STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

Post-Hearing Memorandum of the State of Rhode Island
Division of Public Utilities and Carriers
In Re: City of Newport, Utilities Department, Water Division
Application to Change Rates, Docket No. 4595

Upon conclusion of three days of hearings (July 19th, 20th, Aug 2nd) in Newport Water's rate application, the Commission requested of all parties post-hearing Memoranda. Given the extensive discovery and testimony elicited, and the varied positions that emerged as between and among the parties, a succinct recap of each respective party's final position is both helpful and warranted. The Division of Public Utilities and Carriers ("Division") provides its position summary as follows:

Revenue Requirements

With regard to revenue requirements, the Division's final pre-filed position is detailed in the surrebuttal testimony of Stacy Sherwood. A summary of the Division's recommended rate year revenue and expenses is attached to Ms. Sherwood's testimony as Schedule SLS Surrebuttal-1. This schedule shows a total cost of service of $19,576,119 and a recommended rate increase of $902,188.

Subsequent to the filing of surrebuttal testimony, certain agreements were reach between the parties that further reduced the cost of service and recommended rate increase in this case. Mr. Keough provided a detailed description of the agreed to adjustments at the July 19, 21016 hearing in this docket. In summary, the agreed to adjustments included:

- Reduced City Services expenses by $2,399 from $477,843 to $475,444.
- Agreed to keep the funding for the capital account at $2,500,000. Newport originally requested $3,180,502 and reduced its claim to $2,700,000 during rebuttal.
- Agreed to amortize rate case expense over two-and-a-half years.

In addition, at the hearings, the proposed use of Newport's restricted account funds as a means of offsetting rate increase was an issue of much debate and discussion. Upon Commission request, the Division provided a post-hearing recommendation for what it believes to be a reasonable use of the accrued benefits and retiree insurance restricted accounts. To reiterate its proposal, first, the Division suggests that Newport stop funding the accrued benefits account and that it transfer a portion of the balance to the restricted operating reserve in order to bring the restricted operating reserve account to its full funding level of six percent (6%) of revenues. This will bring the account to its full funding level and the funding of this account can be eliminated. The Division recommends the continued funding of the 1.5% unrestricted operating revenue allowance. Second, the Division recommends reducing the annual funding level of the retiree insurance account to $330,000, which will draw down the balance to approximately six (6) months of needs within 2.5 years. The Division believes that drawing down the balance and/or reallocating funds for these two restricted accounts will soften the rate increase requirements without impacting Newport's operations.

Cost Allocations and Rate Design

The Division recommends as sound the cost allocation and rate design concepts provided in Division expert Jerome D. Mierzwa's pre-filed testimony. Overall, the Division found the class cost of service study (CCOSS) filed in Newport's direct case to be reasonable with the exception that the allocation of water treatment capital costs be based on the base-extra capacity method as opposed to it being based on the capacity of the plant reserved on behalf of the wholesale customers. In Newport's surrebuttal testimony, it withdrew its request to allocate water treatment plant capital costs based on the capacity reserved on behalf of each customer class.

Newport's CCOSS resulted in the volumetric rates for retail customers declining while the rates for the Navy and Portsmouth increasing by 37 percent and 27 percent, respectively. Mr. Mierzwa recommended using the concept of gradualism to mitigate the increases in the volumetric rate to the Navy and Portsmouth. Mr Mierzwa stated on pg. 9 of his direct testimony:

> Because cost allocation is an art rather than an exact science, and to provide for gradualism, I recommend that retail volumetric rates remain unchanged and the increase in revenues generated above the indicated cost of service of retail customers be proportionately allocated to reduce the volumetric rates of Newport's two wholesale customers.

At the July 19, 2016 hearing, Newport put on the record that they agreed with the Division's proposed use of gradualism. Mr. Keough stated (transcript pg. 12) in part:

> . . . Newport has accepted the Division's request for gradualism in setting the rates by keeping the retail rates flat with no increase or decrease. The Navy does not object to that and Portsmouth has indicated that they do not oppose the implementation of gradualism but do not take a position on the particular manner in which it's implemented.

In Conclusion

In all other respects, the Division accepts as reasonable the methodologies, revenue requirements, and calculations most recently proposed by Newport upon conclusion of the hearings in this matter. To the extent the Division has not addressed a particular item or calculation within, the Division accepts and/or does not object to these, provided they do not deviate from the overall agreed-upon terms and methods articulated by Newport and/or within.

The Division believes these recommendations provide a fair and reasonable result to all parties, most especially to the ratepayers for whose interests it is charged with advocating.