

# Rebuttal Testimony

## Docket 4478

June 13, 2014



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June 13, 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. Rebuttal Testimony of Walter E. Edge Jr., MBA, CPA on behalf of The Narragansett Bay Commission.
2. Rebuttal Testimony of Karen S.D. Grande, Esquire on behalf of The Narragansett Bay Commission.

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

## CERTIFICATION

I hereby certify that on June 13, 2014, a copy of the within was sent to all parties set forth on the attached Service List by electronic mail and copies to Luly Massaro, Commission Clerk, by electronic mail and hand delivery.

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**REBUTTAL TESTIMONY OF  
WALTER E. EDGE JR. MBA CPA  
VICE PRESIDENT  
B&E CONSULTING LLC**

**for  
THE NARRAGANSETT BAY COMMISSION**

**DOCKET No. 4478**

**June 13, 2014**

1 **Q. Would you please give your name and business address for the record?**

2 A. Certainly, my name is Walter Edward Edge Jr. MBA, CPA. I work for the accounting/  
3 consulting firm of B&E Consulting LLC (B&E) at 21 Dryden Lane, Providence, RI 02904.

4

5 **Q. What is B&E?**

6 A. B&E is a certified public accounting firm that specializes in providing accounting and  
7 consulting services to small businesses, municipalities, utilities and individuals.

8

9 **Q. Have you previously submitted pre-filed testimony at the request of the Narragansett  
10 Bay Commission as part of this Docket (4478)?**

11 A. Yes, I submitted pre-filed testimony on December 23, 2013.

12

13 **Q. What is the purpose of this pre-filed testimony?**

14 A. This testimony is offered as rebuttal to the testimony of Thomas S. Catlin of May 16, 2014 on  
15 behalf of the Division of Public Utilities and Carriers as well as to provide updates on cost  
16 information and other items relevant to this Docket that have come to NBC's attention since  
17 the original application for rate relief which was filed on December 23, 2013.

18

19 **Q. How would you like to proceed with your testimony?**

20 A. I would like to begin by pointing out that I have included a summary cost of service schedule  
21 that includes all of my rebuttal adjustments and my rebuttal rate year as Schedule WEE-R1. I  
22 will then address the concerns that I have with respect to the adverse impact of four proposed  
23 Division adjustments specifically related to NBC's Trust Indenture (Indenture) and debt  
24 service coverage. These include the adjustments related to the use of cash from the Special  
25 Master as a revenue source for ratemaking purposes and reductions related to debt service,  
26 compensated absences and chemical inventory. I will then address the remaining items. As  
27 much as possible I will address them in the same order as Mr. Catlin presented his  
28 adjustments in his Schedule TSC-2.

29

30 **Q. Can you summarize the concerns that you have with respect to the four adjustments  
31 identified in your previous response that may have significant consequences with  
32 respect to the Indenture and debt service coverage?**

33 A. Yes. There are three particular areas of concern. First, the NBC must include a Debt Service  
34 Coverage Calculation in its annual audit. This calculation is prepared by the auditing firm

1 and used by NBC’s credit rating agency as part of the annual credit review. Each of the four  
 2 proposed adjustments adversely impacts this calculation either directly or indirectly. The Net  
 3 Revenue calculation is the second area of concern and it is required per Section 603(4) of the  
 4 Indenture. It is calculated in a different way, but is also adversely impacted by these  
 5 adjustments. Lastly, the third area of concern is the CPA coverage certificate required in  
 6 connection with the issuance of bonds per Indenture Section 205(2)(vi). This calculation is  
 7 put at risk with the proposed adjustment to debt service. The table below shows the impact of  
 8 these four proposed adjustments as follows:

	Debt Service Coverage Calculation in Audit	Net Revenue Calculation Required by Section 603(4) of Trust Indenture	CPA Coverage Calculation Required by Section 205(2)(vi) of Trust Indenture
<b>Debt Service Adjustment</b>	The indirect effect of the debt service adjustment is a reduction of the revenue requirement/rates which in turn reduces revenues.	The indirect effect of the debt service adjustment is reduction of the revenue requirement/rates which in turn reduces revenues.	The debt service adjustment will reduce the amount available for debt service and debt service coverage on the CPA Debt Certificate calculation.
<b>Inventory Adjustment</b>	The inventory adjustment is a reduction of revenue requirements/rates which in turn reduces revenues. The expenses would include all of the expenses incurred in the fiscal year including the 15% inventory. Therefore, the expenses would exceed the revenue available which will adversely affect the debt service coverage calculation.	The inventory adjustment is a reduction of revenue requirements/rates which in turn reduces the revenue. Therefore, the revenue included in the net revenue calculation would not cover the entire chemical expense.	No Effect
<b>Special Master Adjustment</b>	The transfer from the Special Master account should not be considered revenue. Therefore, it should not be included in the total revenue available for the debt service coverage calculation.	The transfer from the Special Master account would not be considered revenue under GAAP. Therefore, the revenue used in the net revenue calculation would not include the special master adjustment.	No Effect
<b>Compensated Absences</b>	The reduction in the compensated absences reduces the requirements/rates. The debt service coverage calculation would only include in revenue the payout of the sick time, and the expenses would include all of the compensated absences expense, thereby adversely affecting the coverage calculation.	The reduction in the compensated absences reduces the revenue requirement/rates. Therefore, the total net revenue calculation revenue would not include the revenue required to cover the entire compensated absences expense.	No Effect

10

11

12 **Q. Please explain how the debt service adjustment now relates to the Trust Indenture and**  
 13 **NBC’s outstanding debt?**

14 A. Typically the Division works in conjunction with NBC to ensure that rate year revenues are at  
 15 a level such that debt service coverage is met in all years not just the first year that it is  
 16 issued. It has been understood and accepted by all parties, including the PUC that the timing  
 17 of new debt issuances and or the structure of new debt is not likely to result in equal total  
 18 annual debt service payments in all future years. Rates must be set such that NBC meets its  
 19 coverage requirements in all years.

20

21

1 NBC's current approved cost of service that addressed debt service was approved in Docket  
 2 4364 and resulted in an allowance of \$56,117,913 for debt service and debt service coverage.  
 3 The following schedule shows that the Division's proposed adjustment would result in  
 4 insufficient debt service coverage in fiscal year 2018.

5

<b>Fiscal Year</b>	<b>Per Division Net Revenue Available for Debt Service</b>	<b>Current Debt Service</b>	<b>Debt Service Coverage</b>	<b>Existing Net Revenue Available for Debt Service Docket 4364</b>	<b>Debt Service Coverage</b>
2015	\$ 55,955,544	\$ 42,211,965	1.3256	\$ 56,117,913	1.3294
2016	55,955,544	44,680,362	1.2524	56,117,913	1.2560
2017	55,955,544	44,649,998	1.2532	56,117,913	1.2568
2018	55,955,544	44,814,073	1.2486	56,117,913	1.2522
2019	55,955,544	44,534,508	1.2565	56,117,913	1.2601
2020	55,955,544	43,969,228	1.2726	56,117,913	1.2763

6

7

8 In addition, prior to the issuance of additional bonds, Section 205(2)(iv) of the Trust  
 9 Indenture requires that the NBC provide a certification to the Trustee that the estimated  
 10 annual Net Revenues available in the year of issuance, as well as for each of the three full  
 11 Fiscal Years following the issuance, be at least equal to one hundred twenty five percent  
 12 (125%) of the estimated Debt Service Requirement for such Fiscal Years. I have prepared  
 13 and signed these certificates for NBC using the approved allowances for debt service and  
 14 debt service coverage set forth in the Reports and Orders of the PUC.

15

16 This certificate is required by the Indenture for the protection of bondholders and is also used  
 17 by underwriters as part of the representation to potential bond purchasers of NBC's ability to  
 18 operate and maintain its facilities as well as meet the financial obligations associated with the  
 19 new debt issuance. Please refer to the testimony of Karen S.D. Grande, NBC's bond counsel,  
 20 regarding the legal ramifications of reducing revenues that were used as the basis of  
 21 representations to bondholders, underwriters and the purchasers of public offerings.

22

23

24 I know that I will find it difficult to sign future certificates in good faith if I am aware that  
 25 previously approved debt service and debt service coverage allowances are reduced in  
 26 subsequent dockets, unrelated to debt service. The retroactive reduction of previously  
 27 approved debt service and debt service coverage amounts would make it significantly more

1 difficult, if not impossible, for NBC to obtain financing at the rates it has thus far enjoyed.  
2 Increased interest rates will adversely impact NBC's ratepayers.

3  
4 It should be noted that minor differences between projected and actual debt service have  
5 arisen over the years (this is less than 3 tenths of one percent of the total debt service  
6 allowance). These immaterial differences have been in existence since NBC started their  
7 current borrowing program, and are the result of NBC completing its borrowing at interest  
8 rates less than the rates approved by the PUC (the actual interest rates are often not known at  
9 the time of filing and a little extra has to be included in rates to assure that the bonding can go  
10 forward without returning to the PUC). These minor differences can be and have been  
11 adjusted in dockets where there is an increase in the debt service allowance (an increase net  
12 of the adjustment is made). If the PUC continues its practice of increasing the debt service  
13 allowance while at the same time adjusting for these minor variances on a prospective basis  
14 then there should be no adverse impact on NBC's ability to meet its coverage requirements.

15  
16 **Q. What is your concern with respect to the inclusion of cash from the "Special Master  
17 Fund" as revenue for rate making purposes?**

18 A. The Special Master Fund is a cash account that was established by a Commission Order  
19 several years ago with the intention of funding a "Special Master" to oversee the CSO Phase I  
20 Facilities. Ultimately the services of a Special Master were not engaged and the CSO Phase I  
21 Facilities were completed and became operational in 2008. NBC agrees that these funds are  
22 no longer needed for this purpose but is concerned about using one time cash transfers as a  
23 means for funding ongoing cost of service.

