

1 **RHODE ISLAND PUBLIC UTILITIES COMMISSION**

2
3 **DOCKET NO. 3818**

4
5 **NEWPORT WATER DEPARTMENT**

6
7 **PREFILED TESTIMONY OF**

8
9 **CHRISTOPHER P.N. WOODCOCK**

10
11 **ON BEHALF OF**

12 **PORTSMOUTH WATER & FIRE DISTRICT**

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1 **Q: Please state your name and business address?**

2 A: My name is Christopher P.N. Woodcock and my business address is 18 Increase
3 Ward Drive, Northborough, Massachusetts 01532.

4
5 **Q: By whom are you employed and in what capacity?**

6 A: I am the President of Woodcock & Associates, Inc. a consulting firm specializing in
7 water and wastewater rate and financial studies.

8 **Prior Experience**

9 **Q: Please describe your qualifications and experience.**

10 A: I have undergraduate degrees in Economics and in Civil Engineering from Tufts
11 University in Medford, Massachusetts. After graduating in 1974, I was employed by
12 the environmental consulting firm of Camp, Dresser, and McKee Inc. (CDM). For
13 approximately 18 months I worked in the firm's environmental engineering group
14 performing such tasks as designing water distribution and transmission pipes,
15 sewer collection and interception systems, pumping facilities and portions of a
16 wastewater treatment facility. From approximately January 1976, I worked in the
17 firm's management and financial consulting services group, gaining increasing re-
18 sponsibility. At the time of my resignation, I was a corporate Vice President and
19 appointed the leader of the group overseeing all rate and financial studies. In my
20 career, I have worked on close to 400 water and wastewater rate and financial stud-
21 ies, primarily in the United States, but also for government agencies overseas. I
22 have also worked on a number of engineering and financial feasibility studies in
23 support of revenue bond issues, I have helped draft and review revenue bond in-
24 dentures, and I worked on several valuation studies, capital improvement financing
25 analyses, and management audits of public works agencies. In addition to my pro-
26 fessional experience I have also held elected and appointed positions on municipal
27 boards overseeing public works functions.

28

1 **Q: Have you previously testified before state regulatory commissions or courts**
2 **on rate related matters?**

3 A: Yes, I have provided testimony on rate related matters before utility commissions in
4 Rhode Island, Maine, Connecticut, New York, New Hampshire, Texas, and Alberta,
5 Canada. I have also been retained as an expert witness on utility rate related mat-
6 ters in proceedings in state courts in Arkansas, Florida, Massachusetts, Michigan,
7 New Jersey, Maryland, Ohio, and Pennsylvania, as well as the Federal Court in
8 Michigan. I have been selected to several arbitration panels related to disputes
9 over water rates and charges, I have provided testimony on rate related matters to
10 the Michigan and Massachusetts legislatures, and I have provided testimony at
11 administrative hearings on a number of occasions.
12

13 **Q: Do you belong to any professional organizations or committees?**

14 A: Yes, I am a member of the Water Environment Federation, the Rhode Island Water
15 Works Association, the Massachusetts Water Works Association, the New England
16 Water Works Association, and the American Water Works Association. For the
17 Water Environment Federation, I was a member of the committee that prepared
18 their manual on Wastewater Rates and Financing. For the New England Water
19 Association, I am a member of the Financial Management Committee. In my ca-
20 pacity as Assistant Treasurer for the New England Water Works Association I also
21 sit on the Executive Committee and the Board of Directors as well as several other
22 administrative committees. For the American Water Works Association, I am past
23 chairman of the Financial Management Committee and the Rates and Charges
24 Committee that has prepared the manuals on Revenue Requirements, Water
25 Rates, Alternative Rate Structures, and Water Rates and Related Charges. I have
26 been reappointed to and am currently a member of the Rates & Charges Commit-
27 tee.

1 **Summary**

2 **Q: Please describe your role in this proceeding.**

3 A: I have been retained by the Portsmouth Water & Fire District (Portsmouth) to re-
4 view Newport Water's rate filing in Docket 3818. I had been involved in a similar
5 capacity in Newport's last four rate filings.

6
7 **Q: Would you summarize your overall findings?**

8 A: The Newport Water Department has made some positive strides since the 1990's
9 but I remain concerned that the Water Department is still in a negative cash posi-
10 tion that seems to be getting worse rather than better. Further, a number of differ-
11 ent factors raise concerns about the management of the Department and the ap-
12 parent lack of support or concern from the City. In addition, the capital improve-
13 ment program seems to be slipping. Lastly, I believe that Newport has overstated
14 its revenue requirements, particularly as it relates to the proposed SRF loans, re-
15 payments to the City, and the cost of City Services.

16
17 The Portsmouth Water & Fire District has made it clear that it has not intervened in
18 these proceedings just to lower its charges. On the contrary, PWFD has stated that
19 it wishes to see Newport Water receive sufficient funds to properly manage and op-
20 erate its system, fund necessary improvements, and deliver quality water to all its
21 customers, including those in Portsmouth. PWFD simply wants to assure that the
22 costs allocated to it are fair.

23
24 I am concerned that Newport Water's recent filings seem to act as a mechanism to
25 move rate revenues into the City General Fund, to the detriment of the Water De-
26 partment.

27
28 In this Docket, Newport has requested an increase of \$1,318,863. Over 7%, or
29 some \$746,389, of the net revenue requirement claimed by Newport is for repay-
30 ments to the City or transfers to the City's General Fund. Newport's claimed Ad-

1 ministrative operating costs (excluding all debt and capital) are \$1.786 million; this
2 represents 26% of all operating costs (again excluding debt and capital).

3 ***Revenue Requirements***

4 **Q: You indicated that you believe that some of Newport's claimed revenue re-**
5 **quirements for the rate year are overstated. Please indicate the areas where**
6 **you believe this is the case.**

7 A: There are several areas, which I will briefly identify here and then describe in
8 greater detail later during this testimony:

- 9 – Debt Service: The claimed debt service on the FY 2007 SRF Series A loan
10 appears to be slightly overstated and the Series B loan is grossly overstated
11 and premature.
- 12 – Various Studies: I have noted that many of the studies proposed for funding
13 in the rate year are repeated from amounts allowed in previous dockets. In
14 addition I have concerns about what Newport has identified as rate funded
15 vs. debt funded.
- 16 – City Services: We had raised several concerns about the allocation of city
17 service costs in the last docket. Our concerns remain.
- 18 – Operating Reserve: Newport has requested an increase in the allowed op-
19 erating reserve; we are in full agreement with this requested increase.
- 20 – Repayment to the City: I believe the proposal put forth by Newport is con-
21 trary to the provisions of the settlement agreement in Docket No. 3578.
- 22 – Miscellaneous Revenues: Based on Newport's responses to data requests, I
23 have proposed an adjustment to this item.

25 **Debt Service**

26 **Q: Will you please discuss your concern about the FY 2007 SRF Series B loan?**

27 A: Yes. Stated simply, Newport Water's claimed debt service of \$207,056 on the FY
28 2007 Series B bond is premature. It will not happen in the rate year and it should
29 be removed.

1
2 In response to PWFD Data Request 1-18 Newport acknowledged that “the terms of
3 the Series B loan have not been determined” and that the values are estimates.
4 (Relevant copies of NWD’s Responses are attached as Exhibit A.) Based on dis-
5 cussions with representatives from the RI Clean Water Finance Agency (CWFA)
6 and my past experience with these loans, a utility must make an application (includ-
7 ing a proposed draw down schedule) and get approval from the Department of
8 Health before a loan can be secured. In this case, Newport has stated in its re-
9 sponse to PWFD 1-18 that it has not yet provided such a draw down schedule.
10 This strongly suggests that the application has not even been submitted.

11
12 Furthermore, once a project is approved, it must be high enough on the priority list
13 to receive a loan. The State priority list does not even list all the projects that New-
14 port has included in its proposed 2007 Series B loan.

15
16 In addition, and perhaps most importantly, once a project (or projects) is approved,
17 the utility only pays interest on the amounts it has drawn down. The first full pay-
18 ment of principal and interest does not happen until the September after the project
19 is completed.

20
21 According to RFC Schedule I (the preliminary capital plan), only two projects to be
22 funded from the 2007 Series B bonds will begin in FY 2007 (11% of the total cost).
23 Much of the construction will happen in FY 2008 and full completion (about 31% of
24 the costs) will happen in FY 2009 – a year *after* the proposed rate year. The latest
25 information on these projects can be found in Newport’s response to PWFD 3-4
26 where they state “(w)ith the exception of the pH Adjustment Construction projects,
27 the projects¹ are programmed for FY 2008 and FY 2009, therefore none of these
28 projects have been advertised, awarded, and/or started at this time.”

¹ This refers to projects that are included in the Series B bonds

1 If the projects are completed by September 1 of 2008 (early in FY 2009), the first
2 full principal payment will not be due until well into the year following the rate year.
3 If the projects are completed after September 1, 2008, the first full payments will
4 not begin until FY 2010 – *two years* after the proposed rate year.

5
6 Newport Water has shown full principal and interest payments on all the Series B
7 funded bonds starting in the Rate Year – FY 2008. For this to happen it would re-
8 quire the projects to be completed before September of 2007; the first full principal
9 and interest payment would be in September 2007 and the next interest payment in
10 May 2008. Not only has Newport not shown a schedule that demonstrates that the
11 projects will be completed this summer, it hasn't even submitted the draw down
12 schedule.

13
14 The claimed debt of some \$207,056 on the FY 2007 Series B bond is clearly pre-
15 mature and will not happen in the rate year. At most, interest on the projects fin-
16 ished in FY 2007 (a project cost of about \$292,000) would happen in the rate year,
17 resulting in some \$11,000 of interest, *even if the loan had been applied for*.

18
19 The claimed debt service for the FY 2007 Series B Bonds of \$207,056 should be
20 removed. If Newport can show that it has submitted an application that has been
21 approved, it would be reasonable for the Commission to allow some interest, based
22 on the approved draw down schedule and costs that will be incurred up to the rate
23 year.

24
25 **Q: If the debt service on the 2007 Series B bonds begins the year after the Rate**
26 **Year, won't Newport have to file for new rates relatively soon after this case?**

27 **A:** Yes, it would, if Newport were to proceed on the projects faster than they indicate.
28 As I will discuss later, I believe that Newport needs an incentive to file rate cases in
29 a timelier manner. Because Newport is required to make monthly deposits to a
30 debt service account in order to have sufficient funds to make the semi-annual prin-

1 cipal and interest payments, the need for additional revenues will actually precede
2 the payment due dates by six months. I recognize that the infrequent (three times
3 per year) billing cycle does not help cash flow. In light of the revenues for debt ser-
4 vice being restricted for that sole purpose, I would normally think it is not unreason-
5 able to allow Newport to start accumulating funds for future payments on the 2007
6 Series B bonds that may occur after the rate year.

7
8 **Q: Do you believe the Commission should allow funds for the possible 2007 Se-**
9 **ries B bonds at this time?**

10 A: I do not. I am concerned about allowing extra funds, even though they are re-
11 stricted. A review of Newport dockets over the past decade will show that bond is-
12 sues were promised but never materialized as planned. (see Transcript of Docket
13 2985 hearing 3/4/2002 pages 7-12, for example) The \$3 million debt issue (2007
14 Series A bonds) that was closed this Spring (2007) was originally approved by the
15 Division in 2000. I have attached a schedule to my testimony that shows the history
16 of this bond issue along with the projects that were proposed. (See Exhibit B.)
17 Since the funding for this loan was first approved by the Commission, Newport
18 should have collected over \$1.5 million to pay down a \$3 million loan that was only
19 closed in March of 2007.

