

REBUTTAL TESTIMONY
OF
HAROLD J. SMITH
VICE PRESIDENT
RAFTELIS FINANCIAL CONSULTING, INC.
ON BEHALF OF THE CITY OF NEWPORT, UTILITIES DEPARTMENT, WATER
DIVISION

In re: City of Newport Utilities Department, Water Division

Docket No. 4243

September 21, 2011

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Harold J. Smith and my business address is 1031 South Caldwell
4 Street, Suite 100, Charlotte, North Carolina 28203.

5

6 **Q. Are you the same Harold Smith who submitted pre-filed direct testimony in
7 this docket?**

8 A. Yes, I am.

9

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

11 A. I would like to respond to certain points or conclusions made in the pre-filed
12 testimony filed by the Division of Public Utilities and Carriers (“Division”) and the
13 Portsmouth Water and Fire District (“Portsmouth”). I will address some of the
14 points raised in these testimonies, and Julia Forgue and Maureen Gurghigian will
15 address certain issues in their rebuttal testimony as well.

16

17 **Q. Did you review the testimony submitted by the Division and Portsmouth with
18 regard to Newport’s rate filing in this docket?**

19 A. Yes. I reviewed the testimony submitted by Mr. Catlin on behalf of the Division,
20 and Mr. Woodcock on behalf of Portsmouth.

21

22 **Q: How would you like to address the issues presented in the testimony prepared
23 by these experts?**

24 A. I will address the testimony of each expert in turn, beginning with the testimony
25 of Mr. Catlin and then Mr. Woodcock. I will then address the revisions I made to
26 Newport’s projected consumption. Finally, I will address some of the other

1 revisions I made to my rate model based on updated information Newport
2 received since its original filing.

3

4 **II. Division Direct Testimony**

5 **Q. Please summarize Mr. Catlin's testimony on behalf of the Division.**

6 A. Mr. Catlin recommends several changes to Newport Water's requested revenue
7 requirements included with my original testimony. These changes are as follows:

8

- 9 1) Adjust salaries and wages and benefits to recognize that positions will likely be
10 vacant during the rate year;
- 11 2) Adjust benefits costs based on updated information since the original filing;
- 12 3) Adjust chemical costs based on updated information since the original filing;
- 13 4) Adjust sewer charges based on updated information since the original filing;
- 14 5) Adjust City Services costs to completely comply with the methodology approved
15 in Docket No. 4025;
- 16 6) Adjust revenues from the Water Pollution Control Division and Middletown;
- 17 7) Adjust the Operating Revenue Allowance to reflect other adjustments made to
18 Newport's original request;
- 19 8) Adjust Newport's request for Consultant Fees; and
- 20 9) Adjust the amount requested for Debt Service.

21

22 **Q. Do you agree with any of Mr. Catlin's recommended changes?**

23 A. I fully agree with the suggested changes 1 through 7 listed above, and have a
24 qualified agreement with the last two changes suggested by Mr. Catlin (Nos. 8 and
25 9).

26

1 **Q. With respect to Mr. Catlin’s recommendations for which you fully agree, could**
2 **you summarize the changes you made to the cost allocation model to reflect your**
3 **agreement?**

4 A. Yes, the attached RFC Schedules 1 Rebuttal through 11 Rebuttal; RFC Schedules B-1
5 Rebuttal through B-9 Rebuttal; and RFC Schedules C Rebuttal, D Rebuttal and E
6 Rebuttal reflect changes I made to the rate model in response to Mr. Catlin’s
7 testimony. There are also some changes to the model based on Mr. Woodcock’s
8 suggestions, which I will address later in my testimony.

9
10 In the following section, I refer to the numbered list of Mr. Catlin’s
11 recommendations as set forth above, and I will describe the changes I made to the
12 model to reflect my agreement with his recommendations. Please note that these
13 changes “flow through” the model and result in changes to schedules other than
14 those to which the changes were made.

15
16 1) **Salaries and Wages**

17 **Recommendation** - Adjust salaries, wages and benefits to recognize that
18 positions will likely be vacant during the rate year.

19
20 **Revision** – Schedules B-3 Rebuttal and B-8 Rebuttal were changed such
21 that Salaries and Wages and Employee Benefits costs are reduced by the
22 amount suggested by Mr. Catlin.

23
24
25
26

1 2) **Employee Benefits**

2 **Recommendation** - Adjust benefits costs based on information that
3 became available since the original filing.

4
5 **Revision** – Schedules B-1 Rebuttal through B-9 Rebuttal were changed
6 such that Employee Benefits are based on updated information.

7
8 3) **Chemicals**

9 **Recommendation** - Adjust Chemical costs based on information that
10 became available since the original filing.

11
12 **Revision** – Schedules B-3 Rebuttal, B-5 Rebuttal and B-6 Rebuttal were
13 changed such that Chemical costs are calculated using unit costs received
14 on May 3, 2011 as provided in Newport’s response to Division 1-27.

15
16 4) **Sewer Charges**

17 **Recommendation** - Adjust the Sewer Charges based on information that
18 became available since the original filing

19
20 **Revision** – On RFC Schedule B-5 Rebuttal projected wastewater
21 discharges from Station One were reduced from 27 MG to 26 MG and the
22 approved Sewer Rate of \$11.27 per thousand gallons is used to calculate
23 the Sewer Charge. On B-6 Rebuttal the approved Sewer Rate is used to
24 calculate Sewer Charges.