24  
25 Several Indenture requirements are impacted by what is included in Revenues: (a) the  
26 accountant's debt service coverage certificate required as a condition to the issuance of  
27 additional bonds (Section 205(2) (vi) discussed above) and (b) the rate covenant (Section  
28 603(2)). The rate covenant provides that NBC "shall take all actions within its power to  
29 establish and maintain Rates and Charges at levels sufficient so that total Net Revenues in  
30 each Fiscal Year during which Bonds are outstanding, shall equal at least one hundred  
31 twenty-five percent (125%) of the Debt Service Requirement during such Fiscal Year with  
32 respect to all Bonds Outstanding..." The annual compliance certificate provision requires that  
33 for each fiscal year, NBC must provide to the Trustee a certification from an independent  
34 public accountant certifying that NBC has met the rate covenant based upon audited financial

1 statements. Unlike other true revenue sources, a cash transfer from the Special Master Fund  
2 is not a revenue under GAAP, is excluded from the rate covenant calculation, and therefore,  
3 reliance on this type of one-time cash transfer jeopardizes NBC's ability to meet coverage.  
4

5 Since the funds for the Special Master were set aside for the NBC's capital program and are  
6 held in the Project Fund, I would recommend that the PUC direct these funds to be  
7 transferred to the restricted capital projects account where they can be used to meet NBC's  
8 capital needs. This will free up the use of the funds but not jeopardize NBC's ability to meet  
9 the coverage requirements of Sections 205(2)(vi), 603(2) and 603(4).  
10

11 **Q. Do you have any comments regarding the new chemical inventory adjustment**  
12 **recommended by Mr. Catlin?**

13 A. Yes I do. Mr. Catlin has observed that the initial purchases of a new chemical may result in  
14 both an expense for the chemicals used and an asset for the establishment of a normal  
15 inventory level. NBC agrees that a small level of inventory (not necessarily 10%) in the first  
16 year is reasonable but that the expenditures in the subsequent years would be all expense.  
17 NBC does not support this adjustment as it relates to the rate year because the amount  
18 requested is the level of usage expected and any inventory level would have been set up in the  
19 test or interim year. Further, NBC believes that this adjustment will adversely impact the  
20 debt service coverage calculations.  
21

22 **Q. Is Mr. Catlin addressing the same compensated absences as requested by NBC in its**  
23 **initial filing?**

24 A. No. Mr. Catlin has calculated the projected payout of unused sick leave at termination based  
25 upon NBC's actual FYE 2013 sick payout. I appreciate Mr. Catlin's acknowledgement of  
26 the need to fund compensated absences through his adjustment because this area has been  
27 overlooked for years. However, compensated absences also include accrued vacation and  
28 personal leave. Thus, Mr. Catlin's approach should include vacation (\$21,883) and personal  
29 leave (\$1,129) for a total adjustment of \$76,666.  
30

31 **Q. Do these changes to Mr. Catlin's adjustments address NBC's concern regarding**  
32 **compensated absences?**

33 A. No. NBC is more interested in addressing the increases in accrued absences companywide on  
34 its balance sheet and the need to properly recover this expense in its cost of service.

1 Generally Accepted Accounting Principles (GAAP) require NBC to recognize an expense  
2 each year relating to the growth or increase in “compensated absences” from year to year.  
3 These compensated absences are for accrued sick, vacation and personal leave granted in  
4 varying amounts to employees based on years of service.

5  
6 At the termination of service, an employee is paid for accumulated unused vacation, personal  
7 and sick leave. The accrual is reduced by the amount of actual “payouts” resulting from  
8 terminations during the year (Mr. Catlin’s calculation). These compensated absences are  
9 adjusted annually to reflect increases in current employee salaries and employees will be paid  
10 for their unused sick, vacation and personal leave at their current salary levels (at retirement).  
11 Accordingly, each year, the NBC must accrue the net increase in compensated balances and  
12 this is reflected as an expense.

13  
14 This accrual is a real expense, reflected in NBC’s operating budget and used in calculating  
15 the net revenue available for debt service in the coverage calculation on a GAAP basis.  
16 NBC is concerned that the non-recognition of this actual expense in rates will eventually  
17 adversely impact the funds available to meet the debt service coverage allowance calculation.

18

19 **Q. Has NBC requested this expense in previous filings?**

20 A. No. Recently NBC has found that the reporting differences in GAAP and ratemaking can  
21 have serious impacts on NBC’s ability to meet its debt service coverage. As NBC’s  
22 borrowing continues, the calculated ratio is getting closer and closer to 1.25% and therefore  
23 even some of the smallest GAAP expenses must be reviewed. In fact, the NBC has included  
24 the increase in compensated absences in their FY 2015 budget to address this issue. NBC  
25 has worked hard to maximize its operational efficiencies, and given the fact that cash  
26 revenues are not keeping pace with actual expenses NBC must identify all of the differences  
27 between cash and accrual accounting and evaluate their impacts with respect to the Trust  
28 Indenture.

29

30 Two of the areas with the most significant differences are 1) debt service principal vs. accrual  
31 of depreciation and amortization and 2) capital expenditures. In past Orders, the PUC  
32 addressed these two differences and granted the NBC revenue streams to recover both. At  
33 this point it is important to address the differences related to compensated absences, and the

1 \$250,000 increase is the Accounting Manager's estimate of the rate year net increase to the  
2 accrual.

3

4 **Q. Mr. Edge, are there any additional comments that you would like to make to aid the**  
5 **Division and the PUC in its review of these four adjustments relating to the debt service**  
6 **and debt service coverage?**

7 A. Yes. In the testimony above I have presented my comments regarding four of Mr. Catlin's  
8 adjustments and my reasons for rejecting these adjustments as they stand alone: 1) the 15%  
9 chemical inventory adjustment (\$45,226), 2) the compensated absences adjustment  
10 (\$196,100), 3) the special master adjustment (\$80,837) and 4) the debt service adjustment  
11 (\$162,369). Combined these four adjustment represent \$484,532 that directly impact the  
12 GAAP basis bottom line and the GAAP basis debt service coverage requirement. Clearly  
13 \$484,532 of adjustments is material to the debt service and debt service reserve calculations.  
14 Combined these adjustments could have a material impact on NBC's ability to borrow in the  
15 future.

16

17 **Q. Do you agree with Mr. Catlin's adjustment that increases miscellaneous revenues by**  
18 **\$61,630 for REC Sales?**

19 A. Yes. Although I agree with Mr. Catlin's adjustment for the sale of RECs, NBC was recently  
20 notified that it will lose revenues of \$1,967.78 per month or \$23,613/year of miscellaneous  
21 revenue related to the lease revenues from the cell tower located on the Field's Point  
22 property. Therefore after making this new adjustment and Mr. Catlin's adjustment the net  
23 adjustment to miscellaneous revenue should be \$38,017. I have made this adjustment on  
24 Schedule WEE-R2.

25

26 **Q. Have you reviewed Mr. Catlin's method for projecting rate year salaries and wages and**  
27 **related costs?**

28 A. Yes and I agree that his method generates a better projection of union and non-union salaries  
29 in the rate year since it is based on more current information. When I prepared my original  
30 testimony (back in December 2013) I was aware that using more current information for the  
31 union and non-union salary calculation would result in the adjustments identified by Mr.  
32 Catlin but I wished to stay consistent to the extent possible with my use of the prior rate year  
33 as the test year in the rate application. Further, I have also accepted Mr. Catlin's rate year

1 amounts for union and, non-union overtime, capitalized salaries and wages and non-union  
2 pension. These adjustments are reflected in my Schedule WEE-R3.

3

4 **Q. What is your opinion about Mr. Catlin’s adjustment to the Workers Compensation –**  
5 **Old Claims expense?**

6 A. Mr. Catlin is correct to adjust the rate year expense for the claims that have since expired as  
7 long as the costs associated with the other claims do not increase. This is reflected in  
8 Schedule WEE-R4.

9

10 **Q. Do you agree with Mr. Catlin’s adjustment to the rate year Postage Costs?**

11 A. No. My primary concern with the adjustment is that it does not reflect costs for NBC’s  
12 postage that are not related to the mailing of customer billing communications. In addition, it  
13 does not reflect the increasing trend in the number of pieces mailed. Further I have adjusted  
14 my postage request to reflect a planned increase in postage costs in January 2015. I have  
15 made these adjustments and they are reflected in my Schedule WEE-R5.

16

17 **Q. Have you reviewed Mr. Catlin’s adjustments to Biosolids Disposal Costs?**

18 A. Yes. I agree with Mr. Catlin’s biosolids disposal rate adjustment for the rate year, however, I  
19 have also adjusted the rate year dry tons to reflect the increased biosolids production that has  
20 been attributed to the new Biological Nutrient Removal (BNR) Facilities. At Field’s Point in  
21 particular there has been a huge increase in dry ton production. Based upon invoices received  
22 through May 2014, the fiscal year 2014 actual dry ton production is now projected to be  
23 9,821 which is 457 dry tons more than NBC included in its original application for the rate  
24 year (fiscal year 2015).

25

26 In fact, the dry ton production at Field’s Point has increased an average of 12% per year for  
27 each of the last two years. Using this trend I have applied the 12% increase to the projected  
28 FY 2014 dry ton production which results in a rate year total biosolids production of 11,043  
29 dry tons as is shown in the following table:

30

<b>Dry Tons</b>	<b>FY 2012 Actual</b>	<b>FY 2013 Actual</b>	<b>FY 2014 Projected</b>	<b>FY 2015 Projected</b>	<b>Percent Increase</b>
Field's Point	7,865	8,425	9,821	11,043	12%
Bucklin Point	2,023	2,098	2,029	2,032	0%
Total Dry Tons	9,888	10,523	11,850	13,075	10%

31

32

1 I have used the same method to update the rate year dry ton production for Bucklin Point  
2 resulting in dry ton production of 2,032 at Bucklin Point and a rate year total for both  
3 facilities of 13,075. Using the disposal rates as calculated by Mr. Catlin, the rate year  
4 expense is \$5,674,877 as is shown on Schedule WEE-R6. This is \$654,151 higher than the  
5 rate year amount included in NBC's original application.

