

DIRECT TESTIMONY
OF
JULIA FORGUE, P.E.
ON BEHALF OF
THE CITY OF NEWPORT, UTILITIES DEPARTMENT, WATER DIVISION

In re: City of Newport Utilities Department, Water Division

Docket No.

April 2011

1 **INTRODUCTION**

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

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

5

6 **Q. How long have you held this position?**

7 A. I began my employment with the City of Newport on March 12, 2001 as Director of Public
8 Works. While Director of Public Works, I also served as the General Manager of the Water
9 Division. A reorganization of City Departments was finalized in December 2007 and I am now
10 the Director of Utilities.

11

12 **Q. What are your responsibilities as Director of Utilities?**

13 A. I serve as general manager of the water and water pollution control divisions. I plan,
14 organize and direct the Water Division's activities. I direct and oversee the work of supervisors
15 on administrative and technical issues conforming to a policy framework established by the City
16 as well as State and Federal agencies.

17

18 **Q. Can you provide a brief description of your work experience?**

19 A. Prior to working for the City of Newport, I was employed by the City of East Providence for
20 14 years. In the last 11 years I managed the water division as Director of Public Works. The City
21 of East Providence purchases water wholesale from Providence Water and operates and
22 maintains its own transmission and distribution system with approximately 15,000 services.
23 Before working for the City of East Providence, I was a project engineer at consulting firms in
24 Colorado and New Hampshire.

25

26

27

1 **Q. What is your educational background?**

2 A. I received a B.S. in Civil Engineering from Northeastern University in 1981, and a M.S. in Civil
3 Engineering from the University of Colorado at Boulder in 1982. I am a registered Professional
4 Engineer in Rhode Island and New Hampshire.

5

6 **Q. Do you have any professional affiliations?**

7 A. Yes, I am a member of the American Water Works Association, New England Waterworks
8 Association and the Rhode Island Waterworks Association. I served as President of the RIWWA
9 from December 2001 to December 2003. I am also a member of the Water Environment
10 Association.

11

12 **Q. What is the purpose of this testimony?**

13 A. To support the request of the City of Newport, Utilities Department, Water Division
14 (hereinafter "Newport Water" or "Newport") to increase its rates. In Docket 4025, Newport
15 was authorized to collect revenue for a total cost of service of \$11,528,666 effective for usage
16 on and after July 1, 2009. For the proposed rate year, Newport requests a total cost of service
17 of \$15,038,048, which is a total revenue increase of \$3,509,382 over the amount granted in
18 Docket 4025.

19

20 **Q. What are the rate year and test year Newport Water in this filing?**

21 A. The test year is Fiscal Year 2010 (July 1, 2009 to June 30, 2010). The rate year is Fiscal Year
22 2012 (July 1, 2011 to June 30, 2012).

23

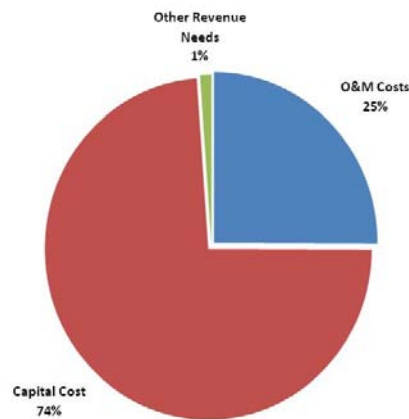
24 **SUMMARY OF REVENUE REQUIREMENTS**

25 **Q: Can you summarize the revenue increase Newport is requesting?**

26 A: Yes. Newport Water's request for increased revenues is driven primarily by an extensive
27 capital improvement plan over the next five years, which includes:

- The construction of a new water treatment plant at Lawton Valley and an additional treatment unit at the Station One Treatment Plant (hereinafter collectively “Treatment Plant Projects”); and
- Water system improvements including water main improvements, repairs to dams and spillways at the various reservoirs, and improvements to existing pump stations.

As a result, expenses associated with capital improvements comprise approximately 74% of Newport Water’s requested revenue increase.



Q. Does Newport’s rate application include a multi-year increase as provided for in R.I.G.L. §39-15.1-4?

A. Yes. Newport Water anticipates it will have to borrow more than eighty seven million dollars over the next five years for the Treatment Plant Projects alone. Thus, Newport Water seeks to utilize the multi-year rate plan mechanism set forth in R.I.G.L. §39-15.1-4. This allows us to phase in revenue increases over time rather than requesting a single large increase immediately. In addition, Newport can request increased revenues to meet its debt service requirements over multiple years in a single rate case, rather than filing multiple costly rate applications.

1 **Q. Will the revenues from current rates be sufficient to cover expenses in the rate year?**

2 A. No. The revenues generated from the existing rates will not be sufficient to recover the
3 expenses for the rate year (FY12). However, the proposed rates should recover sufficient
4 revenues for the rate year expenses.