25
26

1 5) **City Services**

2 **Recommendation** - Adjust City Services costs to completely comply with
3 the methodology approved in Docket No. 4025.

4
5 **Revision** – RFC Schedule D Rebuttal is revised such that the Water Fund
6 budget equals the Subtotal Revenue Requirements from RFC Schedule 1
7 Rebuttal. Also, the WPC Budget equals the total WPC budget less capital
8 outlays to be funded with bond proceeds per the testimony of Mr. Catlin.
9 These adjustments result in new percentages to allocate City Services and
10 Data Processing Costs to the Water Fund.

11
12 6) **Water Pollution Control Revenues**

13 **Recommendation**- Adjust revenues from the Water Pollution Control
14 Division (“WPC Division”) and Middletown

15
16 **Revision** – Two revisions were made to RFC Schedule 6 Rebuttal. First,
17 the debt service attributable to the Radio Read program was corrected.
18 Second, the costs of laptops used to collect data from the radio read
19 meters were added to the costs associated with Customer Service. These
20 changes result in increased revenues from the WPC Division and
21 Middletown.

22
23 7) **Operating Revenue Allowance**

24 **Recommendation**- Adjust the requested Operating Reserve Allowance to
25 reflect other adjustments made to Newport’s original request.

26

1 **Revision** – RFC Schedule 1 Rebuttal shows the adjusted Operating
2 Revenue Allowance request. The amount requested differs because
3 other adjustments changed Newport’s requested Rate Year expenses,
4 and since Operating Reserve Allowance is set at 3% of the Rate Year O&M
5 expenses, the amount changes when total O&M expenses change.
6

7 **Q. You do not fully agree with two of Mr. Catlin’s recommended changes. Can you**
8 **explain further?**

9 A. Yes. I do not completely agree with his recommendation relating to Consultant
10 Fees. However, I do agree an adjustment should be made to this expense as
11 explained herein below. In addition, while I adjusted Newport’s original debt
12 service request in the Rate Year, I do not agree it should be reduced to the extent
13 Mr. Catlin suggests.
14

15 **Q. Please elaborate on your disagreement with Mr. Catlin on the issue of Consultant**
16 **Fees?**

17 A. My primary point of disagreement is his reduction of “Non-Rate Case Related”
18 consultant fees. I believe he made these reductions because there is some
19 confusion about Newport’s consultant related expenses.
20

21 **Q. Please explain why you do not agree with his reduction of “Non-Rate Case**
22 **Related” expenses?**

23 A. I disagree with Mr. Catlin’s recommendation to reduce Non-Rate Case Related
24 consultant costs to a level consistent with historical expenses for two reasons. First,
25 his adjustment does not recognize that consultants are currently performing
26 services for Newport Water that they did not perform in the past. For instance, for

1 the past ten years Raftelis Financial Consultants (RFC) primarily provided rate case
2 related services. Although we provided assistance with the daily demand study, the
3 majority of our time was spent on the preparation and litigation of rate cases.
4 However, during the past year RFC assisted Newport Water with financial matters
5 related to the new Lawton Valley Treatment Plant and the improvements to the
6 Station One Water Treatment Plant (collectively "Treatment Plant Projects"). RFC is
7 also assisting with the development of wholesale customer contracts in addition to
8 working on this rate case and the daily demand study.

9

10 Similarly, Keough & Sweeney (K&S) historically provided legal services almost
11 exclusively related to rate filings. K&S continues in this role, but is also now
12 assisting Newport with wholesale contracts and other legal issues related to the
13 Treatment Plant Projects.

14

15 Second, Newport has to employ more consultants because of the Treatment Plant
16 Projects. In addition to RFC and K&S, Newport is employing Camp, Dresser & McKee
17 ("CDM"); Panonne, Lopes, Devereaux and West (PLDW); and, First Southwest. The
18 attachment labeled as Figure 1 demonstrates the type of services each consultant
19 currently performs for Newport Water.

20

21 **Q. Is Newport paying for these consultants from a single source of funds in the rate**
22 **model?**

23 A. No. Because Newport utilizes the services of its consultants for various tasks, the
24 associated costs are reflected differently in Newport's operating and capital
25 budgets. Specifically, three "pools" provided funding for consultant fees:

26

1 1) “Consultant Fees” (expense account 50222 - Administration Division – RFC
2 Schedule 3 and B-1) - The costs reflected in this account include annual contract
3 amounts for RFC and K&S. The services performed under these contracts are
4 predominantly related to rate filings before the Commission. However, as
5 shown in the attached matrix labeled as Figure 1, RFC and K&S also assist
6 Newport Water with a number of other tasks and it is the costs associated with
7 these tasks that Mr. Catlin reduced inappropriately.

8
9 Account 50222 also includes costs associated with the Division’s participation in
10 rate cases and service fee payments to Wells Fargo for each bond issued
11 through the Rhode Island Clean Water Finance Agency (“RICWFA”). Additionally,
12 account 50222 includes costs associated with the Code Red program.

