

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND**

**CITY OF NEWPORT)
UTILITIES DEPARTMENT,)
WATER DIVISION)** **DOCKET NO. 3675**

SURREBUTTAL TESTIMONY

OF

THOMAS S. CATLIN

ON BEHALF OF THE

DIVISION OF PUBLIC UTILITIES AND CARRIERS

OCTOBER 2005

EXETER

ASSOCIATES, INC.
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BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND

CITY OF NEWPORT)
UTILITIES DEPARTMENT,) DOCKET NO. 3675
WATER DIVISION)

Surrebuttal Testimony of Thomas S. Catlin

Introduction

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Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Thomas S. Catlin. I am a principal with Exeter Associates, Inc. Our offices are located at 5565 Sterrett Place, Suite 310, Columbia, Maryland 21044. Exeter is a firm of consulting economists specializing in issues pertaining to public utilities.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS
 PROCEEDING?

A. Yes. I previously submitted direct testimony on behalf of the Division of Public Utilities and Carriers (the Division) in September 2005. My qualifications and experience are set forth in that testimony.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my Surrebuttal testimony is to respond to the rebuttal testimony filed by Mr. Harold Smith and Ms. Julia Forgue on behalf of City of Newport Utilities Department, Water Division (Newport Water or the Water Division). The specific issues that I will address are:

- Billing frequency
- Employee Vacancies
- Accumulated Benefits Buyout
- Retiree Insurance Expense

- 1 • City Legal and Administrative Services
- 2 • City Data Processing Services
- 3 • Sewer Billing Service Revenues

4 I will also update the Division's recommendation regarding the appropriate revenue
5 increase.

6

7 **Billing Frequency**

8 Q. WHAT RESPONSE DO YOU HAVE TO MR. SMITH AND MS. FORGUE'S
9 REBUTTAL TESTIMONY REGARDING BILLING FREQUENCY?

10 A. Based on information provided to me in discovery, it was my understanding that all
11 customers with one-inch and larger meters had been converted to monthly billing.
12 Therefore, I recommended that Newport Water's tariffs be modified to state that metered
13 water customers with one-inch and larger meters will be billed monthly and customers
14 with 5/8-inch and 3/4-inch will be billed tri-annually. In rebuttal, Newport Water has
15 indicated that not all customers with one-inch and larger meters have been converted to
16 monthly billing and that there are a number of issues which need to be addressed before
17 conversion of the remaining customers can take place.

18 Based on this new information, I agree that it is not feasible to revise Newport
19 Water's tariffs to state billing frequency at this time. However, Newport Water should
20 proceed with resolving the issues discussed by Mr. Smith in the near future so that its
21 tariffs can be modified to identify billing frequency for all customers.

22

23 **Employee Vacancies**

24 Q. WHAT POSITION DID NEWPORT WATER TAKE WITH REGARD TO
25 YOUR POSITION TO RECOGNIZE A NORMAL LEVEL OF EMPLOYEE
26 VACANCIES?

1 A. In rebuttal, Ms. Forgue and Mr. Smith argue that my adjustment to recognize a normal
2 level of employee vacancies reduces the Water Division’s approved staff level by two
3 employees and eliminates the funding of two positions. It is suggested that this will
4 prevent Newport Water from hiring the new Deputy Director – Finance.

5 Q. DO YOU AGREE WITH THIS ARGUMENT?

6 A. No. It is simply not realistic to assume that every employee position will be filled 100
7 percent of the time as reflected in Newport Water’s filing. My adjustment does not
8 reduce the Water Division’s approved staffing level or deny funding for two positions.
9 Rather, it simply recognizes that due to employee turnover, not all positions will be
10 continuously filled and the expenditures for salaries and wages will be less than budget
11 because this is required to recruit new employees to fill these temporary vacancies. This
12 is supported by Ms. Forgue’s testimony that Newport Water currently has three employee
13 vacancies that it is seeking to fill, not including the Deputy Director-Finance positions.
14 The likelihood of vacancies continuing to arise is supported by Ms. Forgue’s rebuttal
15 testimony nothing the number of employees who become eligible for retirement over the
16 next several years.

