

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: PAWTUCKET WATER SUPPLY :  
BOARD APPLICATION TO CHANGE : DOCKET NO. 3378  
RATE SCHEDULES :

**REPORT AND ORDER**

**I. Introduction**

On August 20, 2001, the Pawtucket Water Supply Board (“PWSB”), a municipal, non-investor owned utility, filed an application with the Public Utilities Commission (“Commission”) seeking an increase in revenues of \$3,828,966, or 40.8%, for a total revenue requirement of \$13,217,213. For a typical residential customer using 100 hcf of water per year, the impact of PWSB’s request would result in an increase of \$89.16 or 55.68%. PWSB requested an effective date of September 20, 2001. On September 12, 2001, the Commission suspended the effective date of the original filing for a period of six months.

The instant general rate case filing represents PWSB’s fourth such filing in the last ten years. The following table provides a brief history:

Docket No.	Filing Date	Amount Requested	Amount Allowed
2158	12/7/93	\$1,460,486	\$ 624,876
2674	1/9/98	\$3,634,020	\$ 614,430
3164	6/30/00	\$2,289,601	\$1,820,799

**II. PWSB Direct**

In support of its filing, PWSB submitted the pre-filed testimony of PWSB’s General Manager Pamela M. Marchand, P.E., rate and accounting consultant David G. Bebyn, C.P.A., financial consultant Christopher P.N. Woodcock, management consultant

Paul Eisenhardt, and financial advisors Maureen E. Gurghigian and David G. Earley. Ms. Marchand indicated that the requested increase would fund operation and maintenance (“O&M”), provide sufficient reserves to avoid monthly deficits, provide a combination of debt service and infrastructure replacement funds (“IFR”) for a portion of the main renovation program, provide the reserves required for bonding and the State Revolving Loan Fund (“SRF”) program related to capital improvements, and provide funding to comply with a Superior Court Order regarding a dispute between PWSB and Central Falls.<sup>1</sup>

**A. Pamela Marchand’s Pre-Filed Testimony**

Ms. Marchand outlined the upcoming capital improvements projects that PWSB believes to be necessary. She indicated that the water main lining and replacement program that had commenced in 1987 is still ongoing. She noted that of the 240 miles to be cleaned and lined or replaced, forty-seven had been cleaned and lined, forty-seven miles are newer and already cleaned and lined, and seventeen miles of main are being completed in 2001. Therefore, a total of 160 miles of main (including 14 miles in Central Falls) needed to be completed by 2010 in order to meet stricter disinfection by-product regulations.<sup>2</sup> Ms. Marchand indicated that PWSB has developed a schedule to replace or clean and line all of the cast iron water mains in the system by 2010.<sup>3</sup> She stated that financing would be obtained through the Rhode Island Clean Water Finance Agency (“CWFA”) for subsidized loans and revenue bonds.<sup>4</sup>

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<sup>1</sup> PWSB Exhibit 1A (Pre-filed testimony of Pamela Marchand), p. 3.

<sup>2</sup> Id. at 3, 11-13. The schedule calls for 17 miles of main to be renovated per year, with 35% to be replaced and 65% to be cleaned and lined. Id. at 12.

<sup>3</sup> Id. at 11.

<sup>4</sup> Id. at 13.

In addition to that continuing project, Ms. Marchand testified that PWSB needs a new water treatment plant, a new five million gallon storage tank and a new 36-inch transmission main. To that end, PWSB requested approval to collect debt service and IFR funding for the water main renovation project, estimated at \$55,900,000, over eight years.<sup>5</sup>

Additionally, PWSB requested funding through rates of debt service reserves associated with the construction of the new water treatment plant and related facilities, estimated at \$74,500,000. Because PWSB intends to apply to the CWFA for subsidized loans and revenue bonds, PWSB must have sufficient reserves to provide for debt service on the SRF loans and bonds. The total estimated amount has been broken down as follows: (1) water treatment plant, \$55,000,000; (2) 35 MGD pump station at Happy Hollow Pond, \$3,500,000; (3) storage tank, \$5,000,000; (4) utility management system (“SCADA”), \$1,250,000; (5) intake structure and aerations system upgrades, \$500,000; (6) wells/piping/electrical system upgrades, \$250,000; (7) pipelines from Happy Hollow to Branch Street, \$4,000,000; (8) land acquisition if needed (“Pawtucket site”), \$1,000,000; and (9) relocation of T&D and administration if needed, \$4,000,000.<sup>6</sup>

Addressing the necessity for and method of replacing the existing 1938 water treatment plant, Ms. Marchand indicated that the treatment plant could not produce treated water to reliably meet existing drinking water standards. She explained that an April 1999 evaluation performed by Camp, Dresser and McKee Engineers showed that replacement of the plant would be least costly than renovating it. Furthermore, at its May 9, 2000 board meeting, PWSB voted to proceed with a Design, Build, Operation

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<sup>5</sup> *Id.* at 3. This estimate includes relining of the Central Falls water mains. However, this rate filing does not include the approximate \$6 million to renovate Central Falls’ mains. *Id.* at 3, 18.

<sup>6</sup> *Id.* at 3, 10-11.

("DBO") procurement process for the new plant, rather than selling the assets of the system. Ms. Marchand explained that over the past five (5) years, the DBO process had demonstrated an average savings of approximately 20% when compared with the conventional method of procurement. Additionally, Ms. Marchand indicated that one of PWSB's main considerations was the assignment of risk that occurs with the DBO process.

Under the DBO process, the vendor is responsible for the design, construction and operation of the treatment plant at guaranteed costs and performance levels over the life of the contract, in this case, twenty (20) years, with PWSB maintaining ownership and the option to take back responsibility for the plant operations at any time during the life of the contract.<sup>7</sup> Under the DBO contract, the vendor would provide a guaranteed cost of operation over a twenty-year period, subject to an annual increase tied to the Consumer Price Index ("CPI"). Additionally, Ms. Marchand explained that as part of the base service fee, "the vendor would be required to establish a 'major repair and replacement fund' of \$100,000 per year for any repairs greater than \$10,000."<sup>8</sup> Ms. Marchand anticipated that the operation and maintenance of the existing water plant would be transferred to the vendor around April 1, 2002. She explained that at that time, all but two employees of PWSB's Purification Department would be transferred to the vendor's employment.<sup>9</sup> In short, Ms. Marchand testified that "PWSB will remain in control of the

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<sup>7</sup> Id. at 5-6. Ms. Marchand noted that under the DBO process, PWSB would not be responsible for delays and costs due to design changes or construction process delays related to design. Id. at 6.

<sup>8</sup> Id. at 7.

<sup>9</sup> Id.

entire water system with a private vendor providing operation management for the treatment function.”<sup>10</sup>

According to Ms. Marchand, as part of the transfer of responsibilities, PWSB was requesting two new positions, a Source Water Manager and a Water Supply Technician. The Source Water Manager, a position to become effective at the time of transfer of the treatment operations to the vendor, would act as a liaison with the vendor to coordinate the daily operations of the treatment plant, water supply and distribution system. In addition, this person will be responsible for the management, maintenance and monitoring of the watershed, reservoirs and dams. The Water Supply Technician would assist the Water Supply Manager in his or her duties. Including salary and benefits, the costs for calendar year 2002 would be \$152,126.<sup>11</sup>

Ms. Marchand indicated that the Pawtucket City Council had approved the issuance of a Request for Proposals (“RFP”) on January 24, 2001. After reviewing the bids, PWSB is to submit a recommendation of the selected vendor to the City Council during the first week of January 2002.<sup>12</sup>

Ms. Marchand stated that PWSB is seeking an increase in operations in order to avoid monthly deficit conditions that had been funded by the City of Pawtucket. The City had requested reimbursement for the deficit and had requested that the situation not continue.<sup>13</sup> The cost to the City for fiscal year 2001 was \$14,828. Addressing a requested increase in O&M expenses, Ms. Marchand cited delayed expenses, increases to

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<sup>10</sup> Id. at 8. PWSB would still be responsible for source of supply management and costs. This includes: dam maintenance and operation, watershed protection and maintenance, transmission and distribution operation and maintenance, engineering, customer service and meter reading and maintenance. Id.

<sup>11</sup> Id. at 8-9.

<sup>12</sup> Id. at 9.

<sup>13</sup> Id. at 13.

the personnel budget, increased costs of contracts and utilities and a loss of revenues due to some large customer bankruptcies.<sup>14</sup>

Turning to issues between PWSB and the City of Central Falls regarding maintenance of the Central Falls distribution system, Ms. Marchand indicated that while PWSB is requesting the inclusion in rates of funding for water main renovation, it does not intend to undertake maintenance in Central Falls unless the City will reimburse PWSB for the work. At the time of the filing, Central Falls maintains control of its distribution system. According to Ms. Marchand, renovation of the Central Falls system would require approximately \$6,000,000.<sup>15</sup>

Ms. Marchand testified that PWSB had made several attempts to negotiate a unification of the two systems. PWSB had offered to purchase Central Falls' system for \$851,500, the net book value of the system. However, Central Falls valued its system at \$2,950,424, based on the system's depreciation value. According to Ms. Marchand, if the systems are not unified, water quality will suffer and the two systems will have to be separated, rendering Central Falls a wholesale water purchaser, responsible for the operation, maintenance, billing and water control of its system. However, Ms. Marchand reiterated her position that PWSB could renovate the Central Falls system if the City of Central Falls agreed to reimburse the costs of PWSB.<sup>16</sup> She explained that according to a 1938 franchise agreement between Pawtucket and Central Falls, PWSB supplies Central Falls with water and the City of Central Falls is solely responsible for the maintenance and upkeep of its system. She further indicated that PWSB attempted to terminate its contractual obligation to provide Central Falls with water. Central Falls had filed suit in

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<sup>14</sup> Id. at 14.

<sup>15</sup> Id. at 18.

<sup>16</sup> Id. at 19-21.

Providence County Superior Court, arguing that the contract could not be terminated without submitting the issue to arbitration. Therefore, she explained that the latest date when the contract would be terminated is in 2004.<sup>17</sup>

Finally, Ms. Marchand addressed the issue of payment of miscalculated franchise fees authorized by the Commission in Docket No. 3164. She indicated that no payments had been made because sufficient revenues had not yet been collected and the total amount due had increased since the Commission's Order in Docket No. 3164.<sup>18</sup> Following the issuance of Order No. 16585, Central Falls filed a Motion for Summary Judgment in the pending Superior Court action seeking judgment in its favor of not only the \$454,618 in miscalculated fees, but also interest in the amount of \$379,565 and \$3,710 in attorney fees. Central Falls prevailed on its Motion. Therefore, PWSB has requested \$837,893 in rates to be collected to pay the judgment as soon as possible to avoid the accumulated interest of 12% per year.<sup>19</sup>

**B. David G. Bebyn's Pre-Filed Testimony**

In support of its filed test year, PWSB offered the pre-filed testimony of David G. Bebyn, CPA. He stated that he used a four-step process to develop the test year ending December 2000. First, he subtracted the year to date balances of December 1999 with the audited account balances for June 2000 to determine the January 2000 through June 2000 activity. Second, he reviewed the year-to-date December 2000 balances for the fiscal year ending June 20, 2001 to determine what, if any, adjustments were necessary.

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<sup>17</sup> Id. at 22.

<sup>18</sup> See Order No. 16585 (issued April 30, 2001). The Commission approved a Settlement that authorized PWSB to collect \$327,000 annually for ongoing franchise fees owed to Central Falls from May 2000 forward. The funds were to be collected in a restricted account pending resolution of disputed contract and franchise fee issues. PWSB was to seek Commission approval before releasing those funds. At the time of the Order, the back franchise fees totaled \$454,618. Id.

<sup>19</sup> PWSB Ex. 1A, pp. 22-24.

Third, the adjusted balances from the first two steps were combined to arrive at calendar year ending December 31, 2000. Finally, the balances were reviewed to determine if any final GAAP (Generally Accepted Accounting Principles) adjustments were needed. He noted that he made six adjustments for the period January 1, 2000 through June 20, 2000 for line items that were adjusted at the fiscal year end but which relate to pre-January activity. Next, he made four line item adjustments for the period July 2000-December 2000. After combining the six months ending June 30, 2000 and December 2000, he made nine normalizing adjustments to assure that revenues and expenses reflect only twelve months of activity. He also prepared a three-year analysis of the audited revenue and expenses for the years 1998, 1999 and 2000 and compared the analysis with calendar year 2000. He indicated that no additional test year adjustments were required to normalize the test year. Finally, he made five adjustments to the audited test year prepared on a GAAP basis in order to present the test year on a “rate making basis.”<sup>20</sup>

**C. Christopher P.N. Woodcock’s Pre-Filed Testimony**

Christopher P. N. Woodcock, a consultant for PWSB, submitted pre-filed testimony. Early in his pre-filed testimony, Mr. Woodcock presented the reasons for the rate increase. He discussed an increase in Infrastructure Replacement (IFR) to begin replacement of system pipes and to establish coverage for anticipated issuance of revenue bonds. He also alluded to the need for additional rate increases to fund IFR in future filings. Mr. Woodcock also discussed the amount awarded to the City of Central Falls relating to its franchise fee agreement with PWSB. That amount totaled more than \$800,000. He also mentioned an increase in operating costs of more than \$600,000. Mr.

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<sup>20</sup> PWSB Exhibit 1-B (Pre-filed testimony of David Bebyn), pp. 2-6.

Woodcock also expressed the need to set up several reserves in order to receive favorable bond ratings.<sup>21</sup>

Mr. Woodcock stated that due to the closing of facilities of several large PWSB customers, metered sales are expected to fall below test year levels.<sup>22</sup> Regarding rate design, he proposed that the customer classification methodology be changed. PWSB customer classes have historically been based on customer type. Mr. Woodcock proposed that customers be classified based on meter size. He argued that this type of classification scheme would better group customers.<sup>23</sup>

To lend support to his testimony, Mr. Woodcock provided several supporting schedules. In supporting schedule CPNW 1.1, he reduced Pawtucket Public Buildings Authority (“PPBA”) rate year debt service to zero to reflect the retirement and/or refinancing of these debt vehicles. He also increased rate year debt service on CWFA debt to \$1.64 million to reflect proposed new debt offerings, including retirement and/or refinancing of PPBA debt. Capital Lease expense was also increased by \$32,021, in anticipation of new vehicle acquisitions.<sup>24</sup>

Mr. Woodcock stated the need to establish various reserves as part of the requirements for new revenue bonds. He calculated an O&M reserve of \$1.77 million based on rate year O&M of \$7.09 million. This reserve would be created over three years by collecting \$590,695 per year in rates.<sup>25</sup> Mr. Woodcock also stated that another reserve that is commonly required in conjunction with a debt offering is a Renewal & Replacement (R&R) reserve. The purpose of such a reserve is to provide funds in the

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<sup>21</sup> PWSB Exhibit 1-C, pp. 3-4

<sup>22</sup> Id., pp. 4

<sup>23</sup> Id., pp. 5

<sup>24</sup> PWSB Exhibit 1-C, CPNW Sch. 1.1, pp 1 of 2

<sup>25</sup> PWSB Exhibit 1-C, CPNW Sch. 1.1, pp 1 of 2

event of unforeseen capital replacements. However, PWSB believes that since it is planning to build a new treatment facility and replace much of the distribution system, the need does not exist for an R&R reserve.<sup>26</sup>

As for the past due Central Falls Franchise Fee, Mr. Woodcock included \$837,893 in rates. This amount would pay off the judgment against PWSB in full in one year. He claimed that collecting the full amount of the judgment in the rate year will not lead to excess revenues in later years as the monies would be used to support the capital improvement plan. Regarding the remainder of the Central Falls Franchise Fee Requirements, Mr. Woodcock included an adjustment of \$123,851. As a result, the Franchise Fee increased from \$347,712 in the test year to \$471,563 in the rate year.<sup>27</sup> To calculate rate year salary expense, Mr. Woodcock took the average of the budgeted salaries for fiscal years 2002 and 2003. His calculation yielded a rate year salary expense of \$2,455,200 versus a test year salary expense of \$1,931,374.<sup>28</sup>

In the area of metered water use, Mr. Woodcock claimed that the company's billing records did not accurately identify the appropriate customer classification. To compensate for this, he created customer classes based on meter size. The proposed rate classes are:

- Small: 5/8" – 1" meters
- Medium: 1½" – 2" meters
- Large: 3" & 4" meters
- Very Large: 6" meters and larger

In order to calculate rate year water consumption, Mr. Woodcock made downward adjustments to the test year. He justified this by explaining that two of

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<sup>26</sup> PWSB Exhibit 1-C, pp. 8

<sup>27</sup> PWSB Exhibit 1-C, pp. 9, CPNW Sch. 1.1, pp 1 of 2

<sup>28</sup> PWSB Exhibit 1-C, pp. 9, CPNW Sch. 1.3, pp. 1 of 1

PWSB's larger customers, Elizabeth Webbing and ERCO had gone out of business. He also noted a reduction in consumption by PWSB's largest customer, OSRAM Sylvania. In total, Mr. Woodcock presented rate year consumption that was expected to be less than test year consumption by 190,468 hundred cubic feet.<sup>29</sup>

The new rate design proposed by Mr. Woodcock eliminated the existing declining block rates and replaced them with a single block for each rate customer class.<sup>30</sup>

#### **D. Paul Eisenhardt's Pre-Filed Testimony**

In support of the DBO process, PWSB provided the pre-filed testimony of its consultant Paul Eisenhardt, Principal of the Eisenhardt Group, Inc. The purpose of Mr. Eisenhardt's testimony was to address the capital costs of the new water treatment facilities needed by PWSB and to provide evidence of how the DBO process saves money.<sup>31</sup> Mr. Eisenhardt stated that the costs of PWSB's capital projects, designed to comply with environmental requirements by 2010, are as follows: \$64 million for water treatment facilities and connection pipeline, \$10.5 million for additional treatment plant related capital items, and \$61.5 million for distribution system rehabilitation and program management.<sup>32</sup>

Mr. Eisenhardt explained that the main benefit of the integrated DBO approach is that the vendor is responsible for all aspects of the project and the project quality, whereas under the traditional approach in which the three phases are separate, no organization has overall responsibility for costs or quality, which can lead to litigation

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<sup>29</sup>PWSB Exhibit 1-C, pp. 13-14, CPNW Sch. 2.0, pp. 2 of 2

<sup>30</sup> PWSB Exhibit 1-C, pp. 18, CPNW Sch. 8.0 pp. 1 of 1

<sup>31</sup> *Id.* at 3.

