

**CITY OF NEWPORT
UTILITIES DEPARTMENT, WATER DIVISION
RIPUC DOCKET NO. 24-30-WW
IN RE: APPLICATION TO CHANGE RATE SCHEDULES
SURREBUTTAL TESTIMONY OF PORTSMOUTH WATER AND FIRE DISTRICT
WITNESS: JASON MUMM**

PRE-FILED SURREBUTTAL TESTIMONY

OF

JASON MUMM

December 23, 2024

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1 **INTRODUCTION**

2 **Q. Please state your name, place of employment, and business address.**

3 A. My name is Jason Mumm. I am a Principal of FCS, a Bowman Company, a firm
4 specializing in water, wastewater, stormwater, solid waste, and electric utility rates and
5 charges. My business address is 323 3rd Ave. Suite 100, Longmont, CO 80501.

6
7 **Q. Have you testified in this Docket previously?**

8 A. Yes. My direct testimony was filed on October 25, 2024.

9
10 **Q. Has your business address changed since the filing of your direct testimony in this
11 Docket?**

12 A. Yes. The address above is current.

13
14 **Q. Could you please describe the purpose of your testimony?**

15 A. The purpose of my testimony today is to respond to the rebuttal testimony Mr. Harold
16 Smith and Mr. Robert C. Shultz Jr., as filed on November 26, 2024.

17
18 **Q. Could you please explain the structure of your testimony?**

19 A. First, I address Mr. Smith and Mr. Schultz Jr.'s comments regarding Newport's annual
20 funding to the Debt Service restricted account. Second, I respond to Mr. Schultz Jr. and Mr.
21 Smith's arguments regarding the reasonableness of Newport's requests for rate year
22 increases without justification in several expense categories. Third, I respond to Mr. Schultz
23 Jr.'s testimony regarding Newport's incentives in negotiating their collective bargaining
24 agreement to the benefit of its ratepayers. Fourth, I offer a proposal for an electricity and
25 chemical rate rider in response to Mr. Smith and Mr. Schultz Jr.'s requests for more
26 information. Fifth and finally, I provide a brief explanation of my alternative proposed rate
27 model, with workbooks attached as JGM Schedules A-1 through A-16.

28

1 **1. DEBT SERVICE RESTRICTED ACCOUNTS**

2 **Q. Please address your concerns with Mr. Smith’s and Mr. Schultz Jr.’s rebuttal**
3 **testimony concerning annual contributions to the Debt Service reserve account.**

4 A. Both Mr. Smith and Mr. Shultz Jr. offered rebuttal testimony concerning my direct
5 testimony on this matter. First, Mr. Smith asserts that the annual contribution to the Debt
6 Service restricted account should “maintain a meaningful balance...to ensure that funds
7 needed to make debt service payments are available when those payments are due,
8 especially during periods when lower than expected revenues might limit Newport’s ability
9 to fully fund its restricted accounts.” Mr. Schultz Jr.’s testimony makes a nearly identical
10 argument. While I agree in principle that revenues can vary for water utilities and that
11 Newport should carry reasonable reserves for such occasions, I disagree that the restricted
12 Debt Service reserve account is the appropriate vehicle for holding those reserves. Earlier
13 in my direct testimony, I proposed eliminating certain restricted reserves – the Chemicals
14 and Electricity accounts - and combining them with the Revenue Reserve account that,
15 together with the general operating account, would provide a minimum of 135 days of
16 unrestricted working capital. These newly unrestricted reserves should be more than
17 adequate to address normal variations in net revenues.

18
19 Second, Mr. Smith and Mr. Schultz Jr. argue that surplus balances may be necessary because
20 Newport may need those funds to secure financing for “large capital projects...that will
21 likely need to be funded with future borrowings.” By their own testimony, however, neither
22 Mr. Smith or Mr. Shultz Jr. are able to identify the projects or quantify the necessary debt
23 service obligations to fund them. The notion that revenue requirements may be higher in the
24 future is not justification for over-funding the Debt Service restricted account today. The
25 Commission’s role is to provide for the recovery for Newport’s known and measurable
26 revenue requirements, which is reasonably achieved by the reductions I proposed in my direct
27 testimony. Those reductions pose little or no threat to Newport’s ability to pay the currently
28 anticipated debt service obligations shown in HJS D-5.