20
21 In addition, Newport has combined its capital and debt service restricted accounts.
22 If funding for a speculative bond issue is to be provided, there should be some as-
23 surances that it will be used for debt and not transferred and used for unspecified
24 capital programs. The Report and Order in Docket 3578 notes that the parties
25 could not determine where funds that were loaned from the City were spent and
26 "that certain capital outlays were treated as O&M expenses while the funds were
27 deposited into the restricted capital outlay account" (page 61 of Report & Order in
28 Docket 3578). As a result of all this, the Commission agreed with the settlement
29 provision that funds to repay the City could, in part, be taken from the restricted
30 debt service account.

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Q: Are you concerned about Newport’s use of restricted capital funds to make payments to the City?

A: I am. With Newport Water’s history of not selling bonds as they project and taking restricted capital funds to help make repayments to the City, I am reluctant to recommend any extra funding for future debt service.

Q: Do you have any more comments on Newport’s proposed debt service costs?

A: Yes, I have two more comments. First, as we have seen in the past, Newport’s proposed capital improvement schedule typically lags as compared to what actually happens. Given this history, the Commission should continue to restrict funds allowed for debt service and continue the required reporting of the Water Department’s capital program. The current report should be expanded to also include the amount spent in the reporting period to readily see what has been done in that period, and these should be provided at least quarterly.

My second comment is on the amount claimed for the FY 2007 Series A Bonds. In RFC Schedule B Newport shows debt service in the rate year (FY 2008) of \$87,911. In response to PWFD 1-18, Newport shows principal, interest, and fees of \$72,901.33 in FY 2008. Newport has indicated that it will reflect this adjustment in its rebuttal filing or the final rates. It’s also noteworthy that the bonds that have been closed on (the Series A bonds) have some \$73,000 of costs in the rate year, while the proposed later bonds for essentially the same amount show payments in the rate year that are more than twice as much! This is a clear indication of the problem with Newport’s claimed amount for the FY 2007 Series B bonds for the rate year.

1 **Proposed Studies**

2 **Q: The next revenue concern you listed has to do with the claimed costs of vari-**
3 **ous studies. Please elaborate.**

4 A: In Docket 3675, Newport presented several studies (RFC Schedule 4 of that filing)
5 that were to be completed in FY 2006 (the rate year in that filing). These studies
6 were proposed to be funded from rate revenues. They included:

7	ST-1 Safe Yield Study	\$200,000
8	ST-2 GIS & Hydraulic Model.	200,000
9	ST-4 Easton Pond Dam & Moat Study	<u>100,000</u>
10	Total	\$500,000

11 In response to PWFD 1-8 Ms. Fourge states that the first two projects, the Safe
12 Yield and GIS/Hydraulic Model have not yet been awarded. The Easton Pond Dam
13 and Moat Study was awarded in October 2006 and as of March 1, 2007 only
14 \$20,989.50 had been expended by the Water Department.

15
16 This raised several concerns. First, Ms. Fourge's testimony (page 8, line 25) states
17 that Newport's capital account has been adversely affected by expenditures on
18 studies that were not funded. In response to PWFD 1-9 Ms. Fourge acknowledges
19 that nothing has even been spent on one of the "unfunded" studies. In addition, the
20 Commission provided annual funding for a number of studies, but less than
21 \$21,000 had been spent as of March 1, 2007 on \$500,000 of studies that had been
22 funded for FY 2006 and into FY 2007 (the current year). It is unclear how the capi-
23 tal account has been adversely affected given these circumstances.

24
25 The second concern I have is related. In this filing, Newport has requested revenue
26 funded capital of \$1,715,056 – an increase of nearly \$500,000 from the prior ap-
27 proved amount of \$1,267,088. As discussed above, Newport has historically fallen
28 short on expenditures for its planned capital improvements. I am also concerned
29 that this increase includes a number of rate funded capital projects that perhaps
30 should be bonded. PWFD asked why similar cost projects were proposed to be

1 bond funded in one case and rate funded in another; Newport did not respond to
2 that question and has been asked again in a follow-up data request. We will not
3 have the response prior to my finalizing this testimony.

4
5 The PWFD does not want to have funds withheld from Newport Water for capital
6 projects if those projects are going to proceed. As discussed earlier, there is a real
7 concern about capital plans that have historically lagged, proposed bonds that were
8 not sold, and capital/debt funds that were used to pay back the City of Newport.

9
10 **Q: What do you propose?**

11 **A:** PWFD proposes that the costs associated with the new Lawton Valley WTP plant,
12 estimated at nearly \$1 million (\$250,000 in the rate year), be switched from rate
13 funded to bond funded. We further propose that the remote meter installation pro-
14 ject, valued at nearly \$2 million over its life, be bond funded after the rate year.

15
16 The work for the new Lawton Valley WTP is of such magnitude that bonding this
17 job seems appropriate. As for the metering program, I have no problem with con-
18 tinued piloting through the rate year, paid from rate revenues. If this project is to go
19 ahead, the magnitude is such that it too such be bonded. If it will help Newport
20 transition to more frequent meter reading and billing and fewer estimated bills,
21 bonding it all might help complete the work faster.

22
23 The adjustments proposed would not reduce or delay the proposed capital pro-
24 gram; they would only shift the funding source. As shown on the exhibits I have at-
25 tached, the revenue funded capital would drop as follows:

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
NWD Proposed	\$1,715,056	\$1,227,460	\$864,886
PWFD Proposed	1,465,056	527,460	264,886

1 History has shown that Newport's capital plans lag substantially from those it pre-
2 sents to the Commission. In this case I propose that the Commission allow the av-
3 erage of Portsmouth's recommended FY 2008 and FY 2009 amounts, rounded to
4 \$1 million per year.

5
6 As Mr. McGlenn has testified, there is concern about the timing of capital improve-
7 ments to reduce water age. In addition to the \$1 million recommended above,
8 Portsmouth would have no objection to adding an additional amount to address the
9 water age issue as long as this is restricted to that project.

11 **City Services**

12 **Q: Please discuss the City Services expenses you mentioned in the list of reve-**
13 **nue requirement issues.**

14 A: The settlement agreement in Docket 3675 (paragraph 16) stated: "The parties
15 agree, and Newport Water acknowledges that the amounts for Legal & Administra-
16 tive Services and MIS Services agreed to by the parties in this Docket are for the
17 purposes of this Docket only and the methods used to arrive at these amounts shall
18 not set precedent on the amounts allowed for similar costs in future rate cases."
19 Newport has calculated the proposed City Services allocation the same way it did in
20 the settlement in Docket 3675; in my opinion this allocation is still not justified.

21
22 The allocations in this docket show an increase of City Services costs of \$34,643 or
23 12% over that in the prior settlement. The largest increase is some \$15,000 for the
24 City Manager's Office; a result of an unexplained increase in that office's budget of
25 nearly 40%. Newport Water is also suggesting an increase of \$12,520 for the City
26 Clerk's Office where there was also an overall budget increase of nearly 40% from
27 the last docket. There is also an increase of \$9,393 in the Administrative Services
28 line item, and there is an increase of \$9,393 to the Accounting function over the last
29 docket.

1 There is scant information provided by Newport on how the costs are derived and
2 why the allocations in the settlement should continue to be used. Newport's repeti-
3 tion that various offices of City Hall provide "valuable services" rings hollow when
4 the apparent indifference of various offices is examined, as discussed later.

5
6 **Q: Many of the various City Services are proposed to be allocated based on the**
7 **percentage of the Water Department budget to the total City budget. Do you**
8 **agree with this method?**

9 A: As I stated in the prior docket, I believe that the total City budget including the
10 school department and library should be used rather than excluding these two de-
11 partments from the calculations. Mr. Smith has used an allocation using all de-
12 partment budgets in some cases and excluded the schools and library in others. I
13 will discuss these in some more detail later.

14
15 In reviewing the allocations I do not believe that the capital or debt costs should be
16 used in any of the allocations. The City of Newport has very little outstanding debt
17 – the annual principal and interest costs appear to be just under \$2.2 million in FY
18 2007. For the Water Department and Water Pollution Control there is considerable
19 annual debt and capital costs. The debt and capital costs have little if anything to
20 do with the amount of service provided by various departments. For example, the
21 service from the City Clerk should not vary because the Water Department chooses
22 to fund projects from bonds or current revenues. Likewise, the amount of service
23 from the City Clerk should not vary if the Water Department has \$1 million or \$3
24 million of annual debt. As a result, I have recalculated the percent of the total
25 budget that Water represents after excluding all debt and capital costs from the
26 various budgets. I have estimated the amount of Water Pollution Control debt
27 based on the annual debt in FY 2004, the last year I could find information². I have
28 also excluded the capital costs from the MIS budget that Newport has proposed to

² PWFD will be happy to update this if Newport provides more recent information.

1 include. The result of these adjustments is to reduce the allocation percentages
2 proposed by Newport.

3
4 **Q: What do you mean by your earlier reference to “apparent indifference” from
5 various offices in your earlier response?**

6 A: Clearly Newport Water has been in need of a rate increase since the end of the last
7 rate case. The periodic reports filed by Newport Water have continued to show the
8 department operating in the red and unable to pay its expenses. As Ms. Fourge
9 reported in her prefiled testimony, Newport Water had payables that were more
10 than \$1 million on June 30, 2005. When PWFD asked what action the City took to
11 address the clear deficit we are told (see PWFD 1-3 and 1-4):

- 12 – “The old City Council would not address financial matters” including those
13 related to the Water Department’s deficit; yet Newport is asking for rate
14 payers to fund some \$10,759 of City Council costs.
- 15 – There were no correspondence or communications to or from the City Man-
16 ager’s office nor to or from the Finance Director’s office regarding the Water
17 Department deficits; yet Newport is asking for rate payers to fund \$45,173
18 for the City Manager’s office and \$19,073 for Finance Administration.

19
20 Based on the lack of any communication to or from the City Manager, the City
21 Council, or the Finance Director and no willingness to consider the financial plight
22 of the Water Department by the City Council, asking rate payers to fund over
23 \$75,000 for these City agencies does not seem appropriate.

24
25 **Q: What do you recommend for these three offices?**

26 A: I suggest that the Commission disallow any funds for the City Manager’s Office and
27 the City Council and only half the amount requested for the Finance Director’s of-
28 fice. The City Administration has shown little or no interest in helping the Water
29 Department out of its financial bind. With the exception of an executive session in
30 January 2007, apparently they wouldn’t even mention the issue, let alone discuss it.

1 It's apparent that Ms. Sitrin, the City's Finance Director, has provided some service
2 to the Water Department, at least in these proceedings. However, Newport Water
3 has engaged a Deputy Utility Director of Finance to take over these functions, why
4 is she not taking a more active role in the proceedings?

5
6 The Commission's Transcript of the November 9, 2005 hearing in Docket 3675 (pg
7 73) indicates that Ms. Wilson-Frias asked Ms. Fourge if the new Deputy Utility Di-
8 rector of Finance would be able to provide the stipulated accrual based accounting
9 reports by May of 2006. Ms. Fourge answered "yes". The management letters
10 from the City's Auditors for FY 2004 and FY 2005 recommended monthly accrual
11 based reporting. To date we are told that Newport can not present an accrual
12 based monthly reports.