<sup>32</sup> PWSB Exhibit 1-D (Pre-filed testimony of Paul Eisenhardt), pp. 3-4.

and delay. The result of the DBO approach is an estimated documented life cycle cost savings of over 25% when compared to the traditional approach.<sup>33</sup>

**E. Maureen E. Gurghigian's Pre-Filed Testimony**

In support of its rate filing, PWSB offered the pre-filed testimony of Maureen E. Gurghigian, senior vice-president of First Southwest Company. Ms. Gurghigian testified that PWSB's current debt structure includes revenue bonds issued by the PPBA and general obligation bonds issued by the City of Pawtucket. Proceeds from PPBA bonds may be used to acquire, construct, maintain, renovate, repair and operate water and sewer projects. Since PWSB assets are pledged as collateral for the PPBA bonds, revenues of the PWSB cannot be pledged for other debt. Debt service on the PPBA bonds is paid by PWSB under a sublease agreement with the City under which payments are made by the City to benefit bondholders.<sup>34</sup> Outstanding general obligation bonds, issued by the City in the 1980's prior to the creation of the PPBA, were used to finance capital improvements to the treatment, transmission, distribution and storage facilities of PWSB.<sup>35</sup>

Ms. Gurghigian stated in her testimony that PWSB wishes to move to a debt structure that utilizes loans and bonds from the CWFA. Through the CWFA, PWSB would borrow funds from the State Revolving Fund (SRF) at a subsidized interest rate (25% below market). The CWFA and Water Resources Board may issue revenue bonds on behalf of water systems. These bonds would have interest rates that are similar to those incurred when bonding through PPBA.<sup>36</sup>

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<sup>33</sup> Id. at 5-7.

<sup>34</sup> PWSB Exhibit 1-E (Pre-filed testimony of Maureen Gurghigian), pp. 3-4

<sup>35</sup> Id. at 4

<sup>36</sup> Id. at 4-5

New bond issues would be in the form of revenue bonds that are backed by the revenues of the water system. If PWSB continued financing via general obligation bonds, which are backed by the City, it would reduce the amount of future borrowing that the City could undertake for projects such as schools and other city government needs.<sup>37</sup>

Ms. Gurghigian expressed the desire of PWSB to retire or refinance the existing PPBA debt because any new issues of debt would be subordinate to PPBA debt. The subordinate debt would be lower-rated and carry a high interest rate. She stated that additional borrowing via PPBA is impractical due to caps on the amounts that could be borrowed.<sup>38</sup>

**F. David G. Earley's Pre-Filed Testimony**

To explain the financing of the capital projects, PWSB submitted the pre-filed testimony of David G. Earley, a financial consultant. He indicated that the capital improvement program and refinancing of PPBA bonds, including the water treatment plant and associated infrastructure and the main replacement/rehabilitation program, would be financed using a combination of CWFA loans that will be secured by PWSB's revenues and its IFR funds on a pay-as-you-go basis. The debt portion of the plan of finance will include subsidized loans from the SRF. He explained that the main advantage of the proposed approach was that the SRF offers the lowest cost of borrowing to PWSB because of its ability to issue loans at 25% below the market rate. He stated that PWSB anticipates borrowing approximately \$103 million from the SRF program during the period March 2002 through December 2004. The estimated savings on interest over the life of the SRF loans is an estimated \$14.5 million. Mr. Earley also

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<sup>37</sup> Id. at pp. 5

<sup>38</sup> Id. at pp. 6

indicated that tax exempt refinancing debt would be structured as follows: PWSB will borrow an estimated \$11.1 million from the CWFA for defeasance of the 1995 PPBA bonds and the City of Pawtucket general obligation bonds for the years 1987, 1986, 1998 and 1994.<sup>39</sup>

### **III. Division's Direct**

On December 17, 2001, the Division of Public Utilities and Carriers ("Division") submitted the pre-filed direct testimony of Andrea C. Crane, Vice-President of The Columbia Group, Inc., a financial consulting firm and Thomas S. Catlin, principal with Exeter Associates, Inc., a firm of public utility consulting economists.

#### **A. Andrea C. Crane's Pre-Filed Testimony**

The purpose of Ms. Crane's testimony was to review PWSB's filing and make revenue requirement recommendations. PWSB requested a revenue increase of \$3,828,966 (40.8%) over pro forma revenues of \$9,386,751.<sup>40</sup> Ms. Crane's, however, recommended an increase of \$2,315,010 (24%) over pro forma revenues of \$9,656,920, for a total revenue requirement of \$11,971,929.<sup>41</sup>

In her testimony, Ms. Crane made no adjustments to the amount claimed by PWSB for debt service. She does note that it is possible, due to declining interest rates, that the actual borrowing costs to be incurred by PWSB may be less than what is included in the company's filing. To ensure adequate amounts for debt service are collected, she recommended that PWSB be allowed to collect the amounts included in its filing, but that the amounts be accounted for in a restricted account.<sup>42</sup>

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<sup>39</sup> PWSB Exhibit 1-F (Pre-filed testimony of David Earley), pp. 1-5.

<sup>40</sup> PWSB Exhibit 1-C, p. 19, Schedule 10, p. 2.

<sup>41</sup> Division Exhibit 1A, pp. 5

<sup>42</sup> Id. at 10

Ms. Crane stated that she did not oppose the creation of an O&M reserve equal to 25% of pro forma operating and maintenance expense. She did, however, adjust the dollar amount of the reserve based on her reductions to O&M expense. PWSB had requested permission to collect \$590,695 annually. Ms. Crane reduced this by \$35,746 to \$554,949.<sup>43</sup>

With regard to the DBO process, Ms. Crane stated that she had reviewed much of the paperwork associated with the DBO process and that she believed that the process had been well documented and that PWSB had made reasonable decisions to date. She recommended that the Commission express support for the actions taken by PWSB. She also stated that the Commission should retain the right to review specific contracts once a vendor is selected and disallow any costs that are unreasonable or unnecessary.<sup>44</sup>

In order to calculate pro forma operating revenue, Ms. Crane started with fiscal 2001 operating revenue and increased it by annualizing the rate increases awarded to PWSB in August and November of 2000. This calculation yielded pro forma operating revenue of \$9,656,920, an increase of \$270,169 over PWSB's filed pro forma revenues of \$9,386,751.<sup>45</sup>

In the area of salary and wages, Ms. Crane reduced PWSB's request by \$111,600. In its filing, PWSB requested funding for 66 employees. Ms. Crane identified that PWSB typically has vacant positions and recommended that funding for 3 positions at an average salary of \$37,200 be eliminated. Ms. Crane also eliminated Payroll Tax Expenses

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<sup>43</sup> Division Exhibit 1A, pp. 11, Sch. ACC-17

<sup>44</sup> Division Exhibit 1A, pp. 12-13

<sup>45</sup> Division Exhibit 1A, pp. 15-16, Sch. ACC-2

and Benefit Expenses for 3 positions. The Payroll Tax Expense reduction was in the amount of \$8,537 and the Benefit Expense reduction was in the amount of \$23,711.<sup>46</sup>

With regard to the Central Falls Franchise Fee requirement, Ms. Crane reduced the requested amount by \$77,299 to reflect the smaller rate increase that she recommended.<sup>47</sup> In the area of past due Central Falls Franchise Fees, Ms. Crane reduced the requested amount (\$837,893) by \$746,969. Her testimony stated that PWSB was allowed in Docket No. 3164 to collect amounts sufficient to satisfy the PWSB obligation to Central Falls for past due fees. She did not make a recommendation on how PWSB should fund the amounts owed to Central Falls. She did, however, make note of a receivable from the City of Pawtucket on the books of PWSB in the amount of \$1,318,690. She identified this receivable as a source of funding available to PWSB that could be used to pay Central Falls.<sup>48</sup>

In her testimony, Ms. Crane stated that she is generally opposed to inflation adjustments. She eliminated increases for several items whose costs did not typically move with inflation. The overall adjustment reduced revenue requirements by \$70,159, including a purchased power adjustment of \$40,105.<sup>49</sup> Another reduction to the revenue requirement made by Ms. Crane was in the area of outside services. She eliminated \$38,263 related to a privatization study and regulatory expenses allowed in prior dockets.<sup>50</sup>

With regard to rate case expenses in the instant docket, Ms. Crane stated that she believes PWSB's estimate to be overstated and that a more appropriate amount to include

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<sup>46</sup> Division Exhibit 1A, pp. 17-20, Sch. ACC-4, ACC-5, ACC-6

<sup>47</sup> Division Exhibit 1A, pp. 21-23, Sch. ACC-7

<sup>48</sup> Division Exhibit 1A, pp. 23-26, Sch. ACC-8

<sup>49</sup> Division Exhibit 1A, pp. 27, Sch. ACC-9, ACC-10

<sup>50</sup> Division Exhibit 1A, pp. 29, Sch. ACC-11

in rates would be the average of the actual costs incurred in the prior three dockets. Ms. Crane calculated an adjustment that reduced the revenue requirement by \$55,063. Ms. Crane stated she would modify this adjustment if PWSB could provide actual costs for the current docket.<sup>51</sup>

In the past, the PPBA had served as a financing vehicle for PWSB. For this service, PWSB had paid an annual fee to the PPBA. PWSB plans to retire or refinance all debt associated with the PPBA and replace it with debt issued directly to PWSB. PWSB requested to collect the remaining fees due to the PPBA in one year. Ms. Crane did not dispute the amount due to PPBA, but she did recommend that the amount be collected over two years as opposed to one to prevent PWSB from collecting the amount twice from ratepayers. The resulting adjustment reduced the revenue requirement by \$10,625.<sup>52</sup>

In her testimony, Ms. Crane stated her opposition to changes in rates based on budgets. She claimed that budgeted amounts do not represent known and measurable changes to historic test year results. As such, she eliminated various increases and decreases from the rate year that were based on budgeted amounts. The net effect of these adjustments is to reduce the revenue requirement by \$33,693.<sup>53</sup>

PWSB requested an allowance of \$90,000 in rates for Capital Leases. Through data responses, PWSB offered documentation that supported annual Capital Lease expenses in the amount of \$74,784. As a result, Ms. Crane reduced Capital Lease expense by \$15,216.<sup>54</sup>

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<sup>51</sup> Division Exhibit 1A, pp. 31, Sch. ACC-12

<sup>52</sup> Division Exhibit 1A, pp. 32, Sch. ACC-13

<sup>53</sup> Division Exhibit 1A, pp. 34, Sch. ACC-14, ACC-15

<sup>54</sup> Division Exhibit 1A, pp. 36, Sch. ACC-16

Ms. Crane supported the continuation of the 1.5% operating revenue allowance but she did make an adjustment to the dollar amount of the reserve. Since Ms. Crane's calculated operating expenses are less than what was requested by PWSB, she reduced PWSB's operating revenue allowance claim by \$18,403.<sup>55</sup>

In conclusion, Ms. Crane summarized her recommendations as follows: PWSB has pro forma revenue of \$9,656,920; PWSB has a total revenue requirement of \$11,971,929; to satisfy the revenue requirement, an increase in the amount of \$2,315,010 (24%) is warranted; actual debt service costs may be lower than the costs included in the PWSB filing; amounts collected for debt service as well as O&M reserve should be restricted; the Commission should not revisit the past due Central Falls Franchise Fees; the Commission should express support for the DBO process, but should retain the right to challenge specific costs when a vendor is selected.<sup>56</sup>

**B. Thomas Catlin's Pre-Filed Testimony**

Mr. Catlin provided testimony and exhibits regarding his opinions on PWSB's cost of service study and rate design. As part of his testimony, Mr. Catlin provided a cost of service study, prepared on behalf of the Division, but which was based on PWSB's filed revenue requirement. He indicated that he recommended four modifications to PWSB's cost of service study as filed in the instant docket. Other than these modifications to the cost study, Mr. Catlin agreed with the approach Mr. Woodcock followed in developing PWSB's rate design.<sup>57</sup>

First, Mr. Catlin recommended revising the allocation of transmission and distribution ("T&D") related labor costs to reflect the distribution of employee time

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<sup>55</sup> Division Exhibit 1A, pp. 37-38, Sch. ACC-18

<sup>56</sup> Division Exhibit 1A, pp. 5-6

<sup>57</sup> Division Exhibit 1-B (Pre-filed testimony of Thomas Catlin), pp. 3-6.

between work on water mains, service and hydrants.<sup>58</sup> Second, Mr. Catlin recommended revising the calculations regarding distribution related costs excluded from the costs allocated to wholesale service, including the following: (1) reducing the allowance for unaccounted-for water; (2) revising the amounts of T&D costs and engineering costs excluded from the maximum day and peak hour cost functions to equal the amounts actually allocated to those cost functions on the basis of distribution plant investment; (3) reducing the percentage of capital costs excluded from the maximum day costs to reflect distribution plant as a percent of total direct investment assigned to the maximum day function; and (4) adjusting the allocated indirect costs removed from maximum day and peak hour costs to be consistent with the level of direct costs removed. He indicated that this allows recognition of operating income and miscellaneous revenue as well as administrative costs.<sup>59</sup>

Third, Mr. Catlin recommended adjusting the allocation of meter related costs to recognize that private fire services are metered. He indicated that PWSB's cost study did not assign meter related costs to private fire services despite the fact that they are required to be metered. He indicated that although bypass meters can range anywhere from 5/8 inch to 2 inches, the majority of bypass meters measure the private fire services are 3/4 inch or 1 inch in diameter and he assumed an average meter size of one inch for purposes of assigning costs in the Division's cost of service study.<sup>60</sup> Fourth, Mr. Catlin recommended separately identifying and allocating certain miscellaneous revenues

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<sup>58</sup> Id. at 6-7.

<sup>59</sup> Id. at 7-8.

<sup>60</sup> Id. at 9.

including separately identifying and assigning service installation revenue and state surcharge revenue.<sup>61</sup>

Regarding PWSB's rate design, based on PWSB's filed revenue requirement, Mr. Catlin stated that with the exception of the public hydrant rate which would increase by 109%, the increases for rate classes were generally consistent with PWSB's request for an overall increase of approximately 42%. However, Mr. Catlin stated that unlike in other cases, in which the Division has recommended moderating increases to public fire rates, he had not done so in the instant case due to the fact that most customers will already be experiencing rate increases. Second, although the fire service will benefit from the IFR program, none of the costs of the IFR program have been allocated to fire service, effectively understating the identified cost of that service.<sup>62</sup> Finally, he noted that while the increase to public fire service is high, the hydrant rates are still less than comparable rates of two other regulated municipal water utilities in Rhode Island.<sup>63</sup>

#### **IV. Central Falls' Direct**

On December 17, 2001, the City of Central Falls filed the direct pre-filed testimony of Mayor Lee Matthews and of Laszilo Siegmund, P.E., of Siegmund & Associates, Inc.

##### **A. Mayor Matthews' Pre-Filed Testimony**

Mayor Matthews addressed the issue of franchise fees and Mr. Siegmund addressed the issue of valuing the distribution system. Mayor Matthews testified that Central Falls was objecting to PWSB's request for a rate increase because it was his

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<sup>61</sup> Id. at 9-10.

<sup>62</sup> Under state law, 100% of the costs of the IFR program must be allocated to consumption. R.I.G.L. § 46-15.6-6.

<sup>63</sup> Id. at 10-11.

opinion that PWSB had been authorized to collect the same money in previous dockets. Additionally, he indicated that Central Falls was prepared to seek a writ from the Superior Court ordering PWSB to pay the entire franchise fee judgment of \$753,788.01 immediately and not over time.<sup>64</sup>

**B. Laszilo Siegmund’s Pre-Filed Testimony**

Mr. Siegmund, a professional engineer, testified that he had provided Central Falls with a system valuation in 1997. His methodology was replacement cost, less depreciation, which he indicated is a generally accepted methodology for valuing water systems. He indicated that it was his professional opinion that the value of the Central Falls Distribution System was \$2,950,424.<sup>65</sup>

**V. PWSB Rebuttal**

On January 22, 2002, PWSB submitted the pre-filed testimony of Pamela Marchand, David Bebyn, Christopher Woodcock and David Earley.

**A. Pamela Marchand’s Pre-Filed Rebuttal**

Ms. Marchand disagreed with Ms. Crane’s recommendation that PWSB not be allowed to recover in rates the amount due to satisfy the Central Falls judgment over a one-year period. She noted that Central Falls’ actions in obtaining the judgment were unexpected during the previous rate hearing when the Commission indicated support for repayment of the miscalculated franchise fees over a period of five years. She stated that Central Falls had intervened in Commission Docket No. 3164 and did not object to PWSB repaying the fees over a multiple year period. In fact, at the hearing in Docket No. 3164, counsel for Central Falls indicated that “[Mr. Harsh, then city solicitor] will

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<sup>64</sup> Pre-Filed Testimony of Mayor Matthews, pp. 2-4.

<sup>65</sup> Id. at 2-3.

sign [the Settlement] and he has indicated to me that I am authorized on his behalf to indicate that the City of Central Falls is in agreement with this settlement agreement that's been put forth today.” Therefore, according to Ms. Marchand, PWSB believed that Central Falls had agreed to repayment of the franchise fees over a five-year period according to the terms of the Settlement entered into in Docket No. 3164. She pointed out that Central Falls filed its Motion for Summary Judgment with full knowledge that PWSB was not authorized to collect more than \$90,924 per year.<sup>66</sup>

Ms. Marchand also testified regarding an expected reduction in water sales, the need for funding of employment positions, a commitment to fill vacancies immediately in the future, inflation adjustments, capital leases and the need to adequately fund O&M and IFR accounts to meet fiscal requirements for bonding and deadlines for projects.<sup>67</sup>

**B. David Bebyn's Pre-Filed Rebuttal**

Mr. Bebyn testified that the \$1,318,690 due to PWSB from the City of Pawtucket would not be available to repay the Central Falls back franchise fees because \$660,111 are funds restricted for land acquisition, lead pipe replacement and sediment basin restoration, and \$340,842 is required to fund the restricted account balance. The remaining will be used to pay amounts due to Central Falls in accordance with Commission Order No. 16585. In addition, he explained that the \$451,110 balance in the deferred hydrant fees account is unavailable to repay the Central Falls because Commission Order No. 16585 provided that the past due hydrant fees were to be

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<sup>66</sup> PWSB Exhibit 2-A (Pre-filed Rebuttal Testimony of Pamela Marchand), pp. 1-7.

<sup>67</sup> Id. at 8-11.

collected over a ten-year period, with the amount collected being deposited into the restricted IFR account.<sup>68</sup>

As response to Ms. Crane's position that PWSB should not be allowed an increase in rates to cover the amounts past due to Central Falls, Mr. Woodcock noted that if no increase were allowed, PWSB would be forced to pay the principal amount due as well as interest charges to the City of Central Falls.<sup>69</sup>

In his rebuttal, Mr. Woodcock discussed cutbacks announced by OSRAM and took the opportunity to further reduce his rate year total sales volume to 226,067 HCF. To go along with reduced sales volumes, Mr. Woodcock also reduced expenses related to chemicals (reduction of \$18,351) and purchased power (reduction of \$66,489).<sup>70</sup>

Mr. Woodcock opposed the Division's proposed elimination of funding for three positions with the argument that the Division made no claim that any position was unnecessary. He also claimed that past vacancies were the result of lack of funding. Finally, he stated that PWSB was in the process of filling its vacancies and that all requested positions should be funded.<sup>71</sup>

In the area of rate case expense, Mr. Woodcock argued that the Division's proposal of allowing rate case expense based on the average of three previous dockets yielded an amount that was too low. He opined that a better estimate of rate case expense would be \$200,000 as opposed to the \$250,000 included in PWSB's original filing. He

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<sup>68</sup> PWSB Exhibit 2-B (Pre-filed Rebuttal Testimony of David Bebyn), pp. 1-2.

