

City of Newport Department of Utilities



RHODE ISLAND PUBLIC UTILITIES COMMISSION DOCKET 4595

REBUTTAL TESTIMONY

OF

JULIA A. FORGUE

CITY OF NEWPORT

DIRECTOR OF UTILITIES

**ON BEHALF OF THE CITY OF NEWPORT, UTILITIES DEPARTMENT,
WATER DIVISION**

JUNE 3, 2016

1 **INTRODUCTION**

2 **Q. Please provide your full name, title and business address for the record.**

3 A. Julia A. Forgue, P.E. I am employed by the City of Newport where I serve as Director of
4 Utilities. My business address is 70 Halsey Street, Newport, RI.

5
6 **Q: Are you the same Julia Forgue, P.E. who submitted pre-filed Direct Testimony in this**
7 **Docket?**

8 A: Yes I am.
9

10 **Q: Please provide an overview of your Rebuttal Testimony.**

11 A: I am providing testimony that responds to the Direct Testimony submitted by the Division of
12 Public Utilities and Carriers ("Division"), the Portsmouth Water and Fire District ("PWFD") and
13 the United States Department of the Navy ("Navy"). In particular, I will address various
14 positions taken by the Division and PWFD on the following expenses in Newport Water's
15 original rate application:

- 16 • Salaries and Wages
- 17 • Accrued Benefits Buyout
- 18 • Consultant Fees
- 19 • Telephone and Communications
- 20 • Self Insurance
- 21 • Chemicals
- 22 • Electric
- 23 • Capital

24
25 I will begin by addressing the recommendations contained in Division's testimony and then
26 PWFD's testimony. The Navy did not make any recommendations regarding Newport's

1 expenses. Rather, it focused on Newport Water's Cost of Service Study and Rate Design, which
2 Harold Smith will address in his rebuttal testimony.

3
4 **DIVISION TESTIMONY**

5 **Q. Please begin by addressing the Division's recommended adjustment to Newport's request**
6 **for Salaries and Wages.**

7 A. Yes. Newport originally calculated the Salaries and Wages expense based on the projected FY
8 2017 salaries for the full roster of 49 full-time employees. The Division's witness, Stacy L.
9 Sherwood, testified that "Due to the fact that employee vacancies occur as the result of normal
10 employee turnover, it is unreasonable to assume that there will be no employee vacancies
11 during the FY 2017 rate year." (Sherwood Direct, p. 5) Ms. Sherwood also testified that "during
12 the FY 2015 test year in this case, Newport Water held two positions (an Engineering Technician
13 and Water Lab-Microbiologist) vacant for a majority of the year." (Sherwood Direct, p. 5) Thus,
14 she reduced Newport's overall Salaries and Wages expense by the average projected salaries
15 and benefits for these two positions in the FY 2017 rate year. This reduction totals \$154,902.

16
17 **Q. Do you agree with the Division's recommended reduction to Newport's request for**
18 **Salaries and Wages expense?**

19 A. Only in part. Newport does not contest the reduction based on the average salaries and
20 benefits expense for two positions, but does not believe the reduction should be based on the
21 salaries and wages for an Engineering Technician and Water Lab-Microbiologist, as these two
22 positions are not representative of Water Division vacancies. The Microbiologist position was
23 only vacant for a period of one and a half months and the Engineering Technician for a period
24 of four months. Newport maintains that salaries and benefits for a Water Plant Operator 1 and
25 Distribution/Collection Operator should be used to calculate the reduction.

1 This reduction totals \$114,485, which is \$40,416 less than the Division's recommended
2 reduction.

3
4 **Q. Next, please address the Division's recommendation regarding Accrued Benefits Buyout.**

5 A. The Division recommended a \$37,918 reduction in this expense based on the average
6 benefits paid out in FY 2014 and FY 2015. This would result in an annual contribution of
7 \$21,084.

8
9 **Q. Does Newport agree with this recommendation?**

10 A. No. Newport disagrees for three reasons.

11
12 First, Newport Water presently contributes \$175,000 per year to the restricted Accrued
13 Benefits Account as allowed in Docket 4243. As shown in Exhibit 2 to my Direct Testimony, the
14 balance in this restricted account was \$818,979 as of June 2015. As set forth in my Direct
15 Testimony, Newport seeks permission to transfer \$597,795 from the restricted Accrued
16 Benefits Account to the restricted Debt Service Account, and to reduce the annual contribution
17 to Accrued Benefits from \$175,000 to \$59,002 per year. Thus, Newport has already
18 substantially decreased the annual contribution to this account.