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1 Third, Mr. Smith suggests that lowering the annual contributions as I proposed in my
2 direct testimony would only lead to increasing the amounts later in order to secure
3 additional debt and demonstrate sufficient debt service coverage. However, Mr. Smith
4 provides no calculations or other supporting information to substantiate this concern. If
5 debt service coverage is or ever has been an issue, then Newport should provide evidence
6 to support such a claim. Furthermore, in my opinion, Newport can address this concern
7 more appropriately by seeking approval from the Commission for increases to its revenue
8 requirements if and when new borrowing requirements present themselves.

9
10 In sum, Newport has not substantiated its request to continue over-funding the Debt
11 Service restricted account beyond what is necessary to service Newport's existing debt. It
12 is my opinion, therefore, that the reductions to Newport's debt service funding that I
13 proposed in my direct testimony will appropriately balance the competing interests of
14 providing (relatively small) relief to ratepayers and ensuring that Newport continues to
15 have sufficient funds to meet its debt service obligations, as calculated in its existing
16 revenue requirement.

17
18 **Q. Please address your concerns regarding Mr. Shultz Jr.'s rebuttal testimony about the**
19 **effect of revenue shortfalls on the funding of the Debt Service restricted account.**

20 A. I have two concerns. First, Mr. Shultz Jr. cites Newport's response to PWFD 3-2, in which
21 Newport claims that "Newport has experienced revenue shortfalls due to lower than
22 expected water sales that have prevented the periodic funding of its restricted accounts." In
23 reviewing HJS Schedule D-5, I noted only two instances when Newport transferred funds
24 from another account due to low account balances in the Debt Service account. Those
25 events occurred in fiscal years 2015 and 2016 and on both occasions the funds were
26 immediately transferred back to the Capital Restricted Account from where they had come.
27 In the fiscal year 2015 instance, the transfer did not appear to be necessary in retrospect,
28 meaning Newport would have been able to make its debt service payment in the month in

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1 question – September – even without the transfer. In fiscal year 2016, the transfer was
2 necessary, but the shortfall was immediately remedied within a month. The sort of
3 revenue shortfall preventing periodic funding of the Debt Service account has, therefore,
4 resulted in a short cash position in that account in just one month in the last ten years.
5 Therefore, in my opinion, the Commission should reject both Mr. Smith’s and Mr. Shultz
6 Jr.’s argument that Newport should be allowed to overfund the Debt Service restricted
7 account, and carry an oversized balance, as a hedge against something that has occurred so
8 rarely. Moreover, as I have already testified, the proposed unrestricted funds from the
9 combined Electricity, Chemical, Revenue Reserve, and general operating account would
10 be more than adequate to address normal risks from revenue variations.

11
12 Second, Mr. Schultz Jr. does not agree that Newport should reduce its funding to account
13 for interest earned. This is concerning because revenue requirements should always be
14 reduced for non-rate revenues, and interest earnings are non-rate revenues. In HJS D-5, I
15 note that Newport did not account for interest earnings in its forecast of the Debt Service
16 account balance. Even still, the lowest projected balance during the four-year rate plan was
17 \$785,529 in August 2028. If one were to account for reasonable interest at four percent
18 (4%) – citing the one-month Treasury rate for December 2024 is currently 4.46% (as of
19 Dec. 17, 2024) – and further reduce the monthly contributions by the \$200,000 per year
20 amount I proposed in my direct testimony, I project Newport would still have over
21 \$400,000 in its Debt Service account by August 2028. My calculations are provided in
22 JGM Schedule A-16. It is unclear whether Newport Water maintains a significant cash
23 balance and whether it generally holds its cash reserves in interest bearing accounts. Based
24 on the most recent account statements provided in this docket by Newport, only the Debt
25 Service and Revenue Reserve account appear to earn interest; the others do not. To the
26 extent that Newport holds substantial amounts of cash, it would be appropriate both for
27 Newport to manage that money, in every account, so that it earns a reasonable rate of
28 return, and to apply those interest earnings as non-rate revenues for the benefit of