<sup>69</sup> PWSB Exhibit 2-C, pp. 3

<sup>70</sup> PWSB Exhibit 2-C, pp. 5, Sch. CPNW 1-1, pp. 1-2, Sch. CPNW 2.0, pp. 2

<sup>71</sup> PWSB Exhibit 2-C, pp. 6

adjusted his workpapers to the \$200,000 figure and offered to provide revised estimates as the docket progressed.<sup>72</sup>

With regard to inflation, Mr. Woodcock argued that a 5% inflation increase for power costs should be allowed. He supported this argument with data from the United States Energy Information Administration that indicated that electricity costs had increased by more than 8% from September 2000 to September 2001. In several other areas: gas, postage, vehicle maintenance, heating, phones and pagers, Mr. Woodcock argued that inflationary increases were appropriate.<sup>73</sup>

Mr. Woodcock included, as support for his rebuttal, schedules that supported annual lease expense in the amount of \$110,689.<sup>74</sup> This amount was higher than the Division's recommendation and also higher than the \$90,000 the PWSB included in its original filing.<sup>75</sup>

Mr. Earley's rebuttal focused on Ms. Crane's recommendation that PWSB continue to repay Central Falls based on the amount provided in the Settlement in Docket No. 3164. Mr. Earley calculated that an annual repayment of \$90,924 would take until the year 2027 to satisfy the judgment, with the ratepayers making interest payments of \$1.6 million for a total repayment of \$2.3 million on a \$753,768 judgment (including pre-judgment interest, attorney fees and costs). According to Mr. Earley, satisfying the judgment with four payments over one year would result in \$1.5 million less than the total payment recommended by Ms. Crane's proposal.<sup>76</sup>

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<sup>72</sup> Id., pg. 6

<sup>73</sup> Id., pp. 7-8

<sup>74</sup> Id., pp. 9

<sup>75</sup> PWSB Exhibit 1-C, Sch. CPNW 1.1, pp. 1

<sup>76</sup> PWSB Exhibit 2-C (Pre-filed Rebuttal Testimony of David Earley), pp. 1-2.

## **VI. Settlement**

On March 13, 2002,<sup>77</sup> PWSB, the Division and Central Falls filed a Settlement Agreement (“Settlement”)<sup>78</sup> with the Commission which, if approved, would increase annual rates by \$2,732,584, or by 29.9%. This Settlement, if approved, would allow the PWSB to collect a total of \$11,870,199 in annual revenue. The impact on a typical residential bill for a customer using 10,000 cubic feet of water per year would be an increase of \$65.60 or 40.96% per year, for a total annual bill of \$225.72.

Under the Settlement, the additional revenues would principally be utilized by the PWSB for the following purposes: (a) to service approximately \$27 million in taxable and tax-exempt bonds, the proceeds of which will be used to retire or refinance outstanding debt of the Pawtucket Public Buildings Authority, (b) to fund a water main infrastructure replacement program, (c) to employ four additional employees, and (d) to establish an Operating and Maintenance reserve that will be needed for treatment plant bonds.

The Settlement recognized that PWSB plans to make substantial capital improvements to its water system between 2002 and 2010, including the construction of a water treatment facility, a new storage tank and pump station. The total estimated cost for these projects is \$74,500,000. The Settlement noted that PWSB has chosen a DBO procurement method for the water treatment facility. As part of the Settlement, the parties agreed that the DBO method, in general, is an appropriate process and that the proposed capital improvement projects are reasonable.

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<sup>77</sup> On February 26, 2002, the parties filed a draft Settlement Agreement for review by the Commission. See Joint Exhibits 1, 2. The terms of the March 13, 2002 Settlement Agreement were the same as the earlier draft, with updated numbers and grammatical changes. See Joint Exhibit 3.

<sup>78</sup> A copy of the Settlement and related Revenue Requirement Summary is attached hereto as Appendix A and incorporated by reference herein.

The Settlement allowed PWSB to collect \$2,033,039 per year in pay-as-you-go funding, to be deposited in PWSB's IFR account, for the purpose of partially funding its water main renovation program. The parties noted that PWSB would be renovating 129 miles of water main by 2010 plus an additional 14 miles of Central Falls' water main should PWSB purchase Central Falls' distribution system. Including the Central Falls portion, the estimated total cost of the program is \$55,900,000. As part of the Settlement, the Division indicated that it had reviewed PWSB's water main renovation program and had determined that this level of pay-as-you-go funding is necessary to improve both the quality and appearance of the water. Furthermore, the Division had agreed that the funding amount appeared reasonable.

The Settlement allowed funding in rates for four additional employees, to include a Source Water Manager, a Water Supply Technician, a Cross Connection/Meter Repair Supervisor and a Junior Project Engineer. The parties agreed that the positions were necessary due to the upcoming capital improvements projects.

As part of the Settlement, the parties adjusted the revenue requirement to reflect anticipated utility cost savings. PWSB agreed to eliminate its request for an inflation adjustment for certain non-labor costs and to decrease its request for annual regulatory commission expenses from \$250,000 over a two-year period to \$89,937 annually. The parties did agree that because three of PWSB's larger industrial customers were anticipated to consume substantially less water than previously, PWSB's requested rate revenue of \$9,137,615 is not unreasonable. Additionally, under the Settlement, the parties agreed to allow PWSB to recover \$110,689 per year for capital lease costs and to establish an O&M Reserve Deposit to be based on 25% of pro forma operating and

maintenance expenses of \$6,521,141. The parties agreed to an annual revenue allowance of \$543,428, which would allow the O&M reserve account to be funded over a three-year period.

Finally, the Settlement incorporates a fully executed Agreement entered into between PWSB and the City of Central Falls (“Central Falls Settlement”), settling both the issue of termination of the 1938 franchise contract between the two entities and the payment of past miscalculated franchise fees. PWSB agreed to pay Central Falls past due franchise fees for the year 1995, 1996 and 1999 in the amount of \$554,618, funded from the restricted Central Falls Franchise Fee Account, within fifteen (15) days of the date of a written Commission Order.<sup>79</sup>

The parties agreed that the 1938 franchise agreement between PWSB and Central Falls would expire at 11:59 P.M. on May 1, 2002. With regard to payment of franchise fees for the years April 2000 to May 2001 and April 2001 to May 1, 2002, PWSB would file an accounting of the amount due with Central Falls by May 31, 2002. Central Falls would either accept or reject the Accounting by June 10, 2002. Assuming Central Falls accepted the Accounting, PWSB would pay to Central Falls the funds held within the Central Falls Franchise Fee Account and quarterly thereafter (not less than \$40,000 per payment) until the agreed upon Total Amount Due to Central Falls is paid in full, with the first payment made on or before July 1, 2002.

Rather than collecting an annual sum of \$90,924 from customers to pay past due franchise fees, the Settlement allows PWSB to collect \$357,371 in rates per year to pay

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<sup>79</sup> Order No. 16949 (issued March 14, 2002) satisfied the condition contained in the Settlement and in the Agreement between PWSB and Central Falls. Accordingly, on March 21, 2002, payment was made to and received by the City of Central Falls. Although not made part of the record, counsel for PWSB filed a copy of the check and signed receipt with the Commission on June 3, 2002.

the total amount due to Central Falls for the two twelve-month periods between April 2000 and May 2002.<sup>80</sup> When PWSB completes payments to Central Falls, it will hold any remaining balance in the Franchise Account and address it in its first subsequent rate filing. Additionally, PWSB and Central Falls agreed to work diligently toward an agreement between the two for the purchase of the Central Falls distribution system by PWSB.

## **VII. Hearing**

Following notice, public hearings for the purposes of taking public comment were conducted on November 7, 2001 at the Commission's Offices and on November 8, 2001 at Pawtucket City Hall.<sup>81</sup> Public hearings were also conducted on February 26, 2001 for the purposes of taking public comment and accepting a draft Settlement between the parties, and on March 13, 2002 for the purpose of reviewing the final Settlement between the parties<sup>82</sup> at the Commission's Offices, 89 Jefferson Boulevard, Warwick, Rhode Island. The following appearances were entered:

FOR PAWTUCKET WATER SUPPLY: BOARD	Francis X. Flaherty, Esq. Joseph A. Keough, Jr., Esq.
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<sup>80</sup> On May 22, 2002, PWSB advised Central Falls that it calculated the franchise fees at \$283,901 for 2001 and \$339,120.92 for 2002. Although not made part of the record, counsel for PWSB filed a copy of the letter with the Commission on May 24, 2002, requesting Central Falls to respond in accordance with the Settlement. On June 14, 2002, PWSB filed another letter with the Commission, dated June 12, 2002, wherein counsel for PWSB wrote to Central Falls indicating that, because PWSB had received no response from Central Falls, it would proceed forward with quarterly payments on the total of \$623,021.92, due to Central Falls.

<sup>81</sup> No members of the public appeared for comment on November 7, 2001 and only one member of the public testified on November 8, 2001. He favored the rate increase to the extent that its purpose was to assist PWSB in providing higher quality water to its customers. Tr. 11/8/01, pp. 9-16.

<sup>82</sup> Representatives of the City of Cumberland appeared to make public comment on February 26, 2002 and on March 13, 2002. Their main concern was a perception that Cumberland would be a more cost-effective place to construct the new water treatment plant and as such, Cumberland requested the Commission disallow PWSB's request for funds to hire the DBO vendor and construct the facility. Tr. 3/13/02, pp. 59-81. However, those issues are not currently before the Commission in this filing. In the event the dispute between the Pawtucket City Council and the Purchasing Board regarding the award of the DBO contracts reaches a deadlock and PWSB has to re-start the RFP process, the Commission urges Cumberland to be involved from the beginning of the process, rather than waiting until after the bids have been submitted.

FOR THE CITY OF CENTRAL FALLS: Matthew T. Oliverio, Esq.  
FOR THE DIVISION: Leo Wold, Esq.  
Special Assistant Attorney General  
FOR THE COMMISSION: Cynthia G. Wilson, Esq.  
Senior Legal Counsel

In addition to testifying in support of the Settlement, the parties provided testimony regarding the status of the dispute between the City of Pawtucket Purchasing Board and the Pawtucket City Council, the ongoing issues between the PWSB and Central Falls, specifics of the DBO Process, PWSB's collections practices, restricted accounts and hydrants issues.

**A. Dispute between the Purchasing Board and Pawtucket City Council**

Ms. Marchand testified that the City Council and the Purchasing Board had each retained legal counsel to bring the dispute over which entity has the authority to approve the DBO vendor contract for the new treatment plant and funding to Superior Court. She indicated that both sides were hoping for a quick resolution of the dispute within a few months. In the meantime, the construction process is at a standstill. However, she emphasized that the current rate request was filed to address PWSB's operating costs and not to address the vendor's costs of construction of the new plant, which will be covered in a subsequent rate filing.<sup>83</sup>

**B. Central Falls Issues**

Regarding the Central Falls Settlement, incorporated into the Settlement by reference, PWSB testified that at the time of the hearing, it had sufficient funds to satisfy the agreed-upon \$554,618 due to Central Falls for franchise fees for 1995, 1996 and 1999. PWSB represented that after the initial payment to Central Falls, the balance in the

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<sup>83</sup> Tr. 3/13/02, pp. 16-17, 22.

restricted franchise fee account would be approximately \$160,000, to be used toward the 2001 and 2002 franchise fees through termination of the franchise agreement on May 1, 2002. According to PWSB, the payments for 2001 and 2002 will be made quarterly until satisfied.<sup>84</sup>

Furthermore, the Central Falls Settlement included a dispute resolution process for calculation of franchise fees with built-in deadlines for both parties. According to Mr. Oliverio, this was to ensure a quick resolution to any future dispute over the calculation of franchise fees due to Central Falls. Under the Central Falls Settlement, in the event of an accounting dispute, PWSB would pay the undisputed portion while submitting the dispute to an arbitrator. The parties agreed that no interest would accrue during the dispute resolution time period.<sup>85</sup>

Regarding the issue of upgrades to the Central Falls system, necessary to allow the two systems to meet EPA requirements, the parties have agreed to begin discussions and negotiations regarding the potential purchase of the Central Falls system by PWSB.<sup>86</sup>

### **C. DBO Process**

PWSB, through Ms. Marchand and Ms. Gurchigian, requested the Commission approve the overall concept of going forward with the DBO plan for the new treatment plant. Ms. Marchand indicated that once a contract is signed with a vendor, PWSB will be going forward to obtain long term bonds and CWFA loans. However, ratepayer funds would not be necessary until further out in the process. Ms. Gurchigian testified that

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<sup>84</sup> PWSB indicated that it has enough money to make the first payment of 2001/2002 franchise fees, with the remainder to be collected through rates on a going forward basis. *Id.* at 45-51.

<sup>85</sup> *Id.* at 31-37. As part of the Central Falls Settlement, the parties settled disputed hydrant fees, sprinkler fees and water service to the Central Falls Community Center.

<sup>86</sup> *Id.* at 39-43. The parties also noted that in terminating the franchise agreement with Central Falls, the PWSB is not planning to disconnect the two systems immediately, but has kept the option open if Central Falls does not renovate its water system. However, PWSB indicated that no action would be taken prior to coming before the Commission and Division for approval. *Id.* at 39.

PWSB will be seeking funding of debt service in its next rate filing. She indicated that the way the CWFA financing structure works, the borrower enters into a loan agreement with CWFA and the loan agreement will be contingent upon PUC approval. She testified that once PWSB has a vendor in place, it will need to start drawing funds from CWFA, but there would be no immediate rate impact because payback would not begin immediately. She indicated that as negotiations proceed, CWFA could require further Commission action or approval, but at the time of the hearing, she believed the Commission approval of the DBO process and funding sources is sufficient.<sup>87</sup>

**D. Hydrants, New Positions, Restricted Accounts, and Collections**

In response to Pawtucket Mayor Doyle's concerns regarding the increase in public fire hydrant rates, PWSB explained that the Commission's previous Order had required PWSB to file rates in this docket to match the cost of service study.<sup>88</sup> The cost of service indicated that public hydrant rates should be \$400. However, as part of the settlement, the parties agreed to reduce the proposed rates to the settled rates of \$348. PWSB's counsel stated for the record that any further proposed reductions would put PWSB at risk of noncompliance with the previous Commission Order.<sup>89</sup> Any reduction of public hydrant rates would also have to be allocated among other rate classes.

Addressing the issue of new positions tied to the new treatment plant, Ms. Marchand testified that the source water manager and water supply technician positions will be filled when the vendor takes over the operations of the treatment plant. The cross

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<sup>87</sup> Id. at 53-57.

<sup>88</sup> See Order No. 16585 (issued April 30, 2001).

<sup>89</sup> Id. at 58, 82-84.

connection/meter repair supervisor and junior project engineer were in the process of being filled at the time of the hearing.<sup>90</sup>

In Order No. 15664, the Commission required PWSB to establish restricted accounts for a number of items. However, at the time of the hearing, PWSB's funds were still being held by the City of Pawtucket for the benefit of PWSB. PWSB receives no interest from funds on deposit. Ms. Marchand testified that PWSB is ready to set up accounts, separate from the Pawtucket City accounts, to maintain its restricted funds.<sup>91</sup> The setting up of the accounts would be handled by PWSB's finance administrator and the City of Pawtucket's treasurer.

In response to questions from the Commission, Mr. Bebyn addressed the issue of the aging of accounts and the effects of bankruptcies on collections. He indicated that PWSB's accounts receivables are carrying two large accounts from businesses that had declared bankruptcy. However, even netting out those accounts, at the time of the hearing, Mr. Bebyn estimated that the receivables greater than 120 days old total approximately \$250,000. He attributed the high totals to the following: bankruptcies that had not yet been discharged and thus the receivables are still considered collectible; hydrant fees due from Central Falls; and arrearages due from individual businesses. However, \$171,000 of the outstanding Central Falls charges have been resolved as part of the Central Falls Agreement. Ms. Marchand testified that during the six months prior to the hearing, PWSB had instituted an aggressive collection program that includes putting liens on many abandoned services and buildings in Pawtucket and Central Falls and finding homeowners for whom the Cities may not have the correct address. Additionally,

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<sup>90</sup> Id. at 90.

<sup>91</sup> Id. at 92-96.

PWSB has created a new position that will provide assistance in collections. Finally, PWSB does terminate service to customers when necessary.<sup>92</sup>

### **VIII. Commission Findings**

On March 14, 2002, the Commission reviewed the evidence presented at an open meeting and approved the Settlement between the PWSB, Central Falls and the Division, finding it to be just, reasonable and in the best interests of the ratepayers.

The Commission is very concerned, however, at the delay that has resulted from the prolonged dispute between the Pawtucket City Council and the Pawtucket Purchasing Board over the selection and authorization of funds for a DBO vendor for the new water treatment plant. The testimony in this docket, both pre-filed and at the hearing, has made it clear to the Commission that PWSB is in critical need of a new treatment facility, not only to meet higher federal drinking water standards, but to simply continue to provide safe and adequate supplies of drinking water to the residents on Pawtucket, Central Falls and Cumberland. The Commission urges all parties involved to put the well-being of the ratepayers ahead of their power dispute and authorize a vendor and funding to allow PWSB to proceed with its new water treatment plant.<sup>93</sup>

The Commission finds adequate information contained in the record to support the concept of the DBO process. Both PWSB and the Division have indicated support for the concept, believing that it will save ratepayers money by being more streamlined and

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<sup>92</sup> Id. at 100-05, 107-12.

<sup>93</sup> The Commission opened Docket No. 3452, an investigation into the status of the new water treatment facility. The Commission held a public hearing in Pawtucket and has been kept apprised of the court action. Despite a Superior Court decision regarding each party's scope of authority in the vendor selection process, as of December 16, 2002, the parties have not moved any closer to resolution of this issue. R.I.G.L. § 39-1-32(b) sets out the emergency powers of the Commission with regard to its ability to act in the event a utility is in imminent danger of ceasing to provide service to its customers. Caselaw relevant to this statute provides concurrent jurisdiction to the Division. The Commission sincerely hopes that the parties work out their differences and allow construction to begin before any emergency action is required by either the Commission or the Division.

efficient. However, despite this support, the Commission finds Ms. Crane's suggestion to retain the right to review the actual DBO contract to be sound.

The Commission is pleased that PWSB and Central Falls were able to settle two important issues that have caused a great deal of tension between the parties in the past, namely, the franchise fee agreement issue and the hydrant issue. The Commission encourages the parties to continue to work together in order to resolve issues as to the future of Central Falls' distribution system.

PWSB's collections practices are a concern to the Commission. At the hearing, PWSB indicated they are embarking on a more aggressive campaign. At the hearing, PWSB also advised the Commission that it would provide updated collections information. PWSB should provide the updated information within thirty (30) days of this written order.

At the hearing, the Commission expressed its concern that the restricted funds were not held in a segregated interest-bearing account. The Commission finds that PWSB should restrict the following separate accounts: Debt Service; Infrastructure Replacement; Capital Lease Payments; Operations and Maintenance Reserve; and Central Falls Franchise Fee Requirements. PWSB shall fund the Restricted Accounts on a monthly basis and shall keep the funds in a segregated, interest-bearing accounts (collectively, "Restricted Accounts"). PWSB shall report to the Commission and Division every four months regarding the monthly balance and activity of each Restricted Account, with the first report due on or before August 31, 2002, for the four-month period ending June 30, 2002 and the second report due on or before December 31, 2002 for the four-month period ending October 31, 2002.