6  
7 **Q. Do you agree with Mr. Catlin's adjustment to the rate year Maintenance and Service**  
8 **Agreement Costs?**

9 A. No. NBC has numerous maintenance and service agreements and unfortunately cannot easily  
10 generate detailed reports on each one through its financial system. Based upon a review of  
11 NBC's records as part of the budget process, however, I have determined that NBC will have  
12 maintenance and service agreements that will cost a minimum of \$1,142,699 in the rate year.  
13 A detailed schedule of the vendors and actual/estimated costs in the rate year is included as  
14 backup to Schedule WEE-R7. Basing rate year costs on these detailed projections, I have  
15 revised the rate year cost to \$1,142,699 although actual rate year costs may be higher.

16  
17 **Q. Have you reviewed Mr. Catlin's adjustment to Electricity?**

18 A. Yes. In NBC's original application, I left the electricity expense at the rate year levels from  
19 Docket 4364 since NBC did not have sufficient actual operating experience to make  
20 adjustments for the new BNR Facilities at Field's Point or the Wind Turbines beyond what  
21 was included in the engineer's design reports. Since that time, NBC has nearly a complete  
22 fiscal year of operating experience and I have updated the rate year to reflect the actual use  
23 along with the estimated use from the new BNR facilities to become operational in the rate  
24 year. This results in a rebuttal rate year expense of \$3,449,893 or a reduction of \$406,360  
25 from the rate year as originally filed.

26 My rebuttal rate year reflects the projected expenses in the electricity line item for electricity  
27 that must be purchased. My rate year amount is different from that of the Division because  
28 the Division's schedule deducted kWh for electricity generated by the wind turbines which  
29 was not include that amount in the total kWh used. This resulted is an understatement of the  
30 kWh that NBC must purchase in the rate year. In the future, NBC will work to prepare  
31 supporting schedules related to electricity that are easier to navigate. This adjustment is  
32 reflected in Schedule WEE-R8.

1 **Q. Have you reviewed Mr. Catlin’s adjustment to the Natural Gas line item based upon an**  
 2 **increase in the gas supply cost?**

3 A. Yes. I agree with Mr. Catlin’s adjustment to the supply rate for Natural Gas and I have also  
 4 updated the schedules to reflect the most recent usage based upon the fiscal year 2014 usage.  
 5 The FY 2014 reflects a full year of BNR operations at Field’s Point, consistent with method  
 6 that I have used for the calculation of electricity use in the rate year. The result is that NBC  
 7 projects rate year therms slightly greater (2,869 therms) than the amounts provided to the  
 8 Division in response to Division data request 1-22 (see following table).

9

	<b>Therms per Response to DIV 1-22</b>	<b>Rebuttal Rate Year Usage 2014 Actuals</b>	<b>FY Increased Usage</b>
Field's Point	204,711	194,308	(10,403)
Bucklin Point	84,257	84,267	10
COB	23,141	24,998	1,857
IM	14,229	19,058	4,829
Lab	12,163	18,739	6,576
	338,501	341,370	2,869

10

11

12 My rate year amount is \$470,233 and the calculations are reflected in my Schedule WEE R9.

13

14 **Q. Mr. Edge, did you review Mr. Catlin’s adjustment to Chemicals?**

15 A. Yes. Mr. Catlin has provided a composite schedule that shows adjustments to Field’s Point  
 16 and Bucklin Point chemicals. As I did with the previous accounts I have made adjustments to  
 17 the chemical line items to reflect more current information. My adjustments to the chemical  
 18 accounts reduce the revenue requirement. See my Schedule WEE-R10.

19

20 **Q. Do you agree with Mr. Catlin’s adjustment to Management/Audit Services?**

21 A. Yes. See my Schedule WEE R11.

22

23 **Q. Do you agree with Mr. Catlin’s adjustment to the Operating Reserve?**

24 A. No. Although Mr. Catlin’s adjustment is based on the most recent PUC position, NBC  
 25 believes that the position is not consistent with the way that the PUC has more recently  
 26 funded the operating reserves of other utilities that have significant expenses that vary with  
 27 factors out of their control such as utilities, chemicals or even regulatory expense. The need

1 for an operating reserve is evident by NBC's experience this fiscal year and I can provide two  
2 specific examples.

3

4 First, NBC received a corrected assessment from the PUC that resulted in an increase of  
5 \$100,000 above the PUC allowance. A second example is biosolids expense that has  
6 increased significantly because of treatment process changes. Updated actual expense in the  
7 rate year from the last Docket is actually \$700,000 greater than the allowance in the rate year.  
8 Clearly these are unforeseen, unexpected and uncontrollable costs that are not optional or  
9 elective.

10

11 As I have mentioned earlier in my testimony, over the years NBC has maximized operational  
12 efficiencies and benefitted from historic low interest rates but NBC is a nearly \$100 million  
13 utility and an operating reserve based on this antiquated calculation is clearly inadequate.  
14 My proposed operating reserve of 1.5% of all expenditures other than debt service and debt  
15 service reserve is very conservative and results in an annual amount of approximately  
16 \$600,000 which is less than 20% of one month's operating expenses.

17

18 **Q. Mr. Edge, do you have any other adjustments?**

19 A. Yes. When NBC was calculating Schedule WEE R13 it was obvious that the non-residential  
20 flat fee units, specifically the number of billable meters, has declined significantly in the  
21 interim year. To reflect the impact of this change I completed Schedule WEE-R13 which  
22 shows the revenue check using the units filed and Schedule WEE R13B to show the revenue  
23 check using the interim units. The result of the new calculation WEE R13B was a shortfall  
24 of \$548,725. I made an adjustment to eliminate the shortfall on Schedule WEE R1. Failure  
25 to do so would result in a revenue shortfall of \$548,725 and will impact the debt service  
26 reserve coverage requirements.

27

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

29 A. Yes.

ACCT. NUMBER	BUDGET ACCOUNT	Normalized Test Year 6/30/2013	Adjustments	Interim Year FY 2014 Docket 4364	Rate Year Adjustments	Rate Year RY 2015	Rebuttal Adjustments	Rebuttal Rate Year FY 2015
<b>Revenue</b>								
41000	FLAT FEES RESIDENTIAL	\$ 21,012,307	\$ 2,883,405	\$ 23,895,712	\$ -	\$ 23,895,712		\$ 23,895,712
41100	CONSUMPTION FEE - RESIDENTIAL	24,008,798	4,175,908	28,184,706	(673,649)	27,511,057		27,511,057
41501, 41502	FLAT FEES COMMERCIAL & INDUSTRIAL	12,144,796	2,324,004	14,468,800		14,468,800	(548,725)	13,920,075
41510	CONSUMPTION FEE - COMMERCIAL	19,651,191	3,857,841	23,509,032	(939,801)	22,569,231		22,569,231
41511	CONSUMPTION FEE - INDUSTRIAL	1,132,808	198,906	1,331,714	(35,717)	1,295,997		1,295,997
42000	PRETREATMENT FEES	1,077,887	9,253	1,087,140	-	1,087,140		1,087,140
42500	CONNECTION PERMIT FEES	95,609	(10,122)	85,487	-	85,487		85,487
4300	BOD/TSS	(5,746)	5,746					-
43500	SEPTAGE INCOME	300,319	3,838	304,157	-	304,157		304,157
45100, 45200	INVESTMENT INCOME	3,238	1,270	4,508	-	4,508		4,508
45500	LATE CHARGE PENALTY	918,134	809	918,943	-	918,943		918,943
42600	ABATEMENT FEE	2,412	(252)	2,160	-	2,160		2,160
47502	GRANT	-	-	-	-	-		-
49005	CAPITAL CONTRIBUTION	-	-	-	-	-		-
49002	MISCELLANEOUS INCOME	60,373	415,691	476,064	-	476,064	38,017	514,081
49003	RENTAL REVENUE	135,020	(2,605)	132,415	-	132,415		132,415
<b>TOTAL REVENUE</b>		<b>80,537,146</b>	<b>13,863,692</b>	<b>94,400,838</b>	<b>(1,649,167)</b>	<b>92,751,671</b>	<b>(510,708)</b>	<b>92,240,963</b>
<b>Expenses</b>								
<b>PERSONNEL SERVICES</b>								
52100	UNION - REGULAR	5,568,502	480,975	6,049,477	259,371	6,308,848	(214,380)	6,094,468
52150	UNION OVERTIME	439,426	18,092	457,518	19,616	477,134	3,042	480,176
52300	NON-UNION REGULAR	8,449,979	146,101	8,596,080	515,382	9,111,463	221,396	9,332,859
52350	NON-UNION OVERTIME	95,267	(24,718)	70,549	2,116	72,665	9,347	82,012
52400	NON-UNION LIMITED	23,282	(659)	22,623	679	23,301	1,675	24,976
52800	UNION PENSION	1,217,469	237,430	1,454,899	80,044	1,534,943	(52,159)	1,482,784
52810	FICA	1,054,447	101,035	1,155,482	60,574	1,216,056	1,511	1,217,567
52820	UNEMPLOYMENT	16,825	13,087	29,912	-	29,912		29,912
52920	NON UNION PENSION	871,332	(4,669)	866,663	306,870	1,173,533	(229,548)	943,985
52940	UNION RETIREMENT HEALTH	376,563	95,296	471,859	(46,012)	425,847	(14,471)	411,377
52950	HEALTH INSURANCE	3,339,744	93,219	3,432,963	235,065	3,668,029		3,668,029
52970	DENTAL INSURANCE	239,088	14,107	253,195	15,192	268,387		268,387
52980	VISION INSURANCE	40,357	(916)	39,441	-	39,441		39,441
52990	DISABILITY INSURANCE	32,748	6,653	39,401	-	39,401		39,401
53690	WORK. COMP. - OLD CLAIMS	34,063	8,183	42,246	-	42,246	(18,858)	23,388
<b>TOTAL PERSONNEL SERVICES</b>		<b>21,799,092</b>	<b>1,183,216</b>	<b>22,982,308</b>	<b>1,448,898</b>	<b>24,431,205</b>	<b>(292,445)</b>	<b>24,138,761</b>
59000	SALARY REIMBURSEMENT	(1,236,491)	62,372	(1,174,119)	(35,224)	(1,209,343)	(117,097)	(1,326,440)
59001	FRINGE REIMBURSEMENT	(670,080)	28,527	(641,553)	(19,247)	(660,799)	(58,026)	(718,825)
<b>NET PERSONNEL SERVICES</b>		<b>19,892,521</b>	<b>1,274,115</b>	<b>21,166,636</b>	<b>1,394,428</b>	<b>22,561,063</b>	<b>(467,567)</b>	<b>22,093,496</b>
<b>OPERATING SUPPLIES/EXPENSES</b>								
52610	MEDICAL SVCS.	7,987	68	8,055	-	8,055		8,055
53200	BAD DEBT EXPENSE	-	85,229	85,229	-	85,229		85,229
53210	POSTAGE	371,359	(23,614)	347,745	112,627	460,372	(25,244)	435,128
53240	DUES & SUBSCRIPTIONS	54,269	(3,327)	50,942	-	50,942		50,942
53250	FREIGHT	34,183	5,456	39,639	-	39,639		39,639
53310	PRINTING & BINDING	138,453	(15,971)	122,482	-	122,482		122,482
53320	ADVERTISING	10,548	(3,615)	6,933	-	6,933		6,933
53330	RENTAL- EQUIPMENT	14,859	(54)	14,805	-	14,805		14,805
53340	RENTAL- CLOTHING	28,301	2,004	30,305	-	30,305		30,305
53350	RENTAL-OUTSIDE PROPERTY	3,702	1,739	5,441	-	5,441		5,441
53370	PUBLIC OUTREACH ED.	19,171	(6,059)	13,112	-	13,112		13,112
53410	LOCAL TRAVEL	3,340	(1,598)	1,742	-	1,742		1,742
53420	LONG DISTANCE TRAVEL	32,884	4,374	37,258	-	37,258		37,258
53470	BLDG. & GRND. MAINT.	125,465	(4,167)	121,298	-	121,298		121,298
53480	SLUDGE DISPOSAL	4,440,239	(123,579)	4,316,660	704,066	5,020,726	654,151	5,674,877
53490	SCREENING & GRIT DISPOSAL	124,802	39,007	163,809	-	163,809		163,809
53510	VEHICLE FUEL & MAINTENANCE	219,114	14,778	233,892	-	233,892		233,892
53610	REPAIRS BLDG, STRUCT,EQUIP.	479,384	7,086	486,470	-	486,470		486,470
53620	REPAIR-HIGHWAY & WALKS	4,120	(971)	3,149	-	3,149		3,149
53630	MAINTENANCE/SERVICE AGREE.	742,665	265,137	1,007,802	121,935	1,129,737	12,962	1,142,699
53650	HIGHWAY & LANDSCAPE	10,493	(9,765)	728	-	728		728
53660	INSURANCE	492,197	(15,687)	476,510	120,058	596,568		596,568
53680	WORK. COMP. INSURANCE	355,826	3,316	359,142	53,123	412,265		412,265
53900	CENTRAL PHONE SVCS.	5,210	443	5,653	-	5,653		5,653
54000	TELEPHONE	150,482	(12,403)	138,079	-	138,079		138,079
54020	FUEL OIL #2 - DIESEL	14,561	22,607	37,168	-	37,168		37,168
54060	FUEL-GAS	336,511	22,704	359,215	-	359,215	111,018	470,233
54090	ELECTRICITY	3,491,204	365,049	3,856,253	-	3,856,253	(406,360)	3,449,893
54110	WATER	24,985	8,572	33,557	-	33,557		33,557
54200	CLOTHING	23,121	(64)	23,057	-	23,057		23,057
54330	CHEMICALS, HOUSE & LAUNDRY SUPPLY	-	39,056	39,056	-	39,056		39,056
54332	SODIUM HYPOCHLORITE	327,319	42,228	369,547	-	369,547	(25,728)	343,819
54333	CARBON FEED	275,846	(103,046)	172,800	-	172,800	(101,565)	71,235
54336	SODIUM HYDROXIDE	-	196,468	196,468	-	196,468	(33,987)	162,481