5

6 **CAPITAL IMPROVEMENT PLAN**

7 **Debt Service – Treatment Plant Projects**

8 **Q. As referenced in your testimony above, Newport’s requested rate increase is primarily**
9 **driven by its Capital Improvement Plan. Can you please discuss the status of the Treatment**
10 **Plant Projects?**

11 A. Yes. As the Commission knows from my testimony in Docket 4025, Newport has been
12 planning improvements to its two water treatment plants – Lawton Valley and Station One – for
13 quite some time. In prior rate proceedings, we did not request funds for construction of these
14 improvements. Nevertheless, we kept the Commission updated on the status of these projects
15 as they would clearly impact future rates. In this filing, Newport is now seeking rates to fund
16 construction.

17

18 **Q. Can you please review the history of the Lawton Valley and Station One Projects?**

19 A. In 2004, the City of Newport conducted a comprehensive evaluation of its two water
20 treatment plants – Lawton Valley and Station One. The purpose of the evaluation was to assess
21 current and future regulatory compliance as well as the physical condition of the two plants.
22 The most significant challenge for Newport Water is compliance with the Stage 1 and 2
23 Disinfectants/Disinfection Byproduct Rule (D/DBR), particularly compliance with Total
24 Trihalomethanes (TTHMs). The Stage 2 Rules create a situation where the current treatment
25 processes at the two plants will not comply with the TTHM.

26

1 Due to previous violations of the TTHM Standard, the Rhode Island Department of Health
2 (“RIDOH”) issued a Notice of Violation. Thereafter, the City of Newport entered into a consent
3 agreement to make certain physical improvements to the treatment plants to assure
4 compliance with the Stage 1 and 2 Rules. The City also entered into a Consent Agreement with
5 the Rhode Island Department of Environmental Management (“RIDEM”) whereby discharge
6 from the Lawton Valley Plant to the Lawton Brook will cease.

7
8 Long term recommendations were made for each facility based on these evaluations. The long
9 term recommendation for Lawton Valley was to replace, rather than rehabilitate, the 1943
10 facility. This recommendation was made primarily for two reasons. First, significant work would
11 be needed to achieve treatment reliability and to maintain regulatory compliance. Second,
12 significant structural, mechanical, and electrical improvements would be required to comply
13 with current building codes and to ensure that adequate health and safety provisions are in
14 place.

15
16 Station One’s long term goal is to provide the maximum day design capacity of nine million
17 gallons per day (“MGD”) with one treatment unit off-line. Currently, Station One can handle
18 nine MGD hydraulically, but in terms of providing consistently reliable treatment, it is limited to
19 a maximum daily flow of six MGD with all units in service. To achieve the reliable treatment and
20 capacity goal, an additional pretreatment/clarification unit is needed.

21
22 However, before Newport Water made any decisions about these projects, it needed to
23 conduct a preliminary analysis of several issues. Thus, in March 2008, Newport Water engaged
24 the services of Camp, Dresser & McKee (“CDM”) as a consulting engineer to act as the City’s
25 advisor throughout the bidding and construction process for the Treatment Plant Projects.¹
26 CDM’s scope of work consists of five separate phases:

¹ CDM is not eligible to bid on the project itself.

1 Phase 1- (A) Utility Ownership/Governance;
2 (B) Project Delivery Strategy;
3 Phase 2- Utility Financing;
4 Phase 3- Engineering Studies and Preliminary Design;
5 Phase 4- Procurement Documents and Process; and
6 Phase 5- Monitoring of Awarded Contract.
7

8 **Q. Are any of these phases complete?**

9 A. Yes. CDM completed Phase 1 and continues working on various tasks in Phases 2, 3 and 4. In
10 the course of completing Phase 1A, CDM examined all possible strategic options for the
11 ownership, financing and governance of the water system. CDM concluded that the City of
12 Newport's continued ownership, operation and governance of the system, with rate payer
13 financing, is in the best long-term interest of the rate payers, and the City Council concurred.
14

15 As part of Phase 1B, CDM developed, evaluated, and recommended project delivery options for
16 the Treatment Plant Projects. CDM recommended a single Design/Build ("DB") Contract as the
17 most cost effective project delivery method for the Treatment Plant Projects. Thus, a single
18 company will be responsible for both the design and construction of the facilities.
19

20 **Q. What is the timeline for selecting a DB vendor?**

21 A. The competitive proposal process for the Treatment Plant Projects began with the issuance
22 of a Request for Qualifications (RFQ) for Design/Build Services on April 14, 2009. Newport
23 Water received five responses to the RFQs on June 30, 2009. An Evaluation Committee
24 comprised of the City Solicitor, City Manager, Director of Finance, Director of Utilities, and the
25 Deputy Director of Utilities evaluated these submittals from July through November 2009. CDM
26 provided technical support to the Evaluation Committee.

