

City of Newport Department of Utilities



RHODE ISLAND PUBLIC UTILITIES COMMISSION DOCKET 4595

REBUTTAL TESTIMONY

OF

LAURA SITRIN

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

JUNE 3, 2016

1 **Q: Please state your name and your place of employment.**

2 A: Laura Sitrin. I am the Finance Director for the City of Newport.

3

4 **Q: Are you the same Laura Sitrin who submitted pre-filed direct testimony in this**
5 **Docket?**

6 A: Yes I am.

7

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

9 A: I am providing testimony that responds to the direct Testimony submitted by the
10 Division of Public Utilities and Carriers ("Division"), the Portsmouth Water and Fire
11 District ("PWFD") and the United States Department of the Navy ("Navy")
12 regarding the updated Legal and Administrative and Data Processing costs
13 proposed in this Docket for services the City of Newport provides to its Utilities
14 Department, Water Division ("Newport Water").

15

16 **Q: Can you provide a brief recap of your Direct Testimony?**

17 A: In this Docket, Newport Water proposed what it believed were some fairly minor
18 revisions to the allocation of expenses for services provided by the City of Newport
19 to Newport Water (a/k/a "City Services"). These costs are contained in Newport
20 Water's Budget Line items 50266 (Legal and Administration) and 50267 (Data
21 Processing).

22

23 The allocation revisions resulted in a \$31,000 decrease from the amount allowed
24 in Newport's last rate filing (Docket 4355) for Legal and Administration expense,
25 and an increase of approximately \$56,000 from the amount allowed in Docket
26 4355 for Data Processing. In total, the revised allocations resulted in total increase
27 of \$25,000 for City Services over the amount allowed in Docket 4355.

28

1 **Q. Did the Division or the Navy object to Newport's revisions to the City Services**
2 **allocations?**

3 A. No, neither party objected to the allocation revisions or the resulting Legal and
4 Administrative and Data Processing Costs. PWFD was the only party that objected
5 to Newport's revisions.

6
7 **Q. Do you agree with Mr. Woodcock's testimony that "The parties have spent**
8 **considerable time on this matter, yet Newport Water makes changes each time**
9 **they file, which vary from prior agreements, and without fail, prejudice**
10 **Portsmouth and its ratepayers."**

11 A. No I do not.

12
13 **Q. Why not.**

14 A. As set forth in my direct testimony, in 2008 (Docket 4025) Newport Water
15 submitted a rate filing that included a Cost Allocation Manual, which allocated City
16 Service expenses to the City's five enterprise funds including Newport Water.
17 During the litigation of Docket 4025, Newport adjusted some of the original
18 allocations based on suggestions from the Division and intervening parties,
19 including PWFD. However, the parties could not agree on all the allocations, so the
20 Commission resolved the remaining disputes in its Docket 4025 Order. I attached
21 the Compliance Filing Schedule from Docket 4025 that sets forth the approved
22 allocations as Exhibit 1 to my rebuttal testimony.

23
24 In Newport's next filing in 2011 (Docket 4243), Newport did not intend to change
25 the allocation methodology approved by the Commission in Docket 4025. As Ms.
26 Forgue testified in her direct testimony, "The expenses are allocated in accordance
27 with the Commission's Order in Docket 4025. (Docket 4243, Julia Forgue Direct
28 Testimony, p. 17) Mr. Smith also testified "The allocation of costs shown in this
29 schedule is based on the Commission's Order in Docket 4025." (Docket 4243,

1 Harold Smith Direct Testimony, p. 7) Thus, Newport believed it had allocated costs
2 based on the Commission's Order in Docket 4025. However, the Division and
3 PWFD pointed out two errors Newport made in calculating the allocations. As Mr.
4 Catlin testified for the Division:

5 "In general, Newport Water has calculated the charges for City of Newport legal
6 and administrative services and data processing services in a manner consistent
7 with the methodology approved by the Commission in Docket 4025. However, in
8 reviewing Newport's calculations, I identified two corrections that need to be
9 made to the determination of the Water Division's percentage of the City Budget
10 utilized to allocate costs to the Water Division..." (Docket 4243, Thomas Catlin
11 Direct, p. 11)
12