13
14 Referring again to the November 9, 2005 transcript (pg. 79), Ms. Wilson-Frias asks,
15 based on the new position of Deputy Utility Director of Finance, if it is Newport Wa-
16 ter's intent to reduce its reliance on the City Finance Department regarding various
17 commission activities. Ms. Fourge answers in the affirmative stating "She would be
18 taking most of the responsibilities that fell onto the City's Finance Director" and that
19 she would "have access to all records that are related to the water fund." Despite
20 these assertions, Newport Water is proposing that the Finance Department costs
21 be allocated the same way they were in the settlement of the last docket.

22
23 The methodology used in the last docket was not binding, yet Newport is asking
24 that it be memorialized in this docket. Newport's oft repeated contention regarding
25 "valuable services" from the City Hall departments must be questioned. I urge the
26 Commission to disallow any costs associated with the City Council and the City
27 Manager's office until there is some demonstrated willingness to deal with the Wa-
28 ter Department's cash flow issues in a timely manner. I further urge that the alloca-
29 tion for the Finance Department be cut in half.

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Q: Can you address your concerns regarding the allocation of the City Clerk's office?

A: In the last docket we raised substantial questions about the allocation of the City Clerk's office. We had been told that this office holds various documents related to the Water Department. During the last rate proceeding I called the Clerk's office seeking various documents, I was politely referred to the Water Department; they could not provide the documents they were reported to hold for the Water Department. In April 2007 I had someone from the Portsmouth Water & Fire District call the City Clerk's office looking for a schedule of the water rates, the PUC filing, and other documents related to the Water Department; as happened in the last docket, the caller was once again referred to the Water Department for this information.

In this docket, Newport has excluded costs associated with Land Evidence, but they have included over \$78,000 of costs in the City Clerk's office associated with Probate. There is no explanation as to why rate payers should pick up some 15% or \$11,500 of the Probate costs in water rates.

As I had testified in the last docket, the functions provided by the City Clerk's office also apply to the School Department as much as they do to the Water Department. It is inappropriate to allocate the Clerk's office based on an overall budget that excludes the School Department. I do not think this nor the other concerns I had raised before have been addressed and I again recommend that only 1% of the Clerk's Office (excluding Land Evidence and Probate) be allocated to the rate payers.

Q: Were the concerns you raised in Docket 3675 regarding the Assessment Department resolved in this docket?

A: Not entirely, but Ms. Fourge has explained the tax appeals in her testimony and the services provided by the Assessor's Office. I can concur with the amounts pro-

1 posed by NWD for this office but I still maintain that the percentage of budget allo-
2 cation should be based on the overall budget including schools and library and ex-
3 cluding debt and other capital costs.
4

5 **Q: Can you address the allocation of the Collection's Office?**

6 A: Newport has provided no support in the docket for an allocation of the Collections
7 Office other than to say it was allocated based on the Water Budget as a percent of
8 the total City budget. I reiterate that just because Newport proposed that in the last
9 case it was not precedential; NWD has provided no backup to this claim. From
10 Newport's testimony and data responses it appears that outside vendors print and
11 are responsible for billings. Accordingly, I have proposing removing \$25,000 of
12 copying and binding costs and \$2,900 of office supplies costs from the Collector's
13 Office Budget. According to NWD's response to Comm 1-24, postage on billings is
14 paid through the Water Department budget. I do not see any line item for postage
15 in the Collection's budget; I have assumed that it is probably within the copy-
16 ing/binding item or supplies.
17

18 **Q: Please address the allocation of the Administrative Services budget.**

19 A: In the prior docket Newport indicated in a data response (Div 1-17) that ¼ of a per-
20 son's time plus supervision is associated with the Water Department. I have thus
21 only allocated 5% of these costs to the Water Department.
22

23 **Q: Has Newport resolved the concerns you raised about the MIS Department
24 where \$176,741 has been allocated to the Water Department?**

25 A: No they have not. Again, the settlement in Docket 3675 related to the MIS Depart-
26 ment was not binding. Mr. Smith clearly used that settlement as a basis – "Based
27 on Docket 3675 settlement calculation." In the prior docket at least some costs
28 from the MIS budget were taken out before the allocation – this was not even done
29 in this docket.
30

1 Quoting from my testimony in Docket 3675:

2 "All Mr. Smith has done is reduce the MIS budget of \$1,845,933 by
3 \$50,000 'to recognize the minor degree to which the schools do rely
4 on the MIS Department'. There is no basis presented for this adjust-
5 ment. Mr. Smith says (page 15, line 6) that I have failed to recognize
6 other MIS costs incurred on behalf of the Water Fund such as "com-
7 puter hardware and software purchases, contract programming ser-
8 vices, computer training and various other computer related supplies
9 such as paper, toner and ink." I believe these types of costs were al-
10 ready recognized as part of Newport Water's operating costs. A re-
11 view of Newport's Rebuttal Schedule RFC C shows:

12 Administration Office Supplies	
13 Everyday supplies paper, toner, pens pencils etc	\$11,519
14 Fax Software	7,000
15 HP Laser Color Network Printer	2,000
16 Copy Machine	3,500
17 Toner Cartridges and New Items Contract	2,000
18 Shredder	<u>5,000</u>
19 Subtotal	\$31,019
20 Customer Accts – Support Services	
21 List Perfect Labor Cost	\$10,000
22 Opal Maintenance Contract	4,500
23 Billing consultant for reporting Opal	<u>3,000</u>
24 Subtotal	\$17,500
25	

26 These items alone amount to nearly \$50,000. In addition, there is
27 \$18,500 of billing software included in FY 2006 (RFC 4 Rebuttal). In
28 light of these items, I don't believe that I have failed to recognize
29 "computer hardware and software purchases, contract programming
30 services, computer training and various other computer related sup-
31 plies such as paper, toner, and ink." Mr. Smith's proposed \$50,000
32 reduction for the School Department is less than the total of the items
33 above. I believe the allocation of 5.5% of the MIS department costs
34 or \$101,526 is sufficient and far more reasonable than the \$254,371
35 recommended by Newport. The 5.5% allocation not only reflects the

1 proper allocation of time as reported by Newport, but also 5.5% of all
2 other items listed by Mr. Smith – many of which Newport Water ap-
3 parently incurs directly.”
4

5 I stand by my testimony in the last docket on this matter.
6

7 In this case Newport has taken the MIS Operating budget of \$904,412 and added
8 \$705,000 of unspecified “capital items”. We do not know what these items are,
9 how or if they relate to the Water Department, nor how they are to be funded. If, for
10 example the capital items are to be bonded, including the full amount clearly over-
11 states the actual costs; if they are cash funded they are not part of the rate year
12 expenses. In reviewing the budget provided in response to Div 2-1, I can not find
13 the \$705,000 of capital expenses for MIS. In the absence of any explanation I have
14 reduced the MIS budget by the \$705,000 for capital items, \$8,000 for operating
15 supplies, \$26,500 for copier supplies, and \$35,600 for MIS equipment. For the re-
16 maining MIS budget I have assigned a share to the Water Department that reflects
17 use of the MIS function by the Schools and Library.
18

19 **Q: Do you have anything further to add on the allocations of City Services?**

20 A: Yes. Many of the allocations contained in NWD’s exhibits use the proposed reve-
21 nue requirements for the Water Division as compared to the total City Budget to de-
22 rive a percentage allocable to Water. With a reduction in the revenue require-
23 ments, the percentage of the budget that water represents also drops. In my at-
24 tached schedules I have tied the percentage allocations to the revised revenue re-
25 quirements I have proposed.
26

27 **Repayment to the City**

28 **Q: Do you agree with NWD’s plan to repay the City of Newport for borrowed**
29 **funds?**

30 A: No I do not. There are several reasons I disagree.

- 1 – Newport agreed that they would not try to collect anything borrowed through
2 June 30, 2005
- 3 – A large part of the reason that so much is owed to the City was self-imposed
4 by the City of Newport. Newport could have and should have filed a rate
5 case much sooner. For what ever reason, the City of Newport delayed,
6 causing increases in the amounts owed that should have been avoided. For
7 example, if Newport had filed this case sooner, new rates would have been
8 in effect for the disproportionately high water use in the summer to which
9 Ms. Fource testified.

10

11 **Q: Isn't a large part of the amount owed to the City because Newport's sales**
12 **were less than projected in the last docket?**

13 A: According to Ms. Fource's prefiled testimony (pages 6-7) NWD's payables in-
14 creased by \$494,221 in FY 2006.

15

16 Based on the FY 2006 retail sales projected in the last docket and the actual FY
17 2006 retail sales, the loss in revenues at the current rate was \$303,838. For the
18 Navy, the loss in revenues was \$104,884. PWFD's purchases were actually higher
19 than projected resulting in increased revenues of \$67,674. The net revenue impact
20 of the difference in sales was \$341,048 or some 69% of the increase in payables
21 between FY 2005 and FY 2006. Along with the reduction in sales of some 3.8%
22 there should have been some reduction in chemical and power costs.

23

24 **Q: Was a potential drop in sales revenues addressed in Docket 3578?**

25 A: Yes it was. Referring to the June 2, 2004 transcript in that docket (Page 79), Ms.
26 Wilson asked what would happen if water usage went down and Newport didn't col-
27 lect \$250,000 to put into the Repayment to the City Account. Ms. Sitrin said that if
28 the cash were not available then the loan to the City would be the last priority, but
29 "we would certainly at that point anticipate coming back to the Commission for an
30 increase in rates." Apparently the drop in sales revenues has not reduced deposits

1 to the Repayment to the City account and Newport did not rush to get a new filing
2 in. Instead, Newport water was forced to cut its operating costs or as stated in its
3 March 2007 monthly report "all divisions have been requested to purchase essential
4 items only." Despite payables as of March 31, 2007 of more than \$1.5 million, the
5 monthly deposit to the Repayment to the City account is always made on time.
6

7 **Q: Do you believe that any losses prior to June 30, 2005 should be excluded**
8 **from recovery and not paid back to the City?**

9 A: Yes I do. An explicit provision of the settlement and Commission's Report and Or-
10 der in Docket 3578 (item 17A) said:

11 "The amount owed by the Water Department to the City of Newport for
12 loans prior to July 1, 2003 shall be limited to the \$2.5 million dollars
13 claimed in this Docket. The parties agree that Newport Water may re-
14 pay this \$2.5 million dollars advanced by the City of Newport. Repay-
15 ment shall be made out of the debt service fund at the rate of
16 \$500,000 per year for a period of five years. The parties have allo-
17 cated revenue of \$250,000 to be paid into the debt service fund spe-
18 cifically to offset a portion of this repayment to the City. Therefore, if
19 the Commission approves the request to make the change in restricted
20 account funding effective July 1, 2003 as proposed in Paragraph 16,
21 the initial installment of the repayment will take place in the rate year
22 ending June 30, 2004. This repayment shall be without interest. *New-*
23 *port Water further agrees that it will not seek to recover in rates any*
24 *additional monies that it may borrow from the City of Newport up*
25 *through and including June 30, 2005. Newport Water agrees that*
26 *should the City of Newport loan money to Newport Water after June*
27 *30, 2005, said loan shall be reflected by appropriate documentation*
28 *and Newport Water shall have the duty to monitor and track its costs*
29 *and properly account for how the loan proceeds are applied." (em-*
30 *phasis added)*

1 Ms. Fourge has testified that Newport Water Department payables as of June 30,
2 2005 were \$1,003,085. In accordance with the settlement agreement that was
3 agreed to by the City and approved by the Commission, none of this should be re-
4 imbursement to the City.