13
14 2) City Advisor for New LVWTP & Sta 1 Imprv. (RFC Schedule 4) - In addition to the
15 consultant costs recovered under account 50222, Newport Water will also incur
16 consultant costs associated with the Treatment Plant Projects. These costs,
17 incurred under contracts with CDM, include engineering and financial services
18 related to the selection of a design/build contractor, the negotiation of a
19 contract with the selected contractor and assistance with the drafting of
20 wholesale customer contracts. Since these costs are directly related to the
21 Treatment Plant Projects, they are classified as capital costs and funded with
22 debt for these projects.

23
24 3) Professional Services for WTP Imprv (Legal & Financial) (RFC Schedule 4) - As
25 shown on Figure 1, in addition to the assistance provided by CDM, PLDW and
26 First Southwest are assisting Newport Water with the Treatment Plan Projects.

1 Specifically, PLDW is developing the design/build contract and First Southwest is
2 helping Newport review and evaluate the financial condition of the proposers
3 for the Treatment Plant Projects.
4

5 **Q. Did you make any adjustments to the request for Consultant Costs?**

6 A. Yes, I made the following adjustments:

- 7 • I reduced the amount for Code Red to \$3,000 in accordance with Newport's
8 response to Division 1-10.
- 9 • Consistent with Mr. Catlin's recommendation, I added a line item to RFC
10 Schedule B-1 Rebuttal for the Demand Study and included \$40,000 for this item
11 to reflect a four year amortization of the associated costs. I also reduced the
12 total amount included for the Division to \$34,500 and reduced the total amount
13 for financial consultants to \$72,400 to reflect the recovery of the Demand Study
14 costs under the new line item.
15

16 **Q. Please explain your disagreement with Mr. Catlin on the debt service allowance.**

17 A. I agree with Mr. Catlin that the original debt service request can be adjusted;
18 however, that request was based on the best information available at the time.
19 Since the original filing, the Treatment Plant Projects schedule has become better
20 defined, and it is now clear that Newport will not make debt service payments in
21 the Rate Year to fund these projects. Newport will, however, incur additional debt
22 service costs in the rate year associated with loans to fund the Easton Pond Dam
23 Repair Project and professional services related to the Treatment Plant Projects.
24

1 **Q. Does Mr. Catlin's recommended allowance for debt service recognize the debt**
2 **service associated with the Easton Pond Dam Repair Project and other costs**
3 **related to the Treatment Plant Projects?**

4 A. No. Mr. Catlin's recommendation essentially delays the debt issuance reflected in
5 RFC Schedule C of the original filing by one year. This approach does not recognize
6 that a portion of the borrowing designated as 2012 SRF A is earmarked to fund the
7 Easton Pond Dam Repair Project and the professional services for the Treatment
8 Plant Projects.

9
10 **Q. Did you revise the debt service allowance in the Rate Year?**

11 A. Yes. As shown on RFC Schedule 5 Rebuttal, Newport now requests \$1,589,369 for
12 debt service in the rate year.

13
14 **Q. How did you determine the amount for debt service in the Rate Year?**

15 A. The revised debt service allowance assumes that Newport will borrow
16 approximately \$6.7 million in October 2011 (2012 SRF A) to pay for the Easton Pond
17 Dam Repair Project and that an interest payment on that borrowing will be due in
18 March 2012. Additionally, Newport will issue \$5.1 million in Bond Anticipation
19 Notes (BANs) to fund professional services related to the Treatment Plant Projects.
20 It is assumed that Newport will be required to make an interest payment on these
21 BANs. The resulting Rate Year debt service is the sum of debt service on Newport's
22 existing revenue bonds and SRF loans, and interest payments for the 2012 SRF A
23 and the BANs.

24
25

1 **Q. What interest rate and issuance cost did you assume when calculating the debt**
2 **service for the 2012 SRF A borrowing?**

3 A. The assumed interest rate remains at 6%, and issuance costs were reduced from
4 13% to 12% of the capital costs of each borrowing.

5

6 **Q. Are these assumptions consistent with Mr. Catlin's recommendations?**

7 A. No. Mr. Catlin recommended a 4% interest rate and a 10% cost of issuance.

8

9 **Q. Why did you not accept Mr. Catlin's recommendation?**

10 A. First, it must be noted that Newport's use of a 6% interest rate was based on two
11 factors:

12

13 1. Based on conversations with the RICWFA it is uncertain if the Treatment Plant
14 Projects can be fully financed through the Drinking Water State Revolving Fund
15 ("DWSRF"), which provides subsidized interest rates. Due to the size of the
16 Treatment Plant Projects, the amount required may surpass the RICWFA's capacity.
17 If the RICWFA cannot fully fund the Treatment Plant Projects, Newport will have to
18 seek direct market financing at unsubsidized rates. Direct market bonds will not
19 provide the same discounted interest rate as the DWSRF, but they would allow
20 Newport to obtain the necessary funding if the RICWFA has insufficient DWSRF
21 lending capacity.

22

23 2. The six percent interest rate for unsubsidized loans was based on advice from
24 its financial advisor First Southwest. (See Newport's response to PWFD 4-4).