1 Following this review, a “short list” of companies was created in November 2009. The short
2 listed firms received a Request for Proposals (RFP) for Design/Build Services on November 30,
3 2010. The proposals submitted in response to the RFP will be evaluated and the preferred
4 proposal selected to negotiate the final D/B Contract. The proposals are currently due to be
5 submitted in May 2011. The Evaluation Committee will evaluate the proposals with assistance
6 from CDM, Special Legal Counsel and the City’s Financial Advisor, First Southwest. Once an
7 acceptable contract has been negotiated, it will be presented to the City Council for approval.
8 It is anticipated that this will be done by January 2012, and a contract awarded in February
9 2012. It is also anticipated that the Water Treatment Plant Projects will be completed, with
10 both plants operational, by December 31, 2014.

11
12 **Q. How much are the Treatment Plant Projects expected to cost?**

13 A. The new Lawton Valley Treatment Plant and the improvements to Station One are expected
14 to cost approximately seventy six million dollars (\$76,000,000).

15
16 **Q. Have the cost of these projects increased since Newport last reviewed these projects with
17 the Commission in Docket 4025?**

18 A. Yes. In Docket 4025, I testified:

19 “As set forth in Mr. Smith’s schedules, Newport anticipates an estimated \$11.45 million
20 Rhode Island Drinking Water State Revolving Fund (“DWSRF”) loan in FY11 (“2011 SRF
21 A”) to fund the design build contract for the Station 1 improvements. In FY 12, Newport
22 anticipates a \$41.1 million DWSRF loan (2012 SRF A) for the design and construction of
23 the new Lawton Valley plant.

24
25 However, since that time, CDM completed pilot testing which resulted in changes to the
26 projects and increased costs.

27

1 **Q. Can you please explain?**

2 A. Yes. At a City Council workshop on April 5, 2010, CDM summarized the results of its pilot
3 testing and the treatment alternatives for the control and/or reduction of disinfection
4 byproducts. The alternatives included changing to the use of chloramines as a disinfectant or
5 the use of advanced treatment technologies. Although the inclusion of advanced treatment
6 technologies into the design for the Treatment Plant Projects may cost more, it offered a more
7 permanent long-term solution, more reliability, more certainty, and a greater ability to address
8 future regulations without additional upgrades. Thus, the City of Newport directed the inclusion
9 of advanced water treatment alternatives in the Design/Build procurement documents.

10

11 **Q. How does Newport plan to fund the Treatment Plant Projects?**

12 A. Newport Water plans to finance the Treatment Plant Projects through subsidized loans from
13 the Drinking Water State Revolving Fund (“DWSRF”) administered by the Rhode Island Clean
14 Water Finance Agency (“RICWFA”). As the Commission knows, the State of Rhode Island
15 created the DWSRF to provide financial assistance to water suppliers. This fund uses federal
16 capitalization grants and state matching funds to provide subsidized (25% below market-rate)
17 loans to water suppliers for qualifying projects listed on RIDOH’s Project Priority List. The
18 RICWFA sells bonds in the public market and loans the proceeds to its drinking water
19 borrowers. The Treatment Plant Projects are listed on RIDOH’s Project Priority List. Therefore,
20 the Projects are eligible for subsidized DWSRF loans through RICWFA.

21

22 **Q. When does Newport plan to borrow the funds needed for the Water Treatment Plant**
23 **Projects?**

24 A. Newport plans to make four borrowings through the RICWFA as identified in the schedules
25 attached to Harold Smith’s testimony (RFC Schedules 4, 5 and C).

26

27

1 **Q. Is Newport planning to fund any other capital projects through debt?**

2 A. The Easton Pond Dam Improvement Project is the only other project in Newport's current
3 Capital Improvement Plan funded through debt. The revenues necessary to fund this debt have
4 already been approved by the Commission. Thus, no new revenues are needed for this
5 particular project.

6

7 **IFR – Water Main Improvement Projects**

8 **Q. Are the remainder of Newport's capital projects funded through IFR?**

9 A. Yes, as identified in Schedule RFC 4, Newport Water has several other capital improvement
10 projects in addition to the Water Treatment Plant Projects. These projects will be funded
11 through IFR. The largest projects are two system-wide water main improvement projects. The
12 first is the Gardner Pond to Paradise Pond raw water main project. This project will rehabilitate
13 the existing 30" reinforced concrete main from the Maidford River intake structure to the
14 Gardner Reservoir via the Paradise pump station, including rehabilitation of the Maidford River
15 intake structure and valve station at the Gardner Pond reservoir. The second project includes
16 ongoing improvements of the water distribution system as developed in the 2010
17 Infrastructure Replacement Plan. This project will upgrade approximately three (3) miles of
18 predominately undersized and antiquated water mains throughout the distribution system in
19 Newport and Middletown. The remainder of the IFR funded capital projects are identified in
20 Schedule RFC 4.