ACCT. NUMBER	BUDGET ACCOUNT	Normalized Test Year 6/30/2013	Adjustments	Interim Year FY 2014 Docket 4364	Rate Year Adjustments	Rate Year RY 2015	Rebuttal Adjustments	Rebuttal Rate Year FY 2015
54337	BISULFITE	-	311,329	311,329	-	311,329	(73,747)	237,582
54340	LAB SUPPLIES	274,344	(10,143)	264,201	30,434	294,635		294,635
54370	SUPPLIES BUILDING & MAINT.	256,459	(94,921)	161,538	-	161,538		161,538
54410	EDUCATIONAL SUPP. & EXP.	41,393	309	41,702	-	41,702		41,702
54420	COMPUTER SUPPLIES	71,506	1,528	73,034	-	73,034		73,034
54430	OTHER OP. SUPPLIES & EXP.	10,210	965	11,175	-	11,175		11,175
54440	SAFETY EQUIPMENT	21,331	8,198	29,529	-	29,529		29,529
54500	OFFICE EXPENSE	71,604	(1,922)	69,682	-	69,682		69,682
57800	BOND AND NOTE FEES	-	-	-	-	-		-
53360	MISCELLANEOUS	3,512	(3,512)	-	-	-		-
57913	LEASE EXPENSE	9,048	(249)	8,799	-	8,799	-	8,799
<b>TOTAL OPERATING SUPP. &amp; EXP.</b>		<b>13,122,007</b>	<b>1,012,982</b>	<b>14,134,989</b>	<b>1,142,243</b>	<b>15,277,232</b>	<b>111,500</b>	<b>15,388,732</b>
<b>PROFESSIONAL SERVICES</b>								
52600	REGULATORY EXPENSE	286,550	(52,701)	233,849	256,455	490,304		490,304
52650	SECURITY SERVICES	38,845	(702)	38,143	-	38,143		38,143
52660	LEGAL SERVICES	155,846	(19,718)	136,128	-	136,128		136,128
52670	MGMT/AUDIT SERVICES	1,861,701	267,055	2,128,756	108,461	2,237,217	(142,365)	2,094,852
52680	CLERICAL SERVICES	46,867	21,279	68,146	-	68,146		68,146
52690	OTHER SERVICES	121,425	(10,914)	110,511	-	110,511		110,511
<b>TOTAL PROFESSIONAL SERVICES</b>		<b>2,511,234</b>	<b>204,299</b>	<b>2,715,533</b>	<b>364,916</b>	<b>3,080,449</b>	<b>(142,365)</b>	<b>2,938,084</b>
<b>TOTAL OPERATIONS &amp; MAINTENANCE</b>		<b>35,525,762</b>	<b>2,491,396</b>	<b>38,017,158</b>	<b>2,901,587</b>	<b>40,918,745</b>	<b>(498,432)</b>	<b>40,420,312</b>
<b>CAPITAL OUTLAYS</b>								
57500	DEPRECIATION	-	-	-	-	-	-	-
57010	AMORITIZATION'	-	9,690	9,690	(9,690)	-	-	-
16520	BLDG. & PLANT EQUIP.	402,073	(402,073)	-	-	-	-	-
16580	OFFICE FURN & EQUIP.	39,058	(39,058)	-	-	-	-	-
16583	COMPUTER SOFTWARE	163,487	(163,487)	-	-	-	-	-
16585	COMPUTER HARDWARE	729,307	(729,307)	-	-	-	-	-
16590	OTHER EQUIPMENT	21,806	(21,806)	-	-	-	-	-
16600	REPLACEMENT RESERVE	1,032,617	(1,032,617)	-	-	-	-	-
16610	BUILDING & OTHER STRUCT.	144,341	(144,341)	-	-	-	-	-
<b>TOTAL CAPITAL OUTLAYS</b>		<b>2,532,689</b>	<b>(2,522,999)</b>	<b>9,690</b>	<b>(9,690)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>DEBT SERVICE</b>								
	DEBT SERVICE	44,894,330	-	44,894,330		44,894,330		44,894,330
	COVERAGE	11,223,583	-	11,223,583		11,223,583		11,223,583
<b>TOTAL DEBT SERVICE</b>		<b>56,117,913</b>	<b>-</b>	<b>56,117,913</b>	<b>-</b>	<b>56,117,913</b>	<b>-</b>	<b>56,117,913</b>
	Net Operating Reserve	-	252,758	252,758	361,023	613,781	(7,476)	606,305
<b>TOTAL EXPENSES</b>		<b>94,176,364</b>	<b>221,155</b>	<b>94,397,519</b>	<b>3,252,920</b>	<b>97,650,439</b>	<b>(505,909)</b>	<b>97,144,530</b>
<b>Net INCOME (LOSS)</b>		<b>\$ (13,639,218)</b>	<b>\$ 13,642,537</b>	<b>\$ 3,319</b>	<b>\$ (4,902,087)</b>	<b>\$ (4,898,768)</b>	<b>\$ 5,505,072</b>	<b>\$ (4,903,567)</b>

Narragansett Bay Commission  
Miscellaneous Revenue

Schedule WEE-R2

Rate Year as filed	\$	476,064
Additional: REC Revenues		61,630
Less: Cell Tower Revenues		<u>(23,613)</u>
Rebuttal Rate Year		514,081
Rate Year as Filed		<u>(476,064)</u>
<b>Rebuttal Adjustment</b>	<b>\$</b>	<b><u><u>38,017</u></u></b>

Narragansett Bay Commission  
Salary and Fringe

Schedule WEE-R3

Base Salary				
	Union Salary Account 52100	Non-Union Regular Account 52300		
FY 2013	\$ 5,568,502	\$ 8,449,979		
Increase in Compensated Absences		250,000		
Step	144,301			
FY2014	5,712,803	8,699,979		
7/1/13 COLA/Merit	2.25%	4.15%		
	5,841,341	9,061,028		
7/1/14 Contracted Steps	75,618	-		
	-			
Base Salary	5,916,959	9,061,028		
7/1/14 COLA/Merit	3.00%	3.00%		
Rebuttal	6,094,468	9,332,859		
Original Rate Year	(6,308,848)	(9,111,463)		
<b>Rebuttal Adjustment</b>	<b>\$ (214,380)</b>	<b>\$ 221,396</b>		