5
6 I would also point to the transcript of June 2, 2004 in Docket 3578. On page 32 the
7 Division's witness, Mr. Catlin was discussing the \$2.5 million that was to be repaid
8 to the City.

9 "That was an important aspect of this for all parties because we
10 wanted to fix the amount at the 2.5 million that would be owed to the
11 City of Newport and the settlement sets forth some strict require-
12 ments as to the fact that that's what we're going to repay, that's what
13 were going to ask the ratepayers to repay and *to limit it to that* and if
14 that needs to be changed, Newport would have to come to this
15 Commission and say, 'We need to change and here's why.' It won't
16 just be allowed to – in the next case or at some point in time to say,
17 'Oh by the way, we owe them another million or another \$500,000.'
18 That was an important aspect for each of the parties in this case."
19 (emphasis added)

20
21 Ms. Fourge testifies (page 6) that "... Newport Water was in the position of paying
22 for fiscal year 2005 expenditures from fiscal year 2006 revenue." Newport Water
23 agreed not to try and collect through rates any amounts it had to borrow from the
24 City through June 30, 2005 and it should be held to that agreement.

25
26 **Q: In your opinion was there any ambiguity about Newport paying back any addi-**
27 **tional deficits or loans prior to June 30, 2005?**

28 **A:** I think the transcript of the June 2, 2004 made the understanding quite clear (see
29 pages 64-66)

1 MS. WILSON: Now looking at the settlement ...the sentence that starts
2 with "Newport Water further agrees that it will not seek to recover in rates
3 any additional monies that it may borrow from the City of Newport up
4 through and including June 30, 2005 which is the next fiscal year: Now, I
5 thought from the surrebuttal testimony and from what I heard this morning
6 that the city will not be loaning any additional money to the water depart-
7 ment. Is that true?

8 MR. JAMES SMITH: Yes

9 MS. WILSON: So then what is the purpose of this line?

10 MR. KEOUGH: Maybe I can take that since the lawyers put this together.
11 I think it was just to memorialize what we had talked about, that, in fact,
12 there weren't going to be any more loans. I don't know if maybe Mr. Wold
13 and Mr. Catlin remember exactly how that all went, but I believe that that
14 is just memorializing what we, in fact, discussed at the conference.

15 MR. PETROS: I think Portsmouth asked for that and lawyers have an ex-
16 pression called belts and suspenders sometimes and in light of the history
17 we thought it would make sense to put it in the settlement agreement so
18 all the parties understood what the responsibilities were."

19 In light of Newport's request to extend the deposits to the Repayment to the City
20 account for three more years to cover some of the losses prior to June 30, 2005, it
21 should be clear why this "belts and suspenders" provision was included in the set-
22 tlement that all parties agreed to. Perhaps more "belts and suspenders" were
23 needed.

24
25 **Q: What is your position on deficits that were incurred after June 30, 2005?**

26 **A:** As discussed above, nearly 70% of the increase in payables from June 30, 2005 to
27 June 30, 2006 was due to sales that were lower than projected. I do not know of a
28 situation where the Commission has granted additional revenues to a Rhode Island
29 water utility because sales were lower than projected. Certainly this situation is not
30 unique in Rhode Island.

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After deducting the deficit due to reduced sales since June 30, 2005, the increase in Newport's payables for FY 2006 was some \$153,173 (\$494,221 increase in payables through FY 2006 less \$341,048 due to lower sales than expected). Newport Water was allowed \$137,209 of operating reserves in Docket 3675. This is nearly equal to the increase in payables in FY 2006.

Aside from this, I believe the City of Newport is responsible for much of the financial difficulty that has beset the Water Department. Based on the periodic reports that are submitted to the PUC, I think everyone that reviewed them was aware that Newport Water has been in a negative cash position since June 30, 2005. The decision in Docket 3675 was in early November 2005. Given the losses that Newport Water was experiencing, they should have been looking at a rate filing as soon as possible.

Again looking at the settlement agreement and transcript from Docket 3578, if Newport took loans after June 30, 2005 they were to be "reflected by appropriate documentation and Newport Water shall have the duty to monitor and track its costs and properly account for how the loan proceeds are applied." I have not seen these documents and do not believe they are a part of this docket. The Commission was asked if the Navy and Portsmouth could be notified if such a loan was to be made and the Commission replied "Certainly." Portsmouth has never received any such documentation. In the absence of this rather clear requirement for documentation and notification that has not been met by Newport, I am not sure how any repayment to the City could be approved by the Commission.

Q: How would Newport know that they were continuing to have losses?

A: A review of the monthly accounts payable balance attached to the response to PWFD 1-6 shows the payables less cash available increasing from \$420,828 at the end of November 2005 to \$853,667 for January 2006, to \$1.156 million in March

1 2006 and \$1.441 million in April 2006. Someone should have been concerned
2 enough to raise a red flag about this. Based on the response to PWFD 1-3 and 1-4
3 there was no correspondence within the City government regarding the growing
4 Water Department deficit. I can not understand why Newport did not prepare a rate
5 filing at least by the spring of 2006. Instead, Newport waited until the end of Janu-
6 ary 2007 -- nearly one year later -- to seek additional funds for the Water Depart-
7 ment.

8
9 **Q: Hasn't Ms. Fourge adequately explained why Newport Water waited?**

10 A: No. Ms. Fourge stated on page 8 of her testimony that they had to wait until pre-
11 liminary audit information was ready for FY 2006. Ms. Fourge and other advisers to
12 the Water Department know that nothing in the Commission's rules and procedures
13 precludes Newport from using *any* 12 month period for a test year. For example,
14 they could have used unaudited values for the 12 months ending December 31,
15 2005 and filed early in calendar year 2006. There was no need to wait an addi-
16 tional 12 months. Based on the response to PWFD 1-6, Newport Water's payables
17 had grown to over \$2 million at the end of February 2007 with virtually no cash bal-
18 ances.

19
20 On pages 12 – 15 Of Ms. Fourge's testimony she presents a number of examples
21 where operations and maintenance costs were less than allowed by the Commis-
22 sion due to "cash flow problems." Certainly there should have been some aware-
23 ness of a growing problem.

24
25 During the June 2, 2004 hearing before the Commission there was a discussion
26 about the need for Newport to come back into the Commission immediately if it
27 found itself in a deficit position. There was a discussion (pages 72-74) about the
28 ability to file an emergency rate case. Newport indicated that if more funds were
29 needed it would likely file for emergency relief along with an application for borrow-

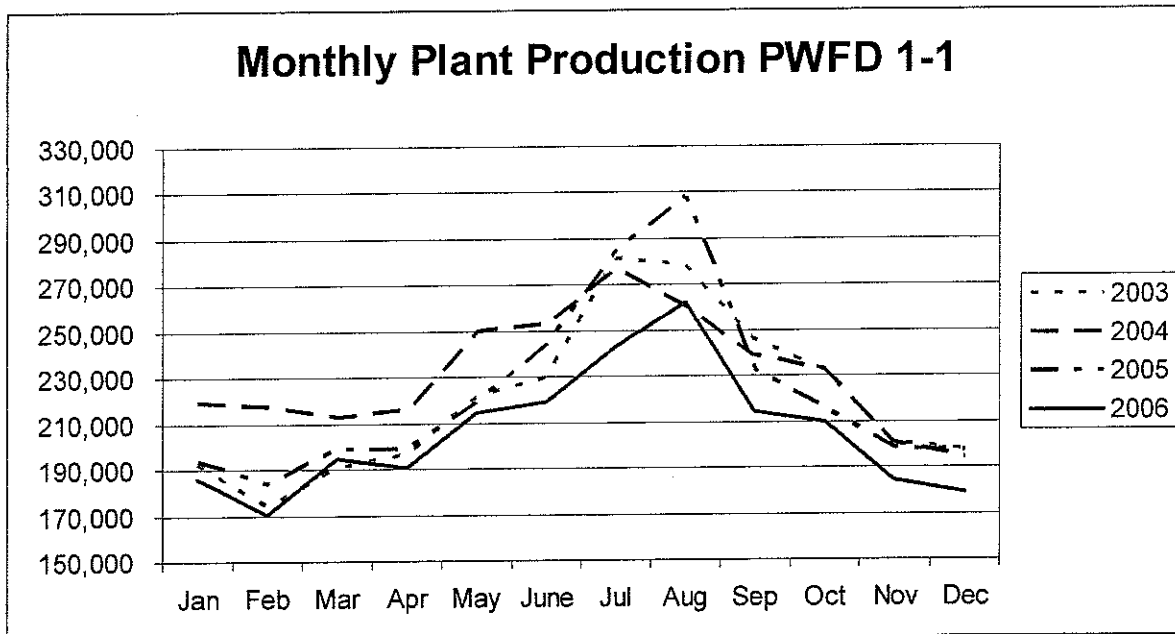
1 ing. That clearly did not happen. I urge the Commission to review this transcript
2 and what Newport promised.

3
4 **Q: Didn't Newport actually find itself in a positive cash position in July 2006?**

5 A: Yes, it did. The reason it was in this position was because it received the one-time
6 \$390,000 annual payment for public fire protection that the City prepaid in July.
7 Certainly this was a one time event and no one should have viewed this as an indi-
8 cation that things were now better. The advance payment by the City was not in
9 accordance with the approved tariff that calls for monthly billing in advance. In ef-
10 fect, this prepayment by the City was another undocumented "loan" from the City
11 General Fund.

12
13 **Q: Was there anything else Newport could have looked at to see this coming?**

14 A: As I said earlier, it is difficult to track revenues with billings that are predominately
15 tri-annual, but Newport certainly could have looked at production records to see
16 what was happening with sales. The following graph depicts monthly water produc-
17 tion at the two water treatment plants.



18

1 As can be seen from this graph, production in calendar year 2005 was generally
2 down from 2004, and production in 2006 (after the last Commission Report and Or-
3 der) was down significantly from 2005. In fact, in just about every month, the 2006
4 production was below the levels of the prior three years. Looking at the reduced
5 water production along with the growing payables should have raised some ques-
6 tions.

7
8 **Q: What is your recommendation regarding repayments to the City?**

9 A: The Commission has allowed \$250,000 per year from rates to pay off the prior defi-
10 cits. The final payment under the Commission's orders was to be made in June
11 2008. From the response to PWFD 1-16, Newport is not seeking an increase in the
12 \$250,000 per year allowance but they are now asking that the annual \$250,000
13 payment be extended three more years to FY 2011. In effect these are loans from
14 the City – loans that were not documented as required by the previous report and
15 order.

16
17 I do not believe the Commission should allow payments beyond those already ap-
18 proved. FY 2008 should be the last year. After that, the debt service account
19 should get an additional \$250,000 per year that may be needed by then for the
20 proposed 2007 Series B Bonds.

21
22 As explained by Mr. Smith in the response to PWFD 1-26, Newport is seeking to in-
23 crease payments to the City from the original \$2,500,000 to \$3,298,395. Yet, New-
24 port maintains there are no loans. If there are no loans why is there additional
25 money to pay back?