19
20 Second, a further reduction of the annual funding based on payouts in FY 2014 and 2015 does
21 not consider the number of employees eligible for full pension benefits in the coming years. As
22 set forth in Newport Water's response to Division Data Request 1.18 g, five employees have, or
23 will have, in excess of thirty years of service by the end of calendar year 2016 and are entitled
24 to a full pension. There are an additional six employees who have, or will have, in excess of 30
25 years of service by the end of calendar year 2020. Lastly, other employees have earned pension
26 credits with other municipal employers in addition to their years of service to the City of
27 Newport. Many of these individuals have earned the maximum sick time payout of \$25,000. As

1 a practical matter, employees who have earned a full pension are likely to retire and may do so
2 at any time, in many instances with just two weeks notice. Therefore, if only one of these
3 employees with a \$25,000 sick time benefit were to retire, it would exceed the Division's
4 recommended annual funding of \$21,084. This excludes any paid leave benefit and FICA
5 expense that are also immediately payable when an employee retires or separates from the
6 Water Division.

7
8 Third, this account is restricted. Newport can only use the funds for Accrued Benefits Buyouts.
9 Thus, it is prudent to ensure that funds are available when needed, and there is no danger the
10 account will be used for any other purpose.

11
12 For these reasons, Newport believes the expense of \$59,002 is a more reasonable estimate of
13 the amount needed to fund Accrued Benefit Buyouts Account.

14
15 **Q. Do you agree with the Division's recommendation to reduce Consultant Fees?**

16 A. Yes. Newport originally requested \$250,000 for Consultant Fees for both rate case, and non-
17 rate case expenses. For rate case expense, the Division proposes to use the average of
18 Newport's Rate Case Expense for FY 2012 and FY 2013, which is \$172,777. The Division did not
19 recommend any changes to non-rate case expense, but PWFD did as addressed below.
20 Newport proposes to use the five year average of actual non-rate case expenses (\$31,731) as
21 detailed in our response to Division Data Request 3-7 c. Thus, Newport's revised request for
22 total Consultant Fees is \$205,000.

1 **Q. Does Newport Water accept the Division's recommended reduction to Telephone and**
2 **Communications?**

3 A. Yes. As set forth in Newport's response to Division Data Request 3-1, Newport Water
4 incorrectly listed a monthly Verizon Service Charge in the overall expense and agrees to the
5 \$415 reduction.

6
7 **Q. Do you agree with the Division's recommendation to reduce Newport's Self Insurance**
8 **expense?**

9 A. Yes, Newport agrees to reduce the Self Insurance expense by \$5,000.

10
11 **PWFD RECOMENDATIONS**

12 **Q. Do you agree with Mr. Woodcock suggested funding reduction of Newport's restricted**
13 **Chemical Expense Account?**

14 A. No I do not. Mr. Woodcock suggests that the Commission reduce Newport's Chemical
15 expense *below* the test year level; use \$125,000 from the balance in this restricted account to
16 make up the difference; and, "reduce rates and charges" to Newport's customers. Newport
17 strongly disagrees with this recommendation because the balance in the restricted Chemical
18 Account is not as large as Mr. Woodcock claims, and this important expense should not be
19 underfunded because Newport's ability to pay for Chemicals is vital to its ability to provide safe
20 and potable water to its customers.

21
22 **Q. Can you further explain the basis for your disagreement with Mr. Woodcock's suggestion?**

23 A. Yes. As set forth in my direct testimony, the increase in chemical costs is primarily due to the
24 replacement of Granular Activated Carbon (GAC) in conventional filters at Lawton Valley and
25 advanced treatment vessels at both Lawton Valley and Station One. There are nine (9)
26 advanced treatment vessels at Lawton Valley and eleven (11) advanced treatment vessels at

1 Station 1. During the test year these expenses were still covered under the WTP Projects

2 Contract.

3
4 GAC replacement results in large annual expenditures. The GAC Replacements thus far are as
5 follows:

- 6 • Station One - Advanced Treatment Vessel # 1 was replaced on January 26, 2016, and #2
7 was replaced on May 16, 2016 at a combined cost of \$106,196.
- 8 • Lawton Valley - Advanced Treatment Vessel # 1 was replaced on December 30, 2015
9 and # 2 is scheduled for replacement on May 31, 2016 at a combined cost of \$106,196.

10
11 The short operational history of the Advanced Treatment Process at both plants, combined
12 with the variable raw quality, make projecting GAC replacement difficult, and the number of
13 annual replacements could easily increase with a warmer than average summer. Mr. Woodcock
14 himself recognizes Newport's short history with the new treatment process at both plants:

15
16 "Newport Water's new treatment facilities have not been in operation for very long,
17 and, therefore Newport Water has not had sufficient time to analyze chemical use and
18 costs at those facilities. Maintaining a restricted account for chemicals until Newport
19 Water's next rate case, therefore, is prudent to permit Newport Water the time
20 necessary to perform sufficient analysis to be able to forecast chemical use and costs at
21 these facilities accurately. In connection with Newport Water's next rate case, the
22 Commission can review Newport Water's actual costs and make necessary adjustments
23 to the amounts that are restricted, taking into account the change out of carbon."
24 (Woodcock Direct, p. 6, lines 24-25, p. 7, lines 1-6)
25

26 Newport agrees with this assessment and does not believe the restricted account balance
27 should be used to meet ongoing chemical expense until Newport can accurately forecast
28 chemical expenses based on a more sizable data sample. In fact, Mr. Woodcock, himself, seems
29 to argue for this in the footnote to the testimony referenced above:

