only the current increase in the rate applied to the number of hours used for the calculation of the total compensated absences. For example, if a company has an employee who is paid \$50,000 per year and starts the year with a compensated absence balance of \$1,008 (42 hours times \$24.00 per hour) and that employee gets a 10% raise, but uses all of his current year sick, vacation and personal time in the current year, then he would not get an increase in the number of days but he would get an increase for the 10% raise ($\$24 \times 1.10 = \26.40). In other words, the number of hours would not change 42 but the compensated balance amount needed to be accrued at year end would increase to \$1,108.80 (the new salary level \$26.40 times 42 hours). If the employee did not use all of his vacation, sick or personal time then that too would have increased the compensated absence balance for the current year activity.

b. If yes, please identify the portion of the compensated absences that were earned prior to FY 2015.

Response: NA.

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**Responses to Data Requests of the
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Set III

(June 23, 2014)

DIV. 3-13. **Please update the response to DIV. 2-5 to reflect RECs generated through the most recent month available.**

Response: The number of REC's generated through most recent month available are:

Month	# RECs
Jan 14	583
Feb 14	665
Mar 14	877
Apr 14	976
May 14	452

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Set III

(June 23, 2014)

DIV. 3-14. **Please identify the amount and price of any REC sales subsequent to those identified in response to DIV. 1-24.**

Response: The third and fourth quarter RECs (calendar year basis) totaling 2,577 were sold at \$64/ REC for a total of \$ 164,928.

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DIV. 3-15. **Please provide a detailed breakdown of miscellaneous revenues and rental revenues for the most recent 12 months available. Update to reflect FY 2014 results (unaudited) when available.**

Response:	Miscellaneous revenues FY 2014 (unaudited)	\$ 31,566.00
	REC revenue (included in miscellaneous in filing)	410,624.00
	Rental revenue FY 2014 (unaudited)	146,619.63

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**Responses to Data Requests of the
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Set III

(June 23, 2014)

DIV. 3-16. Please reconcile the total postage costs for FY 2011, FY 2012 and FY 2013 shown on Schedule WEE-6 with those shown on WEE-R5.

Response: The postage cost included in the rebuttal testimony was calculated using the detail usage times rates (ignoring any credits during the year). The original testimony amounts were taken from the general ledger accounts. I should have used the amounts in the general ledger accounts for my rebuttal adjustment. Fortunately, the variances are immaterial. See below.

Years	Original Testimony	Rebuttal Testimony	Variance
2011	\$ 333,531	\$ 334,446	\$ 915
2012	347,745	348,874	1,129
2013	371,359	372,207	848

REVISED

	Bills Mailed	Total
FY 2011	925,209	\$ 333,531
FY 2012	936,094	347,745
FY 2013	977,919	371,359
FY 2014	978,274	387,497
Percentage increase	2%	
FY 2015 Projected items	996,977	

FY 2014 Postage Expense	\$ 387,497
FY 2014 Bills	<u>978,274</u>
Average Postage Expense per Bill	0.40
Adjusted Postage per bill*	<u>0.04</u>
Adjusted Postage per bill	0.44
FY 2015 Projected Bills	<u>996,977</u>
Revised Rebuttal Rate Year	434,785
Rebuttal as Filed	<u>(435,128)</u>
Rebuttal Adjustment	<u><u>\$ (344)</u></u>

* Projecting an .01 increase on January 2015

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Set III

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DIV. 3-17. **Please identify the late charge penalty revenue in FY 2014.**

Response: Late charge penalty revenue FY 2014 (unaudited) is \$1,013,239.

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Set III

(June 23, 2014)

DIV. 3-18. **Please provide actual biosolids production for FY 2014 when available.**

Response:

Dry Tons of Biosolids

	FY 14	FY 2014
Facility	Projected	Actual
Field's Point	9,821	9,746
Bucklin Point	2,029	2,055
Total	11,850	11,800

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**Responses to Data Requests of the
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Set III

(June 23, 2014)

DIV. 3-19. **Please provide actual Maintenance and Service costs for the 12 months ended May 31, 2014 and for FY 2014 when available.**

Response: Maintenance and Service expense in FY 2014 (unaudited) is \$882,969.

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**Responses to Data Requests of the
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Set III

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DIV. 3-20. **With regard to Schedule WEE-R9, please explain why Mr. Edge utilized the National Grid supply rate for April through October 2014 for all 12 months of the rate year rather than the weighted average supply rate for the rate year.**

Response: In Schedule WEE-R9, NBC utilized the most current supply rate, effective 4/01/14 from National Grid. NBC did not budget a weighted average supply rate, because NBC does not expect a decline in the National Grid supply rate in the rate year. Further, in schedule WEE-R9, NBC is applying the most current rate available to the projected rate year consumption so there is no averaging needed.

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**Responses to Data Requests of the
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Set III

(June 23, 2014)

DIV. 3-21. **Please state whether all Maintenance and Service Agreement costs are charged to Account 53630.**

Response: Yes.

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**Responses to Data Requests of the
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Set III

(June 23, 2014)

DIV. 3-22. Please identify the number of residential dwelling units as of June 2014.

Response: As of June 2014, the number of residential dwelling units is 118,202.