25

1 If Newport was certain that the RICWFA had the lending capacity to meet
2 Newport's borrowing needs, I would be comfortable using an assumed interest rate
3 of 4%. However, a great deal of uncertainty still exists regarding the amount
4 Newport can borrow from the RICWFA to realize the benefits of the subsidized
5 interest rates available through the DWSRF.

6

7 **Q. Why are you continuing to use an interest rate of 6%?**

8 A. As presented in Ms. Gurghigian's testimony, an assumed interest rate of 6% is
9 reasonable considering the uncertainty related to Newport's borrowing for the
10 Treatment Plant Projects.

11

12 Depending on the mix of subsidized and unsubsidized financing, the interest rate
13 can be addressed in further proceedings before the Commission as part of the
14 proposed multi-year rate plan. If interest rates are lower, or if the RICWFA can
15 provide a large percentage of financing, then Newport can reduce the future rates
16 currently proposed in FY 13, 14 and 15 through the review process in R.I.G.L. § 39-
17 15.1-4. This issue is further addressed in my testimony on Mr. Woodcock's
18 testimony.

19

20 **Q. Why didn't you accept Mr. Catlin's revised cost of issuance?**

21 A. Ms. Gurghigian, Newport's financial advisor, recommends that Newport use a 12%
22 cost of issuance. Please see Ms. Gurghigian's testimony for more details on her
23 recommendation.

24

25

26

1 **Q. When will Newport borrow to begin funding the Treatment Plant Projects?**

2 A. As shown on RFC Schedule C Rebuttal, Newport assumes it will borrow
3 approximately \$48.3 million in the second half of FY 2012, \$31.9 million in the
4 second half of FY 2013 and \$5.7 million in the second half of FY 2014.

5

6 **Q. Does that conclude your list of revisions made in response to Mr. Catlin's
7 testimony?**

8 A. Yes, it does.

9

10 **Q. Does this conclude your testimony with respect to Mr. Catlin's testimony?**

11 A. Yes.

12

13 **III. Portsmouth Direct Testimony**

14 **Q. Please summarize Mr. Woodcock's testimony on behalf of the Division.**

15 A. Mr. Woodcock recommends several changes to Newport's requested expenses,
16 many of which are similar to Mr. Catlin's recommendations. Those
17 recommendations similar to Mr. Catlin's include:

18

- 19 1. Revisions to Newport's debt service request;
- 20 2. Revision to Benefits, Chemicals and Sewer Charges;
- 21 3. Revisions to the amounts charged to Middletown and the WPC;
- 22 4. Revisions to Newport's request for City Services costs; and
- 23 5. Revisions to Consultant Fees.

24

25 Additionally, Mr. Woodcock's testimony also includes:

26

- 1 6. A recommendation to reduce the annual Contribution to the Capital restricted
2 account from \$2.75 million to \$2.5 million;
- 3 7. A recommendation to round all costs to the nearest dollar instead of the up to
4 the nearest 100 or 1,000 dollars;
- 5 8. A recommendation that the methodology for calculating City Services developed
6 in Docket 4025 be changed; and,
- 7 9. A recommendation that the Commission deny Newport's request to discontinue
8 filing monthly and quarterly reports.

9

10 **Q. Do you agree with any of Mr. Woodcock's recommended changes?**

11 A. I generally agree with Mr. Woodcock's changes that are similar to Mr. Catlin's
12 (Items 1 through 4 and 7 in the above list), but I did not necessarily made the exact
13 changes he suggests. I also agree with Mr. Woodcock's suggestions 6. I agree that
14 the Contribution to the Capital account can be reduced. I disagree with Mr.
15 Woodcock's recommendation that Consultant Fees be adjusted; that the
16 methodology for calculating City Services developed in Docket 4025 be changed;
17 and, that Newport's reporting requirements continue.

18

19 **Q. With respect to Mr. Woodcock's recommendations that you generally agree with,
20 could you summarize the changes you made to your rate model to reflect your
21 agreement?**

22 A. Yes, as discussed earlier, the attached RFC Schedules 1 Rebuttal through 11
23 Rebuttal; RFC Schedules B-1 Rebuttal through B-9 Rebuttal; and RFC Schedules C
24 Rebuttal, D Rebuttal and E Rebuttal reflect changes I made to the rate model in
25 response to the testimony of Mr. Catlin and Mr. Woodcock.

26

1 In the following section, I refer to the numbered list of Mr. Woodcock's
2 recommendations set forth above, and I will describe the changes I made to the
3 model to reflect my agreement with his recommendations. Please note that these
4 changes "flow through" the model and result in changes to schedules other than
5 those to which the changes were made. In many cases, the changes described are
6 the same as addressed in my testimony related to Mr. Catlin's recommendations.

7
8 1) **Debt Service**

9 **Recommendation** – Like Mr. Catlin, Mr. Woodcock recommends delaying
10 Newport's proposed debt issuance schedule by one year and also suggests
11 using a 4% interest rate and a 10% cost of issuance. As was the case with Mr.
12 Catlin's recommendations, Mr. Woodcock's suggestion did not address the
13 fact that a portion of the proceeds from the borrowing designated as 2012
14 SRF A on Schedule C will fund the Easton Pond Dam Repair Project and
15 professional services related to the Treatment Plant Projects.