Overtime					
	Union Overtime Account 52150	Non-Union Overtime Account 52350	Non-Union Limited Account 52400		
FY 2013	\$ 439,426	\$ 76,451	\$ 23,282		
Steps	10,913				
	450,339	76,451	23,282		
7/1/13 COLA/Merit	2.25%	4.15%	4.15%		
FY 2014	460,472	79,624	24,248		
7/1/14 Contracted Steps	5,719				
Base Salary	466,191	79,624	24,248		
7/1/14 COLA/Merit	3.00%	3.00%	3.00%		
Rebuttal	480,176	82,012	24,976		
Original Rate Year	(477,134)	(72,665)	(23,301)		
<b>Rebuttal Adjustment</b>	<b>\$ 3,042</b>	<b>\$ 9,347</b>	<b>\$ 1,675</b>		

Salary and Fringe Reimbursement				
	Salary Reimbursement Account 59000	Fringe Reimbursement Account 59001		
FY 2013	\$ (1,236,491)	\$ (670,080)		
7/1/13 Increase	1.0415	1.0415		
7/1/14 Increase	1.0300	1.0300		
Rebuttal	(1,326,440)	(718,825)		
Original Rate Year	1,209,343	660,799		
<b>Rebuttal Adjustment</b>	<b>\$ (117,097)</b>	<b>\$ (58,026)</b>		

Taxes			
	FICA		TOTAL FICA
	Social Security	Medicare	Account 52810
Rate Year Salaries	\$ 15,427,327	\$ 15,420,311	
Overtime & Limited	587,164	587,164	
Wages Over FICA Limit	(120,000)	-	
Wages Subject to FICA	15,894,491	16,007,475	
Percent	6.20%	1.45%	
Rebuttal	985,458	232,108	1,217,567
Original Rate Year			(1,216,056)
<b>Rebuttal Adjustment</b>			<b>\$ 1,511</b>

Retirement			
	Union Retirement	Union Retiree Health	Non-Union Retirement
	Account 52800	Account 52940	Account 52920
Salaries	\$ 6,094,468	\$ 6,094,468	\$ 9,332,859
Overtime & Limited	-	-	106,988
	6,094,468	6,094,468	9,439,847
Employer Contribution Rate	24.33%	6.75%	10%
Rebuttal	1,482,784	411,377	943,985
Original Rate Year	(1,534,943)	(425,847)	(1,173,533)
<b>Rebuttal Adjustment</b>	<b>\$ (52,159)</b>	<b>\$ (14,471)</b>	<b>\$ (229,548)</b>

Narragansett Bay Commission  
Workers Compensation Insurance

Schedule WEE-R4

Rebuttal Rate Year \$ 23,388

Rate Year as Filed 42,246

**Rebuttal Adjustment** \$ (18,858)

Narragansett Bay Commission  
Postage

Schedule WEE-R5

	Bills Mailed	Postage	Other Postage	Total
FY 2011	925,209	\$ 313,754	\$ 20,692	\$ 334,446
FY 2012	936,094	325,315	23,469	348,784
FY 2013	977,919	349,370	22,837	372,207
FY 2014	978,274	363,834	24,000	387,834
Percentage increase	2%			
FY 2015 Projected	996,977			

FY 2014 Postage Expense	\$	387,834
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>
Rebuttal Rate Year		435,128
Rate Year as Filed		<u>(460,372)</u>
<b>Rebuttal Adjustment</b>	<b>\$</b>	<b><u>(25,244)</u></b>

\* Projecting an .01 increase on January 2015

Narragansett Bay Commission  
Biosolids

Schedule WEE-R6

	<u>7/01/14 - 12/31/14</u>	<u>1/01/15 - 6/30/15</u>	<u>Total</u>
Field's Point DT	5,521.40	5,521.40	
Bucklin Point DT	1,016.10	1,016.10	
<b>Total DT</b>	<b>6,538</b>	<b>6,538</b>	
<b>Rate Per Ton</b>	<b>\$ 429.73</b>	<b>438.32</b>	
<b>Rebuttal Rate Year</b>	<b>\$ 2,809,360</b>	<b>\$ 2,865,517</b>	<b>\$ 5,674,877</b>
		Rate Year as Filed	<u>5,020,726</u>
		<b>Rebuttal Adjustment</b>	<u><u>\$ 654,151</u></u>

<b>Dry Tons</b>	<u>FY 2012 Actual</u>	<u>FY 2013 Actual</u>	<u>FY 2014 Projected</u>	<u>FY 2015 Projected</u>	<b>Percent Increase</b>
Field's Point	7,865	8,425	9,821	11,043	12.4%
Bucklin Point	2,023	2,098	2,029	2,032	0.2%
<b>Total Dry Tons</b>	<b>9,888</b>	<b>10,523</b>	<b>11,850</b>	<b>13,075</b>	

Narragansett Bay Commission  
Maintenance and Service Agreements

Schedule WEE-R7

Rebuttal Rate Year (See Schedule WEE-R7B)	\$	1,142,699
Rate Year as Filed		<u>1,129,737</u>
<b>Rebuttal Adjustment</b>	<b>\$</b>	<b><u><u>12,962</u></u></b>

<b>Agreements FY 2015</b>	<b>Amounts</b>
3C's Electrical PM	130,000
A&F Engineering	40,000
ABB	55,216
Actifio	25,500
ADI Asure Support	11,411
Adtech	3,700
Allen Bradley RTU-Tech Connect	1,400
American Alarms	1,956
American Power Conversion	7,000
American Power Conversion	3,603
Apex Green Roofs, Inc.	1,656
Apple	500
Atrion	400
Authorized Services of New England LLC	3,000
Avaya	20,000
Avia	3,500
Axion Business Systems	2,850
Barracuda - Spam Filter	2,500
Barracuda - Web Filter	2,500
Bioscience/Millipore	9,800
Carousel Industries of North America	3,650
Carousel Industries of North America	1,888
CDW	1,200
CDW Government	200
Central Nursery	2,000
Cisco Networks	25,000
Cisco Networks	8,500
Citiworks	2,430
CitiWorks Inc.	2,000
Conn Business Systems	1,000
Control Point	810
Copy/Fax Machines	1,512
DESCO	5,200
DHI Water & Environment	3,000
DLL Solutions	7,650
E.W. Audet	3,000
Electronic Alarm	5,000
ESRI (DLT Solutions)	16,700
EST	28,000
Expertune	6,311
Fluke Networks	10,745
Gold Wind	82,500
Hach	16,950
Hach IFAS Instrumentation	23,560
Hansen	64,000
HP	20,000
IKON (RICOH USA)	888
KBACE	18,000
Kone	2,700
Meridian Microwave	15,000
MKS	200
MTS Integratrak	800
NexGen	1,000
OI Analytical	7,000

<b>Agreements FY 2015</b>	<b>Amounts</b>
Oracle	120,792
OSI	17,600
OSI Pi Software	17,600
Overhead doors	2,400
Overhead doors	3,500
PerkinElmer Labworks	35,000
Pitney Bowes	3,000
Power Resources	2,876
Precision Fitness	625
Precision Fitness	700
Prime Systems	2,000
Prime Systems	2,952
Prime Systems	22,400
Prime Systems	700
Q-Mation Inc	10,571
Q-Mation Inc	2,400
Qmation Wonderware Licenses (SCADA)	11,000
R.E. Erickson	1,500
RICOH	2,000
RICOH	3,500
RICOH	2,000
RICOH	1,776
RICOH	1,000
RICOH	350
RICOH	200
Siemens Building Technologies	9,581
Siemens SCADA PM	42,768
Signet	1,680
Sitecore	6,000
SMS	30,000
SMS (Systems Maintenance Service)	2,000
SolarWinds (DLT Solutions)	6,250
Stratus Technologies	5,940
Stratus Technologies	6,300
Symantec	2,000
Telog	4,100
Thyssen Krupp Elevator	4,000
Thyssen Krupp Elevator	18,750
Thyssen Krupp Elevator	4,000
Typewriters	550
Vertex	3,675
VIP Special Services	1,700
Walco Electric	1,577
Win-Can Tech Support	1,000
Xerox	7,500
<b>Total Maintenance and Service Agreements FY 2015</b>	<b>\$ 1,142,699</b>

Narragansett Bay Commission  
Electricity

Schedule WEE-R8

	Projected Billed Usage FY 2014	Projected Expense FY 2014	Projected Billed Usage FY 2015	Projected Expense FY 2015
Field's Point	8,559,251	\$ 948,469	8,559,251	\$ 948,469
FP TPS	6,052,800	711,072	6,052,800	711,072
Bucklin Point	12,842,000	1,361,165	12,842,000	1,361,165
IM	966,304	127,995	966,304	127,995
COB	1,370,000	152,549	1,370,000	152,549
Subtotal	29,790,355	\$ 3,301,250	29,790,355	\$ 3,301,250
Plus BP BNR			1,413,095	148,643
Total	29,790,355	\$ 3,301,250	31,203,450	\$ 3,449,893

\* Based on 11 Months

Rebuttal Rate Year	\$	3,449,893
Rate Year as Filed		<u>3,856,253</u>
<b>Rebuttal Adjustment</b>	<b>\$</b>	<b><u>(406,360)</u></b>