PWSB shall continue to deposit hydrant fees received from the City of Pawtucket into the restricted IFR Account and shall continue to report on the collection of past hydrant fees due from the City of Pawtucket with each report on the restricted accounts.

Upon completion of franchise fee payments to the City of Central Falls as contemplated by the Settlement, any remaining funds from the annual restricted allocation of \$357,371 shall accrue to the IFR account unless PWSB receives Commission approval for another disposition of the funds.

Accordingly, it is

(17349) ORDERED:

1. The general rate increase filed by the PWSB on August 20, 2001 is hereby denied and dismissed.
2. The Settlement Agreement filed by the PWSB, the Division and Central Falls on March 13, 2002 is hereby approved. The rates contained in the Agreement are approved for consumption on and after April 1, 2002.
3. PWSB shall restrict the following accounts: Debt Service; Infrastructure Replacement; Capital Lease Payments; Operations and Maintenance Reserve; and Central Falls Franchise Fee Requirements.
4. PWSB shall fund its Restricted Accounts on a monthly basis.
5. All restricted funds shall be kept in segregated interest-bearing accounts with notice provided to the Commission upon the establishment thereof.
6. PWSB shall report to the Commission and Division every four months regarding the monthly balance and activity of each Restricted Account, with the first report due on or before August 31, 2002, for the four-month period ending June 30, 2002 and the

second report due on December 31, 2002 for the four-month period ending October 31, 2002.

7. PWSB shall continue to deposit hydrant fees received from the City of Pawtucket into the restricted IFR Account and shall continue to report on the collection of past hydrant fees due from the City of Pawtucket with each report on the restricted accounts.
8. Upon completion of franchise fee payments to the City of Central Falls as contemplated by the Settlement, any remaining funds from the annual restricted allocation of \$357,371 shall accrue to the IFR account unless PWSB receives Commission approval for another disposition of the funds.
9. PWSB shall comply with all other findings and instructions contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON MARCH 14, 2002. WRITTEN ORDER ISSUED JANUARY 23, 2003.

PUBLIC UTILITIES COMMISSION

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Elia Germani, Chairman

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Kate F. Racine, Commissioner

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Brenda K. Gaynor, Commissioner

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**PUBLIC UTILITIES COMMISSION**

**IN RE:           PAWTUCKET WATER SUPPLY BOARD )**  
**APPLICATION TO CHANGE RATE        )     DOCKET NO. 3378**  
**SCHEDULES                                    )**

**SETTLEMENT AGREEMENT**

The Pawtucket Water Supply Board (the “Board”), the Division of Public Utilities and Carriers (the “Division”) and the City of Central Falls (“Central Falls”)(collectively referred to herein as the “Parties”) have reached an agreement on the Board’s August 2001 rate application and jointly request the approval of this Settlement Agreement by the Public Utilities Commission (the “Commission”).

**I. RECITALS**

1. On or about August 20, 2001, the Board filed a rate application pursuant to Rules 2.5 and 2.9 of the Commission’s Rules of Practice and Procedure. The application sought to increase rates 40.8% over normalized test year revenues for the rate year commencing January 1, 2002 and ending December 31, 2002. The Division filed its Direct Testimony on or about December 17, 2001. On or about January 15, 2002, the Board filed its Rebuttal position whereby its original rate request was increased to 42.30%.

2. The Division conducted an investigation of the Board’s rate filing which included, but was not limited to the following: the retention of two expert consultants,

Andrea C. Crane and Thomas S. Catlin, the preparation of multiple sets of data requests, the review of the responses to the data requests, review of the Design/Build/Operate ("DBO") procurement process materials and a tour of the Board's facilities.

3. After due consideration of the testimony, exhibits and other documentation, the Parties agree to a comprehensive settlement which resolves all issues relating to the Board's rate application.

4. The Parties believe that this settlement, as a whole, constitutes a just and reasonable resolution of the issues in this proceeding, and jointly request its approval by the Commission.

## **II. TERMS OF SETTLEMENT**

### **Overview**

1. The parties agree that the Board has a total revenue requirement for the rate year of \$11,870,199 and that a rate increase of \$2,732,584 is appropriate. This represents an increase of 29.9% over the agreed to present revenues of \$9,137,615. The principal portion of the revenues will be utilized for the following purposes: (a) to service approximately \$27 million in taxable and tax-exempt bonds (the "Bonds"), the proceeds of which will be used to retire or refinance outstanding debt of the Pawtucket Public Building Authority ("PPBA"), (b) fund a water main infrastructure replacement ("IFR") program, (c) employ four additional employees, and (d) the establishment of an Operating and Maintenance ("O & M") reserve that will be needed for the treatment plant bonds. A Revenue Requirements Summary containing the Division's Direct position, the Board's Rebuttal position, the Division's recommended adjustments and the

Settlement position of the Parties is attached hereto and marked “**Exhibit A**”.

Settlement Schedules reflecting a further detailed breakdown of the test year and rate year expenses, the allocation of rate year expenses, and the impact of the proposed rates is attached hereto and marked “**Exhibit B**”. Exhibits A and B are restated and incorporated in this Settlement Agreement by reference.

**Capital Improvement Projects/Debt Service**

2. Pursuant to its rate application, the Board will be making substantial capital improvements to its water system between 2002 and 2010. These improvements include, but are not limited to, the construction of a water treatment facility, a 5 million-gallon storage tank and a 35 MGD pump station. The estimated cost for these projects is \$74,500,000.

3. As part of its capital improvement plan, the Board duly retained an expert consultant, Eisenhardt Group (“Eisenhardt”), to assist the Board in selecting the best method of designing and constructing the water treatment facility. On May 9, 2000, the Board voted to proceed with a Design/Build/Operate (“DBO”) procurement method.

4. The Division reviewed the Request for Proposal (“RFP”) that solicited Requests for Qualifications, which was ultimately used to select the Eisenhardt. The Division also reviewed the documentation that was presented to the Board recommending adoption of the DBO process, the RFP issued earlier in 2001 (along with its related addenda), proposals submitted by vendors in response to that RFP, follow-up requests by the Board for additional data from each vendor, and the preliminary analysis of Eisenhardt summarizing the proposals received by the Board.

5. Based upon the documentation that it has reviewed to date, the Division believes that the DBO procurement method, in general, is an appropriate process and that the proposed capital improvement projects, again, are generally reasonable.

6. The Parties agree that the Board should be permitted to collect in rates a total of \$2,279,204 (\$635,000 in yearly principal and \$1,644,204 in yearly interest payments) for the purpose of servicing the Bonds and \$100,000 per year in rates associated with Clean Water Finance Agency (“CWFA”) expenses. The latter expenses reflect monitoring and administrative fees associated with bonds issued by the CWFA.

7. After its Direct Testimony was filed, the Division became aware of a dispute that has developed regarding the selection of the DBO vendor. Since the portion of the requested rate increase relates to debt service that will be used to pay-off or refinance existing bonds of the PPBA in anticipation of project construction, the Division does not believe that the dispute, at this time, materially impacts the current rate request.

#### **Infrastructure Replacement Fund**

8. In conjunction with its capital improvements plan, the Board will also be commencing a program to renovate 129 miles of water main by 2010, along with an additional 14 miles of distribution main in Central Falls should the purchase of that city’s system be consummated. The water main renovation program will be funded from the Board’s IFR fund, as well as by the issuance of additional debt. Including the Central Falls portion, the total cost of the program is \$55,900,000.

9. The Division has reviewed the Board’s water main renovation program and believes its funding is necessary to improve water appearance and quality throughout

the Board's water system. Funding the program at the proposed amount appears reasonable.

10. The Parties, therefore, agree that the Board should be permitted to collect the sum of \$2,033,039 per year in rates for purpose of partially funding its water main replacement program. These funds shall be deposited in the Board's existing IFR account.

**Labor**

11. Pursuant to its rate application, the Board has requested funding in rates for four additional employees, a Source Water Manager, a Water Supply Technician, a Cross Connection/Meter Repair Supervisor and a Junior Project Engineer. The Division's initial opposition to funding three of these positions was not based upon the nature of the positions themselves but rather was based Board's history of failing to fill funded position vacancies.

12. The Board has represented to the Division that past vacancies were not filled because of inadequate funding, and assured the Division that future vacancies will be minimal due to the extensive need occasioned by the proposed capital improvement projects.

13. Based upon these representations and to ensure an effective and smooth implementation of the DBO procurement process, the Parties agree that the Board may receive funding in rates for the four requested positions. The agreed to revenue requirements contained in Exhibit B, "Settlement Sch. 1.0" reflect this adjustment.

### **Utility Costs**

14. The Division has reviewed the Board's rate request to increase certain utility costs by 5.0% annually in light of the Order 16916 in Docket 3402. Based upon a recently approved decrease in electric rates, the Division agrees that the Board should be able to achieve substantial utility cost savings in the rate year and beyond. The agreed to revenue requirements contained in Exhibit B, "Settlement Sch. 1.0" reflect this adjustment.

### **Inflation for Certain Non-Labor Costs**

15. The Division has reviewed the Board's rate request to increase certain non-labor costs by 3.0% annually. The Board has agreed to eliminate its inflation rate request for these costs. The agreed to revenue requirements contained in Exhibit B, "Settlement Sch. 1.0" reflect this adjustment.

### **Capital Lease Payments**

16. The Division and the Board initially differed concerning the degree to which the Board had properly documented the cost of purchasing five vehicles, one of which was a backhoe. The Rebuttal Testimony of Pamela Marchand, P.E. and Christopher P.N. Woodcock further documented the costs of two leases that were not reflected in the Board's rate application. The Parties, therefore, agree with the Board's rate request of \$110,689 per year for capital lease costs.

**Regulatory Commission Expenses**

17. In its rate application, the Board requested to recover \$250,000 in rates over a two-year period for Regulatory Commission expenses.

18. The Division initially believed that this expense item was excessive in light of the amount allocated for such expenses in past rate cases. The Division's concern remained present despite greater expenditures necessitated by the DBO procurement process. Accordingly, the Board reduced the proposed figure to \$200,000 in its Rebuttal testimony; however, that figure still exceeded historical amounts.

19. The Parties agree that the Board may collect \$89,937 annually in regulatory commission expenses in connection with the legal and consultant fees and expenses associated with this docket as well as the Commission's annual administrative fee required by statute.

**Rate Revenue**

20. The Division has reviewed the Board's test year water usage data. Three Board customers, Elizabeth Webbing, ERCO and OSRAM Sylvania, currently are or imminently will be consuming water on a substantially reduced basis due to partial or complete plant closures.

21. Consequently, the Parties agree that the Board's requested rate revenue (\$9,137,615) is not unreasonable in light of the reduced water consumption of ERCO and Elizabeth Webbing and the anticipated decreased consumption of Osram Sylvania during the rate year.

**Franchise Fees For 1995, 1996 and 1999 Due To Central Falls**

22. Central Falls and the Board have entered into a Settlement Agreement (the “Agreement”) that resolves the majority of all outstanding issues between the two parties in C.A. No. PC 98-5272 and C.A. No. PC 01-0227, currently pending in the Providence Superior Court. A copy of the Settlement Agreement is attached hereto and marked **“Exhibit C”**.

23. Pursuant to the Agreement, the Board shall pay Central Falls the sum of \$554,618 within fifteen (15) days of the date that the Commission issues a written Order in this docket in full satisfaction of the Orders dated April 26, 2001 and July 12, 2001 entered by the Providence County Superior Court in C.A. No. PC 98-5272. The amount of \$554,618 is composed of: (i) \$454,618 in past franchise fees due and owing Central Falls and (ii) \$100,000, which represents a compromised sum of all prejudgment and postjudgment interest, costs, and attorneys’ fees allegedly due and owing the City of Central Falls (*i.e.*, approximately \$321,900.91) less certain offsets allegedly due to the Board (*i.e.*, approximately \$155,939.41 in private hydrant fees, approximately \$2,121.40 in sprinkler fees, and \$18,138.95 for water service provided to the Central Falls Community Center).

24. The amount of \$554,618 will be funded from the restricted Central Falls Franchise Fee Account established by the Commission in Order 16585, Docket 3164 (the “Account”) to pay past and future franchise fee obligations of the Board.

25. In conjunction with the implementation of rates in this docket, the Board shall no longer collect the annual sum of \$90,924 from its customers that was ordered by

the Commission in Docket 3164 to pay past due franchise fees to Central Falls. All remaining funds in the Account after payment of the \$554,618 shall remain in the Account for the purpose of paying franchise fee obligations as provided in Paragraph No. 26 of this agreement.

**All Other Franchise Fees Alleged To Be Due Central Falls**

26. Pursuant to the Agreement, the Board and Central Falls have agreed that the contract dated December 14, 1938 (the "1938 Contract") will terminate effective May 1, 2002, 11:59 P.M. (the "Termination Date"). On or before May 31, 2002, 12:00 P.M., the Board shall facsimile to Central Falls (with copies to the Division and Commission) an accounting (the "Accounting") of all franchise fees due and owing Central Falls through the Termination Date pursuant to the formula established under the 1938 Contract (referred to herein as "Total Amount Due"). Central Falls will either accept or reject the Accounting and shall facsimile notice to the Board (with copies to the Commission and Division) of its acceptance or rejection thereof on or before June 10, 2002, 12:00 P.M. In the event Central Falls accepts the Accounting, the Board shall pay to Central Falls the funds held in the Account on or before July 1, 2002 and each quarter thereafter until the agreed upon Total Amount Due to Central Falls is paid in full. Each installment payment made pursuant to this paragraph shall not be less than \$40,000.00.

In paying the Total Amount Due, the Board shall pay all sums only from the Account.

27. Except as provided in Paragraph Nos. 23 and 26 of this agreement and the terms of Exhibit C, Central Falls waives all franchise fees, interest, costs, attorneys' fees and other expenses arising under or in connection the 1938 Contract.

28. In the event Central Falls rejects the Accounting, Central Falls and the Board first agree to work in good faith with each other and with the Division staff to resolve their differences regarding the Accounting. In the event Central Falls and the Board cannot mutually agree on the Total Amount Due: (a) the Board shall begin payment of the amount that it believes is due to Central Falls in accordance with the payment schedule described in Paragraph 26 hereof, (b) Central Falls and the Board agree to submit any disputed amount to binding arbitration, (c) Central Falls and the Board will select an arbitrator by mutual agreement; provided, however, that the arbitrator agrees to conclude hearings with respect to the disputed amount within ten (10) days of notice of his or her appointment and to render a binding award within thirty (30) days of the conclusion of the hearing. Such award shall be without interest or other costs beyond the disputed amount, (d) If the arbitrator makes an award to Central Falls with respect to some or all of the disputed amount, the amount of the award will be added to the undisputed sum due to Central Falls and paid in accordance with Paragraph 26 hereof, and (e) Central Falls and the Board agree to equally share the costs of arbitration, including the arbitrator's fee.

29. The Board will collect in rates \$357,371.00 per year in order to pay the Total Amount Due as provided in Paragraph No. 26 of this agreement. These amounts shall be deposited in the Account. This Account shall remain restricted as provided by Order 16585, Docket 3164 and/or by any further Order of the Commission.

30. Any balance remaining in the account after satisfaction of the Total Amount Due as provided in Paragraph No. 26 of this agreement shall be held in the Account and will be addressed in the Board's next rate filing.

**O & M Reserve Deposit**

31. The Parties agree that the Board's O & M Reserve Deposit may be funded based on 25% of pro forma operating and maintenance expenses. The parties agree to a revenue allowance of \$543,428, which will allow for funding of the reserve over a 3-year period.

**Restricted Accounts**

32. The Parties agree that all funds collected in rates for the purpose of funding debt service, the IFR program, capital lease payments, and the O & M Reserve Deposit shall be deposited and maintained in each of the respective items' appropriately restricted accounts or, in the case of the O & M Reserve Deposit, a newly created restricted account.

**Cost of Service Study**

33. The Parties agree that the cost of service study filed by the Board in this docket comports with the requirements of Order 16714, Docket No. 3193. The cost

study is based on the base-extra capacity methodology and reflects a fire flow requirement of 6,000 gallons per minute with a duration of six hours.

34. The Parties further agree that the cost study filed as part of the Board's rate application in this docket should be approved and adopted subject to the following Division modifications: (a) allocating transmission and distribution ("T & D") department payroll related costs to functional categories based on time spent by T & D on various activities; (b) revising distribution related cost calculations excluded from the costs allocated to wholesale service; (c) adjusting the allocation of meter related costs to recognize that private fire services are metered; and (d) separately identifying and allocating certain miscellaneous revenues. These modifications are reflected in Exhibit B Settlement Schedules.

#### **Rate Design**

35. The Division and the Board agree that rates will be adjusted to reflect the results of the cost of service study subject to the limitations that those current service charges and private fire protection rates, which are above the cost of service, will not be reduced. These modifications are reflected in Exhibit B Settlement Schedules.

#### **Contemplated Purchase of Central Falls Water System**

36. Central Falls and the Board acknowledge that they have contemplated sale and purchase of the Central Falls' water system; however, they are still apart on price. The Parties will exercise diligent efforts to determine whether the aforesaid purchase and sale of the system is practicable in light of the current divergent positions of Central Falls and the Board. The Board and Central Falls will provide the Commission with a joint

status report within 120 days of the date hereof as to the progress they have made in resolving their respective positions.

*Notices*

37. The Accounting and notice of its acceptance or rejection pursuant to Paragraph No. 26 of this agreement shall be forwarded by facsimile and by regular mail, postage prepaid, as follows:

Commission: Luly Massaro, Commission Clerk  
Public Utilities Commission  
89 Jefferson Blvd.  
Warwick, RI 02888  
Fax: 401-941-1691

Division: John Bell, Rate Analyst  
Division of Public Utilities and Carriers  
89 Jefferson Blvd.  
Warwick, RI 02888  
Fax: 401-941-9248

The Board: Joseph A. Keough, Jr., Esq.  
Keough & Sweeney  
100 Armistice Boulevard  
Pawtucket, RI 02860  
Fax: 401-724-9909

Francis X. Flaherty, Esq.  
20 Centerville Rd.  
Warwick, RI 02886  
Fax: 401-737- 0735

Central Falls: Matthew T. Oliverio, Esq.  
Assistant City Solicitor  
City of Central Falls  
580 Broad Street  
Central Falls, RI 02863  
Fax: 401-861-2260

Lee M. Matthews  
Mayor

City of Central Falls  
580 Broad Street  
Central Falls, RI 02863  
Fax: 401-727-7476

### **III. EFFECT OF SETTLEMENT**

1. This agreement is the result of a negotiated settlement. The discussions which have produced this agreement have been conducted with the explicit understanding that all offers of settlement and discussion relating thereto are and shall be privileged, shall be without prejudice to the position of any party or participant presenting such offer or participating in any such discussion, and are not to be used in any manner in connection with these or other proceedings.

2. The agreement by any party to the terms of this agreement shall not be construed as an agreement as to any matter of fact or law beyond the terms thereof. By entering into this agreement, matters or issues other than those explicitly identified in this agreement have not been settled upon or conceded by any party to this agreement, and nothing in this agreement shall preclude any party from taking any position in any future proceeding regarding such unsettled matters.