21

22 **Multi-Year Rate Plan**

23 **Q. Is Newport's request for a multi-year rate increase related to its Capital Improvement
24 Program?**

25 A. Yes. As set forth in RFC Schedule 4, Newport's proposed Capital Improvement Program
26 expenses increase dramatically from the test year of FY10 through FY15:

1	FY10	\$6,252,252 ²
2	FY11	\$3,255,252
3	FY12	\$17,815,810
4	FY13	\$39,354,634
5	FY14	\$29,785,900
6	FY15	\$8,842,400

7

8 Thus, we have requested a multi-year rate plan with successive increases to support debt
9 service. As the Commission knows, R.I.G.L. §39-15.1-4 allows water suppliers in the State of
10 Rhode Island to file a rate plan with the PUC for a period not to exceed six (6) years. Newport
11 seeks this multi-year rate plan so that future expenses for the Capital Improvement Plan can be
12 phased in over time rather than requesting a single large increase. In addition, revenues
13 required over multiple years can be requested in the present rate case, rather than filing
14 multiple rate applications each time an increase is needed over the next five years.

15

16 **Q. What if the cost of Newport's Capital Improvement Plan is less than anticipated?**

17 A. It is my understanding that the law requires subsequent notice to the Commission before
18 each successive increase goes into effect. After receiving the notices, the Commission reviews
19 each increase to ensure they are consistent with the multi-year plan previously approved. After
20 reviewing each successive notice, the Commission can approve, or reasonably amend, the
21 proposed rate increase.

22

23 **NORMALIZED TEST YEAR**

24 **Q. Has Newport Water presented a Normalized test year in this filing?**

25 A. Yes we have.

26

² Figures include debt funded projects and pay-as-you-go IFR funded projects

1 **Q. Would you please explain how Newport arrived at its normalized test year for its operating**
2 **and maintenance expenses?**

3 A. Yes. A review of RFC Schedules 2 and 3 shows a number of normalization adjustments made
4 to the test year. In addition, there are some differences between the expenses allowed in
5 Docket 4025, actual test year costs and rate year requests.

6
7 Herein below, I identified and provided an explanation to the normalization and rate year
8 adjustments and the differences in expenses granted in Docket 4025. I limited my explanations
9 to those that exceed \$10,000. RFC Schedules 2 and 3 set forth the test year, and the
10 normalization and rate year adjustment requirements for each of Newport Water's budget
11 accounts and individual budget line items. I will address each of the adjustments in order as
12 they appear on RFC Schedules 2.

13
14 **Q. Could you please explain the increase in Salaries & Wages?**

15 A. Yes. The overall increase in Salaries and Wages are attributable to the following:

16
17 Administration – The test year normalization adjustment is attributable to the increased
18 salary for the new Deputy Director of Utilities (Finance). The rate year increase is for
19 step increases, a 3% cost of living adjustment (COLA) in 2012.

20
21 Customer Service - The decrease in this line item is primarily due to the transfer of one
22 position from the Customer Service Section to Source of Supply Island and the
23 retirement and replacement of the principal water account clerk. Due to a contractual
24 reclassification, the new principal water account clerk will have a lower salary in the rate
25 year.

26

1 Source of Supply (Island) – The increase in the test year and the rate year is primarily
2 due to the transfer of one position from the Customer Service Section to Source of
3 Supply Island. Other increases result from step increases, longevity pay and a 3% cost of
4 living adjustment (COLA) in 2012.

5
6 Treatment Plant Newport (Station One) – The decrease in the test year expense, and the
7 subsequent normalizing adjustment, is because the assistant supervisor position was
8 vacant in 2010. The rate year adjustment is attributable to step increases, longevity pay
9 and a 3% cost of living adjustment (COLA) in 2012.

10
11 Treatment Plant Lawton Valley - The decrease in the test year expense, and the
12 subsequent normalizing adjustment, is because the assistant supervisor and foreman
13 positions were vacant in 2010. These positions were left vacant until negotiations were
14 completed with the AFSCME union regarding the reorganization of management
15 positions. The negotiations are nearing completion and the vacancies will be filled. The
16 rate year increase is attributable to step increases, longevity pay and a 3% cost of living
17 adjustment (COLA) in 2012.

18
19 Laboratory – The decrease in the test year expense, and the subsequent normalizing
20 adjustment, was due to vacancies in the Section caused by retirement, promotion and
21 replacement of personnel in the Section. Due to contractual reclassifications, both
22 laboratory positions have lower pay rates than used in Docket 4025. The rate year
23 increases are attributable to longevity and a 3% COLA in 2012.

24
25 Transmission & Distribution Maintenance - The increase in the rate year for this Section
26 is attributable to filling a vacant position, step increases, longevity pay and a 3% cost of
27 living adjustment (COLA) in 2012 and personnel changes.

1 **Q. Could you please explain the decrease in Overtime Salaries & Wages?**

2 A. Yes, the overall decrease in overtime expense is attributable to a combination of increases
3 and decreases in various Sections. The decrease in Customer Service is due to the projected
4 completion of the radio read conversion project. Overtime at Station One's was higher than
5 normal in the test year, but will decrease once vacancies are filled. The decrease at Lawton
6 Valley is caused by the average hourly rate used in calculating overtime for new employees who
7 will be replacing retired employees at a lower pay rate in the rate year. These decreases were
8 offset by increases attributable to a 3% COLA increase in 2012 in all sections.