1 customers to reduce rates and mitigate the need for future rate increases. Per HJS Schedule
2 A1-A, Newport only applied \$20,000 in interest income as a non-rate revenue, far less than
3 the recent interest income in the Debt Service restricted account alone.
4

5 **2. MISCELLANEOUS RATE YEAR INCREASES**

6 **Q. Mr. Shultz Jr. states that your testimony describing Newport’s explanations for its**
7 **substantial cost increases is an “unfair characterization.” Do you agree or wish to**
8 **modify your testimony at this time?**

9 A. I do not agree, but I wish to clarify my testimony. The statements in my direct testimony
10 were fair in the context of a general base rate case, in which the Commission approves
11 water rates that allow Newport to recover its known and measurable costs, assuming those
12 costs are both reasonable and prudently incurred. There is no disagreement between my
13 testimony and that of Mr. Shultz Jr. or Mr. Smith that Newport should be allowed to
14 recover its known and measurable costs. Instead, my testimony poses legitimate questions
15 about the reasonableness of those costs, by questioning whether Newport has sufficiently
16 explained its many, very large rate year increases.
17

18 **Q. Regarding Newport’s requested increases for Salaries and Wages, do you agree that**
19 **your proposal that the Commission deny rate increases tied to newly created**
20 **positions will put Newport in a “catch-22” position?**

21 A. No. Mr. Shultz Jr. argues that my proposal means that “Newport can’t hire for these
22 positions if it doesn’t have funding, but since these positions have not yet been filled
23 Newport should be denied funding.” He also contends that Newport cannot “absorb” costs
24 of new salaries or salary increases without dipping into its other operating expenses or
25 filing a new rate case. However, Mr. Schultz Jr.’s arguments do not consider the impacts of
26 eliminating certain restricted accounts. Those newly unrestricted funds could be used to
27 address normal variations in net revenues as well as variations in costs, including for new
28 hires or salary increases.

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1 Mr. Schultz Jr.'s argument also is nonresponsive to my direct testimony. In response to
2 COMM 1-2, Newport indicated that it was struggling to fill existing vacant positions, and I
3 commented on this fact in my direct testimony by stating that "Newport Water
4 demonstrated it has not even been able to fill the positions it already has authorized." The
5 question, therefore, is truly about how many vacancies ratepayers are reasonably expected
6 to pay for in this rate case. Are the new positions known? Yes. Are they measurable? Yes.
7 Are they reasonable? Perhaps not, if one considers past evidence of unfilled vacancies.
8 Newport's request to fully fund such vacancies asks the Commission to assume a vacancy
9 rate unsupported in the Docket. I simply question whether such a request is reasonable.

10
11 I propose that the Commission approve salaries and wages for existing positions only.
12 Alternatively, if Newport can quantify the costs of specific new positions it has included in
13 its original application and the costs of increases salaries to make hiring more competitive,
14 Newport could seek permission to modify its multi-year rate plan, if and when it actually
15 fills those positions and implements those salary increases. Either approach would respond
16 to my concerns about overburdening ratepayers with the costs of vacant positions.

17
18 **Q. Do you believe Mr. Schultz Jr.'s rebuttal testimony provides sufficient justification**
19 **for the rate year increases Newport proposes for Repairs and Maintenance, Main**
20 **Maintenance, Service Maintenance, and Laboratory Supplies?**

21 A. No. Mr. Shultz Jr. contends that "Newport has to deal with expenses as they currently
22 exist" and "cannot ask for less revenue to meet current expenses based on an assumption
23 that costs will decrease in the future," and argues that I offered no evidence to my
24 statement that "there is a reasonable likelihood that market shifts will result in decreased
25 supply costs of the life of the rate plan." In this instance, Mr. Shultz Jr. mischaracterizes
26 my testimony by omission.