3. In the event that the Commission rejects this agreement, or modifies this agreement or any provision therein, then this agreement shall be deemed withdrawn and shall be null and void in all respects, unless the parties agree to such modifications or changes.

. IN WITNESS WHEREOF, the Parties agree that this agreement is reasonable, in the public interest and in accordance with law and regulatory policy, and have caused this

agreement to be executed by their respective representatives, each being authorized to do so. Dated at Warwick this 6<sup>th</sup> day of March, 2002.

PAWTUCKET WATER SUPPLY  
BOARD  
By its attorneys,

DIVISION OF PUBLIC UTILITIES  
AND CARRIERS  
By its attorneys,

FLAHERTY, ORTON & FLAHERTY

SHELDON WHITEHOUSE  
ATTORNEY GENERAL

---

Francis X. Flaherty, Esq., # 1638  
20 Centerville Road  
Warwick, RI 02886  
401-737-8700

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Leo J. Wold, # 3613  
Special Assistant Attorney General  
150 South Main Street  
401-274-4400, ext. 2218

KEOUGH & SWEENEY

---

Joseph A. Keough, Jr., Esq., # 4925  
100 Armistice Boulevard  
Pawtucket, RI 02860  
401-724-3600

CITY OF CENTRAL FALLS  
By its attorney,

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Matthew T. Oliverio, Esq. # 3372  
Assistant City Solicitor  
City of Central Falls  
Central Falls, RI 02863  
401-727-4290

---

Lee M. Matthews  
Mayor  
City of Central Falls  
580 Broad Street  
Central Falls, RI 02863

"EXHIBIT A"

**Pawtucket Water  
Revenue Requirements Settlement  
Docket 3378**

<u>Description</u>	<u>Division's Direct Position</u>	<u>Pawtucket's Rebuttal Position</u>	<u>Difference Div Direct vs. PWSB Reb. Col (2) - (1)</u>	<u>Division's Settlement Adjustments</u>	<u>Settled Position Col (1) + (4)</u>
	(1)	(2)	(3)	(4)	(5)
Present Rate Revenue	\$ 9,656,920	\$ 9,137,615	\$ (519,305)	(519,305)	\$ 9,137,615
<b><u>Operating Expenses</u></b>					
Administrative	1,881,165	2,034,460	153,295	106,957	1,988,122
Customer Service	278,464	277,280	(1,184)	(1,456)	277,008
Sources of Supply	688,552	692,530	3,978	(7,932)	680,620
Pumping	718,643	700,136	(18,507)	(158,895)	559,748
Purification	1,236,914	1,214,881	(22,033)	(76,917)	1,159,997
T&D	1,091,063	1,093,187	2,124	-	1,091,063
Engineering	354,565	355,099	534	-	354,565
Meter Department	410,018	410,363	345	-	410,018
<b><u>Capital Costs</u></b>					
CWFA	100,000	100,000	-	-	100,000
Bond Principal	635,000	635,000	-	-	635,000
Bond Interest	1,644,204	1,644,204	-	-	1,644,204
Lease Payments	74,784	110,689	35,905	35,905	110,689
WRB Loan Repayment	-	104,556	104,556	104,556	104,556
Capitalized Labor	-	-	-	-	-
Capitalized M&S	-	-	-	-	-
IFR	2,033,039	2,033,039	-	-	2,033,039
CF Franchise Fees	90,924	837,893	746,969	(90,924)	-
Lead Pipe Replacement	2,720	2,720	-	-	2,720
O&M Reserve Deposit	554,949	564,828	9,879	(11,521)	543,428
R&R Reserve Deposit	-	-	-	-	-
<b>Total Expenses</b>	<b>\$ 11,795,004</b>	<b>\$ 12,810,865</b>	<b>\$ 1,015,861</b>	<b>\$ (100,227)</b>	<b>11,694,777</b>
Operating Reserve	176,925	192,163	15,238	(1,503)	175,422
Revenue Requirement	\$ 11,971,929	\$ 13,003,028	\$ 1,031,099	\$ (101,730)	11,870,199
Required Rate Increase	\$ 2,315,009	\$ 3,865,413	\$ 1,550,404	\$ 417,575	2,732,584
Percentage Increase	23.97%	42.30%			29.90%

**TEST YEAR & RATE YEAR EXPENSES**

<u>Expense Item</u>	<u>Test Year CY 2000</u>	<u>Summary of Adjustments</u>	<u>Rate Year CY 2002</u>
<b>ADMINISTRATION</b>			
Admin Salaries	\$293,359	\$78,629	\$371,988
Admin Overtime	\$1,761	\$60	\$1,821
Police Payroll	\$13,526	\$824	\$14,350
Out of Class Pay	\$574	\$35	\$609
Admin. Longevity	\$12,116	\$313	\$12,429
Admin. Vacation & Sick Pay	\$556	-\$556	\$0
FICA Payroll Tax	\$19,739	\$4,133	\$23,872
Medicare Payroll Tax	\$4,848	\$735	\$5,583
Health Benefits	\$385,157	\$96,361	\$481,518
Dental Benefits	\$34,864	\$5,263	\$40,127
MERS Contribution	\$0	\$0	\$0
Education & Training	\$3,206	\$6,794	\$10,000
Outside Services	\$122,686	-\$38,263	\$84,423
Pagers/Cell Phones	\$7,984	-\$2,860	\$5,124
Maint. of Gen'l Plant	\$6,716	\$409	\$7,125
Telephone	\$11,066	\$0	\$11,066
Heating	\$18,363	\$0	\$18,363
Other Utilities	\$1,587	\$0	\$1,587
Workers Compensation	\$125,216	\$0	\$125,216
Property Insurance	\$69,329	\$0	\$69,329
Advertising/Classified	\$5,521	\$336	\$5,857
Printing	\$16,054	\$978	\$17,032
Dues & Subscriptions	\$13,626	\$830	\$14,456
Office Supplies/Other	\$31,960	\$1,946	\$33,906
Postage	\$867	\$0	\$867
Housekeeping Supplies	\$6,080	\$370	\$6,450
Municipal Charges	\$124,632	\$0	\$124,632
Capitalized Materials	\$4,309	\$262	\$4,571
Materials & Supplies	\$1,639	\$100	\$1,739
Bad Debt Expense	\$0	\$0	\$0
Damage Claims	\$8,122	-\$4,313	\$3,809
Depreciation	\$0	\$0	\$0
Franchise Requirements	\$347,712	\$9,659	\$357,371
Regulatory Comm. Expense	\$122,201	-\$32,264	\$89,937
Other Miscellaneous	\$117,339	-\$74,375	\$42,964
Subtotal - Admin	\$1,932,715	\$55,406	\$1,988,121
<b>CUSTOMER SERVICE</b>			
Payroll	\$172,495	\$23,825	\$196,320
Overtime	\$819	\$28	\$847
Longevity	\$12,598	-\$3,668	\$8,930
Vacation & Sick Time	\$20,845	-\$20,845	\$0
FICA	\$12,249	\$529	\$12,778
Medicare	\$2,864	\$124	\$2,988
MERS Contribution	\$0	\$0	\$0
Education & Training	\$45	\$2,955	\$3,000
Outside Services	\$9,347	-\$9,347	\$0
Vehicle Maint - Fuel & Misc.	\$1,191	\$0	\$1,191
Telephone	\$1,459	\$0	\$1,459
Other Utilities	\$0	\$0	\$0
Printing	\$9,061	\$10,439	\$19,500
Dues & Subscriptions	\$0	\$0	\$0
Postage	\$5,407	\$20,993	\$26,400

**TEST YEAR & RATE YEAR EXPENSES**

<u>Expense Item</u>	<u>Test Year CY 2000</u>	<u>Summary of Adjustments</u>	<u>Rate Year CY 2002</u>
Miscellaneous Supplies	\$21,078	-\$20,995	\$83
Other Misc.	<u>\$13,311</u>	<u>-\$9,798</u>	<u>\$3,513</u>
Subtotal - Customer Accts	\$282,769	-\$5,761	\$277,008
<b>SOURCE OF SUPPLY</b>			
Salaries	\$0	\$61,753	\$61,753
Overtime	\$0	\$3,572	\$3,572
Longevity	\$0	\$1,714	\$1,714
Vacation & Sick Time	\$0	\$0	\$0
FICA	\$0	\$4,156	\$4,156
Medicare Payroll Tax	\$0	\$972	\$972
MERS Contribution	\$0	\$0	\$0
Security Vehicles	\$0	\$0	\$0
Vehicle Maint - Fuel & Misc.	\$47,560	\$0	\$47,560
Maint of Structures	\$303	\$18	\$321
Maint - Collection Reservoirs	\$8,099	\$42,401	\$50,500
Maint - Wells	\$1,284	\$78	\$1,362
Maint - Misc. Plant	\$292	\$18	\$310
Maint - Wells & Springs	\$0	\$0	\$0
Light & Power	\$22,868	-\$3,544	\$19,324
Other Utilities	\$0	\$0	\$0
Depreciation	\$0	\$0	\$0
Property Tax	\$435,785	\$53,107	\$488,893
Miscellaneous	<u>\$172</u>	<u>\$10</u>	<u>\$182</u>
Subtotal - Supply	\$516,363	\$164,257	\$680,620
<b>PUMPING</b>			
Salaries	\$0	\$92,629	\$92,629
Overtime	\$0	\$5,358	\$5,358
Longevity	\$0	\$2,571	\$2,571
Vacation & Sick Time	\$0	\$0	\$0
FICA	\$0	\$6,235	\$6,235
Medicare Payroll Tax	\$0	\$1,458	\$1,458
MERS Contribution	\$0	\$0	\$0
Maint - Structures & Improvrmr	\$1,372	\$84	\$1,456
Maint - Water Treatment Plant	\$0	\$0	\$0
Maint - Equipment	\$3,342	\$20,000	\$23,342
Plant Maintenance	\$0	\$0	\$0
Telephone	\$2,002	\$0	\$2,002
Heating	\$1,550	\$0	\$1,550
Purchased Power	\$488,255	-\$73,468	\$414,787
Depreciation	\$0	\$0	\$0
Property Tax	\$6,969	\$850	\$7,818
Miscellaneous	<u>\$511</u>	<u>\$31</u>	<u>\$542</u>
Subtotal - Pumping	\$504,001	\$55,747	\$559,748
<b>PURIFICATION</b>			
Salaries	\$541,727	-\$78,581	\$463,146
Overtime	\$34,536	-\$7,746	\$26,790
Out of Class Pay	\$1,223	\$0	\$1,223
Beeper Stipend	\$2,690	\$0	\$2,690
Longevity	\$18,568	-\$5,712	\$12,856
Vacation & Sick Time	\$0	\$0	\$0
FICA	\$35,849	-\$4,676	\$31,173
Medicare	\$8,384	-\$1,094	\$7,290
MERS Contribution	\$0	\$0	\$0

**TEST YEAR & RATE YEAR EXPENSES**

<u>Expense Item</u>	<u>Test Year CY 2000</u>	<u>Summary of Adjustments</u>	<u>Rate Year CY 2002</u>
Education & Training	\$5,224	-\$1,224	\$4,000
Lab Testing	\$36,908	\$2,248	\$39,156
Vehicle Maint - Tires	\$0	\$0	\$0
Vehicle Maint - Batteries	\$112	\$7	\$119
Vehicle Maint - Outside Parts	\$1,572	\$96	\$1,668
Vehicle Maint - Fuel & Misc	\$2,047	\$0	\$2,047
Maint - Structures	\$1,648	\$0	\$1,648
Maint - Distrib. Reservoirs	\$59,451	\$3,621	\$63,072
Maint - Wells	\$0	\$0	\$0
Maint - Equipment	\$31,729	\$1,932	\$33,661
Maint - Facilities	\$0	\$0	\$0
Telephone	\$6,446	\$0	\$6,446
Light & Power	\$173,235	-\$30,645	\$142,590
Heating	\$19,821	\$0	\$19,821
Other Utilities	\$0	\$0	\$0
Advertising/Classified	\$327	\$20	\$347
Dues & Subscriptions	\$242	\$15	\$257
Office Supplies	\$4,550	\$277	\$4,827
Postage	\$512	\$0	\$512
Materials & Supplies	\$5,487	\$334	\$5,821
Chemicals	\$223,307	-\$9,218	\$214,089
Depreciation	\$0	\$0	\$0
Property Tax	\$32,868	\$3,994	\$36,862
Other Miscellaneous	<u>\$35,712</u>	<u>\$2,175</u>	<u>\$37,887</u>
Subtotal - Purification	\$1,284,175	-\$124,178	\$1,159,997
<b>TRANSMISSION &amp; DISTRIBUTION</b>			
Payroll	\$501,884	\$172,913	\$674,797
Overtime	\$77,875	\$2,671	\$80,546
Out of Class Pay	\$2,175	\$0	\$2,175
Beeper Stipend	\$2,235	\$0	\$2,235
Longevity	\$42,244	\$9,144	\$51,388
Vacation & Sick Time	\$12,169	-\$12,169	\$0
FICA	\$41,378	\$8,639	\$50,017
Medicare	\$9,677	\$2,021	\$11,698
MERS Contribution	\$0	\$0	\$0
Education & Training	\$765	\$1,235	\$2,000
Vehicle Maint - Inspection	\$24	\$1	\$25
Vehicle Maint - Tires	\$3,076	\$187	\$3,263
Vehicle Maint - Batteries	\$496	\$30	\$526
Vehicle Maint - Outside Parts	\$19,652	\$1,197	\$20,849
Vehicle Maint - Fuel & Misc	\$18,590	\$0	\$18,590
Maint - Misc Plant	\$1,821	\$111	\$1,932
Maint - T&D Mains	\$14,371	\$875	\$15,246
Maint - Services	\$28,558	\$1,739	\$30,297
Maint - Hydrants	\$5,829	\$355	\$6,184
Telephone	\$2,135	\$0	\$2,135
Advertising & Classified	\$1,539	\$94	\$1,633
Capitalized Materials	\$1,947	\$119	\$2,066
Misc. Tools & Supplies/Inventc	\$19,609	\$0	\$19,609
Road Surface Restoration	\$90,634	-\$90,634	\$0
Other Misc Supplies	\$3,349	\$204	\$3,553
Depreciation	\$0	\$0	\$0
Property Tax	\$73,088	\$8,916	\$82,004

**TEST YEAR & RATE YEAR EXPENSES**

<u>Expense Item</u>	<u>Test Year CY 2000</u>	<u>Summary of Adjustments</u>	<u>Rate Year CY 2002</u>
Other Miscellaneous	<u>\$7,818</u>	<u>\$476</u>	<u>\$8,294</u>
Subtotal - T&D	\$982,938	\$108,125	\$1,091,063
<b>ENGINEERING</b>			
Payroll	\$184,978	\$86,562	\$271,540
Overtime	\$781	\$27	\$808
Out of Class Pay	\$1,409	\$0	\$1,409
Longevity	\$17,013	\$1,232	\$18,245
Vacation & Sick Time	\$14,129	-\$14,129	\$0
FICA	\$14,295	\$3,672	\$17,967
Medicare	\$3,343	\$859	\$4,202
MERS Contribution	\$0	\$0	\$0
Education & Training	\$2,133	\$1,467	\$3,600
Outside Services	\$13,005	-\$13,005	\$0
Vehicle Maint - Tires	\$0	\$0	\$0
Vehicle Maint - Batteries	\$0	\$0	\$0
Vehicle Maint - Outside Parts	\$156	\$10	\$166
Vehicle Maint - Fuel & Misc	\$1,653	\$0	\$1,653
Maint - Misc Equipment	\$0	\$0	\$0
Telephone	\$3,558	\$0	\$3,558
Dues & Subscriptions	\$257	\$16	\$273
Office Supplies & Other	\$7,317	\$11,823	\$19,140
Capitalized Materials	\$1,732	\$105	\$1,837
Other Misc. Expense	\$0	\$0	\$0
Miscellaneous Expense	<u>\$9,585</u>	<u>\$584</u>	<u>\$10,169</u>
Subtotal - Engineering	\$275,344	\$79,221	\$354,565
<b>METER DEPARTMENT</b>			
Payroll	\$236,931	\$86,096	\$323,027
Overtime	\$2,473	\$85	\$2,558
Out of Class Pay	\$25	\$0	\$25
Beeper Stipend	\$520	\$0	\$520
Longevity	\$16,338	-\$2,017	\$14,321
Vacation & Sick Time	\$10,581	-\$10,581	\$0
FICA	\$17,373	\$3,701	\$21,074
Medicare	\$4,063	\$866	\$4,929
MERS Contribution	\$0	\$0	\$0
Education & Training	\$180	\$1,620	\$1,800
Vehicle Maint - Batteries	\$68	\$4	\$72
Vehicle Maint - Outside Parts	\$400	\$24	\$424
Vehicle Maint - Fuel & Misc	\$1,169	\$0	\$1,169
Maint - Misc Equipment	\$1,714	\$104	\$1,818
Maint - Meters	\$7,426	\$452	\$7,878
Telephone	\$1,696	\$0	\$1,696
Advertising & Classified	\$176	\$11	\$187
Travel	\$735	\$0	\$735
Supplies	\$475	\$29	\$504
Postage	\$103	\$0	\$103
Capitalized Materials	\$1,671	\$102	\$1,773
Merchandising & Jobbing	\$18,687	\$1,138	\$19,825
Meter Maint. Expense	\$3,548	\$216	\$3,764
Meter Reading Expense	\$0	\$0	\$0
Other Misc. Expense	<u>\$1,712</u>	<u>\$104</u>	<u>\$1,816</u>
Subtotal - Meter Department	\$328,064	\$81,954	\$410,018

**TEST YEAR & RATE YEAR EXPENSES**

<u>Expense Item</u>	<u>Test Year CY 2000</u>	<u>Summary of Adjustments</u>	<u>Rate Year CY 2002</u>
<b>CAPITAL EXPENSE</b>			
Miscellaneous	\$0	\$0	\$0
CWFA Expense	\$0	\$100,000	\$100,000
Bond Principal	\$278,828	\$356,172	\$635,000
Bond Interest	\$133,953	\$1,510,251	\$1,644,204
Lease Payments	\$1,889,577	-\$1,778,888	\$110,689
Repayment WRB Loan	\$104,556	\$0	\$104,556
Capitalized Labor	\$121,372	-\$121,372	\$0
Capitalized Material & Supply	\$143,077	-\$143,077	\$0
IFR	\$150,000	\$1,883,039	\$2,033,039
WRB - Settlement	\$0	\$0	\$0
Cent Falls Franch. Fee Settlem	\$0	\$0	\$0
Lead Pipe Replacement	\$2,720	\$0	\$2,720
T&D Replacement	\$0	\$0	\$0
Rate Stabiliz/Capital Program	\$0	\$0	\$0
O&M Reserve Deposit	\$0	\$543,428	\$543,428
R & R Reserve Deposit	\$0	\$0	\$0
Other	\$0	\$0	\$0
Subtotal - Capital	<u>\$2,824,083</u>	<u>\$2,349,553</u>	<u>\$5,173,636</u>
<b>TOTAL EXPENSES</b>	<b>\$8,930,452</b>	<b>\$2,764,325</b>	<b>\$11,694,777</b>
<b>PLUS: OPERATING INCOME</b>	<b>\$0</b>	<b>\$175,422</b>	<b>\$175,422</b>
<b>LESS: MISC. REVENUES</b>	<b>-\$293,326</b>	<b>\$7,678</b>	<b>-\$285,648</b>
<b>REQUIRED FROM RATES</b>	<b>\$8,637,126</b>	<b>\$2,947,425</b>	<b>\$11,584,551</b>