26
27 As agreed to in the settlement to Docket 3578, none of the amounts owed through
28 June 30, 2005 should be allowed. In addition, I also do not believe the Commission
29 should authorize reimbursements to the City for any deficits through February 1,
30 2007 when this case was filed. The mounting loses could have been minimized if

1 the City had acted more responsibly and allowed Council consideration of a rate fil-
2 ing many months ago. The growing deficit is the City of Newport's own doing. It
3 should not be allowed to delay responsible action knowing that it really won't matter
4 because the RI PUC will give it back. This undermines the authority of the Com-
5 mission.

6 **Miscellaneous Revenues**

7 **Q: You also mentioned an adjustment to NWD's claimed miscellaneous reve-**
8 **nues. Would you discuss that?**

9 A: In its response to PWFD 2-7, Newport has indicated that several items that are pre-
10 sented in RFC Sch D should be adjusted for the test year. I have reflected these
11 updates in my attached schedules and believe they should result in an increase to
12 the rate year miscellaneous revenues claimed by Newport. In regard to the rental
13 income, I have reduced the adjusted test year amount to reflect the loss in cell
14 tower revenue discussed in Newport's response to Comm 1-26.

15

16 **Operations and Management Issues**

17 **Q: At the start of your testimony you discuss concerns about the operations and**
18 **management of the Newport Water Department. Will you please discuss**
19 **these?**

20 A: As I stated earlier, Portsmouth depends on Newport for its water supply. Ports-
21 mouth wants to see that Newport is operated and managed as efficiently as possi-
22 ble to provide the best quality water at fair and reasonable rates. In reviewing all
23 the information that has become available during this docket, there are significant
24 concerns that have come up. These concerns relate to the delay in filing which I
25 have discussed, estimated water sales, unaccounted for water, and incorrect or in-
26 consistent data.

27

1 **Q: What do you mean by incorrect or inconsistent data?**

2 A: Based on several data requests from PWFD we found that information in the filing
3 and annual reports did not match. Newport has updated several pages of its an-
4 nual report to correct information or supply missing submittals.

5

6 **Q: What is the concern with estimated water sales?**

7 A: A review of the response to PWFD 2-10 shows that the consumption for estimated
8 water bills in FY 2006 was 19% of the total use. If Portsmouth Water & Fire District
9 use is deducted from the totals (this is not estimated, but actual each month), the
10 percentage of estimated water sales jumps to about 25%. PWFD had requested
11 the number of estimated bills (not gallons), but Newport was not able to provide
12 this. In any case, the amount of estimated consumption is quite high compared to
13 other similar water utilities in RI. I talked to representatives from Kent County,
14 Woonsocket, and Pawtucket and in each case the number of estimated bills was
15 less than 2% and typically around 1%. With billing only three times per year one
16 would hope that Newport could improve on the number of estimated bills signifi-
17 cantly. This becomes more critical in this case because Newport has asked for rate
18 year sales to be based on the test year sales, a large percentage of which are es-
19 timates.

20

21 I would also note that that our recommendation to bond the proposed radio read
22 meters to get the installations completed more quickly should help reduce the num-
23 ber of estimated meter readings.

24

25 **Q: Could the large percentage of estimated consumption really be due to a few
26 large accounts, indicating a lower percentage of bills that are estimated?**

27 A: Certainly this is possible; that is why we had requested the number of bills that were
28 estimated. In its response to PWFD 2-10 Newport has indicated that it can not pro-
29 vide that information.

30

1 I do think it unlikely that a few large volume accounts are responsible. Certainly
 2 Portsmouth's use is known and not estimated. Further, in response to PWFD 2-5,
 3 Newport says that in the past two years it has replaced 119 meters that are 3" and
 4 greater, including those where "estimated reads were prevalent." Based on this, it
 5 would be reasonable to conclude that many larger volume accounts have new,
 6 working meters, and that there would not be as many estimated bills for these cus-
 7 tomers. This would also suggest that the percentage of bills that are estimated is
 8 greater than the number of gallons.

9
 10 **Q: Please discuss unaccounted for water.**

11 A: As part of the filing in this docket Newport has provided a five year history of unac-
 12 counted for water. In response to a data request from PWFD, Newport revised this
 13 calculation on 4/9/07. The revised unaccounted for water values are typically in the
 14 14%-16% range. My first concern is that these are presumably derived based on
 15 water sales that are based on estimated meter reading that include some 25% of
 16 the total water sales (excluding PWFD). As a result, the unaccounted for water
 17 values are subject to the same errors as the estimated billings. Perhaps more im-
 18 portantly, PWFD draws its water supply right from the finished water tank and none
 19 of the sales to PWFD are subject to water losses. If the production and sales to
 20 PWFD are removed from the calculations, the percentage of unaccounted for water
 21 is even higher. Using the data from page 43 of the NWD's Annual Report to the
 22 Commission (as revised 4/5/2007), the sales to Portsmouth reported in the filing
 23 and the unaccounted for water from Item 2.9(n)(1) (as revised 4/6/07), I derived the
 24 following calculations for the past three years.

	<u>Production</u>	<u>Less PWFD</u>	<u>Net Product.</u>	<u>Losses</u>	<u>%</u>
FY 2004	2,832,109	422,944	2,409,165	409,974	17%
FY 2005	2,640,719	429,465	2,211,254	391,049	18%
FY 2006	2,610,775	463,253	2,147,522	423,178	20%

25

1 As this shows, the adjusted unaccounted for water, after deducting the sales to
2 PWFD directly from the plant are more in the range of 17% - 20%. This is a rather
3 high percentage for the past three years, particularly considering the work that has
4 been reported for leak detection in response to PWFD 2-3.

5
6 **Q: Why is Portsmouth concerned about these management issues; what con-
7 cern is it to your client?**

8 A: Portsmouth recognizes that the Commission has tried to avoid micro-management
9 of the water utilities that it regulates; Portsmouth does not wish to micro-manage
10 Newport's Water Division either. In this case, the management issues have an im-
11 pact on Portsmouth and the amounts it pays for water.

12
13 For nearly two decades Newport's rates, have generally been increased across the
14 board to all customers, including Portsmouth, As a result, there is no accounting
15 for lost or unaccounted-for water in the allocation of costs between wholesale and
16 retail customers. Portsmouth takes its supply from Newport directly from the treat-
17 ment plant – there is no lost or unaccounted for water associated with the supply to
18 Portsmouth. Because Newport has increased its rates across the board to all us-
19 ers, Portsmouth is paying for a share of the lost water. While Newport says it can't
20 quantify the cost of the lost water, certainly power is used to pump it and treat it,
21 and chemicals are added. These power and chemical costs are passed on to all
22 users, including Portsmouth.

23
24 With regards to the high estimated water sales, we are all uncertain as to the actual
25 water use. Newport's rate filing is based on a large quantity of water sales that we
26 now know are actually unknown. If the estimates are high and actual use turns out
27 to be lower, Newport will be short of revenues again. If the estimates are too low
28 and actual use is higher, there will be sufficient revenues, but the rates will have
29 been set too high to everyone, including Portsmouth.

1 I believe that Portsmouth, as a customer of the Newport Water Division, is nega-
2 tively impacted by the management concerns I have listed. We do not wish to mi-
3 cro-manage the Division, but these are management issues that directly impact the
4 rates set by the Commission and charged to Portsmouth.

5
6 **Q: Do you draw any conclusions from these management and operations con-
7 cerns?**

8 A: It seems clear that Newport Water has had insufficient revenues to pay for its op-
9 erations for some time now. There does not appear to be an urgency to correct
10 these deficits. In the meantime estimated bills are a high percentage of the total
11 and unaccounted for water appears high despite a three year, system wide leak
12 survey that was completed in FY 2005 and 200 man hours per year being spent on
13 suspected leaks with new leak detection equipment purchased in FY 2006. While
14 Newport Water has shown improvement in some respects, the current operations
15 and management, as manifested in estimated bills and leaks, does not appear to
16 be improving.

17
18 **Q: What do you believe the Commission should do about the management is-
19 sues you have raised?**

20 A: Again, I do not believe the Commission should insert itself as the manager of New-
21 port Water. However, I believe the Commission does have the authority and re-
22 sponsibility to try to correct obvious deficiencies. In this case, the Commission
23 could set goals for Newport Water such as reducing the unaccounted-for water, re-
24 ducing the numbers of estimated bills, and encouraging timelier rate filings that are
25 not politically motivated. It is not up to the Commission to correct these problems;
26 this is the City's responsibility. It would appear that there is a lack of concern from
27 somewhere within the Water Division or the City itself. Perhaps the Commission
28 can get the City's attention to provide better oversight and support to the Water Di-
29 vision. I have recommended significant reductions to Newport's claimed City Ser-
30 vices expenses and no further repayments to the City General Fund by rate payers.

1 I believe that Commission endorsement of these positions should get the attention
2 of the City of Newport and the Water Division management, and perhaps they will
3 begin to correct the deficiencies and concerns that have been outlined.
4

5 **Tariff Interpretation**

6 **Q: Are there any other management or operational concerns that Portsmouth**
7 **would like to bring to the Commission's attention?**

8 A: Yes there is one additional matter; it has to do with the application of interest on
9 late payments. Newport's tariff (Schedule G) states that interest on delinquent ac-
10 counts is "applicable to all water account balances over 30 days overdue." Ports-
11 mouth's understanding of this wording is that interest will be applied if the account
12 is not paid by 30 days after the listed due date, i.e., more than 30 days overdue.
13 An examination of the billings from May 2006 through April 2007 indicate the due
14 dates on the bills to Portsmouth are generally 30 days from the "Bill Date" but in
15 some cases were as few as 26 days and in others as many as 33 days. Ports-
16 mouth generally receives the bill several days after the "Bill Date." This has left as
17 few as 18 days to pay by the due date and only once has it provided a full 30 days
18 to make the payment by the due date. As an example, Portsmouth's February
19 2007 bill was dated February 2 and it was listed as due on February 28. It was not
20 received in the mail until February 8, 2007. The period from the billing date to the
21 due date was 26 days. The time to pay from receipt was 20 days. While Ports-
22 mouth has tried to ensure its payments are made by the due date, the schedule of
23 Board meetings to approve bills may not always accommodate such a tight sched-
24 ule. Portsmouth believes that the tariff calls for interest to be charged when the bill
25 is 30 days past the due date – "over 30 days overdue." Newport has applied inter-
26 est if the bill is not paid by the due date.
27

28 **Q: Has Portsmouth tried to work this out with Newport Water?**

29 A: Yes they have. I have been provided with documentation of letters, emails, and
30 phone calls on this matter. Initially Newport said they would make the appropriate

1 adjustments to remove the interest charges. When the interest appeared on the
2 next bill, Portsmouth again inquired as to why. After several days they received a
3 response that said the person that had said there will be an adjustment was not au-
4 thorized to do that and that Newport's interpretation of the tariff was that interest
5 accrued as of the due date – not when the bill was 30 days overdue.

6
7 Portsmouth then sent a formal letter to Newport Water on this matter dated March
8 2, 2006. Newport's attorney responded with a letter to Portsmouth's attorney on
9 March 20, 2006, indicating that they did not agree with Portsmouth's reading of the
10 tariff.

11
12 **Q: Has Portsmouth raised this issue with the Division?**

13 A: No they did not. Because the matter was referred to Newport's legal counsel who
14 responded to Portsmouth's legal counsel, Portsmouth felt that, considering the
15 amount in question, the cost to involve legal counsel from both sides at a meeting
16 with the Division was not worth it. Considering the negative cash position of New-
17 port Water at the time, Portsmouth expected that Newport would be filing a case
18 before the Commission shortly. Portsmouth felt it would be most cost effective for
19 all parties to have the Commission resolve the issue during the rate proceedings
20 when new tariffs were being considered.