Narragansett Bay Commission  
Electricity

Schedule WEE-R8

Date	COB Service Rd. (kWh)	One Ernest St. (kWh)	Field's Point 2 Ernest St. (kWh)	TPS 21 Ernest St. (kWh)	Subtotal FP & TPS (kWh)	Bucklin Point 102 Campbell Ave. (kWh)	IM 1 Ernest St. (kWh)	Total kWh
Jul-12	130,200	832,000	472,800	1,304,800	1,076,000	56,151	2,567,151	
Aug-12	134,200	1,028,000	530,400	1,558,400	1,086,000	57,215	2,835,815	
Sep-12	141,400	1,316,000	640,800	1,956,800	1,288,000	54,177	3,440,377	
Oct-12	104,000	1,164,000	412,800	1,576,800	1,098,000	57,372	2,836,172	
Nov-12	95,000	556,000	434,400	990,400	970,000	72,725	2,128,125	
Dec-12	111,200	991,760	420,000	1,411,760	1,280,000	106,780	2,909,740	
Jan-13	108,000	645,380	513,600	1,158,980	1,274,000	103,588	2,644,568	
Feb-13	102,200	621,699	460,800	1,082,499	1,236,000	127,094	2,547,793	
Mar-13	111,600	502,839	556,800	1,059,639	958,000	108,289	2,237,528	
Apr-13	101,000	621,871	470,400	1,092,271	1,014,000	104,792	2,312,063	
May-13	114,800	635,402	427,200	1,062,602	1,026,000	58,322	2,261,724	
Jun-13	112,200	655,806	432,000	1,087,806	880,000	58,029	2,138,035	
<b>Total FY 2013</b>	<b>1,365,800</b>	<b>9,570,757</b>	<b>5,772,000</b>	<b>15,342,757</b>	<b>13,186,000</b>	<b>964,534</b>	<b>30,859,091</b>	
Jul-13	130,200	927,464	604,800	1,532,264	1,046,000	48,203	2,756,667	
Aug-13	155,800	879,891	662,400	1,542,291	930,000	41,235	2,669,326	
Sep-13	125,600	993,463	501,600	1,495,063	916,000	40,985	2,577,648	
Oct-13	104,200	911,467	336,000	1,247,467	918,000	37,882	2,307,549	
Nov-13	100,000	775,788	304,800	1,080,588	910,000	67,752	2,158,340	
Dec-13	109,000	740,237	532,800	1,273,037	1,180,000	120,350	2,682,387	
Jan-14	115,200	658,186	576,000	1,234,186	1,258,000	132,106	2,739,492	
Feb-14	104,800	585,746	444,000	1,029,746	1,134,000	115,396	2,383,942	
Mar-14	106,200	577,198	470,400	1,047,598	1,126,000	114,559	2,394,357	
Apr-14	97,800	452,935	458,400	911,335	1,012,000	108,610	2,129,745	
May-14	110,600	528,438	580,800	1,109,238	1,206,000	69,613	2,495,451	
Jun-14	110,600	528,438	580,800	1,109,238	1,206,000	69,613	2,495,451	
<b>Projected FY 2014 kWh</b>	<b>1,370,000</b>	<b>8,559,251</b>	<b>6,052,800</b>	<b>14,612,051</b>	<b>12,842,000</b>	<b>966,304</b>	<b>29,790,355</b>	

Rates:	COB	FP	TPS	FP & TPS	BP	IM	
Customer Chg.	\$ 826	\$ 826	\$ 826	\$ 826	\$ 1,261		
Supply - 4/30/13-4/30/16	0.06410	0.06410	0.06410	0.06410	0.06410		
Avg. Delivery per kWh	0.03192	0.03748	0.04340	0.03324	0.04376		
Capacity Charge	0.00364	0.00364	0.00364	0.00364	0.00364		
Customer Chg. Effec. 3/1/10	\$ 9,910	\$ 9,910	\$ 9,910	19,820	\$ 9,910	\$ 15,131	
Supply Charges per kWh	87,817	548,648	387,984	936,632	823,172	61,940	
Delivery Charge per kWh	43,730	320,801	262,692	583,492	426,868	42,285	
Capacity Charge	4,989	31,172	22,044	53,216	46,769	3,519	
<b>Subtotal</b>	<b>\$ 146,447</b>	<b>\$ 910,531</b>	<b>\$ 682,630</b>	<b>\$ 1,593,160</b>	<b>\$ 1,306,720</b>	<b>\$ 122,875</b>	
Gross Earnings Tax	\$ 6,102	\$ 37,938	\$ 28,442	\$ 66,381	\$ 54,446	\$ 5,120	
<b>Total</b>	<b>\$ 152,549</b>	<b>\$ 948,469</b>	<b>\$ 711,072</b>	<b>\$ 1,659,541</b>	<b>\$ 1,361,165</b>	<b>\$ 127,995</b>	<b>\$ 3,301,250</b>

Narragansett Bay Commission  
 Natural Gas

Schedule WEE-R9

	<b>Rebuttal Rate Year Usage</b>	<b>Rebuttal Rate per therm</b>	<b>Rebuttal Rate Year</b>
Field's Point	194,308	\$ 1.3242	\$ 257,294
Bucklin Point	84,267	1.4289	120,409
COB	24,998	1.3178	32,943
IM	19,058	1.7489	33,331
Lab	18,739	1.4011	26,256
	<u>341,370</u>		<u>470,233</u>
		Rebuttal Rate Year	\$ 470,233
		Rate Year as Filed	<u>359,215</u>
		<b>Rebuttal Adjustment</b>	<b>\$ <u><u>111,018</u></u></b>

Narragansett Bay Commission  
Natural Gas

Schedule WEE-R9

	COB	BP	FP	IM	Lab	Projected Total
FY 2015 Projected Therms	24,998	84,267	194,308	19,058	18,739	341,370
FY 2015 Projected Cost	\$ 32,943	\$ 120,409	\$ 257,294	\$ 33,331	\$ 26,256	\$ 470,233

	COB	BP Admin	BP Plant	BP Exch	BP	FP	TPS	ESPS	FP	IM	Lab
FY 2015 Projected Therms	24,998	6,820	40,502	36,945	84,267	110,595	63,841	19,872	194,308	19,058	18,739
FY 2015 Projected Cost	\$ 32,943	\$ 9,771	\$ 56,731	\$ 53,907	\$ 120,409	\$ 145,163	\$ 84,085	\$ 28,046	\$ 257,294	\$ 33,331	\$ 26,256
Average/therm	1.3178	1.4327	1.4007	1.4591	1.4289	1.3126	1.3171	1.4113	1.3242	1.7489	1.4011
<b>Rates:</b>	<b>COB</b>	<b>BP Admin</b>	<b>BP Plant</b>	<b>BP Exch</b>	<b>BP</b>	<b>FP</b>	<b>TPS</b>	<b>ESPS</b>	<b>FP</b>	<b>IM</b>	<b>Lab</b>
Customer Chg.	\$ 70.00	\$ 70.00	\$ 175.00	\$ 175.00	\$ 175.00	\$ 175.00	\$ 175.00	\$ 70.00	\$ 70.00	\$ 70.00	\$ 70.00
Avg. Delivery / Therm	0.3239	0.3458	0.3860	0.4377	0.3334	0.3239	0.4059	0.7316	0.3935		
*Supply	0.9208	0.9208	0.9208	0.9208	0.9208	0.9208	0.9208	0.9208	0.9208	0.9208	0.9208
Customer Chg.	\$ 840.00	\$ 840.00	\$ 2,100.00	\$ 2,100.00	\$ 5,040.00	\$ 2,100.00	\$ 2,100.00	\$ 840.00	\$ 5,040.00	\$ 840.00	\$ 840.00
Delivery	8,097	2,358	15,635	16,171	34,164	36,872	20,678	8,066	65,617	13,943	7,374
Supply	23,018	6,280	37,294	34,019	77,593	101,836	58,785	18,298	178,919	17,549	17,255
Subtotal	31,955	9,478	55,029	52,290	116,797	140,808	81,563	27,204	249,575	32,331	25,469
Gross Earnings Tax	988	293	1,702	1,617	3,612	4,355	2,523	841	7,719	1,000	788
<b>Total</b>	<b>\$ 32,943</b>	<b>\$ 9,771</b>	<b>\$ 56,731</b>	<b>\$ 53,907</b>	<b>\$ 120,409</b>	<b>\$ 145,163</b>	<b>\$ 84,085</b>	<b>\$ 28,046</b>	<b>\$ 257,294</b>	<b>\$ 33,331</b>	<b>\$ 26,256</b>

Narragansett Bay Commission  
Natural Gas

Schedule WEE-R9

Date	COB	BP Admin	BP Plant	BP Heat Ex	BP	2 Ernest	21 Ernest	37 Ernest	FP	IM	Lab	Total
Therms:												
Jul-12	873	98	137	678	913	849	221	-	1,070	273	206	3,334
Aug-12	885	33	144	511	688	344	217	-	561	197	227	2,558
Sep-12	1,030	38	151	1,009	1,199	482	3,611	-	4,092	36	213	6,570
Oct-12	1,164	73	133	1,286	1,492	1,009	4,417	-	5,427	362	82	8,527
Nov-12	1,765	352	1,006	1,165	2,524	4,745	5,020	210	9,976	388	609	15,262
Dec-12	2,444	735	2,473	5,040	8,249	10,970	6,557	3,397	20,923	1,556	1,814	34,986
Jan-13	3,145	891	3,442	4,582	8,916	14,771	8,219	4,181	27,171	3,117	2,360	44,708
Feb-13	3,256	696	4,745	8,514	13,955	25,590	8,745	4,297	38,632	3,491	2,721	62,055
Mar-13	2,953	1,410	6,303	13,023	20,736	15,238	8,478	4,758	28,473	3,397	3,058	58,617
Apr-13	2,195	827	5,948	6,368	13,144	14,657	5,665	3,674	23,996	2,068	2,233	43,636
May-13	1,771	436	2,734	3,118	6,287	5,690	4,634	1,690	12,015	863	1,256	22,191
Jun-13	1,447	231	303	292	827	2,227	3,738	27	5,992	502	229	8,996
Jul-13	1,173	83	175	485	743	689	4,229	-	4,919	232	19	7,086
Aug-13	947	44	151	485	680	264	5,390	-	5,654	115	5	7,402
Sep-13	1,568	39	136	665	840	351	5,386	-	5,737	179	5	8,328
Oct-13	1,591	187	169	194	550	1,385	4,140	17	5,542	239	111	8,034
Nov-13	2,027	453	686	918	2,058	7,599	3,138	656	11,393	413	648	16,538
Dec-13	2,883	1,000	3,157	3,376	7,533	14,022	5,862	3,356	23,240	2,244	2,179	38,078
Jan-14	3,926	1,335	8,205	5,255	14,794	22,791	9,064	3,899	35,755	4,428	3,640	62,543
Feb-14	3,203	1,157	9,714	6,835	17,706	20,538	7,114	3,860	31,512	4,414	3,533	60,369
Mar-14	2,887	1,146	8,635	9,965	19,745	20,767	6,808	3,854	31,428	3,347	4,164	61,572
Apr-14	1,830	734	6,745	4,902	12,381	15,411	7,877	3,132	26,420	2,196	3,469	46,296
May-14	1,679	397	2,317	3,025	5,739	4,790	2,923	1,085	8,797	803	734	17,753
Jun-14	1,283	245	412	841	1,497	1,988	1,910	13	3,911	449	232	7,372
Projected FY 2014 Therms	24,998	6,820	40,502	36,945	84,267	110,595	63,841	19,872	194,308	19,058	18,739	341,370