16
17 **Revision** – As discussed in Section II of my testimony, I revised the debt
18 issuance schedule shown on RFC Schedule C Rebuttal to address the fact that
19 Newport will not be required to pay debt service in the Rate Year on
20 borrowings to fund the Treatment Plant Projects. I kept the interest rate at
21 6% and reduced issuance costs from 13% to 12%. I will further discuss my
22 reasons for using the 6% interest rate vis-à-vis Mr. Woodcock's testimony
23 herein below.

24
25
26

1 2) **Benefits, Chemicals and Sewer Charges**

2 **Recommendation** - Adjust Benefits costs, Chemicals costs and Sewer
3 Charges.

4
5 **Revision** – As discussed in my response to Mr. Catlin’s testimony, Schedules
6 B-1 Rebuttal through B-9 Rebuttal were changed such that Rate Year
7 Employee Benefits costs; Chemicals costs and Sewer Charges are based on
8 updated information. Mr. Woodcock also recommended another change to
9 Chemicals costs that I disagree with, and which is discussed below.

10
11 3) **Water Pollution Control Revenues**

12 **Recommendation** – Adjust the amount charged to Middletown and the WPC
13 for Customer Service costs.

14
15 **Revision** – As discussed above, two changes were made to RFC Schedule 6
16 Rebuttal in response to Mr. Woodcock’s and Mr. Catlin’s recommendations.

17
18 4) **City Services**

19 **Recommendation** – Similar to Mr. Catlin, Mr. Woodcock suggests that the
20 calculation of City Services be based on the expenses eventually allowed in
21 this docket. Additionally, Mr. Woodcock proposes changes to the
22 methodology for determining City Services charges that was approved in
23 Docket 4025.

24
25 **Revision** – As discussed earlier, RFC Schedule D Rebuttal is revised such that
26 the Water Fund budget amount equals the Subtotal Revenue Requirements

1 from RFC Schedule 1 Rebuttal. Also, the WPC Budget equals the total WPC
2 budget less capital outlays designated to be funded with bond proceeds per
3 the testimony of Mr. Catlin. These adjustments result in new allocation
4 percentages used to allocate City Services and Data Processing Costs to the
5 Water Fund. I do not agree with Mr. Woodcock's proposed change in
6 methodology, and I will explain my reasons for disagreement later in my
7 testimony.

8
9 6) **Capital Contribution**

10 **Recommendation** – Mr. Woodcock suggests lowering the annual
11 Contribution to the Capital Spending account from \$2.75 million to \$2.5
12 million.

13
14 **Revision** – RFC Schedule 4 Rebuttal was revised to reflect this reduction. The
15 primary reason for the original funding level was to ensure Newport's
16 compliance with debt service coverage requirements. Now that the Rate
17 Year debt service requirement has been reduced, the larger amount
18 originally requested is no longer needed. Newport will have adequate debt
19 service coverage if the Capital Spending contribution is lowered by \$250,000.
20 However, to the extent that Newport Water has difficulty meeting coverage
21 requirements for future borrowings, or if the balance in the Capital Spending
22 restricted account becomes depleted to the extent that Newport has
23 difficulty funding its capital program, Newport may need to seek approval
24 from the Commission during the review process associated with the
25 proposed future rate increases to increase the contribution to the Capital
26 Spending restricted account.

1 7) **Rounding**

2 **Recommendation** – Mr. Woodcock recommends rounding all projected costs
3 to the nearest dollar.

4
5 **Revision** – RFC Schedules B-1 Rebuttal through B-9 Rebuttal have been
6 revised such that the total costs in each category round up to the nearest
7 one hundred dollars. Rounding in this way provides a very small cushion
8 should costs be higher than expected.

9
10 **Q. While you were in general agreement with Mr. Woodcock’s changes that are**
11 **similar Mr. Catlin’s, you did not make the exact changes he suggested. Can you**
12 **explain this further?**

13 A. Yes, while I made revisions to some categories of expenses addressed by Mr.
14 Woodcock, I differ with him on the extent of the adjustments. These
15 expenses are Debt Service, Consultant Fees, City Services and Chemicals.

16
17 **Q. Please explain why you did not make the adjustment to debt service suggested**
18 **by Mr. Woodcock.**

19 A. As stated in my testimony addressing Mr. Catlin’s adjustments, I agree to reduce
20 the assumed cost of issuance from 13% to 12%, which is higher than the 10%
21 recommended by Messrs. Catlin and Woodcock, who also suggests an interest
22 rate of 4%. I cannot agree to a lower interest rate for the reasons set forth above
23 when addressing Mr. Catlin’s testimony. In addition, I think it is important to
24 address Mr. Woodcock’s testimony on this issue.

25

1 Mr. Woodcock states that Newport will “likely” fund the Treatment Plant
2 Projects through the RICWFA. To support this likelihood, Mr. Woodcock cites a
3 number of factors. First, he points out that “The treatment projects are on the RI
4 DWSRF Revised Project Priority List for FY 2011, and therefore are eligible
5 for SRF funding.”¹ Newport agrees that Treatment Plant Projects are on the
6 Project Priority list, but this misses the point. The issue is not project eligibility; it
7 is the RICWFA’s capacity. Newport needs to borrow over \$86 million dollars
8 between FY12 and FY15. If the RICWFA does not have the capacity to lend this
9 full amount, it won’t matter if the Projects are eligible for SRF funding, Newport
10 will still be forced to borrow at unsubsidized interest rates.