13 Newport corrected these errors, and did not otherwise seek to change the
14 allocation methodology the Commission approved in Docket 4025. It was actually
15 PWFD that sought to change the allocation methodology.
16

17 In Docket 4025, the Commission directed Newport to allocate four specific costs
18 (City Manager, City Solicitor, a portion of Finance, and a portion of MIS) based on a
19 comparison of the City's budget and the Water Fund's budget. In Docket 4243, Mr.
20 Woodcock sought to remove capital costs – particularly those related to Newport's
21 construction of the Lawton Valley Plant and upgrades to Station One – from the
22 overall City budget. The parties agreed to this change, which was incorporated into
23 the Docket 4243 Settlement Agreement. This change affected the allocation of the
24 City Manager, City Solicitor, a portion of Finance, and a portion of MIS, but all
25 other allocations remained unchanged from Docket 4025. (See Exhibit 2, Docket
26 4243, Schedule RFC D Compliance)
27

28 In Newport's next rate case (Docket 4355), the parties reached a Settlement
29 Agreement in which they agreed "to use the Legal and Administrative expenses
30 from the settlement agreement in Docket 4243 as part of this Settlement
31 Agreement." (See Exhibit 3, Docket 4355 Settlement Agreement excerpt, ¶ 25)

1 Thus, Newport did not propose *any* changes to the City Services allocations agreed
2 to by the parties in Docket 4243.

3
4 The changes Newport proposes in this Docket are the first substantive changes
5 proposed by Newport since the Docket 4025 Order in 2009, and would have been
6 the first changes to the Docket 4025 allocations since the Docket 4243 Settlement
7 in 2011, which removed capital costs from the City's overall budget at PWFD's
8 request. Thus, Newport does not agree that it seeks changes each time it files,
9 which prejudices PWFD's customers.

10
11 **Q. Why did Newport propose changes to the City Services Allocations in this**
12 **Docket?**

13 A. The City had not examined the allocations in detail since the Commission's Docket
14 4025 Order in 2009, and circumstances have changed since that time. For
15 example, the City used to have five enterprise funds (Water Fund, Water Pollution
16 Control Fund, Maritime Fund, Parking Fund and Easton's Beach Fund). Following
17 the litigation of Docket 4025, the Easton's Beach Fund was moved to the General
18 Fund. In addition, since the Docket 4025 Order, the City received a ruling from
19 GASB that the Library did not belong on the City's audited financial statements as a
20 component unit. Since the Library is no longer considered a component unit of the
21 City, and the City has no interaction with the Library other than to approve an
22 annual support amount, we believed that the inclusion of 4% of the Library's
23 budget should be removed from the allocations based on budget comparisons.
24 Finally, the City sought to review the allocations to determine if they were still
25 allocated fairly to *all* the Enterprise Funds, not just the Water Fund.

1 **Q. Do you agree with Mr. Woodcock's suggested changes to Newport's revised**
2 **allocations?**

3 A. No I do not. I believe that Newport properly updated its City Service allocations. In
4 fact, these reallocations only resulted in an overall increase of \$25,000.
5 Furthermore, Mr. Woodcock seeks to make changes to the revised allocations only
6 where it benefits PWFD.

7
8 **Q. Then what do you propose for Newport's allocation of City Services?**

9 A. Mr. Woodcock testifies that:

10 "... Portsmouth, Newport Water, and the other parties in interest to Newport
11 Water's rate filings had, among other things...obtained Commission approval for
12 Newport Water's cost allocation manual (for City Services) Because of these past
13 efforts, Portsmouth hoped and expected that this rate filing would not result in
14 continued disagreements about previously resolved issues regarding matters
15 such as... city service expenses."

16
17 "It is fundamentally unfair to Portsmouth to continually have to re-analyze
18 Newport Water's allocation of City Service expenses because it has chosen to
19 unilaterally update the cost allocation manual or to change the basis for
20 allocations...This causes Portsmouth, the Division, and the Commission to
21 re-litigate these issues in every rate case, resulting in further increased costs to
22 the ratepayers in Newport, Middletown and Portsmouth because of the
23 expenses of that litigation." (Woodcock, Direct, p. 3, ll. 24-26, p.4, ll. 1-5, p. 14, ll.
24 15-22)

25
26 Thus, to avoid any further disagreements and litigation over this issue, Newport
27 Water proposes to use the allocations the Commission previously approved in
28 Docket 4025, as revised by the parties in the Docket 4243 Settlement Agreement.
29 The only exception is that in calculating the allocations determined by comparing
30 the City's Budget to the Water Fund's budget, Newport Water will continue to
31 remove 4% of the Library budget. Newport will also use actual FY2015 costs as
32 suggested by Mr. Woodcock.