27

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1 My testimony states that Newport’s proposed increases in these costs “*inherently proposes*
2 *to make permanent the historically high costs as a result of inflation in recent years,*
3 *without accounting for the likelihood that market shifts will result in decreased supply*
4 *costs for the life of the rate plan.*” (emphasis added). Again, the question here is not
5 whether Newport has accurately represented current costs, but whether it is a reasonable
6 expectation for ratepayers to bear that level of cost for the entire four-year plan. Newport’s
7 proposed revenue requirements are based in large part on FY2023 results, which included
8 the effects of the highest inflation rates the US has seen in nearly 40 years. The question I
9 pose in my testimony is whether it is reasonable for the Commission to accept historically
10 high prices as a permanent feature of Newport’s water rates for the next four years,
11 especially when the proposed rate year adjustments represent a twenty-five percent (25%)
12 increase over the last audited levels.

13
14 **Q. Do you believe Mr. Schultz Jr.’s rebuttal testimony offers sufficient justification for**
15 **miscellaneous rate year increases under \$30,000?**

16 A. No. Mr. Shultz Jr. takes issue with my testimony regarding lack of information to support
17 the proposed increases for expenses that did not reach the \$30,000 demarcation point.
18 First, he argues that choosing a “demarcation point” is standard practice, not only for
19 Newport, but other regulated utilities as well. Even assuming this is true, in my opinion,
20 the Commission should be concerned about any unexplained rate year increases. Here,
21 Newport is proposing that these smaller expenses should increase permanently (for the
22 next four years) by an average of approximately sixty-three percent (63%) over the
23 normalized test year. Furthermore, Newport asks the Commission to approve those
24 increases without any specific investigation as to their reasonableness. To my knowledge,
25 the Commission has no practice or policy that would allow Newport to increase its rate
26 year expenses over test year amounts without justification, simply because the increases
27 pertain to smaller expenditures.

28

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1 Second, Mr. Schultz Jr. argues that “Mr. Mumm has not offered any position of his own
2 about why certain expenses are not justified, or what expense levels should be.” Newport,
3 however, bears the burden of proving that its requested rate increases are reasonable and
4 prudent. It is the role of intervenors such as Portsmouth Water and Fire District to point out
5 to the Commission where Newport has failed to carry that burden. That is what I have
6 done in my direct testimony, where I stated that “[u]nless Newport Water provides a
7 reasonable justification for these costs, the Commission should not allow any increase
8 from the test year expense. Accordingly, absent specific justification for the rate year
9 increases below the ‘demarcation point’ of \$30,000, the Commission should approve only
10 test year amounts for those expenses.”

11
12 **Q. Do you agree with Mr. Smith’s testimony that Newport has justified its various rate**
13 **year increases over normalized test year amounts based on the fact that the “test year**
14 **used in this filing does not accurately reflect rate year expenses”?**

15 A. No. Mr. Smith states that using a historical test year “usually results in an accurate estimate
16 of rate year expenses, but only when the test year accurately represents the cost associated
17 with operating and maintaining a utility, which is not the case in this rate filing.” Mr.
18 Smith seems to suggest that the data from the test year (FY 2023) is too old to be accurate
19 and reliable for a 2025 rate year, and this should excuse Newport from having to
20 specifically justify each proposed rate year increase over test year amounts. It is my
21 understanding, however, that Newport requested and the Commission agreed to allow
22 Newport to use 2023 test year data for a 2025 rate year, even though that is outside of the
23 usual timespan allowed for rate filings. Having received special permission to use outdated
24 numbers, Newport cannot now point to the age of its test year information as the
25 justification for its rate year increases, without further explanation. Newport should be
26 required to explain for every expense category it seeks to increase over test year amounts
27 what has changed since 2023, what is driving the cost, whether those costs are expected to

1 be permanent or temporary due to difficult recent market conditions, and what Newport
2 has done to mitigate them.