9

10 **Q. Please explain the change in Temporary Salaries expenses.**

11 A. The decrease of expenses in the test year and the subsequent normalizing adjustment is due
12 to the wet summer in 2009, which reduced the operations of the Sakonnet and Paradise pump
13 stations. The usage of this pump station is expected to return normal in the rate year. The
14 downward rate year adjustment is due to the projected completion of the radio read
15 conversion project. Also, the Customer Service Section had one temporary employee work a
16 total of 38 weeks in FY 2010 and FY 2011. This temporary employee is scheduled to work 19
17 weeks in FY 2012.

18

19 **Q. Why have Employee Benefits increased?**

20 A. The decrease of expenses in the test year and the subsequent normalizing adjustment is due
21 to vacancies and the lack of expected pay raises in the test year. A number of factors
22 contribute to the rate year increase in this expense. FICA, which is 7.65% of pay, increased due
23 to an increase in salaries caused by the 3% COLA in 2012 and filling the vacant positions. The
24 City's contribution to the State of Rhode Island Pension Fund (MERS), which is calculated as a
25 percentage of base pay, increased due to the increase in salaries and also due to the State of
26 Rhode Island increasing the required employer's MERS contribution. The percentage used in
27 Docket 4025 was 14.58%. The actual required percentage for FY2012 is 17.08% and is used in

1 this filing for calculating the required contribution. Medical insurance rates are also expected to
2 increase by 21.4% over the actual 2010 rates. Dental insurance remain the same and life
3 insurance costs decreased slightly.

4
5 **Q. Please explain the increase to Retiree Insurance Coverage.**

6 A. The rate year increase is due to a 15.6% increase in health insurance costs in 2011, a
7 projected 5% increase in 2012 and two mid-year retirees in 2011. Furthermore, four additional
8 employees are eligible for retirement in FY 2012.

9
10 **Q. Please explain the decrease in Worker's Compensation Insurance.**

11 A. This test year expenses reflect the actual rates charged in the test year. The premium paid
12 was less than forecasted as there were vacancies in 2010 and there were no pay increases in
13 2010. The rate year adjustment is based on an expected premium increase of 3% on the actual
14 FY 2010 premium of \$67,174.

15
16 **Q. Can you explain the normalization adjustment to Conferences and Training?**

17 A. Expenses for Conferences and Training were curtailed due to reduced spending. Newport
18 Water made an effort to reduce spending due to a decrease in water sales in the test year. The
19 test year adjustment was made because funding is required for continuing education credits to
20 maintain RIDOH certifications.

21
22 **Q. Please explain the increase in Consultant Fees.**

23 A. This expense includes Legal Fees and Financial Consultant fees for the PUC and the Division
24 of Public Utilities and Carriers filings including those for future capital projects. Other fees
25 include our Bond advisors, the Code Red project and other consultants including the Division's
26 consultants.

27

1 **Q. Can you please explain the increase to Contract Services?**

2 A. During the test year, water storage tank Inspections were not required, but will be required
3 in FY 2012. In addition, the Opal Maintenance contract budgeted for the Water Division was
4 inadvertently paid by the City of Newport MIS Department in FY 2010, but will be charged in
5 the future to the Water Division in accordance with the City Cost Allocation Manual. There
6 were no charges to the billing consultant in FY 2010 but are anticipated in the future to support
7 the merging and setup of the Radio Read Meter Reading system. A further expense moving
8 forward will be the service contract for the Badger/Orion radio read meter system.

9

10 **Q. Can you explain decrease in Fire & Liability Insurance?**

11 A. The decrease in the test year is due to lower than anticipated expenses and the slight
12 increase in the rate year is based on information received from the Rhode Island Interlocal
13 Trust.

14

15 **Q. Can you explain the increase in Water and Sewer expense?**

16 A. The test year adjustment was made because water and sewer volumes decreased in 2010.
17 The volumes for Station One were normalized to Docket 4025 levels. The Lawton Valley
18 volumes were not adjusted. Thus, the test year normalizing adjustment is a combination of the
19 volume adjustment at Station One and an increase in sewer rates. The rate used in Docket 4025
20 was \$0.0065/gallon. The sewer rate for FY 2010 increased to \$0.0068/gallon, and increased to
21 \$0.01019/gallon in FY2011. The Water Division estimates a 15% increase to \$0.01175/gallon
22 for FY 2012.

23

24 **Q. Please explain the increase in electricity expenses.**

25 A. The explanations for the increases vary among Sections, and are summarized as follows:

26

1 Administration –The decrease is primarily due to lower than previously forecast annual
2 KWH usages.

3
4 Source of Supply Island – The FY10 expenses for the Paradise and St. Mary’s pumping
5 stations were unusually low due to a wet summer in 2009, which reduced the run time
6 of the pump station. Usage is expected to return to normal levels. In the rate year, the
7 base electric rate is not expected to increase as it is fixed through the City’s contract
8 with the RI League of Cities and Towns, which expires in 2014. However, the delivery
9 charge, fixed charge, and cost of supply charge have increased over the Docket 4025
10 rates and are included in the rate year.