1 **Q. What is the result of this revision?**

2 A. The total City Services allocated to Newport Water is \$541,753, which is an
3 increase of \$63,910 from the amount Newport originally sought. This revised
4 allocation is set for in Exhibit 4 to my testimony and is labeled as LS Rebuttal
5 Schedule 1.

6

7 **Q: Does this complete your testimony?**

8 A: Yes, it does.

EXHIBIT 1

City of Newport, Rhode Island
FY 2010 Rate Filing
Development of Legal & Administrative and Data Processing Charges

RFC Schedule D Compliance

Determination of Budget Percentages

	FY2009 Adopted Budget	Percentage
Total General Fund Budget (Adopted)	76,683,576	
Add: Equipment Operations Fund	1,449,071	
Less:		
80 % of School Appropriation	(18,514,180)	
96% of Library Appropriation	(1,588,960)	
Civic Support Requests	(183,900)	
Total General Fund Budget For Allocation	57,845,607	67.69%
Water Fund	11,284,853	13.21%
WPC Fund	12,628,836	14.78%
Maritime Fund	1,483,000	1.74%
Beach Fund	866,324	1.01%
Parking Fund	1,347,952	1.58%
Combined Budgets	85,456,572	100.00%

Allocation of Legal and Administrative Costs to Enterprise Funds

Allocated Item	Cost To Be Allocated	Water %	Water Fund	WPC %	WPC Fund	Mar %	Maritime	Beach %	Beach	Park %	Parking
Audit Fees	\$ 84,875	6.18%	5,245	6.00%	5,093	2.00%	1,698	2.00%	1,698	2.00%	1,698
OPEB Contribution (1)	\$ 3,500,000	0.00%	-	0.00%	-	0.07%	2,450	0.09%	3,150	0.00%	-
City Council	\$ 76,655	5.75%	4,408	1.97%	1,510	2.96%	2,269	2.13%	1,633	2.79%	2,139
City Clerk	\$ 319,706	1.00%	3,197	1.97%	6,298	2.96%	9,463	2.13%	6,810	2.79%	8,920
City Manager	\$ 418,103	13.21%	55,212	14.12%	59,036	1.66%	6,941	0.97%	4,056	1.51%	6,313
Human Resources	\$ 303,388	10.06%	30,521	0.44%	1,335	0.47%	1,426	0.74%	2,245	0.18%	546
City Solicitor	\$ 144,589	13.21%	19,093	14.12%	20,416	1.66%	2,400	0.97%	1,403	1.51%	2,183
Finance Admin 80%	\$ 149,585	13.21%	19,753	14.12%	21,121	1.66%	2,483	0.97%	1,451	1.51%	2,259
Finance Admin 5%	\$ 18,698	37.00%	6,918	8.00%	1,496	0.00%	-	0.00%	-	2.50%	467
Purchasing	\$ 90,123	18.60%	16,763	1.20%	1,081	3.10%	2,794	5.90%	5,317	3.50%	3,154
Assessment	\$ 113,456	5.00%	5,673								
Collections	\$ 313,663	15.26%	47,865	15.26%	47,865	0.00%	-	0.00%	-	18.70%	58,655
Accounting - 5%	\$ 9,749	100.00%	9,749	0.00%	-		-		-	0.00%	-
Accounting	\$ 383,951	16.90%	64,888	0.97%	3,724	2.60%	9,983	3.90%	14,974	2.70%	10,367
Public Safety	\$ 28,531,884	0.00%	-	0.17%	48,504	0.04%	11,413	0.05%	14,266	0.25%	71,330
Facilities Maintenance	\$ 823,521	1.47%	12,106	4.00%	32,941		-	18.60%	153,175		