**Account 54332 - Sodium Hypochlorite**

	<u>Gallons</u>	
FY 2012 Gallons	450,103	
FY 2013 Gallons	575,050	128%
FY 2014 Gallons (projected)	640,148	111%
Projected Rate Year	765,233	120%
Rate per Gallon	\$ 0.4493	
Rebuttal Rate Year	343,819	
Rate Year as filed	369,547	
<b>Rebuttal Adjustment</b>	<b>\$ (25,728)</b>	

**Account 54337 - Bisulfite**

FY 2012 Gallons	193,037	
FY 2013 Gallons	199,570	
FY 2014 Gallons (projected)	201,348	
Average	197,985	
Rate per Gallon	\$ 1.2000	
Rebuttal Rate Year	237,582	
Rate Year as filed	311,329	
<b>Rebuttal Adjustment</b>	<b>\$ (73,747)</b>	

**Account 54333 - Carbon Feed**

FY 15 Projected Gallons	46,865	
Rate per Gallon	\$ 1.520	
Rebuttal Rate Year	71,235	
Rate Year as filed	172,800	
<b>Rebuttal Adjustment</b>	<b>\$ (101,565)</b>	

**Account 54336 - Sodium Hydroxide**

FY 15 Projected Gallons	113,750	
Rate per Gallon	\$ 1.4284	
Rebuttal Rate Year	162,481	
Rate Year as filed	196,468	
<b>Rebuttal Adjustment</b>	<b>\$ (33,987)</b>	

Narragansett Bay Commission  
Management and Audit Services Costs

Schedule WEE-R11

Rate Year Per Division \$ 2,094,852

Rate Year as filed 2,237,217

**Rebuttal Adjustment \$ (142,365)**

Narragansett Bay Commission  
Rate Calculation

Schedule WEE - R11

**Calculation of Percentage Increase in Revenue Requirement**

Revenue Increase (WEE-R1)	\$ 4,903,567	
Rate Year Revenue at Old Rates (WEE-R1)	<u>92,240,963</u>	<u>5.32%</u>

**Calculation of Across the Board Increase Percentage**

Revenue Increase	<u>\$ 4,903,567</u>	(A)
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Revenue Items which could be increased by an across  
the board % Increase

Flat Fees Residential	23,895,712
Measured Fee - Residential	27,511,057
Flat Fees Commercial & Industrial	13,920,075
Measured Fee - Commercial	22,569,231
Measured Fee - Industrial	1,295,997

Total Revenue Available for Increase \$ 89,192,072 (B)

Across the Board Percentage Increase 5.50% (A/B)

Narragansett Bay Commission  
Rate Year Revenue Proof

Schedule WEE - R12

	<u>Current Rates</u>	<u>Increase</u>	<u>Proposed Rates</u>	<u>Rate Year Projected Units</u>	<u>Revenue</u>
<b>User Fee Revenues</b>					
<b>Residential</b>					
Dwelling Units	202.47	5.50%	213.60	118,021	\$ 25,209,286
Consumption	3.267	5.50%	3.447	8,420,893	29,026,818
<b>Non-Residential</b>					
Meter Size					
5/8 "	484	5.50%	511	3,666	1,873,326
3/4 "	723	5.50%	763	1,022	779,786
1"	1,202	5.50%	1,268	1,160	1,470,880
1 1/2"	2,413	5.50%	2,546	841	2,141,186
2"	3,853	5.50%	4,065	1,373	5,581,245
3"	7,219	5.50%	7,616	76	578,816
4"	12,030	5.50%	12,691	38	482,258
6"	24,069	5.50%	25,392	47	1,193,424
8"	38,509	5.50%	40,626	13	528,138
10"	55,359	5.50%	58,403	1	58,403
Non-Residential Flat Fees					14,687,462
Commercial Consumption	4.738	5.50%	4.998	4,763,451	23,807,728
Industrial Consumption	3.046	5.50%	3.213	425,475	1,367,051
Total User Fee Revenues					94,098,345
<b>Miscellaneous Revenue:</b>					
Discharge Permit Fees (Pretreatment)				85,487	
Connection Permit Fees				1,087,140	
Septage Income				304,157	
Interest Income				4,508	
Late Charge Penalty				918,943	
Abatement Fee				2,160	
Miscellaneous Income				514,081	
Rental Revenue				132,415	
					<u>3,048,891</u>
Total Revenue Requirement					97,147,236
Revenue Requirement (Per WEE-R1)					<u>97,144,530</u>
Variance					<u>\$ 2,706</u>

Narragansett Bay Commission  
 Projected Rate Year Units

Schedule WEE - R12B

	Originally Filed			Rebuttal		
	Current Rates	Rate Year Units	Revenue	Current Rates	Rate Year Units	Revenue
User Fee Revenues						
Residential						
Dwelling Units	202.47	118,021	\$ 23,895,712	202.47	118,021	\$ 23,895,712
Consumption	3.267	8,420,893	27,511,057	3.267	8,420,893	27,511,057
Non-Residential						
Meter Size						
5/8 "	484	3,685	1,783,540	484	3,666	1,774,344
3/4 "	723	1,016	734,568	723	1,022	738,906
1"	1,202	1,161	1,395,522	1,202	1,160	1,394,320
1 1/2"	2,413	843	2,034,159	2,413	841	2,029,333
2"	3,853	1,457	5,613,821	3,853	1,373	5,290,169
3"	7,219	84	606,396	7,219	76	548,644
4"	12,030	41	493,230	12,030	38	457,140
6"	24,069	52	1,251,588	24,069	47	1,131,243
8"	38,509	13	500,617	38,509	13	500,617
10"	55,359	1	55,359	55,359	1	55,359
Non-Residential Flat Fees			14,468,800			13,920,075
Commercial Consumption	4.738	4,763,451	22,569,231	4.738	4,763,451	22,569,231
Industrial Consumption	3.046	425,475	1,295,997	3.046	425,475	1,295,997
Total User Fee Revenues			<u>\$ 89,740,797</u>			89,192,072
User Fee Revenue Originally Filed						<u>89,740,797</u>
			Adjustment (see WEE-R1)			<u>\$ (548,725)</u>

Narragansett Bay Commission  
Effect on Ratepayers

Schedule WEE - R13

	Dkt 4364 Rates	Proposed Rates	Dollar Increase	% Increase
97.6 HCF Residential				
Customer Charge	\$ 202.47	\$ 213.60	\$ 11.13	
Consumption	318.86	336.43	17.57	
Total 97.6 HCF Residential	<u>\$ 521.33</u>	<u>\$ 550.03</u>	<u>\$ 28.70</u>	<u>5.50%</u>
5/8" meter, 244 HCF Commercial				
Customer Charge	\$ 484.00	\$ 511.00	\$ 27.00	
Consumption	1,156.07	1,219.51	63.44	
Total 5/8" meter, 244 HCF Commercial	<u>\$ 1,640.07</u>	<u>\$ 1,730.51</u>	<u>\$ 90.44</u>	<u>5.50%</u>
2" meter, 2440 HCF Commercial				
Customer Charge	\$ 3,853.00	\$ 4,065.00	\$ 212.00	
Consumption	11,560.72	12,195.12	634.40	
Total 2" meter, 2440 HCF Commercial	<u>\$ 15,413.72</u>	<u>\$ 16,260.12</u>	<u>\$ 846.40</u>	<u>5.50%</u>
5/8" meter, 244 HCF Industrial				
Customer Charge	\$ 484.00	\$ 511.00	\$ 27.00	
Consumption	743.22	783.97	40.75	
Total 5/8" meter, 244 HCF Industrial	<u>\$ 1,227.22</u>	<u>\$ 1,294.97</u>	<u>\$ 67.75</u>	<u>5.50%</u>
2" meter, 2440 HCF Industrial				
Customer Charge	\$ 3,853.00	\$ 4,065.00	\$ 212.00	
Consumption	7,432.24	7,839.72	407.48	
Total 2" meter, 2440 HCF Industrial	<u>\$ 11,285.24</u>	<u>\$ 11,904.72</u>	<u>\$ 619.48</u>	<u>5.50%</u>

**DIRECT TESTIMONY**

**OF KAREN S.D. GRANDE**

**PARTNER**

**EDWARDS WILDMAN PALMER LLP**

**for**

**THE NARRAGANSETT BAY COMMISSION**

**DOCKET 4478**

**June 13, 2014**

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**Q. Would you please state your name?**

A. My name is Karen S.D. Grande.

**Q. Could you please describe your education and employment background?**

A. I have a bachelor's degree from Syracuse University and a juris doctor from Suffolk Law School. I am a partner in the law firm of Edwards Wildman Palmer LLP, 2800 Financial Plaza, Providence, Rhode Island 02903. I joined the firm in 2006 and have focused my practice in the area of public finance. Prior to joining Edward Wildman Palmer LLP, I worked for 18 years at another Rhode Island law firm in the area of municipal finance. I have served as bond counsel to 31 of Rhode Island's 39 cities and towns, as well as the many State and municipal agencies which finance public projects, including public water supply and wastewater projects.