11
12 Source of Supply Mainland - The FY10 expenses for the Sakonnet pumping station was
13 significantly low due to the wet summer in 2009, which reduced the run time of the
14 pump station. Usage is expected to return to normal levels. In the rate year, the base
15 electric rate is not expected to increase as it is fixed through the City’s contract with the
16 RI League of Cities and Towns, which expires in 2014. However, the delivery charge,
17 fixed charge, and cost of supply charge have increased over the Docket 4025 rates and
18 are included in the rate year.

19
20 Treatment-Newport Plant (Station One) – The cost in Docket 4025 was based on an
21 estimated usage of 1,870,000 KWH whereas the actual usage increased to 2,008,000
22 KWH. This increased usage is due to maximizing production at the Station One plant by
23 boosting additional finished water to the Lawton Valley treatment plant distribution
24 system to minimize operations at the Lawton Valley Plant in accordance with the RIDEM
25 consent agreement. In the rate year, the base electric rate is not expected to increase as
26 it is fixed through the City’s contract with the RI League of Cities and Towns, which

1 expires in 2014. However, the delivery charge, fixed charge, and cost of supply charge
2 have increased over the Docket 4025 rates and are included in the rate year.

3
4 Lawton Valley – The decrease is due to lower than previously forecast annual KWH
5 usages due to maximizing production at the Station One plant by boosting additional
6 finished water to the Lawton Valley Plant distribution system to minimize operations at
7 the Lawton Valley treatment plant in accordance with the RIDEM consent agreement.
8 The base electric rate has been fixed through the contract which the City has with the
9 REAP program of the RI League of Cities and Towns, which expires in 2014. The delivery
10 charge, fixed charge, and cost of supply charge increased over the Docket 4025 rates
11 and are included in the rate year.

12
13 Transmission & Distribution Maintenance – The slight decrease in the test year is
14 primarily due to lower usage. The base rate has been fixed through the contract which
15 the City has with the REAP program of the RI League of Cities and Towns, which expires
16 in 2014. The electricity is for use at the Forest Avenue pump station, and Reservoir
17 Road and the Goulart Lane storage tanks. The delivery charge, fixed charge, and cost of
18 supply charges increased over the Docket 4025 rates and are included in the rate year.

19
20 **Q. Please explain the decrease in property tax expenses.**

21 A. The rate year amount is based upon actual FY 2011 tax bills and includes a three percent
22 increase for FY 2012.

23
24 **Q. Why have legal and administrative expenses increased?**

25 A. These are expenses for various support services provided by the City to the Water Division.
26 The expenses are allocated in accordance with the Commission's Order in Docket 4025. The
27 increases are due to corresponding increases in the City of Newport budget. It should be noted

1 that the allocations for City Manager, City Solicitor, Finance Administration and MIS (other
2 costs) increased from 13.21% in Docket 4025 which used the City's approved 2009 budget to
3 19.07% for this filing using the City's approved 2011 budget.

4
5 **Q. Why did data processing costs increase?**

6 A. Telephone and communications costs are allocated based on the percentage (7.9%)
7 established in Docket 4025. The balance of MIS costs is allocated on the basis of the Water
8 Fund's budget to the total city budget less 80 % of school appropriations, 96% of library
9 appropriations and 100% of civic support. The allocation percentage increased from 13.21% in
10 docket 4025 which used the City's approved 2009 budget to 19.07% for this filing using the
11 City's approved 2011 budget.

12
13 **Q. Please explain the increase to Gas and Vehicle Maintenance costs.**

14 A. This expense is broken down into two components: (1) fuel, and (2) parts and labor. The fuel
15 cost for FY 2012 was developed from the actual fuel usage consumed in FY 2010 priced at the
16 current cost per gallon incurred in FY 2011. The parts and labor portion of the charge is
17 allocated monthly from the City of Newport Equipment Operations Division on a per vehicle
18 basis.

19
20 **Q. Please explain the changes to Repair and Maintenance expenses.**

21 A. The test year normalizing adjustment is attributable to staffing issues that delayed some of
22 the planned maintenance activities for FY 2010. The supervisor for Distribution/Source of
23 Supply was vacant and the Deputy Utilities Director-Engineering was out on an extended illness
24 leave. As a result, hydrant purchases and other miscellaneous maintenance programs were
25 delayed.