11
12 Mr. Woodcock also cites testimony filed by Ms. Forgue and Maureen Gurghigian
13 in Division Docket D-09-76 stating that Newport expected to roll over short term
14 borrowing into long-term borrowing subsidized by the DWSRF.² Once again, Mr.
15 Woodcock is correct. Newport expects to roll over short term BANs for the
16 Treatment Plant Projects into long term DWSRF borrowing. However, this is
17 irrelevant. Newport’s expectation about rolling over a BAN does not mean the
18 RICWFA can fund the total costs of the Treatment Plant Projects.

19
20 Mr. Woodcock also cites the Division’s Order in Docket D-09-76, which quotes
21 Ms. Gurghigian’s testimony that the DWSRF is providing a significant portion of
22 Newport’s capital program.³ Once again, Mr. Woodcock is correct. In 2009,
23 when the Division issued its Order, the DWSRF provided significant funding for
24 Newport’s capital projects. However, this does not guarantee that the RICWFA

¹ Woodcock Direct, p. 9, lines 15-16

² Woodcock Direct, p. 9, lines 15-23

³ Woodcock Direct, p. 9, lines 17-19

1 can to provide all the funding needed for the Treatment Plant Projects. If it
2 cannot, Newport will have to seek funding through unsubsidized borrowing.

3
4 Mr. Woodcock himself acknowledges that Newport “may have to look at funding
5 some costs through other alternatives”⁴ if the RICWFA cannot fully fund the
6 Treatment Plant Projects. These other alternatives are unsubsidized. Thus, a 6%
7 interest rate is appropriate.

8
9 **Q. What if Mr. Woodcock is correct and interest rates and cost of issuance is
10 lower than forecasted?**

11 A. Because Newport is proposing a multi-year rate plan, the proposed rates for FY
12 13, 14 and 15 can be modified through the review process in R.I.G.L. § 39-15.1-4.
13 If Mr. Woodcock is correct, and interest rates and cost of issuance are lower,
14 Newport can offset the proposed increases in FY 13, 14 and 15 as it will have
15 built up funds in its debt service account. If Mr. Woodcock is wrong, and interest
16 rates and cost of issuance are higher than he projects, Newport’s ability to
17 borrow will be jeopardized.

18
19 This situation is similar to an issue Mr. Woodcock testified about in the
20 Pawtucket Water Supply Board Docket 4171 regarding projected water sales:

21
22 **“Q: What if your projections for the rate year are wrong and sales do not
23 continue to decline as Ms. Crane has suggested?”**

24 A: If I am incorrect and sales do stabilize or even increase, any increase in
25 revenues over that allowed could be directed to a restricted stabilization
26 account, just as the Commission has ordered for several other water utilities
27 in RI. There is a mechanism for protection if sales are higher than we

⁴ Woodcock Direct, p. 9, lines 11-12

1 project. On the other hand, there is absolutely no protection if Ms. Crane is
2 incorrect and sales continue to decline. PWSB would not be able to fund all
3 its restricted accounts – most likely the IFR account.”⁵
4

5 Newport is in a similar situation. It needs sufficient funds to *begin* the
6 borrowing process for the Treatment Plant Projects. If Mr. Woodcock is right,
7 future increases can be modified. But if Mr. Woodcock is wrong, Newport will
8 run into trouble at the very beginning of its borrowing process.
9

10 **Q. Please address Mr. Woodcock’s suggestion that Newport would have time for**
11 **an expedited filing to make up any deficiency if actual borrowing costs are**
12 **greater than 4%.**

13 A. I do not believe an “expedited filing” is practical or in the ratepayers’ best
14 interest. First, as Mr. Woodcock knows, there is no mechanism for an
15 “expedited” filing under the Commission’s Rules of Practice. A utility can file an
16 abbreviated filing pursuant to Commission Rule 2.10, but an abbreviated filing is
17 not an expedited filing. Under this rule a utility is merely relieved from filing all
18 the documents required in a full filing. It does not ensure a quick decision by
19 the Commission.
20

21 In addition, adjustable multi-year rate filings are designed to cut down on the
22 number of filings a utility submits to the Commission. Once again, Mr. Woodcock
23 previously testified on this issue in Docket 4171:

⁵ Woodcock Rebuttal, Pawtucket Water Supply Board, Docket 4171, p. 9

1

2 **“Q: Doesn’t the rate payer get more protection under Ms. Crane’s proposal**
3 **to assume that sales will go back up from the FY 2010 levels?”**

4 A: No they don’t. The rate payer is better off under our proposal. If the
5 Commission adopts Ms. Crane’s position and she is incorrect (sales are less
6 than the test year amounts), PWSB will have insufficient funds to pay for its
7 IFR program costs and PWSB will have to come back to the Commission
8 sooner with another rate case and all its inherent expenses.”⁶

