



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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*Peter F. Kilmartin, Attorney General*

August 1, 2016

*VIA ELECTRONIC MAIL*

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

Re: Docket 4595 - In Re: City of Newport, Utilities Department, Water Division  
Application to Change Rates

Dear Ms. Massaro:

Enclosed for electronic filing in the above-captioned proceeding please find the Division of Public Utilities and Carriers' Responses to Commission Records Requests 2 & 3. An electronic copy has also been served upon the service list.

Thank you for your attention in this matter and if you should have any questions kindly contact me at your convenience.

Very truly yours,

Christy Hetherington  
Special Assistant Attorney General

Enclosure  
cc: Service List

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

**Response of the State of Rhode Island Division of Public Utilities and Carriers  
to Commission Record Requests 2 & 3  
Docket No. 4595**

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**Commission**

**Record Request 2:** Please provide a recommendation for the appropriate balance to retain in the Accrued Benefits restricted account in the Rate Year.

**Commission**

**Record Request 3:** Please provide a recommendation for the appropriate balance to retain in the Retiree Insurance restricted account in the Rate Year.

**Response to 2 & 3:**

In this rate filing, Newport proposed to transfer excess funds from the retiree insurance and accrued benefits restricted account to cover a shortfall in the debt service restricted account. Newport also adjusted its restricted accounts funding request to reflect rate year needs which in certain instances resulted in decreases to the funding levels. With these adjustments being proposed by Newport, the Division made the decision not to address the accumulated balances in the restricted accounts at this time. The Division's intent was to review the history, balances and need for all of Newport Water's restricted accounts in conjunction with Newport's next rate filing.

It is common for water utilities to carry a balance in restricted accounts. Often times the expenses that are charged to the restricted accounts are uneven in nature and tend to fluctuate. The balance carried in the accounts allows the utility to cover these expenses as they come due. Except for the restricted operating reserve account, the Division is unaware of any guidance related to the appropriate balance to carry in any particular restricted account. The Division believes each restricted account should be reviewed on an individual basis.

As a result of our further review of recent data responses and testimony provided by Newport Water at the recent hearings, the Division believes that adjustments to the balance in these accounts may be warranted at this time and could be accomplished without impacting Newport's operations.

The Division proposes the following to address the accumulated balance in the accrued benefits and retiree insurance restricted accounts.

**Accrued Benefits**

As of June 30, 2016, the balance in this account was \$990,988. Newport proposed to transfer \$337,000 from this account to debt service which would leave a balance of \$653, 987. Newport

projected \$59,000 of expenditures from this account in the rate year and requested the same amount as an annual funding level. The adjusted balance in the account is sufficient to cover over 10 years of expenditures at the projected rate year expenditure level. Therefore, the Division believes no ongoing funding of this account is warranted.

Stopping the funding still leaves a balance in the account well in excess of Newport's projected needs. The Division further proposes to make a transfer of funds to the restricted operating reserve account in order to bring the account to its full funding level of 6% of revenues. The Division estimates that this will require a transfer of approximately \$300,000 leaving a balance of \$353,000 in the accrued benefits account. This balance will be sufficient to cover the accrued benefits expenditures for several years. By bringing the balance in the restricted operating restricted account to its full funding level, no further funding of this account will be required as part of this docket.

### **Retiree Insurance**

As of June 30, 2016, the balance in this account was \$481,210. Newport proposed to transfer \$185,000 from this account to debt service which would leave a balance of \$296,209. Newport projected \$370,000 of expenditures from this account in the rate year and requested the same amount as an annual funding level. The adjusted balance of \$296,209 represents approximately 9.5 months of expenditures.

For this account, the Division believes a balance closer to 6 months of activity would be more reasonable. Reducing the balance to this level could be achieved over time by reducing the funding level. The Division recommends reducing the funding level proposed by Newport by \$40,000 annually from \$370,000 to \$330,000. If the expenditures from the account approximate Newport's estimate of \$370,000, the balance will be drawn down to approximately 6 months of needs within 2.5 years which matches the amortization period proposed in this case for rate case expense.

**Prepared by: John Bell**