Legal & Administrative 301,391
rounded \$ 301,400

Allocation of Data Processing Costs to Enterprise Funds

Allocated Item	Cost To Be Allocated	Water %	Water Fund	WPC %	WPC Fund	Mar %	Maritime	Beach %	Beach	Park %	Parking
MIS - Communications Cost	\$ 328,960	7.90%	25,988	3.30%	10,856	1.26%	4,145	1.67%	5,494	0.84%	2,763
MIS - Other Costs	\$ 841,172	13.21%	111,080	14.12%	118,773	1.66%	13,963	0.97%	8,159	1.51%	12,702

Data Processing (1) 137,068
rounded \$ 137,000

EXHIBIT 2

City of Newport, Rhode Island
FY 2012 Rate Filing
Development of Legal & Administrative and Data Processing Charge

RFC Schedule D Compliance

Determination of Budget Percentages

	FY2011 Adopted Budget	Percentage
General Fund O&M Budget (Adopted)	78,311,955	
Add: Equipment Operations Fund	1,561,660	
Less:		
80 % of School Appropriation	(18,051,326)	
96% of Library Appropriation	(1,604,850)	
Civic Support Requests	(83,150)	
Capital and Debt Service	(2,525,388)	
Total General Fund O&M Budget For Allocation	57,608,901	75.14%
Water Fund	10,012,212	13.06%
WPC Fund	6,145,059	8.02%
Maritime Fund	632,833	0.83%
Beach Fund	827,832	1.08%
Parking Fund	1,438,810	1.88%
Combined Budgets	76,665,647	100.00%

Allocation of Legal and Administrative Costs to Enterprise Funds

Allocated Item	Cost To Be Allocated	Water %	Water Fund	WPC %	WPC Fund	Mar %	Maritime	Beach %	Beach	Park %	Parking
Audit Fees	\$ 69,200	6.18%	4,277	6.00%	4,152	2.00%	1,384	2.00%	1,384	2.00%	1,384
OPEB Contribution (1)	\$ 2,178,568	0.00%	-	0.00%	-	0.07%	1,525	0.09%	1,961	0.00%	-
City Council	\$ 79,521	5.75%	4,572	1.97%	1,567	2.96%	2,354	2.13%	1,694	2.79%	2,219
Citizen Survey	\$ -	8.30%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-
City Clerk	\$ 332,461	1.00%	3,325	1.97%	6,549	2.96%	9,841	2.13%	7,081	2.79%	9,276
City Manager	\$ 407,653	13.06%	53,238	14.12%	57,561	1.66%	6,767	0.97%	3,954	1.51%	6,156
Human Resources	\$ 294,475	10.06%	29,624	0.44%	1,296	0.47%	1,384	0.74%	2,179	0.18%	530
City Solicitor(only 50% allowed by puc)	\$ 154,082	13.06%	20,122	14.12%	21,756	1.66%	2,558	0.97%	1,495	1.51%	2,327
Finance Admin 80%(only 50% allowed by puc	\$ 149,278	13.06%	19,495	14.12%	21,078	1.66%	2,478	0.97%	1,448	1.51%	2,254
Finance Admin 5%	\$ 18,660	37.00%	6,904	8.00%	1,493	0.00%	-	0.00%	-	2.50%	466
Purchasing	\$ 96,838	18.60%	18,012	1.20%	1,162	3.10%	3,002	5.90%	5,713	3.50%	3,389
Assessment	\$ 117,494	5.00%	5,875								
Collections	\$ 302,778	15.26%	46,204	15.26%	46,204	0.00%	-	0.00%	-	18.70%	56,619
Accounting - 5%	\$ 10,503	100.00%	10,503	0.00%	-		-		-	0.00%	-
Accounting	\$ 410,372	16.90%	69,353	0.97%	3,981	2.60%	10,670	3.90%	16,005	2.70%	11,080
Public Safety	\$ 30,876,692	0.00%	-	0.17%	52,490	0.04%	12,351	0.05%	15,438	0.25%	77,192
Facilities Maintenance	\$ 887,556	1.47%	13,047	4.00%	35,502		-	18.60%	165,085		
		Total Allocation	304,551								
		Settlement Adjustment	5,106								
		Legal & Administrative	309,657								
		rounded	\$ 309,657								