**ALLOCATION OF RATE YEAR EXPENSES TO FUNCTIONAL CATEGORIES**

<u>EXPENSE ITEM</u>	<u>PRO FORMA</u> <u>EXPENSE</u>	<u>ALLOC.</u> <u>SYMBOL (1)</u>	<u>BASE</u>	<u>MAX. DAY</u>	<u>PEAK HOUR</u>	<u>METERING</u>	<u>BILLING</u>	<u>DIRECT FIRE</u>
<b>ADMINISTRATION</b>								
Admin Salaries	\$371,988	L	\$122,787	\$71,984	\$22,407	\$82,344	\$33,126	\$39,340
Admin Overtime	\$1,821	L	\$601	\$352	\$110	\$403	\$162	\$193
Police Payroll	\$14,350	L	\$4,737	\$2,777	\$864	\$3,176	\$1,278	\$1,518
Out of Class Pay	\$609	L	\$201	\$118	\$37	\$135	\$54	\$64
Admin. Longevity	\$12,429	L	\$4,103	\$2,405	\$749	\$2,751	\$1,107	\$1,314
Admin. Vacation & Sick Pay	\$0	L	\$0	\$0	\$0	\$0	\$0	\$0
FICA Payroll Tax	\$23,872	L	\$7,880	\$4,619	\$1,438	\$5,284	\$2,126	\$2,525
Medicare Payroll Tax	\$5,583	L	\$1,843	\$1,080	\$336	\$1,236	\$497	\$590
Health Benefits	\$481,518	L	\$158,941	\$93,179	\$29,005	\$106,590	\$42,880	\$50,924
Dental Benefits	\$40,127	L	\$13,245	\$7,765	\$2,417	\$8,883	\$3,573	\$4,244
MERS Contribution	\$0	L	\$0	\$0	\$0	\$0	\$0	\$0
Education & Training	\$10,000	E	\$5,309	\$1,511	\$398	\$1,461	\$612	\$708
Outside Services	\$84,423	E	\$44,823	\$12,759	\$3,363	\$12,331	\$5,167	\$5,980
Pagers/Cell Phones	\$5,124	E	\$2,721	\$774	\$204	\$748	\$314	\$363
Maint. of Gen'l Plant	\$7,125	E	\$3,783	\$1,077	\$284	\$1,041	\$436	\$505
Telephone	\$11,066	E	\$5,875	\$1,672	\$441	\$1,616	\$677	\$784
Heating	\$18,363	E	\$9,750	\$2,775	\$732	\$2,682	\$1,124	\$1,301
Other Utilities	\$1,587	E	\$842	\$240	\$63	\$232	\$97	\$112
Workers Compensation	\$125,216	L	\$41,332	\$24,231	\$7,543	\$27,718	\$11,151	\$13,243
Property Insurance	\$69,329	P	\$36,568	\$20,284	\$9,069	\$2,725	\$80	\$602
Advertising/Classified	\$5,857	E	\$3,110	\$885	\$233	\$856	\$358	\$415
Printing	\$17,032	E	\$9,043	\$2,574	\$679	\$2,488	\$1,042	\$1,206
Dues & Subscriptions	\$14,456	E	\$7,675	\$2,185	\$576	\$2,111	\$885	\$1,024
Office Supplies/Other	\$33,906	E	\$18,002	\$5,124	\$1,351	\$4,953	\$2,075	\$2,402
Postage	\$867	E	\$460	\$131	\$35	\$127	\$53	\$61
Housekeeping Supplies	\$6,450	E	\$3,425	\$975	\$257	\$942	\$395	\$457
Municipal Charges	\$124,632	E	\$66,172	\$18,836	\$4,965	\$18,204	\$7,627	\$8,827
Capitalized Materials	\$4,571	E	\$2,427	\$691	\$182	\$668	\$280	\$324
Materials & Supplies	\$1,739	E	\$923	\$263	\$69	\$254	\$106	\$123
Bad Debt Expense	\$0	E	\$0	\$0	\$0	\$0	\$0	\$0
Damage Claims	\$3,809	E	\$2,022	\$576	\$152	\$556	\$233	\$270
Depreciation	\$0	E	\$0	\$0	\$0	\$0	\$0	\$0
Franchise Requirements	\$357,371	C	\$265,551	\$64,572	\$27,249	\$0	\$0	\$0
Regulatory Comm. Expense	\$89,937	E	\$47,751	\$13,592	\$3,583	\$13,137	\$5,504	\$6,370
Other Miscellaneous	\$42,964	E	\$22,811	\$6,493	\$1,712	\$6,276	\$2,629	\$3,043
Subtotal - Admin	\$1,988,121		\$914,711	\$366,500	\$120,502	\$311,927	\$125,649	\$148,831
<b>CUSTOMER SERVICE</b>								
Payroll	\$196,320	B	\$0	\$0	\$0	\$0	\$196,320	\$0
Overtime	\$847	B	\$0	\$0	\$0	\$0	\$847	\$0
Longevity	\$8,930	B	\$0	\$0	\$0	\$0	\$8,930	\$0
Vacation & Sick Time	\$0	B	\$0	\$0	\$0	\$0	\$0	\$0
FICA	\$12,778	B	\$0	\$0	\$0	\$0	\$12,778	\$0
Medicare	\$2,988	B	\$0	\$0	\$0	\$0	\$2,988	\$0
MERS Contribution	\$0	B	\$0	\$0	\$0	\$0	\$0	\$0
Education & Training	\$3,000	B	\$0	\$0	\$0	\$0	\$3,000	\$0
Outside Services	\$0	B	\$0	\$0	\$0	\$0	\$0	\$0
Vehicle Maint - Fuel & Misc.	\$1,191	B	\$0	\$0	\$0	\$0	\$1,191	\$0
Telephone	\$1,459	B	\$0	\$0	\$0	\$0	\$1,459	\$0
Other Utilities	\$0	B	\$0	\$0	\$0	\$0	\$0	\$0
Printing	\$19,500	B	\$0	\$0	\$0	\$0	\$19,500	\$0
Dues & Subscriptions	\$0	B	\$0	\$0	\$0	\$0	\$0	\$0
Postage	\$26,400	B	\$0	\$0	\$0	\$0	\$26,400	\$0
Miscellaneous Supplies	\$83	B	\$0	\$0	\$0	\$0	\$83	\$0
Other Misc.	\$3,513	B	\$0	\$0	\$0	\$0	\$3,513	\$0
Subtotal - Customer Accts	\$277,008		\$0	\$0	\$0	\$0	\$277,008	\$0

**ALLOCATION OF RATE YEAR EXPENSES TO FUNCTIONAL CATEGORIES**

<u>EXPENSE ITEM</u>	<u>PRO FORMA</u> <u>EXPENSE</u>	<u>ALLOC.</u> <u>SYMBOL (1)</u>	<u>BASE</u>	<u>MAX. DAY</u>	<u>PEAK HOUR</u>	<u>METERING</u>	<u>BILLING</u>	<u>DIRECT FIRE</u>
<b>SOURCE OF SUPPLY</b>								
Salaries	\$61,753	A	\$61,753	\$0	\$0	\$0	\$0	\$0
Overtime	\$3,572	A	\$3,572	\$0	\$0	\$0	\$0	\$0
Longevity	\$1,714	A	\$1,714	\$0	\$0	\$0	\$0	\$0
Vacation & Sick Time	\$0	A	\$0	\$0	\$0	\$0	\$0	\$0
FICA	\$4,156	A	\$4,156	\$0	\$0	\$0	\$0	\$0
Medicare Payroll Tax	\$972	A	\$972	\$0	\$0	\$0	\$0	\$0
MERS Contribution	\$0	A	\$0	\$0	\$0	\$0	\$0	\$0
Security Vehicles	\$0	A	\$0	\$0	\$0	\$0	\$0	\$0
Vehicle Maint - Fuel & Misc.	\$47,560	A	\$47,560	\$0	\$0	\$0	\$0	\$0
Maint of Structures	\$321	A	\$321	\$0	\$0	\$0	\$0	\$0
Maint - Collection Reservoirs	\$50,500	A	\$50,500	\$0	\$0	\$0	\$0	\$0
Maint - Wells	\$1,362	A	\$1,362	\$0	\$0	\$0	\$0	\$0
Maint - Misc. Plant	\$310	A	\$310	\$0	\$0	\$0	\$0	\$0
Maint - Wells & Springs	\$0	A	\$0	\$0	\$0	\$0	\$0	\$0
Light & Power	\$19,324	A	\$19,324	\$0	\$0	\$0	\$0	\$0
Other Utilities	\$0	A	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation	\$0	A	\$0	\$0	\$0	\$0	\$0	\$0
Property Tax	\$488,893	A	\$488,893	\$0	\$0	\$0	\$0	\$0
Miscellaneous	\$182	A	\$182	\$0	\$0	\$0	\$0	\$0
Subtotal - Supply	\$680,620		\$680,620	\$0	\$0	\$0	\$0	\$0
<b>PUMPING</b>								
Salaries	\$92,629	D	\$55,553	\$37,076	\$0	\$0	\$0	\$0
Overtime	\$5,358	D	\$3,213	\$2,145	\$0	\$0	\$0	\$0
Longevity	\$2,571	D	\$1,542	\$1,029	\$0	\$0	\$0	\$0
Vacation & Sick Time	\$0	D	\$0	\$0	\$0	\$0	\$0	\$0
FICA	\$6,235	D	\$3,739	\$2,495	\$0	\$0	\$0	\$0
Medicare Payroll Tax	\$1,458	D	\$874	\$584	\$0	\$0	\$0	\$0
MERS Contribution	\$0	D	\$0	\$0	\$0	\$0	\$0	\$0
Maint - Structures & Improvm.	\$1,456	D	\$873	\$583	\$0	\$0	\$0	\$0
Maint - Water Treatment Plar	\$0	D	\$0	\$0	\$0	\$0	\$0	\$0
Maint - Equipment	\$23,342	D	\$13,999	\$9,343	\$0	\$0	\$0	\$0
Plant Maintenance	\$0	D	\$0	\$0	\$0	\$0	\$0	\$0
Telephone	\$2,002	D	\$1,201	\$801	\$0	\$0	\$0	\$0
Heating	\$1,550	D	\$930	\$620	\$0	\$0	\$0	\$0
Purchased Power	\$414,787	A	\$414,787	\$0	\$0	\$0	\$0	\$0
Depreciation	\$0	D	\$0	\$0	\$0	\$0	\$0	\$0
Property Tax	\$7,818	D	\$4,689	\$3,129	\$0	\$0	\$0	\$0
Miscellaneous	\$542	D	\$325	\$217	\$0	\$0	\$0	\$0
Subtotal - Pumping	\$559,748		\$501,725	\$58,022	\$0	\$0	\$0	\$0
<b>PURIFICATION</b>								
Salaries	\$463,146	D	\$277,766	\$185,380	\$0	\$0	\$0	\$0
Overtime	\$26,790	D	\$16,067	\$10,723	\$0	\$0	\$0	\$0
Out of Class Pay	\$1,223	D	\$733	\$490	\$0	\$0	\$0	\$0
Beeper Stipend	\$2,690	D	\$1,613	\$1,077	\$0	\$0	\$0	\$0
Longevity	\$12,856	D	\$7,710	\$5,146	\$0	\$0	\$0	\$0
Vacation & Sick Time	\$0	D	\$0	\$0	\$0	\$0	\$0	\$0
FICA	\$31,173	D	\$18,696	\$12,477	\$0	\$0	\$0	\$0
Medicare	\$7,290	D	\$4,372	\$2,918	\$0	\$0	\$0	\$0
MERS Contribution	\$0	D	\$0	\$0	\$0	\$0	\$0	\$0
Education & Training	\$4,000	D	\$2,399	\$1,601	\$0	\$0	\$0	\$0
Lab Testing	\$39,156	A	\$39,156	\$0	\$0	\$0	\$0	\$0
Vehicle Maint - Tires	\$0	D	\$0	\$0	\$0	\$0	\$0	\$0
Vehicle Maint - Batteries	\$119	D	\$71	\$48	\$0	\$0	\$0	\$0
Vehicle Maint - Outside Parts	\$1,668	D	\$1,000	\$668	\$0	\$0	\$0	\$0
Vehicle Maint - Fuel & Misc	\$2,047	D	\$1,228	\$819	\$0	\$0	\$0	\$0
Maint - Structures	\$1,648	D	\$988	\$660	\$0	\$0	\$0	\$0
Maint - Distrib. Reservoirs	\$63,072	D	\$37,826	\$25,245	\$0	\$0	\$0	\$0
Maint - Wells	\$0	D	\$0	\$0	\$0	\$0	\$0	\$0
Maint - Equipment	\$33,661	D	\$20,188	\$13,473	\$0	\$0	\$0	\$0
Maint - Facilities	\$0	D	\$0	\$0	\$0	\$0	\$0	\$0
Telephone	\$6,446	D	\$3,866	\$2,580	\$0	\$0	\$0	\$0
Light & Power	\$142,590	D	\$85,517	\$57,073	\$0	\$0	\$0	\$0
Heating	\$19,821	D	\$11,887	\$7,933	\$0	\$0	\$0	\$0
Other Utilities	\$0	D	\$0	\$0	\$0	\$0	\$0	\$0
Advertising/Classified	\$347	D	\$208	\$139	\$0	\$0	\$0	\$0
Dues & Subscriptions	\$257	D	\$154	\$103	\$0	\$0	\$0	\$0

**ALLOCATION OF RATE YEAR EXPENSES TO FUNCTIONAL CATEGORIES**

<u>EXPENSE ITEM</u>	<u>PRO FORMA</u> <u>EXPENSE</u>	<u>ALLOC.</u> <u>SYMBOL (1)</u>	<u>BASE</u>	<u>MAX. DAY</u>	<u>PEAK HOUR</u>	<u>METERING</u>	<u>BILLING</u>	<u>DIRECT FIRE</u>
Office Supplies	\$4,827	D	\$2,895	\$1,932	\$0	\$0	\$0	\$0
Postage	\$512	D	\$307	\$205	\$0	\$0	\$0	\$0
Materials & Supplies	\$5,821	D	\$3,491	\$2,330	\$0	\$0	\$0	\$0
Chemicals	\$214,089	A	\$214,089	\$0	\$0	\$0	\$0	\$0
Depreciation	\$0	D	\$0	\$0	\$0	\$0	\$0	\$0
Property Tax	\$36,862	D	\$22,107	\$14,754	\$0	\$0	\$0	\$0
Other Miscellaneous	\$37,887	D	\$22,722	\$15,165	\$0	\$0	\$0	\$0
Subtotal - Purification	\$1,159,997		\$797,058	\$362,939	\$0	\$0	\$0	\$0
<b>TRANSMISSION &amp; DISTRIBUTION</b>								
Payroll	\$674,797	O	\$151,580	\$101,164	\$84,655	\$134,959	\$0	\$202,439
Overtime	\$80,546	O	\$18,093	\$12,075	\$10,105	\$16,109	\$0	\$24,164
Out of Class Pay	\$2,175	O	\$489	\$326	\$273	\$435	\$0	\$653
Beeper Stipend	\$2,235	O	\$502	\$335	\$280	\$447	\$0	\$671
Longevity	\$51,388	O	\$11,543	\$7,704	\$6,447	\$10,278	\$0	\$15,417
Vacation & Sick Time	\$0	O	\$0	\$0	\$0	\$0	\$0	\$0
FICA	\$50,017	O	\$11,235	\$7,498	\$6,275	\$10,003	\$0	\$15,005
Medicare	\$11,698	O	\$2,628	\$1,754	\$1,467	\$2,340	\$0	\$3,509
MERS Contribution	\$0	O	\$0	\$0	\$0	\$0	\$0	\$0
Education & Training	\$2,000	O	\$449	\$300	\$251	\$400	\$0	\$600
Vehicle Maint - Inspection	\$25	O	\$6	\$4	\$3	\$5	\$0	\$8
Vehicle Maint - Tires	\$3,263	O	\$733	\$489	\$409	\$653	\$0	\$979
Vehicle Maint - Batteries	\$526	O	\$118	\$79	\$66	\$105	\$0	\$158
Vehicle Maint - Outside Parts	\$20,849	O	\$4,683	\$3,126	\$2,616	\$4,170	\$0	\$6,255
Vehicle Maint - Fuel & Misc	\$18,590	O	\$4,176	\$2,787	\$2,332	\$3,718	\$0	\$5,577
Maint - Misc Plant	\$1,932	O	\$434	\$290	\$242	\$386	\$0	\$580
Maint - T&D Mains	\$15,246	T	\$6,850	\$4,571	\$3,825	\$0	\$0	\$0
Maint - Services	\$30,297	M	\$0	\$0	\$0	\$30,297	\$0	\$0
Maint - Hydrants	\$6,184	F	\$0	\$0	\$0	\$0	\$0	\$6,184
Telephone	\$2,135	O	\$480	\$320	\$268	\$427	\$0	\$640
Advertising & Classified	\$1,633	O	\$367	\$245	\$205	\$327	\$0	\$490
Capitalized Materials	\$2,066	O	\$464	\$310	\$259	\$413	\$0	\$620
Misc. Tools & Supplies/Inven	\$19,609	O	\$4,405	\$2,940	\$2,460	\$3,922	\$0	\$5,883
Road Surface Restoration	\$0	O	\$0	\$0	\$0	\$0	\$0	\$0
Other Misc Supplies	\$3,553	O	\$798	\$533	\$446	\$711	\$0	\$1,066
Depreciation	\$0	O	\$0	\$0	\$0	\$0	\$0	\$0
Property Tax	\$82,004	O	\$18,421	\$12,294	\$10,288	\$16,401	\$0	\$24,601
Other Miscellaneous	\$8,294	O	\$1,863	\$1,243	\$1,041	\$1,659	\$0	\$2,488
Subtotal - T&D	\$1,091,063		\$240,316	\$160,385	\$134,213	\$238,164	\$0	\$317,985
<b>ENGINEERING</b>								
Payroll	\$271,540	P	\$143,227	\$79,447	\$35,521	\$10,672	\$314	\$2,359
Overtime	\$808	P	\$426	\$236	\$106	\$32	\$1	\$7
Out of Class Pay	\$1,409	P	\$743	\$412	\$184	\$55	\$2	\$12
Longevity	\$18,245	P	\$9,623	\$5,338	\$2,387	\$717	\$21	\$159
Vacation & Sick Time	\$0	P	\$0	\$0	\$0	\$0	\$0	\$0
FICA	\$17,967	P	\$9,477	\$5,257	\$2,350	\$706	\$21	\$156
Medicare	\$4,202	P	\$2,216	\$1,229	\$550	\$165	\$5	\$37
MERS Contribution	\$0	P	\$0	\$0	\$0	\$0	\$0	\$0
Education & Training	\$3,600	P	\$1,899	\$1,053	\$471	\$141	\$4	\$31
Outside Services	\$0	P	\$0	\$0	\$0	\$0	\$0	\$0
Vehicle Maint - Tires	\$0	P	\$0	\$0	\$0	\$0	\$0	\$0
Vehicle Maint - Batteries	\$0	P	\$0	\$0	\$0	\$0	\$0	\$0
Vehicle Maint - Outside Parts	\$166	P	\$87	\$48	\$22	\$7	\$0	\$1
Vehicle Maint - Fuel & Misc	\$1,653	P	\$872	\$484	\$216	\$65	\$2	\$14
Maint - Misc Equipment	\$0	P	\$0	\$0	\$0	\$0	\$0	\$0
Telephone	\$3,558	P	\$1,877	\$1,041	\$465	\$140	\$4	\$31
Dues & Subscriptions	\$273	P	\$144	\$80	\$36	\$11	\$0	\$2
Office Supplies & Other	\$19,140	P	\$10,096	\$5,600	\$2,504	\$752	\$22	\$166
Capitalized Materials	\$1,837	P	\$969	\$538	\$240	\$72	\$2	\$16
Other Misc. Expense	\$0	P	\$0	\$0	\$0	\$0	\$0	\$0
Miscellaneous Expense	\$10,169	P	\$5,364	\$2,975	\$1,330	\$400	\$12	\$88
Subtotal - Engineering	\$354,565		\$187,020	\$103,739	\$46,381	\$13,935	\$410	\$3,080