26

1 The decrease in Rate Year expenses from the Docket 4025 funding level is due to a number of
2 factors, including, but not limited to:

- 3 • A decrease in meter purchases due to the completion of the radio read project.
- 4 • The completion of repairs at both pump stations.
- 5 • Curtailing building maintenance at Station One and Lawton Valley due to the pending
6 construction of the Water Treatment Plant Projects. Repairs and maintenance are now
7 only performed to equipment as needed to ensure compliance with drinking water
8 regulations.
- 9 • The completion of the rehabilitation of the roof at the 70 Halsey Street garage/office in
10 FY 2011

11
12 **Q. Please explain the decrease in reservoir maintenance expenses.**

13 A. Dam inspections initially budgeted for FY 2010 were postponed until FY 2011 and FY 2012.
14 These inspections will be completed on a yearly basis going forward. Raw material purchases
15 for dam maintenance were also curtailed during FY 2010 due to reduced revenues.

16
17 **Q. Please explain the decrease to repairs and main maintenance expenses.**

18 A. This account is used for the purchase of gravel, stone, asphalt, and pipe and fittings to
19 perform repairs and maintenance to the water mains. It also includes funds to perform leak
20 detection services for the water system mains. The proposed rate year is based upon the
21 normalized test year as expenditures can increase or decrease dramatically in any given year
22 due to the quantity and severity of main repairs required.

23
24 **Q. Please explain the normalizing adjustment to the Operating Supplies expense.**

25 A. Spending for operating supplies in FY 10 were cut back in an attempt to save money as
26 revenues were less than forecasted in Docket 4025.

27

1 **Q. Please explain the increase in Chemical expenses.**

2 A. The rate year chemical expense is based on the test year expense.

3

4 **Q. Please explain the changes to the Customer Service Supplies expense.**

5 A. Prior to FY10, Newport purchased conservation kits to be distributed to its customers. The
6 forecasted FY10 expense was to replenish the supply of the conservation kits. However,
7 Newport did not have to replace conservation kits in FY10 as there was very little demand for
8 them. Newport has increased efforts in FY11 to promote the availability of these kits, including
9 notification on the City web site and a notice in the local newspaper. Additional notifications
10 will be made in the future in the quarterly water bills and also a notice of availability will be
11 included in the annual Consumer Confidence Report, which will assist in the distribution of the
12 kits. Thus, it is expected that kits will have to be purchased in the rate year, but not at the level
13 set in Docket 4025.

14

15 **OPERATING REVENUE ALLOWANCE**

16 **Q. In Docket 4025, the Commission provided for an Operating Revenue Allowance equal to**
17 **three percent of operation and maintenance expenses, a portion of which was restricted. Can**
18 **you update the Commission on this restricted account?**

19 A. Yes, an Operating Revenue Allowance of \$243,813 was allowed by the Commission. Half of
20 this allowance was unrestricted for use in meeting expense overruns and revenue shortfalls of
21 up to five percent of total rate revenue. The remaining half was restricted and could only be
22 used to cover shortfalls in total allowed rate revenue when the shortfall exceeds five percent of
23 such revenue. We restricted \$121,907 for FY2010.

24

25 The Docket 4025 Order also stated that if Newport's revenue shortfall exceeds five percent of
26 total rate revenue we could seek recovery of the full shortfall. Newport had a gross revenue

1 shortfall of \$971,178 in FY10. As such, Newport has requested recovery of the full balance of
2 the restricted Operating Revenue Allowance account.

3
4 **COST OF SERVICE STUDY**

5 **Q. What is the status of Newport's Cost of Service Study?**

6 A. Newport Water filed a Cost of Service Study in Docket 4128. Unfortunately, that Docket did
7 not result in the implementation of rates based on the Study. During the litigation of Docket
8 4128, the parties disagreed over several issues related to the Cost of Service Study prepared by
9 Newport. Eventually a Settlement Agreement was reached among the parties. This resulted in
10 the preparation of a Cost of Service model to allocate rates among Newport's customer classes.

11
12 In addition, Newport agreed to continue its ongoing demand study. Newport agreed to gather
13 daily water consumption data from a sample of customers during the months of June through
14 September 15, 2010 and June 2011 through September 2011. Newport provided the data
15 collected from June through September 15, 2010 to the Division of Public Utilities and Carriers,
16 the United States Department of the Navy and the Portsmouth Water and Fire District.

17 Pursuant to the Settlement Agreement, the parties could unanimously waive the collection and
18 analysis of additional data collected from June through September 2011. However, all the
19 parties did not agree to waive this requirement, and Newport will collect addition data from
20 June through September 2011.

21
22 The Settlement Agreement in Docket 4128 did not preclude Newport Water from filing for an
23 overall revenue increase with no change in the rate structure if the demand study was not
24 completed. And, because of the deadlines involved with Treatment Plant Projects, Newport
25 could not wait until the demand study is complete to file this case. Thus, Newport seeks an
26 across the board increase in this Docket. It is anticipated that Newport Water will file a cost of
27 service study in late fall or early winter of 2011.