9

10 “One of the purposes of the multi-step rate increase statute is to allow for
11 quicker and less frequent rate proceedings. The purpose of the legislation is
12 to save rate payers money by reducing the number and frequency of rate
13 filings.”⁷

14

15 “In recommending only \$8,635 for the rate stabilization fund in the second
16 step, I again believe Ms. Crane has failed to recognize the legislative intent
17 of step increases. I believe that intent is to provide low cost changes to rates
18 on a regular basis without having to resort to expensive rate proceedings.”⁸

19

20 **Q. Please explain why you disagree with Mr. Woodcock’s recommended**
21 **adjustments to Consultant Fees.**

22 A. Mr. Woodcock based his recommendations on his belief that Newport is “double
23 or, in some cases, triple counting for these costs”.⁹ However, as explained in my
24 testimony about Mr. Catlin’s Consultant Fee adjustments, this is not the case.

25 Newport uses a number of different consultants to perform various services and
26 two different consultants often perform similar, but different, services. For
27 instance, as shown in Figure 1, both PLDW and K&S provide legal services to
28 Newport. PLDW is focused on the design/build contract while K&S’s services are

⁶ Woodcock Rebuttal, Pawtucket Water Supply Board Docket 4171, p. 9

⁷ Woodcock Rebuttal, Pawtucket Water Supply Board Docket 4171, p. 15

⁸ Woodcock Rebuttal, Pawtucket Water Supply Board Docket 4171, p. 17

⁹ Woodcock Direct, p.19

1 related primarily to rate matters, but K&S will also address some issues related
2 to the treatment plant projects as well.

3

4 **Q. Can you please explain your disagreement with Mr. Woodcock regarding City**
5 **Services?**

6 A. Yes. Mr. Woodcock testified:

7 "I expected the process presented in NWD's Cost Allocation Manual that the
8 Commission ordered in Docket 3818 and subsequently revised in Docket
9 4025 would be used by NWD to derive City Services in all dockets going
10 forward."¹⁰

11

12 This was Newport's expectation as well. Thus, as I testified above, Newport
13 corrected some mistakes it made calculating the proper City Services allocations.
14 This includes correcting the error made in allocating Human Resources identified
15 by Mr. Woodcock. I changed the allocation to 10.6% from the 10.9% in my
16 original schedules.

17

18 However, Mr. Woodcock is selective in his expectation that the cost allocations
19 developed in Docket 4025 would be used "in all dockets going forward." Despite
20 the significant amount of time expended by Newport in developing the Cost
21 Allocation Manual, and by the parties and the Commission in litigating the cost
22 allocations, Mr. Woodcock now wants to change the allocation method
23 because Newport's capital expenditures are increasing.

24

25 **Q. Do you believe this is fair?**

26 A. No I do not.

¹⁰ Woodcock Direct , p. 14, lines 5-7

1 **Q. Why not?**

2 A. There are a number of reasons that a change at this point is unfair and
3 inequitable. First, the request is based on Mr. Woodcock’s opinion that increased
4 capital expenditures do not impact City departments such as the City Manager,
5 City Solicitor and Finance. Newport does not agree with this opinion and cites to
6 record in Docket 4025, wherein the pre-filed testimony, data requests,
7 hearing testimony, and post-hearing memorandum thoroughly vetted these
8 issues.

9
10 Mr. Woodcock seems to invite a total re-litigation of City Services allocations,
11 which Newport believes is inappropriate in this case, especially in light of Mr.
12 Woodcock’s testimony that the Docket 4025 allocations should be used “in all
13 dockets going forward.” Portsmouth should not be allowed to pick and choose
14 which allocations stay the same and which change from docket to docket.

15
16 Furthermore, when the parties litigated the issues related to the Cost Allocation
17 Manual in Docket 4025, everyone knew that Newport’s capital program would
18 increase dramatically in the coming years. In fact, going back to Docket 3818, all
19 the parties knew that Newport was proposing the Treatment Plant Projects. In
20 Docket 4025, when the Commission set the City Service allocations, Ms. Forgue
21 provided extensive testimony on the Treatment Plant Projects.¹¹

22
23 Despite knowing about these projects in Docket 4025, Mr. Woodcock never
24 suggested that the Commission adjust the City Service allocations on a sliding
25 scale in the future when Newport’s capital program increases or decreases. Thus,

¹¹ See Julia Forgue Direct Testimony, Docket 4025, pp. 7-12

1 as Mr. Woodcock “expected”, the allocations set in Docket 4025 should remain
2 the same “in all dockets going forward” until there is a significant and
3 unforeseen change in circumstances.
4

5 **Q. Can you please discuss your disagreement Mr. Woodcock’s revisions to**
6 **Chemical Expenses?**

7 A. Yes. Newport agrees that Chemical costs should be based on the actual chemical
8 pricing for FY12. However, according to Mr. Woodcock there seemed to be no
9 basis for the estimated use. Ms. Forgue addresses this in her testimony. As such,
10 the FY12 prices should be applied to Newport’s estimated used as identified by
11 Ms. Forgue.
12

13 **Q. Will you please address Mr. Woodcock’s testimony about RFC Schedule 11,**
14 **which showed a proposed to transfer of funds from the restricted Capital**
15 **Account to the restricted Debt Service Account?**

16 A. Mr. Woodcock’s direct testimony on this issue refers to schedule RFC 11, which I
17 submitted with my direct testimony. As I explained in my response to PWFD 2-
18 10, this schedule contained a mistake as it showed a transfer of funds from
19 Capital to Debt Service. When developing RFC 11, I examined certain scenarios to
20 evaluate whether excess funds in the debt service account or the capital
21 account could help modify rates. For instance, if there were excess funds in the
22 capital account, they could potentially be transferred to modify increases
23 needed for debt service, and vice versa. I did not remove this hypothetical
24 transfer from the final schedule, and it was included in the original filing. It was
25 simply an error that should have been removed from the Schedule and my direct
26 testimony.