3
4 **3. UNION CONTRACT NEGOTIATIONS**

5 **Q. Do you wish to address Mr. Shultz Jr.’s rebuttal regarding Newport’s incentives in**
6 **negotiating their collective bargaining agreement to the benefit of its ratepayers?**

7 A. In my direct testimony, I stated that Newport’s proposal to include a one percent salary
8 adjustment placeholder as part of its four-year rate plan would offer “no incentive for
9 Newport Water to negotiate in the benefit of its ratepayers because it will simply be able to
10 pass on those costs to ratepayers without evaluation of their reasonableness.” Mr. Shultz Jr.
11 argues that the proposal includes compliance filings wherein the Commission will have the
12 opportunity to review the reasonableness of union contracts and modify the rates as
13 necessary. I should note that my testimony is limited to economic incentive and is not any
14 kind of implication of Newport’s record as a negotiator in these situations.

15
16 The concern here is that by asking for and receiving authorization for the one percent
17 adjustment as proposed, Newport would establish a presumption of reasonableness for any
18 outcome at or below that level. In my opinion, I do not think that presumption should exist
19 prior to the negotiations. As discussed above, Mr. Shultz Jr. suggests that my approach
20 could result in Newport absorbing salary increases at the expense of other operational
21 needs. This is not an accurate representation of my proposed approach. My direct and
22 surrebuttal testimonies state clearly that Newport should be allowed to recover its known,
23 measurable, and reasonable costs. Asking for approval of increases of an amount that you
24 know is going to change later is not consistent with these ordinary ratemaking principles.
25 In this particular instance, the salary increases for union employees are not known or
26 measurable, and it remains to be seen whether they are reasonable.

27

1 **4. ELECTRICITY AND CHEMICAL RATE RIDER PROPOSAL**

2 **Q. Have you prepared a proposal for the chemical and electricity rate riders as initially**
3 **discussed in your direct testimony?**

4 A. Yes. I prepared the calculations for the proposed rate riders in manner consistent with
5 Portsmouth's other proposals in this case as more fully described in my alternative revenue
6 requirement model attached as JGM Schedules A1-A16, which I will describe later in my
7 surrebuttal testimony. JGM Schedule A-11 illustrates a proposed electricity rate rider.
8 JGM Schedule A-12 illustrates the chemical rate rider. JGM Schedule A-13 presents the
9 proposed revisions to Newport's volumetric rates assuming the Commission implements
10 the rate riders as proposed in my exhibits.

11
12 **Q. Do your proposed rate riders require Newport to do anything differently with respect**
13 **to its rate filing?**

14 A. Yes. With the electricity rate rider, Newport would need to allocate all electricity costs to
15 Base rather than the other cost components. Newport's cost allocation approach assigns
16 some electricity costs to Max Day, Max Hour, Metering, Billing, Services, and Fire
17 components. By allocating all electricity costs to the Base component, the rate rider can
18 easily be applied directly to customer usage. Secondly, there are two electricity rate riders
19 in my proposal: one that applies to all customers – which I've called the "Joint" electricity
20 costs – and a second that applies only to customers using the transmission and distribution
21 system. Notably, Portsmouth is excluded from this latter rider because it does not receive
22 any transmission and distribution cost allocations based on Newport's filing. Based on
23 Schedule A-11, the rate riders are \$0.543 per one thousand gallons for all customers, and
24 an additional \$0.023 per one thousand gallons for all transmission and distribution
25 customers.

26
27 The chemical rate rider requires fewer considerations. Newport already allocates all
28 chemical costs to the Base component, and all chemical costs are already shared among all

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1 customer classes as “Joint” costs. The chemical rate rider is therefore determined as total
2 chemical expenses divided by total demand, or \$1.047 per one thousand gallons.

3 If the rate riders are put in place, then the base volumetric rates need to be reduced to avoid
4 double-recovery of the costs. JGM Schedule A-13 demonstrates the applicable reductions.

5
6 **Q. What will Newport need to do to update the rate riders each year?**

7 A. Generally speaking, Newport will need to submit to the Commission cost verification for
8 its electricity and chemical expenses. Additionally, Newport would need to validate or
9 update the expected usage levels for each of its customer classes and then perform the
10 necessary but simple calculations.