21
22 **Q: What is Portsmouth looking for the Commission to do?**

23 A: Portsmouth would like the Commission to provide a clear interpretation of the tariff
24 wording. Is interest on unpaid bills applicable 30 days from the billing, 30 days from
25 the posted due date, or 30 days after the bill is due? We would also like Newport
26 ordered to provide the proper credits to interest charges that were improperly as-
27 sessed.

1 **Operating Revenue**

2 **Q: Newport has requested a 6% operating revenue allowance on its operations**
3 **and maintenance expenses. Do you agree with this?**

4 A: Yes I do. Like other water utilities across Rhode Island, Newport has seen drop-
5 ping sales and an inability to raise the revenue allowances granted by the Commis-
6 sion.

7
8 **Q: Do you think there should be any restrictions on the amount allowed for an**
9 **operating reserve?**

10 A: I do. As the Commission is aware, this has come up in other dockets that did not
11 involve Newport. When questioned about this by Commissioner Holbrook in a pre-
12 vious docket I agreed with his thought that some of the allowance be set as unre-
13 stricted and some be set as restricted. I believe that the Commission should allow
14 half or 3% to be unrestricted and used to cover unforeseen changes in expenses
15 and provide working capital. The remaining 3% should be placed in a restricted
16 rate stabilization account. If a utility experiences a drop in sales and revenues from
17 those allowed by the Commission, they should be allowed to petition the Division to
18 withdraw some of that restricted operating reserve to cover revenue shortfalls. The
19 Division could authorize such withdrawals within a reasonable time frame (say 30
20 days) and the Commission could be given an opportunity to stop this withdrawal if
21 the Commission objects.

22
23 I think that an allowance of this type would help Rhode Island's water utilities to be
24 better protected against revenue losses that result from declining sales. It may also
25 help the utilities delay frequent rate filings, further saving rate payers.

26
27 **Q: Have you prepared an exhibit that summarizes the adjustments to the revenue**
28 **requirements you discussed?**

29 A: Yes I have. It is attached to my testimony and includes a summary as well as de-
30 tails regarding my recommendations regarding capital spending, debt service and

1 the allocation of City Services expenses. (See Schedules 1 through 5, attached as
2 Exhibit C.)

3

4 **Q: Does this conclude your testimony?**

5 A: At the time this testimony was due, there were several data requests that were still
6 outstanding. Depending on the responses to those data requests I may have addi-
7 tional testimony.

8

EXHIBIT A

CITY OF NEWPORT- UTILITIES DIVISION - WATER DEPARTMENT
Docket No. 3818
Response to
Portsmouth Water and Fire District's Data Requests
Set 1

PWFD 1-3: On page 8, lines 17-19 of Ms. Forgue's testimony she states, "[T]he old City Council would not address financial matters that would carry over into the term of the new City Council." What is this statement based on? Please provide all of the facts, including any City Council minutes or other correspondence or communications between the Council and any other person, that indicate that the "old" City Council would not allow Newport water to file a rate increase sooner. Also please provide any correspondence or communications exchanged between Newport Water and the Administration between October 2005 and November 2006 regarding a rate filing.

Response: This statement is based on verbal communication from the City Manager to Department Heads. The City Manager limited the action items on the City Council agenda in November and December, 2006 that would be addressed by the new City Council taking office in January, 2007. Furthermore, each year there is only one City Council meeting scheduled in November and December, rather than the customary two per month. The briefing of the City Council in executive session by City staff and Newport's Rate Attorney regarding the details of the pending rate filing took place on January 10, 2007. The City Manager and Finance Director were aware at the end of FY2006 that work had begun on preparation for a filing. There is no formal written communication or minutes from any meeting.

Prepared by: J. Forgue

CITY OF NEWPORT- UTILITIES DIVISION - WATER DEPARTMENT
Docket No. 3818
Response to
Portsmouth Water and Fire District's Data Requests
Set 1

PWFD 1-4: Was Newport's Finance Director aware that Newport Water has had insufficient funds to pay all its expenses? If so, what actions did she take to make others aware of the situation and what actions did she recommend? Please provide all correspondence related to Newport Water's cash deficit and actions or concerns raised by the Finance Director to any person or agency in the City.

Response: Yes the City's Finance Director is aware of the cash flow issues in the Water Fund. In fact, almost every Water Fund monthly and quarterly report documents the ongoing cash flow problems. It has also been noted in the outside auditor's FY2004 and FY2005 management letters, which have previously been provided to parties on the service list. The Finance Director's actions and recommendations are a regular part of discussions with Water Fund personnel. Further, the finance director took part in discussions with legal counsel and with the City Council. The discussions with the City Council took place with legal counsel in Executive Session. The finance director has no documents responsive to this request.

Prepared by: Laura Sitrin

CITY OF NEWPORT- UTILITIES DIVISION - WATER DEPARTMENT
Docket No. 3818
Response to
Portsmouth Water and Fire District's Data Requests
Set 1

PWFD 1-6: Regarding page 6, lines 12-28 of Ms. Forgue's testimony: This testimony indicates that Newport Water has had insufficient cash to meet its accounts payable since at least June 30, 2005. Has Newport Water had sufficient funds to pay all its accounts payable for any month since the end of Fiscal 2005? If so, how much was available and in what months?

Response: Since the end of fiscal 2005, Newport Water had sufficient funds to pay all its accounts payable for the month of July 2006. As is clear from the monthly cash flow statements and the narrative accompanying such statements, no other months produced income sufficient to pay all accounts payable.

Please also see the attached spreadsheet which supports this explanation.

Prepared by: Helen de St. Jorre

CITY OF NEWPORT- UTILITIES DIVISION - WATER DEPARTMENT
Docket No. 3818
Response to
Portsmouth Water and Fire District's Data Requests
Set 1

PWFD 1-8: The rate filing in Docket 3675 included the following studies from rate funded capital items (RFC Schedule 4) for the rate year: ST-1 Safe Yield Study \$200,000, ST-2 GIS and Hydraulic Modeling \$200,000, and Easton Pond Dam and Moat Study \$100,000. For each study please indicate (a) if these studies were completed or awarded, (b) what amount has been paid in the Docket 3675 rate year (2006), and (c) how much had been contracted for as of March 1, 2007. Please confirm if these are the same studies presented on RFC Schedule 4 for FY 2008.

Response:

(a) The Safe Yield Study and GIS and Hydraulic Model project have not been completed and contracts have not been awarded. A contract was awarded in October, 2006 for the Easton Pond Dam & Moat Study which is a joint project between the Water Division and the Water Pollution Control Division.

(b) No funds have been expended in FY2006 for the referenced projects.

(c) As of March 1, 2007, the Water Division has expended \$20,989.50 of its allocation of the awarded contract for the Easton Pond Dam & Moat Study. The contract award was in the total amount of \$187,764 allocated as \$46,941.00 Water and \$140,823.00 Water Pollution Control.

The Safe Yield Study and GIS and Hydraulic Model projects have been deferred to FY 2008 as indicated in RFC Schedule 4. The \$100,000 budgeted for the Easton Pond Dam & Moat Study represents an allowance to initiate anticipated recommendations for improvements to the Easton Pond dam and spillways. Please refer to RFC Schedule I which illustrates this.

Prepared by: Julia Fogue

CITY OF NEWPORT- UTILITIES DIVISION - WATER DEPARTMENT
Docket No. 3818
Response to
Portsmouth Water and Fire District's Data Requests
Set 1

PWFD 1-9: Regarding page 8, line 25 of Ms. Forgue's testimony: The testimony states that Newport's capital account has been adversely affected by expenditures on studies that were not funded. As of the filing, how much had been spent on the financial management study?

Response: A contract in the amount of \$45,000.00 was awarded in December 2006 for the Financial Management Study of the Water Division. No invoices have been received as of March 1, 2007.

Prepared by: J. Forgue

CITY OF NEWPORT- UTILITIES DIVISION - WATER DEPARTMENT
Docket No. 3818
Response to
Portsmouth Water and Fire District's Data Requests
Set 1

PWFD 1-18: Regarding page 18, lines 24-26 of Mr. Smith's testimony: Did Clean Water Finance provide the estimated repayment schedule or the expected terms (interest rate and years) for the 2007 Series B SRF loan? Has Newport Water provided a drawdown schedule to Clean Water Finance for both the 2007 Series A and B loans? If so, please provide these. Why does the 2007 Series A SRF Loan show interest only payments through FY 2008 while the Series B loan issued later includes full principal and interest payments starting in FY 2008? Please provide the debt service payment schedules provided by Clean Water Finance for all the loans presented on RFC Schedule B.

Response: In a telephone conversation with a representative of RICWFA it was indicated that if Newport were to seek additional funds from RICWFA the funds would be provided at terms similar to the terms for the 2007 Series A funding.

Newport Water did provide RICWFA with a drawdown schedule for the 2007 Series A loan, but has not yet provided one for the Series B loans as the structure of that borrowing has not yet been finalized. A copy of the drawdown schedule for the Series A loan is attached.

As noted on RFC Schedule B, debt service on the Series A loan is based on debt service schedules provided by RICWFA. The Series A loan closed in early March of 2007 and the actual debt service schedules for that loan are attached. As you can see, this schedule differs slightly from those that were used in the rate model and appropriate adjustments will be made to the debt service schedules in the final version of the rate model.

As noted earlier, the terms and structure of the Series B loan has not been determined; therefore the estimated debt service on this loan reflected in the model assumes level debt service beginning in FY 2008. It is recognized that these are probably conservative estimates of the actual debt service that Newport will be required to pay on this loan and once the structure and terms of this loan have been determined, the model will be revised to reflect these amounts.

Debt service schedules for the Series A borrowing attached.

Prepared by: Harold Smith

CITY OF NEWPORT- UTILITIES DIVISION - WATER DEPARTMENT
Docket No. 3818
Response to
Portsmouth Water and Fire District's Data Requests
Set 1

PWFD 1-24: Please provide a copy of the City of Newport FY-05 and FY-06 Comprehensive Annual Financial Reports including any Reports to Management or special reports prepared by the auditor.

Response: The FY 2005 and FY 2006 Comprehensive Annual Financial Reports are enclosed as separate documents.

Prepared by: Helen de St. Jorre

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
Docket No. 3818
Response to
Portsmouth Water and Fire District's Data Requests
Set 2

PWFD 2-3: Page 43 of NWD's 2006 Annual Report lists unaccounted water for three years:

- a. Please describe in detail NWD's program to reduce unaccounted for water. Please include in this description whether NWD uses outside leak detection contractors or NWD staff to do leak detection and how many hours per year contractors and/or staff spent each year on leak detection.
- b. Please provide copies of work sheets for each year that support data on page 43 and identify which of this data is from meter readings, estimates, accruals or other sources.
- c. For FY 2006 how many leaks were repaired and what were the estimated gallons lost.
- d. Please indicate how much NWD pays for chemicals and electricity for unaccounted water.
- e. Page 43 shows FY-06 water sold of 2,059,662,000 gallons and RFC Schedule F shows water consumption of 2,085,969,000 gallons for test year FY 2006. Please explain the difference.
- f. Page 43 shows FY-06 "unaccounted for water" of 382,317,000 gallons and Appendix 8, Item 2.9(n)(1) of the Rate Filing shows FY-06 "unaccounted for water" of 350,304,000 gallons. Please explain the difference.