Allocation of Data Processing Costs to Enterprise Funds

Allocated Item	Cost To Be Allocated	Water %	Water Fund	WPC %	WPC Fund	Mar %	Maritime	Beach %	Beach	Park %	Parking
MIS - Communications Cost	\$ 261,576	7.90%	20,665	3.30%	8,632	1.26%	3,296	1.67%	4,368	0.84%	2,197
MIS - Other Costs	\$ 894,364	13.06%	116,800	14.12%	126,284	1.66%	14,846	0.97%	8,675	1.51%	13,505
		Total Allocation	137,465								
		Settlement Adjustment	6,423								
		Data Processing (1)	143,888								
		rounded	\$ 143,888								

EXHIBIT 3

disagree regarding (1) the value of Transmission and Distribution ("T&D") pipes installed between 1976 and 2006, and (2) the value for meters and services. The Parties agreed to use the original asset values for T&D pipes installed between 1976 and 2006 that Newport provided as part of its response to Portsmouth's data request no. 1-7, and also reached a compromise on the value for meters and services.

22. The Parties agree that these fixed asset values will not carry any precedential value in future dockets, and they reserve their right in the next docket to maintain or support different values. The Parties neither agree, acknowledge nor assert that the fixed asset values used in this docket are accurate, but they do agree that they represent a fair and reasonable compromise given the information available in this docket.
23. Newport agrees to provide an updated schedule of fixed asset values with its next general rate filing. The Parties will try to determine and agree on the schedule of fixed asset values before or when Newport makes its next filing.
24. The Settlement Schedules incorporate a compromise between the Parties regarding the Legal and Administrative expenses used to calculate rates.
25. The Parties agree to use the Legal and Administrative expenses from the settlement agreement in Docket 4243 as part of this Settlement Agreement.
26. The Settlement Schedules incorporate a compromise between the Parties regarding the allocation of capital costs associated with water treatment.
27. Newport sought to allocate treatment capital costs based on the projected demand of each customer class rather than historical actual demands.

EXHIBIT 4

City of Newport
Cost Allocation - Percentage of Budgets
Based on Actual Results for FY2015

PWFD 2-7
Schedule B-1

	FY2015 Actual Results	Less School	Less Civic Support	Less Debt Service	Less Capital		Percentage
General Fund	86,530,351	18,701,726	1,851,475	5,020,694	4,044,900	56,911,556	72.10%
Water Fund Total Operating Expenses	10,091,631	-	-	Already removed	Already removed	10,091,631	12.79%
WPC Fund	9,471,298			-	-	9,471,298	12.00%
Maritime Fund	998,983				-	998,983	1.27%
Parking Fund	<u>1,457,049</u>				-	<u>1,457,049</u>	1.85%
Total	108,549,312					78,930,517	
School Appropriation:	23,377,157						
20% appropriation left in general fund	<u>4,675,431</u>						
	18,701,726						

CITY OF NEWPORT - WATER DIVISION

Adjustment to City Services Cost

FY2015 Actual Expenses Using Docket 4243 Percentages

(Except Percent of Budget was Based on FY2015 Actual)

<u>Legal and Administrative Services</u>	<u>Allocable Budget</u>	<u>Percent</u>	<u>Allocation to Water Division</u>
Audit Fees	68,500	6.18%	4,233
OPEB Contribution	500,000	3.84%	19,200
City Council	99,553	5.75%	5,724
City Clerk	298,022	1.00%	2,980
City Manager	480,674	12.79%	61,478
Human Resources	336,556	10.06%	33,858
City Solicitor	185,005	12.79%	23,662
Finance Administration (50%)	213,087	12.79%	27,254
Finance Administration (5%)	6,155	37.00%	2,277
Purchasing	92,795	18.60%	17,260
Assessment	291,229	5.00%	14,561
Collections	312,923	15.26%	47,752
Accounting (5%)	12,738	100.00%	12,738
Accounting	398,762	16.90%	67,391
Facilities Maintenance	1,983,636	1.47%	29,159
Total Legal and Administrative Svc			369,528
<u>Data Processing Services</u>			
MIS - Communication Costs	701,252	7.90%	55,399
MIS - Other Costs	913,411	12.79%	116,825
Total Data Processing Services			172,224
Combined Legal & Admin and Data Pr			541,753

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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