**ALLOCATION OF RATE YEAR EXPENSES TO FUNCTIONAL CATEGORIES**

<u>EXPENSE ITEM</u>	<u>PRO FORMA</u> <u>EXPENSE</u>	<u>ALLOC.</u> <u>SYMBOL (1)</u>	<u>BASE</u>	<u>MAX. DAY</u>	<u>PEAK HOUR</u>	<u>METERING</u>	<u>BILLING</u>	<u>DIRECT FIRE</u>
<b>METER DEPARTMENT</b>								
Payroll	\$323,027	M	\$0	\$0	\$0	\$323,027	\$0	\$0
Overtime	\$2,558	M	\$0	\$0	\$0	\$2,558	\$0	\$0
Out of Class Pay	\$25	M	\$0	\$0	\$0	\$25	\$0	\$0
Beeper Stipend	\$520	M	\$0	\$0	\$0	\$520	\$0	\$0
Longevity	\$14,321	M	\$0	\$0	\$0	\$14,321	\$0	\$0
Vacation & Sick Time	\$0	M	\$0	\$0	\$0	\$0	\$0	\$0
FICA	\$21,074	M	\$0	\$0	\$0	\$21,074	\$0	\$0
Medicare	\$4,929	M	\$0	\$0	\$0	\$4,929	\$0	\$0
MERS Contribution	\$0	M	\$0	\$0	\$0	\$0	\$0	\$0
Education & Training	\$1,800	M	\$0	\$0	\$0	\$1,800	\$0	\$0
Vehicle Maint - Batteries	\$72	M	\$0	\$0	\$0	\$72	\$0	\$0
Vehicle Maint - Outside Parts	\$424	M	\$0	\$0	\$0	\$424	\$0	\$0
Vehicle Maint - Fuel & Misc	\$1,169	M	\$0	\$0	\$0	\$1,169	\$0	\$0
Maint - Misc Equipment	\$1,818	M	\$0	\$0	\$0	\$1,818	\$0	\$0
Maint - Meters	\$7,878	M	\$0	\$0	\$0	\$7,878	\$0	\$0
Telephone	\$1,696	M	\$0	\$0	\$0	\$1,696	\$0	\$0
Advertising & Classified	\$187	M	\$0	\$0	\$0	\$187	\$0	\$0
Travel	\$735	M	\$0	\$0	\$0	\$735	\$0	\$0
Supplies	\$504	M	\$0	\$0	\$0	\$504	\$0	\$0
Postage	\$103	M	\$0	\$0	\$0	\$103	\$0	\$0
Capitalized Materials	\$1,773	M	\$0	\$0	\$0	\$1,773	\$0	\$0
Merchandising & Jobbing	\$19,825	M	\$0	\$0	\$0	\$19,825	\$0	\$0
Meter Maint. Expense	\$3,764	M	\$0	\$0	\$0	\$3,764	\$0	\$0
Meter Reading Expense	\$0	M	\$0	\$0	\$0	\$0	\$0	\$0
Other Misc. Expense	<u>\$1,816</u>	M	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,816</u>	<u>\$0</u>	<u>\$0</u>
Subtotal - Meter Department	<u>\$410,018</u>		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$410,018</u>	<u>\$0</u>	<u>\$0</u>
TOTAL O&M	\$6,521,141	I	\$3,321,450	\$1,051,585	\$301,096	\$974,045	\$403,068	\$469,897
<b>CAPITAL EXPENSE</b>								
Miscellaneous	\$0	A	\$0	\$0	\$0	\$0	\$0	\$0
CWFA Expense	\$100,000	P	\$52,746	\$29,258	\$13,081	\$3,930	\$116	\$869
Bond Principal	\$635,000	P	\$334,938	\$185,788	\$83,065	\$24,957	\$735	\$5,517
Bond Interest	\$1,644,204	P	\$867,254	\$481,060	\$215,081	\$64,622	\$1,903	\$14,284
Lease Payments	\$110,689	P	\$58,384	\$32,385	\$14,479	\$4,350	\$128	\$962
Repayment WRB Loan	\$104,556	P	\$55,149	\$30,591	\$13,677	\$4,109	\$121	\$908
Capitalized Labor	\$0	P	\$0	\$0	\$0	\$0	\$0	\$0
Capitalized Material & Supply	\$0	P	\$0	\$0	\$0	\$0	\$0	\$0
IFR	\$2,033,039	A	\$2,033,039	\$0	\$0	\$0	\$0	\$0
WRB - Settlement	\$0	A	\$0	\$0	\$0	\$0	\$0	\$0
Cent Falls Franch. Fee Settlt	\$0	C	\$0	\$0	\$0	\$0	\$0	\$0
Lead Pipe Replacement	\$2,720	T	\$1,222	\$816	\$682	\$0	\$0	\$0
T&D Replacement	\$0	T	\$0	\$0	\$0	\$0	\$0	\$0
Rate Stabiliz/Capital Program	\$0	A	\$0	\$0	\$0	\$0	\$0	\$0
O&M Reserve Deposit	\$543,428	E	\$288,525	\$82,130	\$21,650	\$79,376	\$33,258	\$38,490
R & R Reserve Deposit	\$0	P	\$0	\$0	\$0	\$0	\$0	\$0
Other	<u>\$0</u>	A	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Subtotal - Capital	<u>\$5,173,636</u>		<u>\$3,691,258</u>	<u>\$842,027</u>	<u>\$361,716</u>	<u>\$181,345</u>	<u>\$36,260</u>	<u>\$61,030</u>
TOTAL EXPENSES	\$11,694,777		\$7,012,709	\$1,893,613	\$662,812	\$1,155,390	\$439,328	\$530,926
PLUS: OPERATING INCOMI	\$175,422	I	\$89,349	\$28,288	\$8,100	\$26,202	\$10,843	\$12,640
<b>LESS: MISC. REVENUES</b>								
Service Installations	-\$52,155	M	\$0	\$0	\$0	-\$52,155	\$0	\$0
State Surcharge	-\$79,378	A	-\$79,378	\$0	\$0	\$0	\$0	\$0
All Other	<u>-\$154,115</u>	I	<u>-\$78,496</u>	<u>-\$24,852</u>	<u>-\$7,116</u>	<u>-\$23,020</u>	<u>-\$9,526</u>	<u>-\$11,105</u>
REQUIRED FROM RATES	\$11,584,551		\$6,944,183	\$1,897,048	\$663,796	\$1,106,418	\$440,645	\$532,461

**ALLOCATION TO FIRE, WHOLESALE & RETAIL SERVICE**

<u>UNITS OF SERVICE</u>	<u>TOTAL</u>	<u>BASE</u>	<u>MAX. DAY</u>	<u>PEAK HOUR</u>	<u>METERING</u>	<u>BILLING</u>	<u>DIRECT FIRE</u>
Number		5,697,297	23,183	15,352	26,501	90,044	1,896
Units		ccf/yr	ccf/day	ccf/day	equiv meters	bills	hydrants
Revenue Requirements	\$11,584,551	\$6,944,183	\$1,897,048	\$663,796	\$1,106,418	\$440,645	\$532,461
Allocation to Fire Protection	\$824,286	\$34,721	\$236,294	\$20,810	included in calculation		\$532,461
Allocation to Wholesale *	\$780,329	\$643,269	\$137,060	\$0			
Net To Retail Metered Rates	\$9,979,936	\$6,266,193	\$1,523,695	\$642,985	\$1,106,418	\$440,645	\$0

\* Allocation to wholesale based on:

BASE

Total Sales (ccf)	5,697,297	
Plus Unacctd For (5%)	284,865	
Total Production	5,982,162	
Wholesale Sales	554,153	
Percent	9.26%	See Sch. 2.1
Wholesale Allocation	<u>\$643,269</u>	

MAX DAY

Total Max Day Allocation	\$1,897,048	
Less: Distribution Costs		
T&D	-\$110,156	68.68%
Engineering	-\$37,280	35.94%
Admin Share	-\$51,384	34.85%
Oper Income	-\$2,970	10.50%
Misc Rev (other)	\$2,609	10.50%
Capital Items	<u>-\$302,592</u>	35.94%
Total Net of Distribution	\$1,395,277	
Wholesale Max Day %	9.82%	See Sch. 2.1
Wholesale Allocation	\$137,060	

PEAK HOUR

Total Peak Hour Allocation	\$663,796	
Less: Distribution Costs		
T&D	-\$134,213	100.00%
Engineering	-\$46,381	100.00%
Admin Share	-\$120,502	100.00%
Oper Income	-\$8,100	100.00%
Misc Rev (other)	\$7,116	100.00%
Capital Items	<u>-\$361,716</u>	100.00%
Total Net of Distribution	\$0	
Wholesale Peak Hr %	9.89%	See Sch. 2.1
Wholesale Allocation	\$0	

**COST BASED FIRE SERVICE CHARGES**

**PUBLIC FIRE SERVICE**

Annual Charge/Hydrant = \$400.10

**PRIVATE FIRE SERVICE**

<b><u>SERVICE SIZE</u></b> <b><u>(inches)</u></b>	<b><u>ANNUAL</u></b> <b><u>CHARGE</u></b>
2	\$125.46
4	\$296.70
6	\$484.81
8	\$761.01
10	\$963.91
12	\$1,245.12

**ALLOCATION OF FIRE SERVICE EXPENSES  
TO PUBLIC AND PRIVATE FIRE SERVICE**

	<u>NUMBER</u>	<u>DEMAND FACTOR (1)</u>	<u>NO. OF EQUIVS. OF DEMAND</u>	<u>PERCENT OF DEMAND</u>	<u>NON-HYDR. REQUIRED</u>	<u>DIRECT HYDRANT</u>	<u>TOTAL</u>
<i>PUBLIC FIRE SERVICE</i>							
Hydrants	1,896	111.31	211,045.5	77.49%	\$226,122	\$532,461	\$758,583
<i>PRIVATE FIRE SERVICE</i>							
SIZE (IN)							
2	13	6.19	80.5				
4	27	38.32	1,034.6				
6	344	111.31	38,291.0				
8	87	237.21	20,637.0				
10	3	426.58	1,279.7				
12	<u>0</u>	<u>689.04</u>	<u>0.0</u>				
TOTAL-PRIV.	474		61,322.8	22.51%	\$65,703	\$0	\$65,703
<b>GRAND TOTALS</b>	<b>2,370</b>		<b>272,368.3</b>	<b>100.00%</b>	<b>\$291,825</b>	<b>\$532,461</b>	<b>\$824,286</b>

Total Fire Allocatic    \$824,286  
Less Direct Fire        \$532,461  
Net Non-Hydrant        \$291,825

(1) Based on size to the 2.63 power.

**DETERMINATION OF FIRE SERVICE CHARGES**

<u>PUBLIC FIRE PROTECTION</u>		<u>CALCULATED CHARGE</u>
PUBLIC FIRE ALLOCATION (1)	\$758,583	
----- =	----- =	\$400.10 per year
NUMBER OF PUBLIC HYDRANTS	1,896	

**PRIVATE FIRE PROTECTION**

PRIVATE FIRE ALLOCATION (1,2)	\$65,703	
----- =	----- =	\$1.07 /EQUIV.
NO. OF EQUIV. UNITS	61,322.76	

<u>SIZE (IN)</u>	<u>DEMAND FACTOR</u>	<u>DEMAND CHARGE</u>	<u>SERVICE LINE CHRG</u>	<u>METER CHARGE</u>	<u>BILLING CHARGE</u>	<u>CALCULATED CHARGE</u>
2	6.19	\$6.63	\$82.99	\$30.94	\$4.89	\$125.46
4	38.32	\$41.06	\$219.81	\$30.94	\$4.89	\$296.70
6	111.31	\$119.26	\$329.71	\$30.94	\$4.89	\$484.81
8	237.21	\$254.15	\$471.02	\$30.94	\$4.89	\$761.01
10	426.58	\$457.05	\$471.02	\$30.94	\$4.89	\$963.91
12	689.04	\$738.27	\$471.02	\$30.94	\$4.89	\$1,245.12

(1) Allocation from CPNW Sch 4.1

(2) Private Fire includes allocated service maintenance costs as detailed below:

Service Line Maintenance Cost = \$564,027 (Total Metering O&M less Meter Dept)  
 Addtnl Allocation to Fire Service \$162,827 (28.87%)

Meter Dept Expenses = \$410,018  
 Addtnl Allocation to Fire Service \$14,667 3.58%  
 Meter Charge = \$30.94

**DETERMINATION OF SERVICE CHARGES****BILLING CHARGE**

CUST. BILLING ALLOC.	=	\$440,645	
-----		-----	= \$4.89 PER BILLING
NUMBER OF BILLINGS		90,044	

**METER CHARGE**

CUST. METER ALLOC. (1)	=	\$928,923	
-----		-----	= \$36.35 / EQ. METER/YR
NO. EQUIV. METERS		25,553	

**TOTAL SERVICE CHARGES**

METER SIZE (IN)	<u>QUARTERLY ACCOUNTS</u>			<u>MONTHLY ACCOUNTS</u>		
	<u>METER CHARGE</u>	<u>BILLING CHARGE</u>	<u>TOTAL CHARGE</u>	<u>METER CHARGE</u>	<u>BILLING CHARGE</u>	<u>TOTAL CHARGE</u>
5/8	\$9.09	\$4.89	\$13.98	\$3.03	\$4.89	\$7.92
3/4	\$12.59	\$4.89	\$17.49	\$4.20	\$4.89	\$9.09
1	\$18.18	\$4.89	\$23.07	\$6.06	\$4.89	\$10.95
1 1/2	\$37.00	\$4.89	\$41.90	\$12.33	\$4.89	\$17.23
2	\$48.04	\$4.89	\$52.93	\$16.01	\$4.89	\$20.91
3	\$54.53	\$4.89	\$59.42	\$18.18	\$4.89	\$23.07
4	\$127.23	\$4.89	\$132.13	\$42.41	\$4.89	\$47.31
6	\$190.85	\$4.89	\$195.75	\$63.62	\$4.89	\$68.51
8	\$272.65	\$4.89	\$277.54	\$90.88	\$4.89	\$95.78

(1) Less allocation of Service Maintenance & Metering Costs to Private Fire Service - see Settlement Sch. 4.

**ALLOCATION OF GENERAL WATER EXPENSES  
TO CUSTOMER CLASSES**

**Class Demands**

CUSTOMER CLASS	AVERAGE DEMANDS		FACTOR	MAX DAY EXTRA CAPACITY		
	(CCF/DAY)	PERCENT		(CCF/DAY)	XTRA CCF/DAY	PERCENT
<u>Retail</u>						
Small (5/8 - 1")	9,113	58.38%	2.50	22,783	13,670	67.35%
Medium (1.5 - 2" & By pass)	3,062	19.62%	2.00	6,125	3,062	15.09%
Large (3 - 4')	1,095	7.01%	1.80	1,971	876	4.32%
Very Large (6" and up)	820	5.25%	1.50	1,230	410	2.02%
<u>Wholesale</u>						
Cumberland	1,427	9.14%	2.50	3,567	2,140	10.54%
Seekonk	<u>91</u>	<u>0.59%</u>	2.50	<u>229</u>	<u>137</u>	<u>0.68%</u>
Total	15,609	100.00%		35,905	20,296	100.00%

CUSTOMER CLASS	AVERAGE DEMANDS		FACTOR	PEAK HOUR EXTRA CAPACITY		
	(CCF/DAY)	PERCENT		(CCF/DAY)	XTRA CCF/DAY	PERCENT
<u>Retail</u>						
Small (5/8 - 1")	9,113	58.38%	3.50	31,897	9,113	61.28%
Medium (1.5 - 2" & By pass)	3,062	19.62%	3.00	9,187	3,062	20.59%
Large (3 - 4')	1,095	7.01%	2.50	2,737	766	5.15%
Very Large (6" and up)	820	5.25%	2.00	1,640	410	2.76%
<u>Wholesale</u>						
Cumberland	1,427	9.14%	3.50	4,994	1,427	9.59%
Seekonk	<u>91</u>	<u>0.59%</u>	3.50	<u>320</u>	<u>91</u>	<u>0.62%</u>
Total	15,609	100.00%		50,775	14,870	100.00%

**Allocation of Retail Metered Sales Costs to Classes (see Sch 3.3)**

CUSTOMER CLASS	BASE COSTS		MAX. DAY XTRA CAPACITY		PEAK HR. XTRA CAPACITY		TOTAL AMOUNT
	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	
<u>Retail</u>							
Small (5/8 - 1")	64.68%	\$4,052,690	75.87%	\$1,155,974	68.25%	\$438,855	\$5,647,520
Medium (1.5 - 2" & By pass)	21.73%	\$1,361,872	17.00%	\$258,970	22.94%	\$147,474	\$1,768,316
Large (3 - 4')	7.77%	\$486,933	4.86%	\$74,075	5.74%	\$36,910	\$597,918
Very Large (6" and up)	<u>5.82%</u>	<u>\$364,698</u>	<u>2.28%</u>	<u>\$34,675</u>	<u>3.07%</u>	<u>\$19,746</u>	<u>\$419,119</u>
Total	100.00%	\$6,266,193	100.00%	\$1,523,695	100.00%	\$642,985	\$8,432,873
		74.3%		18.1%		7.6%	

**METERED WATER RATES**

Small (5/8 - 1")

Total Expense (2)	\$5,647,520	=	\$1.698 per ccf
-----			
Metered Sales (HCF) (1)	3,326,353		

Medium (1.5 - 2" & By pass)

Total Expense (2)	\$1,768,316	=	\$1.582 per ccf
-----			
Metered Sales (HCF) (1)	1,117,793		

Large (3 - 4')