Response:

- a. The Newport Water Division completed the system wide leak survey in FY 2005. This capital project was completed over a three year period by outside contractors. The City purchased leak detection equipment in FY2006 and is now beginning an ongoing leak detection program in-house. Approximately 200 man hours per year are spent on suspected leaks with this equipment.

The Newport Water Division also works on a systematic program for the replacement of meters as detailed in the Infrastructure Replacement Plan dated January, 2005 as well as the proposed full implementation of the Remote Radio Read program as proposed in the Capitol Improvement Plan. Distribution main replacements as discussed in the City's Infrastructure Replacement Plan are also an integral part of this program.

- b. For the Annual Reports, a percentage had been applied to arrive at total utility production and water consumed in the treatment process. It is not known why this was done. Page 43 of the report has been revised to reflect metered plant production and metered process water. The figures for water revenues represents metered gallons. Attached are revised pages 6, 7 and 43 of the Annual Report for FY2006.
- c. In FY 2006 23 main leaks and 21 service leaks were repaired . The department did not perform an estimate of gallons lost from these leaks.

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
Docket No. 3818
Response to
Portsmouth Water and Fire District's Data Requests
Set 2

PWFD 2-5: NWD has replaced meters for large users in the past several years to correct under registration. Please provide any work papers or analyses that demonstrate the efficacy of this program.

Response: NWD has replaced 119 meters sized 3” and greater over the last two years. Replaced meters were chosen based upon age and/or reported stopped meters where estimated reads were prevalent. Meter sizes have been downsized where historical consumption indicates a meter can be smaller in size. The division has not performed a formal analysis of the efficacy of this program.

Prepared by: Ken Mason

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
Docket No. 3818
Response to
Portsmouth Water and Fire District's Data Requests
Set 2

PWFD 2-7: NWD Annual Report for FY 2006, page 6, shows various Non Water Service Revenues (Lines 23 thru 49). Please describe the differences between these and the amounts presented in RFC Schedule D.

Response: The City of Newport Annual Report for FY2006 as REVISED indicates the following Non Water Service Revenues:

Changes in Accrued Revenues	\$1,284,795	This properly would not be included on RFC Schedule D. It is a year-end accrual.
Penalty Charge	\$19,601	The Annual Report includes reclassified penalties that were not separately identified in the OPAL system until programming changes were made midway through the year. RFC Schedule D reflects the OPAL penalty amount.
Rents From Water Property	\$109,100	The City used an incorrect amount for RFC Schedule D.
Adjustments and Allowance	(\$333,113)	This is a reduction to water revenues due to the allowance for doubtful accounts reserve of \$225,000 and miscellaneous abatements/refunds of \$108,113.
Miscellaneous Service Charges	\$54,469	Included as part of sundry revenue in the rate filing, except for \$3,120 in shutoff fees shown as miscellaneous in Schedule D.
Billing Charges	\$590,182	Not considered an offset in rate filing; included elsewhere.
Interest & Dividend Income	\$80,108	Remains in restricted accounts.
Water Quality Protection	\$41,200	Year-end adjustments of \$16,223 not included on Schedule D.

Prepared by: Laura Sitrin

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
Docket No. 3818
Response to
Portsmouth Water and Fire District's Data Requests
Set 2

PWFD 2-10: Please provide a spreadsheet for all water billings in test year FY-06 showing by month:

- a. Total number of water accounts billed
- b. Total gallons billed for "a" above
- c. Total number of water accounts with an estimated meter reading and/or an estimated bill
- d. The total gallons billed for "c" above.

Response:

Month	(a) Number of Bills	(d) Consumption		(b) Total
		Estimated	Actual	
July 2005	4,968	18,129,694	154,358,515	172,488,209
August 2005	3,485	22,262,908	162,587,465	184,850,373
Sept 2005	4,421	18,017,724	215,085,867	233,103,591
Oct 2005	4,500	52,264,854	177,033,343	229,298,197
Nov 2005	4,681	32,716,775	140,262,704	172,979,479
Dec 2005	3,450	41,901,244	126,396,412	168,297,656
Jan 2006	4,352	27,856,295	137,739,205	165,595,500
Feb 2006	4,492	61,548,050	104,170,843	165,718,893
March 2006	4,649	48,080,427	95,846,421	143,926,848
April 2006	3,452	37,016,382	98,544,147	135,560,529
May 2006	4,480	20,065,248	121,800,433	141,865,681
June 2006	4,577	16,386,411	149,436,439	165,822,850
Totals	51,507	396,246,012	1,683,261,794	2,079,507,806

CITY OF NEWPORT – UTILITIES DIVISION -WATER DEPARTMENT
Docket No. 3818
Response to
Portsmouth Water and Fire District's Data Requests
Set 3

PWFD 3-4: Regarding RFC Schedule I, for each project to be funded from the proceeds of the 2007 SRF Schedule B bonds, please provide a listing of each project listed on RFC Schedule I and indicate the status of the project (advertised, awarded, or start) and include the date of advertisement and/or award and/or start date and indicate the estimated completion date.

Response: The projects proposed for the 2007 SRF Schedule B bonds as identified in RFC Schedule I are as follows:

- Intake at Gardiner Pond
- LVWTP Chloramine Conversion Construction
- LVWTP pH Adjustment Construction
- LVWTP Sedimentation Basin Improvements
- Station 1 Chloramine Conversion Construction
- Station 1 pH Adjustment Construction
- Station 1 Additional Pretreatment/Clarification Train
- Distribution Main Improvements
- Finished Water Storage Tank

With the exception of the pH Adjustment Construction projects, the projects are programmed for FY 2008 and FY 2009, therefore none of these projects have been advertised, awarded, and /or started at this time. The design documents for the pH Adjustment Construction have been issued a Certificate of Approval from the RIDOH. Upon notification from CWFA regarding availability of funding, the project for both plants will be advertised.

Prepared by: J. Forgue

EXHIBIT B

**PWFD
PUC DOCKET #3818
HISTORY OF \$3,000,000 RICWF LOAN**

CW Sch. A

History of Newport's \$3,000,000 Bond Issue

Docket #	Date Filed	Date Approved	Amount \$	Approved \$	Debt Service \$	Funded \$	Water Manager	Proposed Projects
PUC - 2985 R&O # 16235	05/28/99	04/01/00		3,000,000	220,745		Anderson	"If, when, and how various projects would be constructed was so cloaked in ambiguity, despite the voluminous discovery, that the Commission's task of deciding when debt service would be required was made much more challenging." "Capital Improvement program was an ever evolving target..." Per PUC Report & Order
DPUC - D-02-3 R & O # 16989	03/15/02	04/30/02		3,000,000	220,745		Forge	For some or all of the following projects (total value \$3,862M) LV-WTP - SCADA LV-WTP - Residual Management LV-WTP - Filter Improvements (Filter to Waste changes) LV-WTP - Update Chemical Feed System STA. 1-WTP - SCADA STA. 1-WTP - Paradise Pump Station Upgrade Per Forge Statement (39-3-17) Per Forge Testimony & Data Response to Div 1-3
PUC - 3578 R & O # 17992	11/28/03	06/28/04					Forge	For some or all of the following projects (total value \$3,862M) LV-WTP - SCADA LV-WTP - Residual Management LV-WTP - Filter Improvements (Filter to Waste changes) LV-WTP - Update Chemical Feed System STA. 1-WTP - SCADA STA. 1-WTP - Paradise Pump Station Upgrade Per Forge Testimony & RFC 11 Per R & O TSC-1 Rev.
PUC - 3675 R & O # 18580	04/15/05	11/11/05		2,999,628	215,860		Forge	LV-WTP - Raw Water Main Replacement Phase 2 of Ocean Ave. Distribution Main Improvements Finished Water Storage Tank Maintenance Per Forge Testimony & Schedule RFC 4.
DPUC - D-06-09	02/15/06	06/06/06		3,000,000	225,000		Forge	LV-WTP - SCADA (\$529,000) LV-WTP - Residual Management (\$1,416,000) LV-WTP - Chemical Feed System Update (\$375,000) LV-WTP - Raw Water Main Replacement (\$1,094,000) Per Forge Testimony
PUC - 3818	01/29/07			3,000,000	87,911	221,000	Forge	LV-WTP - Raw Water Main Replacement LV-WTP - Residuals management Per Forge testimony & Schedules RFC B & RFC 4.

Amount collected prior to first principle payment on 9/1/08
First Debt Service Principle & Interest Payment 9/1/08
Over Collection

1,536,514
221,000
1,315,514

EXHIBIT C

Summary of Revenue Requirements

Account	<u>Docket # 3675</u>	<u>NWD Claimed</u> <u>Rate Year</u>	<u>PWFD</u> <u>Adjustments</u>	<u>PWFD</u> <u>Proposed</u>	<u>Notes</u>
Operating Revenue Requirements					
Administration	\$ 1,718,060	\$ 1,785,992	\$ (285,136)	\$ 1,500,856	(1)
Customer Service	\$ 536,815	\$ 614,997		\$ 614,997	
Customer Accounts	\$ -	\$ -		\$ -	
Source of Supply - Island	\$ 455,087	\$ 568,165		\$ 568,165	
Source of Supply - Mainland	\$ 95,663	\$ 107,100		\$ 107,100	
Treatment - Newport Plant	\$ 1,352,566	\$ 1,437,499		\$ 1,437,499	
Treatment - Lawton Valley	\$ 1,026,354	\$ 1,229,718		\$ 1,229,718	
Pumping - Lawton Valley	\$ -	\$ -		\$ -	
Water Laboratory	\$ 213,952	\$ 220,400		\$ 220,400	
Transmission & Distribution Maintenance	\$ 838,893	\$ 940,395		\$ 940,395	
Fire Protection	\$ 14,000	\$ 14,000		\$ 14,000	
Total Operating Requirements	\$ 6,251,390	\$ 6,918,266	\$ (285,136)	\$ 6,633,130	
Capital Revenue Requirements					
Contribution to Debt Service Account	\$ 1,378,768	\$ 1,304,900	\$ (209,656)	\$ 1,095,243	(2)
Contribution to Repayment to City Account	\$ 250,000	\$ 250,000		\$ 250,000	
Contribution to Capital Spending Account	\$ 1,267,088	\$ 1,715,056	\$ (715,056)	\$ 1,000,000	(3)
Total Capital Requirements	\$ 2,895,856	\$ 3,269,956	\$ (924,712)	\$ 2,345,243	
Subtotal Revenue Requirements	\$ 9,147,246	\$ 10,188,222	\$ (1,209,848)	\$ 8,978,373	
Additional Rev Requirements (Operating Revenue)	\$ 137,209	\$ 415,096	\$ (17,108)	\$ 397,988	(4)
Revenue Requirements before Offsets	\$ 9,284,455	\$ 10,603,318	\$ (1,226,957)	\$ 9,376,361	
Less: Revenue Offsets	\$ (313,704)	\$ (443,076)	\$ (29,523)	\$ (472,599)	(5)
Net Revenue Requirements	\$ 8,970,751	\$ 10,160,242	\$ (1,256,480)	\$ 8,903,763	
Revenue From Current Rates (RFC Sch. E)		\$ 8,579,346		\$ 8,579,346	
Increase Needed		\$ 1,580,896		\$ 324,417	
% Increase		18.4%		3.8%	