11
12 **Q. Is there anything the Commission needs to do differently if it implements the rate
13 riders as you have proposed?**

14 A. The Commission may wish to specify the cost justification it will require of Newport in
15 order to ensure a speedy process, bearing in mind that the review process for updates to
16 rate riders is intended to be simplified and streamlined.

17
18 **Q. Will the proposed rate riders recover the same revenue as currently proposed in
19 Newport’s rate filing?**

20 A. Yes. The point of implementing the rate rider is not to deny Newport legitimate cost
21 recovery, but to protect both Newport and the ratepayers as electricity and chemical costs
22 change over time. The proposed rate riders come from the concern that the current
23 electricity and chemical costs are historically high right now. The proposed rates would
24 lock-in those high costs, whereas the rate riders would provide a variable cost recovery
25 mechanism more responsive to rapidly changing costs driven by market conditions beyond
26 Newport’s control.

1 **5. ALTERNATIVE RATE MODEL**

2 **Q. Did you prepare an alternative rate model on behalf of Portsmouth Water and Fire**
3 **District?**

4 A. Yes.

5
6 **Q. Please briefly explain the differences between your alternative rate model and the**
7 **most current version of Newport's rate model.**

8 A. The key differences include removing the rate year adjustments that Newport has proposed
9 for each instance in which Portsmouth does not believe Newport has carried its burden in
10 proving its requested rate year increases or decreases represent known, measurable,
11 reasonable, and prudently incurred costs. This specifically includes costs that fall below
12 Newport's \$30,000 demarcation point. In such cases, Portsmouth contends that the
13 Commission should only grant the costs from the normalized test year. A list of the
14 adjustments to the operating and maintenance expenses is included in JGM Schedule A-1.
15 JGM Schedule A-2 includes the \$200,000 reduction in annual funding of the Debt Service
16 restricted account as discussed in both my direct and surrebuttal testimony. Schedule A-1
17 and Schedule A-2 both include a brief narrative explanation for my proposed changes in
18 the column titled "Reason for PWFD Adjustments." JGM Schedule A-4 summarizes the
19 revisions to Newport's requested revenue requirement for the FY2025 rate year. All
20 adjustments are shown relative to the revised schedules sponsored in the rebuttal testimony
21 of Mr. Smith.

22

23 **Q. Did you make any other changes from Newport's rate model?**

24 A. Only a minor one. As discussed in my surrebuttal testimony above regarding the rate
25 riders, I changed the allocation of electricity costs to Base only. These changes can be
26 verified in JGM Schedule A-5. Because I was working from Mr. Smith's printed schedules
27 rather than the Microsoft Excel workbook, because the workbook has not yet been
28 provided, I was forced to estimate several allocation factors in JGM Schedules A-14 to A-

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1 15. I believe my improvisations may result in minor variations that could be easily
2 corrected if I were give the correct inputs.
3

4 **Q. Can you summarize the effect of these changes on the FY2025 rate year?**

5 A. The total revenue requirement is reduced by \$977,704 per JGM Schedule A-4. This
6 reflects a \$777,704 reduction to Newport's operating and maintenance expenses, shown in
7 JGM Schedule A-1, and a \$200,000 reduction to Newport's Debt Service restricted
8 account, shown in Schedule JGM A-2. With the exception of the electricity costs, I
9 recalculated the unit costs for each customer class using the same allocation processes as
10 Newport. After reallocating the remaining costs, I determined the base rate for Portsmouth
11 would go down by \$0.22 per thousand gallons, approximately 3%. The indicated rates for
12 other classes would also decrease.
13

14 **Q. Does your alternative rate model address Newport's proposed step increases?**

15 A. Yes. My alternative rate model eliminates Newport's proposed step increases related to
16 union contract adjustments, the costs of which are not yet known and measurable. As
17 such, it is my opinion that Newport has not justified the reasonableness or prudence of
18 those increases.
19

20 **Q. Does this conclude your testimony?**

21 A. Yes.