Total Expense (2)	\$597,918	=	\$1.496 per ccf
-----			
Metered Sales (HCF) (1)	399,663		

Very Large (6" and up)

Total Expense (2)	\$419,119	=	\$1.400 per ccf
-----			
Metered Sales (HCF) (1)	299,335		

Wholesale

Total Expense (3)	\$780,329	=	\$1.408 per ccf
-----			
Metered Sales (HCF) (1)	554,153		

- (1) See CPNW Sch 2.0
- (2) See CPNW Sch 6.0
- (3) See CPNW Sch. 3.3

**COMPARISON OF CURRENT, COST OF SERVICE & PROPOSED RATES**

		<u>Current</u>	<u>Cost of Service</u>	<u>Proposed</u>
<u>Metered Rates</u>				
<u>Retail Extra Large</u>				
	0-333/month		0 - 1,000/qurt	\$1.3462
	over 333/mon		over 1,000/qurt	\$1.1220
<u>Retail Extra Large</u>				
	0-333/month	\$1.1966		
	over 333/mon	\$0.9973		
	Small (5/8 - 1")		\$1.698	\$1.698
	Medium (1.5 - 2" & By pass)		\$1.582	\$1.582
	Large (3 - 4')		\$1.496	\$1.496
	Very Large (6" and up)		\$1.400	\$1.400
	<u>Wholesale</u>	\$0.9659	\$1.408	\$1.408
<u>Service Charges</u>				
<u>Quarterly</u>				
	5/8	\$9.74	\$13.98	\$13.98
	3/4	\$14.60	\$17.49	\$17.49
	1	\$24.26	\$23.07	\$24.26
	1 1/2	\$48.68	\$41.90	\$48.68
	2	\$77.79	\$52.93	\$77.79
	3	\$155.66	\$59.42	\$155.66
	4	\$243.31	\$132.13	\$243.31
	6	\$486.54	\$195.75	\$486.54
	8	\$1,119.04	\$277.54	\$1,119.04
<u>Monthly</u>				
	5/8	\$3.25	\$7.92	\$7.92
	3/4	\$4.87	\$9.09	\$9.09
	1	\$8.09	\$10.95	\$10.95
	1 1/2	\$16.23	\$17.23	\$17.23
	2	\$25.93	\$20.91	\$25.93
	3	\$51.89	\$23.07	\$51.89
	4	\$81.10	\$47.31	\$81.10
	6	\$162.18	\$68.51	\$162.18
	8	\$373.01	\$95.78	\$373.01
<u>Extra Large - Monthly</u>				
	3/4	\$4.32	\$9.09	\$9.09
	3	\$46.12	\$23.07	\$46.12
	4	\$72.19	\$47.31	\$72.19
	6	\$144.16	\$68.51	\$144.16
<u>Fire Service (annual)</u>				
<u>Public</u>				
	/hydrant/yr	\$197.26	\$400.10	\$348.41
<u>Private</u>				
	2	\$75.44	\$125.46	\$125.46
	4	\$235.74	\$296.70	\$296.70
	6	\$471.47	\$484.81	\$484.81
	8	\$1,084.38	\$761.01	\$1,084.38
	10	\$1,791.60	\$963.91	\$1,791.60
	12	\$2,876.02	\$1,245.12	\$2,876.02

**IMPACT OF PROPOSED RATES**

(quarterly bills unless otherwise noted)

METER SIZE	QUARTERLY USE - CU FT	CURRENT RATES	<----- PROPOSED ----->		
			NEW BILL	\$ INCREASE	% INCREASE
<u>Metered Service (Quarterly Bills)</u>					
<i>Small</i>					
5/8	2,000	\$34.42	\$47.94	\$13.52	39.27%
5/8	2,500	\$40.03	\$56.43	\$16.40	40.96%
5/8	4,000	\$56.86	\$81.90	\$25.04	44.03%
5/8	5,000	\$68.08	\$98.88	\$30.80	45.24%
5/8	7,500	\$96.13	\$141.33	\$45.20	47.02%
5/8	10,000	\$124.18	\$183.78	\$59.60	47.99%
5/8	15,000	\$180.28	\$268.68	\$88.40	49.03%
5/8	20,000	\$236.38	\$353.58	\$117.20	49.58%
5/8	25,000	\$292.48	\$438.48	\$146.00	49.92%
1	30,000	\$363.10	\$533.66	\$170.56	46.97%
1	40,000	\$475.30	\$703.46	\$228.16	48.00%
1	75,000	\$868.00	\$1,297.76	\$429.76	49.51%
<i>Medium</i>					
1 1/2	100,000	\$1,172.92	\$1,630.68	\$457.76	39.03%
1 1/2	200,000	\$2,294.92	\$3,212.68	\$917.76	39.99%
2	300,000	\$3,446.03	\$4,823.79	\$1,377.76	39.98%
2	400,000	\$4,568.03	\$6,405.79	\$1,837.76	40.23%
<i>Large</i>					
3	250,000	\$2,962.90	\$3,895.66	\$932.76	31.48%
3	500,000	\$5,767.90	\$7,635.66	\$1,867.76	32.38%
4	750,000	\$8,660.55	\$11,463.31	\$2,802.76	32.36%
<i>Very Large (Quarterly Bill - Monthly Billing)</i>					
6	1,000,000	\$11,708.78	\$14,486.54	\$2,777.76	23.72%
6	3,000,000	\$34,148.78	\$42,486.54	\$8,337.76	24.42%
<u>Fire Service (Annual Bill)</u>					
<i>Municipal Fire Service</i>					
	200 hydrants	\$39,452.00	\$69,682.86	\$30,230.86	76.63%
	1400 hydrants	\$276,164.00	\$487,779.99	\$211,615.99	76.63%
<i>Private Fire Service</i>					
	4 Inch Service	\$235.74	\$296.70	\$60.96	25.86%
	6 Inch Service	\$471.47	\$484.81	\$13.34	2.83%
	8 Inch Service	\$1,084.38	\$1,084.38	\$0.00	0.00%

**REVENUE RECONCILIATION****Service Charge:**

		<----- Current ----->		<----- Proposed ----->	
<u>Quarterly</u>	<u>Number</u>	<u>Rate</u>	<u>Revenue</u>	<u>Rate</u>	<u>Revenue</u>
5/8	20,953	\$9.74	\$816,319	\$13.98	\$1,171,678
3/4	235	\$14.60	\$13,695	\$17.49	\$16,406
1	473	\$24.26	\$45,924	\$24.26	\$45,924
1 1/2	235	\$48.68	\$45,662	\$48.68	\$45,662
2	319	\$77.79	\$99,104	\$77.79	\$99,104
3	26	\$155.66	\$16,033	\$155.66	\$16,033
4	9	\$243.31	\$9,002	\$243.31	\$9,002
6	3	\$486.54	\$5,838	\$486.54	\$5,838
8	0	\$1,119.04	\$0	\$1,119.04	\$0
<u>Monthly</u>					
5/8	0	\$3.25	\$0	\$7.92	\$0
3/4	1	\$4.87	\$58	\$9.09	\$109
1	3	\$8.09	\$291	\$10.95	\$394
1 1/2	2	\$16.23	\$390	\$17.23	\$414
2	20	\$25.93	\$6,223	\$25.93	\$6,223
3	9	\$51.89	\$5,604	\$51.89	\$5,604
4	6	\$81.10	\$5,839	\$81.10	\$5,839
6	2	\$162.18	\$3,892	\$162.18	\$3,892
8	0	\$373.01	\$0	\$373.01	\$0
<u>Xtra Large Monthly</u>					
3/4	1	\$4.32	\$52	\$0.00	\$0
3	1	\$46.12	\$553	\$9.09	\$109
4	1	\$72.19	\$866	\$46.12	\$553
6	1	\$144.16	\$1,730	\$72.19	\$866

**Consumption Charge:**

<u>Retail Extra Large</u>	<u>100/cu.ft.</u>				
<u>Current</u>					
0-333/month	3,846,129	\$1.3462	\$5,177,659		
over 333/mon	997,680	\$1.1220	\$1,119,397		
<u>Retail Extra Large</u>					
0-333/month	4,000	\$1.1966	\$4,786		
over 333/mon	295,335	\$0.9973	\$294,538		
<u>Proposed</u>					
Small (5/8 - 1")	3,326,353			\$1.698	\$5,648,147
Medium (1.5 - 2" & By pas	1,117,793			\$1.582	\$1,768,349
Large (3 - 4')	399,663			\$1.496	\$597,896
Very Large (6" and up)	299,335			\$1.400	\$419,070
<u>Wholesale</u>	554,153	\$0.966	\$535,256	\$1.408	\$780,247

**REVENUE RECONCILIATION**

		<----- Current ----->		<----- Proposed ----->	
<i>Fire Protection:</i>					
Public Hydrants	1,896	\$197.26	\$374,005	\$348.41	\$660,593
<i>Private Fire Protection</i>					
2	13	\$75.44	\$981	\$125.46	\$1,631
4	27	\$235.74	\$6,365	\$296.70	\$8,011
6	344	\$471.47	\$162,186	\$484.81	\$166,775
8	87	\$1,084.38	\$94,341	\$1,084.38	\$94,341
10	3	\$1,791.60	\$5,375	\$1,791.60	\$5,375
12	0	\$2,876.02	\$0	\$2,876.02	\$0
<i>Total</i>			\$8,851,967		\$11,584,087
<i>Plus: Misc Revenues</i>			\$285,648		\$285,648
<i>Pro Forma Revenue</i>			\$9,137,615		\$11,869,735
<i>Required Revenue</i>			\$11,870,199		\$11,870,199
<i>Difference</i>			-\$2,732,584		-\$464
<i>Increase in Revenues</i>					\$2,732,120
<i>Percent Increase in Total Revenues</i>					29.9%
<i>Percent Increase in Rate Revenues (non-misc)</i>					30.9%

## **SETTLEMENT AGREEMENT AND RELEASE**

This Settlement Agreement and Release (hereinafter "Agreement") is made this 4<sup>th</sup> day of March, 2002 between the City of Central Falls (hereinafter "Central Falls") and the Pawtucket Water Supply Board (hereinafter the "PWSB") (collectively referred to as the "parties").

WHEREAS, Central Falls is a duly established home rule municipality of the State of Rhode Island, and is the owner of a water supply system (hereinafter "the Central Falls System") located within the City; and

WHEREAS, the PWSB is a duly established board or agency of the City of Pawtucket and is charged with management, supervision and control of the water collection, storage, purification and distribution system owned and operated by the City of Pawtucket pursuant to §4-1900 of the Pawtucket City Charter; and

WHEREAS, pursuant to a contract between the Cities of Central Falls and Pawtucket dated December 14, 1938 (hereinafter "the water contract"), the PWSB agreed to provide water to the residents and businesses located within Central Falls which is served by the Central Falls System; and

WHEREAS, pursuant to the terms of the water contract, the PWSB is obligated to pay twenty-five percent (25%) of its income from rates collected from the residents and businesses located within Central Falls; and

WHEREAS, the parties have discovered and acknowledged that for the years 1995, 1996 and 1999 the PWSB miscalculated and underpaid Central Falls franchise fees totaling four hundred fifty four thousand six hundred eighteen dollars (\$454,618.00); and

WHEREAS, the miscalculation of said franchise fees is the subject of two counts of a three-count lawsuit, namely Counts I and III, entitled “The City of Central Falls vs. The Pawtucket Water Supply Board”, Case No. PC98-5272, a case pending in the Providence Superior Court; and

WHEREAS, Central Falls obtained a Partial Summary Judgment with respect to the miscalculation of franchise fees (Count I of Case No. PC98-5272), and Final Judgment entered against the PWSB on June 28, 2001; and

WHEREAS, the total amount of the Judgment in favor of Central Falls as of February 18, 2002 equals seven hundred seventy six thousand five hundred eighteen dollars and ninety-one cents (\$776,518.91), inclusive of the principal judgment of four hundred fifty four thousand six hundred eighteen dollars (\$454,618.00), prejudgment interest of two hundred eighty eight thousand seven hundred forty five dollars and sixty-four cents (\$288,745.64), post-judgment interest of twenty nine thousand two hundred ten dollars and twenty-seven cents (\$29,210.27), attorney’s fees of three thousand seven hundred ten dollars (\$3,710.00) and cost of suit of two hundred thirty five dollars (\$235.00); and

WHEREAS, the City of Pawtucket and the PWSB filed an action in the Providence County Superior Court entitled “City of Pawtucket and Pawtucket Water Supply Board vs. The City of Central Falls, Case No. PC01-0227, in which it sought a declaration that the PWSB had properly terminated the water contract effective May 31, 2000; and

WHEREAS, said Declaratory Judgment Action was tried before Justice Silverstein, jury waived, on January 7, 2002 in which the Court ordered that the matter

involving the issues surrounding the purported termination be submitted to a panel of the arbitrators; and

WHEREAS, the PWSB has filed a rate case with the Rhode Island Public Utilities Commission (hereinafter "PUC"), Rate Case No. 3378, in which Central Falls has intervened to contest the purported rate increases; and

WHEREAS, the PWSB has at least three hundred thousand dollars (\$300,000.00) escrowed in a restricted receipt account for payment to Central Falls for franchise fees for the years 2001 and 2002 pursuant to the terms of the water contract. Further, these funds have been escrowed by the PWSB but not paid pursuant to an order of the PUC in Rate Case No. 3164; and

WHEREAS, the PWSB has approximately ninety eight thousand dollars (\$98,000.00) escrowed in a restricted receipt account representing past due franchise fees for the years 1995, 1996 and 1999; and

WHEREAS, the PWSB has invoiced Central Falls approximately one hundred fifty three thousand nine hundred thirty nine dollars and forty-one cents (\$153,939.41) in private hydrant fees, inclusive of penalties, two thousand one hundred twenty one dollars and forty cents (\$2,121.40) in sprinkler fees, inclusive of penalties, and eighteen thousand one hundred thirty eight dollars and ninety five cents (\$18,138.95) for water service provided to the former Central Falls Community Center, inclusive of penalties, all of which remain unpaid to date; and

WHEREAS, the parties hereto now desire to resolve the claims and disputes pending between them regarding Counts I and III of Case No. PC98-5272, Case No. PC01-0227 and PUC Rate Case No. 3378.

NOW THEREFORE, in consideration of a mutual covenants and promises contained herein, the parties hereby agree as follows:

1. The PWSB agrees to pay to Central Falls the principal amount of the judgment, four hundred fifty four thousand six hundred eighteen dollars (\$454,618.00), plus an additional one hundred thousand dollars (\$100,000.00) representing interest, for a total payment of five hundred fifty four thousand six hundred eighteen dollars (\$554,618.00), from the escrowed funds and any other funds approved by the PUC no later than fifteen (15) days from the issuance of a report and order of the PUC in Rate Case No. 3378 approving such settlement and authorizing said payment.
2. Upon receipt by Central Falls of the payment referenced in paragraph one (1) above, the parties shall file with the Providence County Superior Court a Stipulation in Case No. PC98-5272 indicating that the judgment obtained by Central Falls with respect to Count I and III of the Complaint has been satisfied in full.
3. If payment is not made to Central Falls by the PWSB within fifteen (15) days of the PUC's report and order, the judgment shall be reinstated with all prejudgment interest, post-judgment interest, costs and attorney's fees continuing to accrue thereon.
4. Without acknowledging the accuracy or correctness of the amounts billed by the PWSB to Central Falls for hydrant fees, sprinkler fees and water service to the Central Falls Community Center, in exchange for Central Falls' agreement to waive any remaining prejudgment interest, post-judgment interest, costs and

attorney's fees related to the Superior Court judgment in Case No. PC98-5272, the PWSB agrees to forgive, waive and discharge one hundred fifty three thousand nine hundred thirty nine dollars and forty-one cents (\$153,939.41) in private hydrant fees, two thousand one hundred twenty one dollars and forty cents (\$2,121.40) in sprinkler fees and eighteen thousand one hundred thirty eight dollars and ninety five cents (\$18,138.95) for water service to the Central Falls Community Center.

5. The PWSB and Central Falls agree that the effective date of termination of the water contract shall be May 1, 2002. Accordingly, the Court ordered arbitration shall be withdrawn, and the parties shall enter a stipulated judgment in Case No. PC01-0227 indicating that the effective date of termination shall be May 1, 2002 and that the parties have reached agreement with respect to said declaratory judgment action. Said stipulation shall be filed upon receipt of the funds referenced in paragraph 1 above.
6. The parties further agree that the PWSB shall continue collecting rates which are inclusive of the franchise fees for 2001 and 2002. The PWSB shall pay only the principal amount owed to Central Falls for 2001 and 2002 and shall not be obligated for interest accruing on said amounts, which shall be determined by an accounting as provided for in the "Settlement Agreement" in PUC Rate Case No. 3378. The payments to Central Falls will be computed using the same formula set forth in the water contract, *i.e.* twenty five percent (25%) of the gross revenues collected by the PWSB from customers located in Central Falls. Further, the PWSB shall pay to Central Falls the franchise fees for the years 2001 and 2002

commencing July 1, 2002 and continuing consecutively on a quarterly basis until paid in full as provided for in that "Settlement Agreement." In the event that the PWSB fails to pay the franchise fees in accordance with the formula set forth herein, Central Falls expressly preserves any and all rights, claims, causes of action and remedies it may have to enforce any breach of this Agreement.

7. In consideration of the foregoing, the parties do hereby mutually release, remise and forever discharge each other, their respective successors, executors, administrators, affiliates, officers, directors, employees, agents and assigns from any and all manner of actions, causes of action, debts, dues, claims, suits, contracts, accounts, judgments, obligations, or liabilities, both at law and in equity, except those expressly preserved herein including Count II of Case No. PC98-5272 and Case No. PC01-4311, including any amendments sought by the parties thereto, that they ever had, now have, or may have against each other for or by reason of any matter or thing that arose at any time prior to the date of this Agreement, particularly including, without limitation, the allegations set forth in the referenced litigation herein.
8. The parties hereby declare that they fully understand the terms of this Agreement; that they voluntarily accept the consideration offered for any acts or conditions agreed to herein; that they are executing same with the intention of making a full and final compromise of all claims pending between and among them, with the exception of those claims expressly preserved herein, including any claims or causes of action for breach of this Agreement; and that they have consulted with counsel regarding the content and effect of this Agreement.

9. The parties have agreed that the promises and covenants contained herein are not to be construed as an admission of liability; that they expressly deny liability to one another; and that they are entering into this Agreement solely to avoid the costs and burdens associated with further pursuit of the claims described herein.
10. This Agreement contains the entire agreement and understanding concerning the subject matter between the parties.
11. This Agreement shall be construed in accordance with the laws of the State of Rhode Island.
12. This Agreement shall be executed in two original counterparts.
13. This Agreement is contingent upon PUC approval in Rate Case No. 3378 and shall be held in escrow by counsel for the parties until the issuance of the PUC's report and order.

CITY OF CENTRAL FALLS

PAWTUCKET WATER SUPPLY  
BOARD

\_\_\_\_\_  
By: Lee M. Matthews, Mayor

\_\_\_\_\_  
By: Mary Tetzner, Chairperson

Witness:

Witness:

\_\_\_\_\_  
Date: 03/04/02

\_\_\_\_\_  
Date: 03/04/02