(1) City Services adjustments -- see CW Sch 4

(2) Debt Service Adjustment -- see CW Sch 2

(3) Adjustment to rate funded capital -- see CW Sch 3

(4) Adjustment to misc. revenues -- see CW Sch 5

Debt Service Adjustments

2007 Series B Bonds

	<u>NWD Claimed</u>		<u>PWFD Adjustment</u>				
	<u>Rate</u>	<u>Year</u>					
Principal & Fees	\$	99,158	\$	1,460	\$	(97,698)	(1)
Interest	\$	107,899	\$	10,950	\$	(96,949)	(1)
	\$	207,056	\$	12,410	\$	(194,646)	

2007 Series A Bonds

Principal & Fees	\$	-	\$	11,074	\$	11,074	(2)
Interest	\$	87,911	\$	61,828	\$	(26,084)	(2)
	\$	87,911	\$	72,901	\$	(15,010)	

Totals	\$	294,968	\$	85,311	\$	(209,656)	
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(1) Interest on projected full 2007 project cost of \$292,000 for a full year,
Fees at 0.5% of outstanding loan

(2) See PWFD 1-18

Capital Improvements Plan

	Rate Year					Totals
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
Studies						
Safe Yield Study	\$ -	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ 200,000
GIS and Hydraulic Modeling	\$ -	\$ 100,000	\$ 200,000	\$ -	\$ -	\$ 300,000
IRP Update	\$ -	\$ -	\$ -	\$ 75,000	\$ -	\$ 75,000
Easton Pond Dam and Moat Study	\$ 47,000	\$ 100,000	\$ -	\$ -	\$ -	\$ 147,000
Lawton Valley WTP- Water Age Study	\$ 46,730	\$ -	\$ -	\$ -	\$ -	\$ 46,730
Joint Water Study	\$ 9,250	\$ -	\$ -	\$ -	\$ -	\$ 9,250
Financial Management Study	\$ 45,000	\$ -	\$ -	\$ -	\$ -	\$ 45,000
Raw Water Supply and Transmission						
Lawton Valley Raw Water Main Replacement/Residuals	\$ 1,401,250	\$ 1,360,250	\$ -	\$ -	\$ -	\$ 2,761,500
Intake at Gardiner Pond	\$ -	\$ 190,000	\$ -	\$ -	\$ -	\$ 190,000
Main from Gardiner to Paradise	\$ -	\$ -	\$ -	\$ 100,377	\$ 1,405,284	\$ 1,505,661
Intake at Paradise	\$ -	\$ -	\$ -	\$ -	\$ 190,000	\$ 190,000
Lawton Valley Reservoir Aeration	\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Paradise Pump Station	\$ 57,000	\$ -	\$ -	\$ -	\$ -	\$ 57,000
Treatment						
Lawton Valley WTP - Chloramine Conversion Design	\$ 46,000	\$ 43,500	\$ -	\$ -	\$ -	\$ 89,500
Lawton Valley WTP - Chloramine Conversion Construct	\$ -	\$ 90,000	\$ 90,000	\$ -	\$ -	\$ 180,000
Lawton Valley WTP - pH Adjustment Design	\$ 54,200	\$ -	\$ -	\$ -	\$ -	\$ 54,200
Lawton Valley WTP - pH Adjustment Construction	\$ 180,000	\$ 180,000	\$ -	\$ -	\$ -	\$ 360,000
Lawton Valley WTP - New WTP						
Lawton Valley Sed Basin Imp	\$ -	\$ 300,000	\$ -	\$ -	\$ -	\$ 300,000
Station 1 - Chloramine Conversion Design	\$ 46,000	\$ 43,500	\$ -	\$ -	\$ -	\$ 89,500
Station 1 - Chloramine Conversion Construct	\$ -	\$ 81,000	\$ 81,000	\$ -	\$ -	\$ 162,000
Station 1 - pH Adjustment Design	\$ 54,200	\$ -	\$ -	\$ -	\$ -	\$ 54,200
Station 1 - pH Adjustment Construction	\$ 112,000	\$ 112,000	\$ -	\$ -	\$ -	\$ 224,000
Station 1 - Additional Pretreatment/Clarification Train	\$ -	\$ 186,094	\$ 106,339	\$ 1,200,000	\$ 2,636,934	\$ 4,129,367
Station 1 - General Improvements	\$ -	\$ -	\$ -	\$ -	\$ 1,329,241	\$ 1,329,241
Station 1 - UV	\$ -	\$ -	\$ -	\$ 651,860	\$ -	\$ 651,860
Station 1 SCADA and Pumps	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ 30,000
Transmission, Storage and Distribution						
Distribution Main Improvements (Ocean Ave.)	\$ 1,591,000	\$ 365,000	\$ -	\$ -	\$ -	\$ 1,956,000
Distribution Main Improv.(Sherman St) Design & Construct	\$ 22,179	\$ 150,000	\$ -	\$ -	\$ -	\$ 172,179
Distribution Main Improvements (System-wide)	\$ -	\$ 250,000	\$ 3,250,000	\$ 300,000	\$ 3,200,000	\$ 7,000,000
Remote Radio Read Pilot/Install	\$ 20,000	\$ 250,000	\$ 625,000	\$ 500,000	\$ 500,000	\$ 1,895,000
Meter Replacement	\$ 38,000	\$ 64,000	\$ 66,560	\$ 69,222	\$ 71,991	\$ 309,774
Water Trench Restoration	\$ 15,000	\$ 65,000	\$ 67,600	\$ 70,304	\$ 73,116	\$ 291,020
Fire Hydrant Replacement	\$ -	\$ -	\$ -	\$ -	\$ 16,000	\$ 16,000
Finished Water Storage Tank Maintenance	\$ 14,910	\$ 81,000	\$ 575,000	\$ -	\$ -	\$ 670,910
Miscellaneous						
Equipment and Vehicle Replacement	\$ 157,000	\$ 184,056	\$ 93,300	\$ 50,360	\$ 19,000	\$ 503,716
Fire Code Upgrades	\$ 35,000	\$ -	\$ -	\$ -	\$ -	\$ 35,000
Total CIP Funding Needs	\$ 4,021,719	\$ 4,645,400	\$ 5,329,799	\$ 3,117,123	\$ 9,941,566	#####
NWD Proposed Funded From Rates	\$ 2,226,559	\$ 1,715,056	\$ 1,227,460	\$ 864,886	\$ 1,164,107	
3 year avg =	\$ -	\$ 1,269,134				
PWFD Proposed Funded From Rates	\$ 2,226,559	\$ 1,465,056	\$ 527,460	\$ 264,886	\$ 164,107	
2 year avg =	\$ -	\$ 1,000,000				
Proposed PWFD Adjustment =		\$ 715,056				

Items shown as **BOLDFACE** are proposed to be moved from rate funded to debt funded

City Services Cost Allocations

Based on Docket 3675 settlement calculation:

	Including Debt/Capital		Excluding Debt/Capital	
	FY 2007 Adopted Budget	Percentage	FY 2007 Adopted Budget	Percentage
General Fund Less School & Library	\$ 48,523,621	69.48%	\$ 46,334,438	73.13%
Harbor	\$ 667,883	0.96%	\$ 667,883	1.05%
Water Fund	\$ 9,376,361	13.42%	\$ 7,031,118	11.10%
WPC	\$ 8,633,784	12.36%	\$ 6,687,784	10.55%
Parking	\$ 1,681,564	2.41%	\$ 1,681,564	2.65%
Beach	\$ 959,973	1.37%	\$ 959,973	1.52%
Total Budget	\$ 69,843,186	100.00%	\$ 63,362,760	100.00%
	FY 2007 Adopted Budget	Percentage	FY 2007 Adopted Budget	Percentage
General Fund Including School & Library	\$ 74,007,978	77.64%	\$ 71,818,795	80.83%
Harbor	\$ 667,883	0.70%	\$ 667,883	0.75%
Water Fund	\$ 9,376,361	9.84%	\$ 7,031,118	7.91%
WPC	\$ 8,633,784	9.06%	\$ 6,687,784	7.53%
Parking	\$ 1,681,564	1.76%	\$ 1,681,564	1.89%
Beach	\$ 959,973	1.01%	\$ 959,973	1.08%
Total Budget	\$ 95,327,543	100.00%	\$ 88,847,117	100.00%

PWFD Proposal

Divisions/Functions to be Allocated:	NWD Proposed Allocation	Total City Budget	NWD Reduction to Budget Allocation	PWFD Reduction to Budget (1)	Allocable Dept Budget	% Allocation to Water Fund	Allocation to Water Fund
City Council	\$ 10,759	\$ 149,932	\$ (51,962)	\$ (16,000)	\$ 81,970	0.00%	\$ -
City Manager	\$ 45,173	\$ 451,350	\$ (40,000)		\$ 411,350	0.00%	\$ -
City Solicitor	\$ 21,105	\$ 384,374	\$ (192,187)		\$ 192,187	7.91%	\$ 15,209
City Clerk	\$ 38,602	\$ 538,658	\$ (187,143)	\$ (78,022)	\$ 273,493	1.00%	\$ 2,735
Finance Administration	\$ 19,073	\$ 347,357	\$ (173,679)		\$ 173,679	3.96%	\$ 6,872
Assessment	\$ 22,366	\$ 303,983	\$ (100,314)		\$ 203,669	7.91%	\$ 16,118
Collections	\$ 30,090	\$ 274,005	\$ -	\$ (27,900)	\$ 246,105	11.10%	\$ 27,309
Administrative Services	\$ 28,379	\$ 258,420	\$ -		\$ 258,420	11.10%	\$ 28,676
Facilities Maintenance	\$ 32,705	\$ 654,108			\$ 654,108	5.00%	\$ 32,705
Human Resources	\$ 14,695	\$ 304,957			\$ 304,957	4.82%	\$ 14,695
Accounting	\$ 46,178	\$ 359,013			\$ 359,013	12.86%	\$ 46,178
Purchasing	\$ 10,522	\$ 90,000			\$ 90,000	11.69%	\$ 10,522
MIS	\$ 176,741	\$ 904,412	\$ (775,100)		\$ 129,312	7.91%	\$ 10,233
	\$ 496,389						\$ 211,253

- (1) For City Council - Citizen Survey
- For City Clerk - Probate
- For Collections: Office Supplies and Copying & Binding costs
- For MIS: capital items, supplies and MIS equipment

Miscellaneous Revenues

	AS FILED BY NWD REC-Sch D			PWFD Adjustments	
	Normalized Test Year FY 2006	Rate Year Adjustment	NWD FY 2008 Rate Year	TY 2006 per NWD Response to PWFD 2-7	PWFD 2008 Rate Year
Customer Services	\$ -	\$ -	\$ -		\$ -
Transfer from Water Pollution Control Division	\$ 134,204	\$ 173,295	\$ 307,499		\$ 307,499
Rental of Property *	\$ 85,000	\$ (9,900)	\$ 75,100	\$ 99,100	\$ 99,100
Water Penalty	\$ 5,495	\$ 14,505	\$ 20,000		\$ 20,000
Miscellaneous	\$ 3,120	\$ 12,380	\$ 15,500		\$ 5,000
Lease Purchase Proceeds	\$ -	\$ -	\$ -		\$ -
Invest Interest Income	\$ -	\$ -	\$ -		\$ -
Water Quality Protection Fees	\$ 24,977	\$ -	\$ 24,977	\$ 41,200	\$ 41,000
	\$ 252,796	\$ 190,280	\$ 443,076		\$ 472,599

* Adjustment based on NWD Data response to PWFD 2-7 and loss of \$10,000 cell tower revenue per Comm 1-26