**Q. Do you hold any special licenses or certifications?**

A. I am licensed to practice law in Rhode Island and Massachusetts. Although I have focused my practice in the area of public finance, neither the State of Rhode Island nor the Commonwealth of Massachusetts has a procedure for certification of specialization. I am a member of the Rhode Island Bar Association, the National Association of Bond lawyers and an associate member of the Rhode Island Government Finance Officer's Association.

**Q. What is your relationship with the Narragansett Bay Commission?**

A. I serve as bond counsel to the Narragansett Bay Commission (NBC).

**Q. Have you testified previously before the PUC?**

A. Yes. I have appeared before the PUC in connection with rate filings for the Kent County Water Authority, the Pawtucket Water Supply Board and the NBC as part of Docket 3639 and more recently as part of Docket 3707.

**Q. What is the purpose of your testimony?**

A. My testimony serves to provide additional information regarding NBC's Trust Indenture (Indenture).

1 **Q. Can you briefly describe the need for and content of the Indenture?**

2 A. The Indenture was originally introduced to the PUC as part of Docket 3639. As I indicated in my  
3 testimony as part of that proceeding, an Indenture is a contract between an issuer and a bond trustee  
4 for the benefit of bondholders. It is a lengthy document and typically sets forth the flow of funds,  
5 reserve requirements, rate covenants, and the bond lien status among other things. The NBC was  
6 required to enter into a formal trust indenture in order to issue its \$70 million publicly offered  
7 Variable Rate Demand Obligations in 2004. The Indenture supersedes NBC's prior Trust Agreement  
8 and its Loan Agreements with the Rhode Island Clean Water Finance Agency (RICWFA). NBC also  
9 executed the First Supplemental Indenture for the \$70 million revenue bonds and since then executed  
10 a total of 19 Supplemental Indentures and additional Supplemental Indentures will be executed for  
11 future revenue bonds issued by NBC. As indicated in the testimony of Mr. Edge, NBC's outstanding  
12 debt is more than \$630 million as of April 2014.

13 **Q. Can you briefly describe the flow of funds as set forth in the Indenture?**

14 A. Yes. The Indenture establishes the funds and accounts that are needed to ensure proper funding of  
15 operating and maintenance costs, debt service and required reserves. The Indenture also sets forth the  
16 flow of funds and NBC transfers funds from the Revenue Fund in accordance with the Indenture on  
17 the third day prior to the last business day of each calendar month. One of the primary purposes of  
18 the Indenture is to ensure proper funding of NBC's operating and maintenance costs so that the  
19 facilities remain revenue producing and NBC meets its revenue pledges. Therefore, the Operation and  
20 Maintenance Account is funded first, followed by the Debt Service Fund, Rebate Fund, Debt Service  
21 Reserve Fund, the Stabilization Account in the Debt Service Fund, and other accounts to the extent  
22 that they are authorized.

23 **Q. Are you familiar with NBC's rate setting process?**

24 A. Yes, I am generally familiar with NBC's rate setting process. If NBC anticipates cost increases  
25 related to operation and maintenance or adjustments to the rate base for lower consumption or flat  
26 fees, the NBC files for General Rate Relief. Depending upon timing, the application may also include  
27 a request for rates to fund debt service and debt service coverage. If NBC is seeking rate relief solely  
28 for the purpose of funding its capital program, it will use the "Debt Service Compliance Filing  
29 Mechanism" approved and authorized by the PUC for the first time in 2003 for a five-year-period.  
30 The PUC has subsequently authorized this approach for two additional five-year-periods twice with  
31 the most recent extension in 2013 as part of Docket 4364. This approach has benefitted ratepayers

1 significantly as it has enabled NBC to issue variable rate debt with a projected \$16.4 million in  
2 interest savings to date.

3 **Q. Does the NBC know the exact amount of debt service that it will incur when the debt service**  
4 **compliance rate filings are made?**

5 A. No. NBC uses a model that incorporates projected capital needs and sources. Based on the needs and  
6 the funding that may be available through NBC's lowest cost of financing, the RICWFA, the NBC's  
7 financial advisor prepares pro-forma debt service schedules which are rolled into a financial model.  
8 The projected annual debt service is layered on top of NBC's existing debt and the resulting total debt  
9 service plus associated coverage is then used as the basis for the rate request. Because these  
10 schedules are based upon projected municipal bond market conditions, the precise annual debt service  
11 and associated debt service coverage is not known at the time of that application.

12 It should also be noted that depending upon debt issuance timing and structure, debt service for a new  
13 issue may be lower in the first year and only reflect interest payments. NBC's total debt service may  
14 also have peaks in some years due to a number of factors such as a 20-year maximum amortization of  
15 RICWFA loans. Therefore, NBC has requested and the PUC has approved the projected maximum  
16 annual debt service and debt service coverage even if it is not in the first year. The resulting  
17 allowance approved by the PUC becomes the constraint for the borrowings under the approved  
18 revenue requirement.

19 **Q. To the best of your knowledge, has this approach been accepted by the Division and has the**  
20 **Commission approved rates that generate sufficient revenue not just in the first year, but all**  
21 **years during which the debt is anticipated to remain outstanding?**

22 A. Yes, this approach has been in place since 2004.

23 **Q. Is the approved cost of service for debt service and debt service coverage used in the support of**  
24 **any other applications?**

25 A. Yes. Once NBC has determined the size and structure of a new debt issue, NBC must file for Division  
26 approval to enter into long-term debt. As part of the application NBC includes a schedule that shows  
27 existing rates generate sufficient revenues to meet the debt service and debt service coverage  
28 requirements in all years. The pro-forma debt service schedules are based upon updated market  
29 conditions and structures and the NBC works with its financial advisor to ensure that coverage  
30 requirements will be met.

1 **Q. In addition to functioning as a constraint from a debt issue size and structure standpoint, is the**  
2 **approved cost of service for debt service and debt service coverage used in any legal documents**  
3 **related to the issuance of new debt?**

4 A. Yes. Prior to the issuance of any additional debt, Section 205(2)(vi) of the Trust Indenture requires  
5 NBC to provide a certification to the Trustee that the estimated annual Net Revenues available in  
6 such Fiscal Year that the debt is issued as well as for each of the three full Fiscal Years following the  
7 issuance of such Bonds will be at least equal to one hundred twenty five percent (125%) of the  
8 estimated Debt Service Requirement for such Fiscal Year...” This certificate is required by the  
9 Indenture for the protection of existing bondholders and is also used by underwriters, credit rating  
10 agencies and investors as evidence of NBC’s ability to operate and maintain its facilities as well as  
11 meet the financial obligations associated with the new debt issuance.

12 **Q. Do you review this certificate and include the executed copy as part of the transcript from the**  
13 **transaction?**

14 A. Yes, although the certificate is prepared by a Certified Public Accountant, as NBC’s bond counsel, I  
15 am responsible for reviewing the certificate and delivering it to the Trustee as part of the transaction.  
16 The Net Revenue available for debt service is based upon the PUC-approved cost of service in effect  
17 on the date of the closing.

18 **Q. Do you have any concerns about the proposed Division adjustment that would reduce the**  
19 **allowance for debt service from the approved levels in place for the 2013 Series A, 2013 Series**  
20 **B, and 2013 Series C transactions that total \$151.5 million?**

21 A. Yes. The 2013 Series A, 2013 Series B, and 2013 Series C transactions included certifications as to  
22 debt service coverage, and it will be a matter of concern if the PUC changes its stance on the level of  
23 funding for debt service. A decrease in the allowance for debt service, without a concomitant  
24 decrease in the amount of debt outstanding, may also increase the interest rates on the Variable Rate  
25 Demand Obligations (VRDOs).

26

1 **Q. Further, would your opinion be the same if the resulting reduction resulted in debt service**  
2 **coverage less than 1.25 in a future year?**

3 A. Yes. The Narragansett Bay Commission would be out of compliance with its covenant as to rates and  
4 charges and the terms of the Indenture would require NBC to seek rate relief. According to the table  
5 in Mr. Edge’s testimony, the proposed adjustment of the Division to debt service would result in  
6 NBC’s failure to meet coverage in fiscal year 2018.

7 **Q. Would you please discuss how rate setting practices may impact the rate covenants set forth in**  
8 **the Indenture?**

9 A. Yes, NBC has covenanted that it “shall take all actions within its power to establish and maintain  
10 Rates and Charges at levels sufficient so that total Net Revenues in each Fiscal Year during which  
11 Bonds are Outstanding shall equal at least on hundred twenty–five percent (125%) of the Debt  
12 Service Requirement during such Fiscal Year with respect to all Bonds Outstanding...” Section  
13 603(4) of the Indenture requires that within 180 days of the close of each fiscal year, the NBC must  
14 deliver to the Trustee a certificate signed by an Authorized Officer stating that NBC satisfied the  
15 coverage requirements or if it was not the case, detail of corrective steps taken such that NBC will  
16 comply with such requirements in the then current fiscal year. Further, within 270 days of the close  
17 of each fiscal year, the NBC shall deliver to the Trustee an additional certificate based on audited  
18 financial statements which is accompanied by a certificate of the independent public accountant in  
19 accordance with Section 610 setting forth the Net Revenues for the preceding fiscal year. These  
20 documents go further and certify that No Default has occurred during the prior fiscal year.

21 In addition to the adjustment to debt service, there are three other adjustments proposed by the  
22 Division would adversely impact this calculation of Net Revenue. The testimony of Mr. Edge  
23 includes a table that shows how the adjustments related to inventory, use of cash transfer from the  
24 Special Master Fund as revenue, and compensated balances negatively impacts the coverage  
25 calculation set forth in the Indenture.

26 **Q. What are the consequences for NBC’s failure to meet the coverage requirements set forth in**  
27 **Section 603(4)?**

28 A. The NBC’s credit rating may be adversely impacted. Its future fixed rate borrowing costs will likely  
29 increase and the interest rates on its VRDOs may increase immediately.

30

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

2 A. Yes.