1 **REPORTING REQUIREMENTS**

2 **Q. The Commission's Order in Docket 3578, and in subsequent Dockets, set forth a number of**
3 **reporting requirements. Has Newport complied with these requirements?**

4 A. Yes. Newport currently files the following the following monthly and quarterly reports:

5 Monthly

- 6 1. Cash Flow Statement and Narrative
- 7 2. Trial Balance

8 Quarterly

- 9 1. Statement of Net Assets – Comparative;
- 10 2. Statement of Revenues, Expenses, and Changes in Fund Net Assets Year-to-Date;
- 11 3. Statement of Revenues, Expenses, and Changes in Fund Net Assets – Comparative for
12 the Quarter;
- 13 4. Statement of Cash Flows for Year-to-Date;
- 14 5. Restricted Account Analysis;
- 15 6. Expenses for Conferences & Training;
- 16 7. Report on Progress of IFR Program;

17
18 Newport also submits an annual report as required by the Commission's Rules.

19
20 **Q. Is Newport Water requesting relief from the reporting requirements?**

21 A. Yes. The reporting requirements were imposed by the Commission in Docket 3578, which
22 was filed on November 28, 2003 and decided on June 22, 2004. That particular rate filing was
23 litigated against a backdrop of severe financial problems that had plagued the City of Newport
24 and Newport:

- 25 • Newport Water's filing in Docket 3578 was its first in four years and only its fourth filing
26 in thirteen years;

- 1 • Newport Water's filing in the Docket (2985) preceding Docket 3578 was initially rejected
- 2 as it contained a number of deficiencies that almost caused the filing to be withdrawn
- 3 altogether;
- 4 • The City officials who were employed when Docket 2985 was decided did not
- 5 implement the Commission's Order in that Docket, which included a failure to establish
- 6 restricted accounts;
- 7 • Newport Water had not filed the required annual reports with the Commission because
- 8 the City had not completed its audits as required by law;
- 9 • In December 2001, the City of Newport's Finance Director resigned, which began a nine
- 10 month period where Newport did not have a permanent Finance Director;
- 11 • In January 2002, the Newport City Manager resigned, which began an eleven month
- 12 period where Newport did not have a permanent Manager;
- 13 • Newport Water's billing software made it difficult to locate and extract reliable data;
- 14 • Newport Water did not have its own checking account separate from the City's general
- 15 fund; and
- 16 • Newport Water was requesting to re-pay a \$2.5 million dollar loan to the City of
- 17 Newport.

18

19 The Docket 3578 Order allowed Newport Water to repay the loan from the City. However, the

20 Commission established a number of reporting requirements. Newport Water had to show

21 compliance with these requirements before making yearly re-payments to the City. In its

22 Order, the Commission noted that a number of Data Requests had to be exchanged in Docket

23 3578 to obtain basic information regarding Newport's finances. Thus, the Commission believed

24 that the information in the reports would be of use to all the parties when Newport filed its

25 next rate case.

26

1 The Commission's Docket 3578 Order states: "Newport Water is at a crossroad. Its new
2 management has expressed the desire to prove to the Commission that it is serious about
3 following through and maintaining a financially sound utility." Newport Water believes it lived
4 up to its commitment. Since the conclusion of Docket 3578, Newport stabilized its finances and
5 management. Newport Water has filed four rate cases before the Commission and the persons
6 primarily responsible for filings before the Commission has remained unchanged since Docket
7 3578. We are in the process of undertaking a substantial capital improvement program, which
8 would have been impossible in past years. In addition, Newport received an A+ rating from
9 Standard & Poor's in 2008, which was based on a number of factors including consistent
10 financial operations.

11

12 Eliminating these reporting requirements will allow Newport Water to use staff time in other
13 areas. Each monthly cash report takes approximately 12 to 14 hours a month to prepare and
14 review. The Quarterly reports take approximately 20 to 25 hours to prepare and review. This
15 totals to approximately 225 to 275 hours per year. As Newport is undertaking an extensive
16 Capital Improvement Plan, staff time can be better served attending to these projects.

17

18 **CONCLUSION**

19 **Q. Is Newport Water suggesting any other changes to fees in the tariff?**

20 A. No.

21

22 **Q. Does this conclude your direct testimony?**

23 A. Yes it does.

24

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: CITY OF NEWPORT, UTILITIES DEPARTMENT, WATER DIVISION

DOCKET NO:


ATTESTATION OF FINANCIAL DATA PURSUANT TO RULE 2.7
OF THE RULES OF PRACTICE AND PROCEDURE
OF THE PUBLIC UTILITIES COMMISSION

I, Julia A. Forgue, P.E., Director of Utilities for the City of Newport, Utilities Department, Water Division, in conformance with Rule 2.7 of the Rhode Island Public Utilities Commission's Rules of Practice and Procedure, hereby attest to the accuracy of the test year financial data presented in the rate base, cost of service and other financial statements; that such data purports to reflect the books of the Newport Water, and the results of operations; and that all differences between the books and the test year data, and any changes in the manner or recording an item on the company's books during the test year, have been expressly noted.


Julia A. Forgue

STATE OF RHODE ISLAND

Subscribed and sworn to me this 11 day of April, 2011.



Notary Public:
My Commission Expires: 9/19/2011