1 “Because the change-out of carbon may be required at unknown times and costs, a
2 specific carbon change-out fund could be established or it could be included in the
3 current restricted chemical fund.” (Woodcock Direct, p. 7, footnote 1)
4

5 Furthermore, Newport does not have a \$300,000 balance in its restricted Chemical Account.
6 Since we do not presently have funding in rates for GAC Replacement, we have used funds from
7 the account balance. As of April 2016, the balance was \$274,455, and we estimate the balance
8 will drop to \$238,000 by fiscal year end. Thus, if the Commission adopts Mr. Woodcock’s
9 recommendation, Newport would fund the account at a level below test year expenses; the
10 balance would be exhausted in less than two years; and, Newport would have no cushion if
11 faced with higher chemical costs. Newport does not believe this is prudent because chemical
12 expenditures cannot be deferred, and underfunding this restricted account would require
13 transfers from other accounts.
14

15 Because the Chemical Account is restricted, Newport proposes that the Commission reject Mr.
16 Woodcock’s recommendation that \$125,000 be used for ongoing chemical expenses. Rather,
17 the balance should be used to meet unexpected chemical expenses such as GAC Replacement.
18 This is a vital expense and it is clearly more prudent to overfund this account at this point than
19 underfund.
20

21 **Q. Do you agree with Mr. Woodcock’s suggestion to reduce funding for Newport’s restricted**
22 **Electricity Account Account?**

23 A. No. Newport’s objection is similar to its objection to Mr. Woodcock’s position on chemical
24 expenses. First, Mr. Woodcock points out that Newport had a balance of \$277,866 in the
25 restricted Electric Account as of December 31, 2015, but as of April 2016 the balance is
26 \$259,318, and will be approximately \$250,000 the end of the fiscal year. We are currently using
27 funds from this balance because the new Lawton Valley Treatment Plant, and associated
28 electric expenditures, didn’t exist when the funding level was set in Docket 4243. Mr.

1 Woodcock's suggestion to use \$50,000 from this balance for ongoing expenses, combined with
2 a reduction of the annual allowance, could potentially underfund the restricted Electric
3 Account, and electric expenditures cannot be deferred. The new treatment plants have short
4 operational history with minimal variations in weather and water quality. Both of these factors
5 could significantly increase electricity costs. Since this account is restricted, and can only be
6 used for electricity costs, the balance should be used to meet unexpected electric expenses.
7 Once again, this is a vital expense and it is more prudent to overfund at this point than
8 underfund.

9
10 **Q. Do you agree with Mr. Woodcock's suggested reduction to funding for Consultant Fees?**

11 A. No. Newport has agreed to reduce this expense, but not to the level suggested by Mr.
12 Woodcock. As set forth above, Newport proposes to base its claim for Consultant Fees (both
13 rate case and non-rate case) on actual expenses incurred. For rate case expense, Newport
14 accepts the Division's proposal to base its rate year expense on the average actual expenses in
15 2012 and 2013. For non-rate case expense, Newport proposes to use a five year average of
16 actual expenses.

17
18 **Q. As part of Mr. Woodcock's suggested reduction to Consultant Fees, he claims that**
19 **Newport included \$10,000 for bond advisor fees that are covered through bond proceeds. Is**
20 **this true?**

21 A. No. In fact, PWFD specifically asked about this expense in its Data Request 2-18. On March
22 17, 2016, Newport responded and explained to PWFD that it had mislabeled this expense, and
23 that it was not for bond advisor fees, which would be covered by bond proceeds. Rather, this
24 expense is for ongoing bank trustee fee, which are not covered by bond proceeds. Thus, bank
25 trustee fees are legitimate ongoing Consultant Fees.

26

1 **Q. Do you agree with Mr. Woodcock's position that the annual contribution to the restricted**
2 **Capital Account should remain at \$2.5 million per year?**

3 A. No, I do not, but Newport has revised its request for funding of the Capital Account. As set
4 forth in Mr. Smith's Rebuttal Testimony and schedules, Newport now seeks an additional
5 \$200,000, which is a \$480,502 reduction from its original request. This additional money will
6 bring the total annual funding of the Capital Account to \$2.7 million per year. The balance in
7 the restricted account has grown, especially in light of the fact that a \$1,057,493 water main
8 improvement project that Newport originally planned to fund from Capital was funded from
9 Debt instead. This change in funding was based on the Rhode Infrastructure Bank's request that
10 Newport fund this project with remaining ARRA funds from Newport's 2008 and 2009 Drinking
11 Water Bonds. Thus, Newport can use this balance to offset the increase in this Docket.

12
13 **CONCLUSION**

14 **Q. Does this conclude your rebuttal testimony?**

15 A. Yes it does.

CERTIFICATION

I hereby certify that on June 3, 2016, I sent a copy of the within to all parties set forth on the attached Service List by electronic mail and copies to Luly Massaro, Commission Clerk, by electronic mail and regular mail.

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