1 **Q. Mr. Woodcock also states that the Commission previously denied the**
2 **combining of restricted accounts. Do you agree with this?**

3 A. No, I do not. Mr. Woodcock testified that the only reason he addressed the issue
4 was because it was previously raised and denied by the Commission. This is
5 wrong. In Docket 3675, the Commission's order specifically stated:

6 "Newport Water should continue to maintain a high level of
7 communication with the Division, Commission and the parties to the
8 docket. This is especially true where *the Commission will allow Newport*
9 *Water to utilize funds from the Capital Fund to meet cash flow issues*
10 *associated with the Debt Service Account. Newport Water shall continue*
11 *to track the accounts separately. (emphasis added)*¹²
12

13 These accounts have not been combined, and Newport is not seeking to do so in
14 the rate year. If Newport does seek to shift funds between the two accounts to
15 help modify future rate increases, it will seek permission from the Commission.
16

17 **Q. Do you agree with Mr. Woodcock's recommendation that Newport continue**
18 **submitting monthly and quarterly reports?**

19 A. No, I do not agree with Mr. Woodcock's position primarily because the time
20 and cost associated with complying with the current reporting requirements far
21 outweighs the benefits. The testimony of Ms. Forgue addresses this issue in
22 more detail.
23

24 **Q. Does this conclude your testimony with respect to Mr. Woodcock's testimony?**

25 A. Yes.
26
27

¹² Docket 3675, Order No. 18580, p. 10

1 **IV. CONSUMPTION AND MISCELLANEOUS REVISIONS**

2 **Q. Did you make any revisions to Newport's projected consumption?**

3 A. Yes I did. Final consumption numbers for FY11 became available since Newport
4 submitted its original filing. As a result, I used these figures in a two-year average
5 with consumption figures from FY10.

6
7 **Q. Why didn't you continue to use a three year average?**

8 A. A three year average would result in projected rate year usage of 1,761,133,
9 while a two year average results in projected rate year usage of 1,701,582. The
10 Commission is very familiar with Newport's historic under collection of revenues
11 and the downward trend in water sales throughout Rhode Island. (See Dockets
12 3818 and 4025). Since the projected usage figures only differ by 59,551
13 thousand gallons it is prudent to project on the lower side. In addition, the Order
14 in this case will not issue until November 2011, which is four months into the
15 rate year. Furthermore, Newport believes that the combination of increased
16 water and sewer rates will negatively impact consumption as customers attempt
17 to conserve more water to avoid higher fees.

18
19 **Q. Are there any other revisions you made to your rate model?**

20 A. Yes, based on updated information Newport received since its original filing, I
21 revised the costs for the following:

- 22 • Worker's Compensation Expense
- 23 • Property Taxes
- 24 • Fire and Liability Expense

25
26

1 **V. CONCLUSION**

2 Q. **Do you recommend that the Commission approve the rates proposed in your**
3 **rebuttal schedules that are attached to your testimony?**

4 A. Yes I do. The revised model incorporates changes suggested by the witnesses for
5 the Division and Portsmouth and the resulting rates and charges should serve to
6 keep Newport on sound financial footing.

7

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

9 A: Yes it does.

HJS FIGURE 1

	Type of Service	Type of Expense	Docket 4243	Future COS Filing	Summer 2011 Demand Study	Division Filings	DB Procurement	Debt Issuance	Wholesale Contracts	Communication with Council/Manager	Emergency Notification System
Raftelis Financial Consultants	Financial	Consultant Fees (Acct. 50222)	X	X	X	X		X	X	X	
Keough & Sweeney	Legal	Consultant Fees (Acct. 50222)	X	X	X	X	X	X	X	X	
Division	Financial	Consultant Fees (Acct. 50222)	X	X	X	X					
Wells Fargo	Financial	Consultant Fees (Acct. 50222)						X			
Code Red	Other	Consultant Fees (Acct. 50222)									X
Pannone, Lopes, Devereaux and West	Legal	In CIP (Prof. Services for WTP Improvements)					X			X	
CDM	Financial	In CIP (City Advisor for New LVWTP & Sta 1 Imprv.)				X	X	X	X	X	
First Southwest	Financial	In CIP (Prof. Services for WTP Improvements)					X			X	

CERTIFICATION

I hereby certify that on September 21, 2011, I sent by electronic mail a copy of the within to Service List herein below, and mailed one original and nine copies to Luly Massaro, Clerk, Rhode Island Public Utilities Commission.

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