17 Q. DO YOU HAVE ANY OTHER OBSERVATIONS?

18 A. Yes. In her rebuttal, Ms. Forgue states that: “During the litigation of this Docket, three
19 positions (not including the Deputy Director-Finance) became vacant.” This might be
20 construed to suggest that vacancies are unusual and that all positions are normally filled.
21 However, since January of this year, there has not been any time at which there were less
22 than two employee vacancies and for most of the time there have been three and often
23 four vacant positions. Currently, there are five vacancies including, both Deputy
24 Directors, a meter reader/repairman, a skilled laborer/mechanic and a skilled

1 laborer/equipment operator. Clearly, Newport Water's wages and salaries will not reflect
2 a full complement of employees 100 percent of the time.
3

4 **Accumulated Benefits Buy-Out**

5 Q. WHAT COMMENTS DO YOU HAVE REGARDING ACCUMULATED
6 BENEFITS BUYOUT COSTS BASED ON NEWPORT WATER'S REBUTTAL
7 TESTIMONY?

8 A. Newport Water requested an allowance for accumulated benefits buyout (ABB) costs of
9 \$70,000 based on a maximum payout of \$35,000 for each of two potential retirees in its
10 original filing. In my direct testimony, I proposed to adjust this expense to reflect an
11 allowance of \$54,000 based on a buyout cost of \$27,000 for each of two potential
12 retirees. My recommended allowance of \$27,000 per retiree was based on the known
13 cost exposure for existing eligible employees and actual recent experience. I also
14 recommended that a restricted account be established for ABB costs because of the
15 uncertainty regarding both the timing of employee retirements and the amount of the
16 payout to retirees.

17 In rebuttal, Newport Water agreed that establishing a restricted account for ABB
18 costs was appropriate. However, it expressed the concern that it would be in a position of
19 scrambling for funds if the restricted account was not funded based on the maximum
20 payout per employee and it was then faced with the maximum exposure.

21 Given Newport's agreement to establish a restricted account and the small
22 difference in funding levels (\$16,000), I will accept Newport Water's request that a
23 funding allowance of \$70,000 for ABB costs be established in this proceeding. The
24 appropriate level of funding should be re-evaluated and modified as necessary in future
25 proceedings.

Retiree Insurance Coverage

1
2 Q. PLEASE REVIEW THE ISSUE WITH REGARD TO RETIREE INSURANCE
3 COVERAGE.

4 A. In its filing, Newport Water has proposed to increase retiree insurance costs to include
5 \$13,150 each (\$26,300 total) for the two potential new retirees for which it is also
6 claiming ABB costs. I proposed to reduce this allowance to \$13,000 or approximately
7 one-half of Newport Water's request because even if both eligible employees retire
8 immediately, the cost of their medical and dental insurance is already included in the rate
9 year employee insurance expense. As a result, Newport Water will not incur any
10 additional expense until replacement employees are hired and begin to receive medical
11 and dental insurance. Because Newport Water has a six-month waiting period, the
12 maximum additional expense Newport Water would incur in the rate year is 12 months of
13 premiums, or \$13,000. This would only occur if both employees retired and were
14 replaced immediately. I also recommended that a restricted fund be established where
15 the amount allowed in rates can be set aside to pay the additional premiums.

16 In rebuttal, Newport Water has accepted my recommendation that a restricted
17 fund be established to fund additional premiums for new retirees. However, Newport
18 Water has argued that the full \$26,300 should be used to fund the account so that funds
19 will be available to meet the Water Division's potential exposure in coming years as
20 additional employees become eligible to retire.

21 Q. ARE YOU PREPARED TO MODIFY YOUR POSITION?

22 A. Yes. In light of Newport Water's agreement to establish a restricted account and the
23 small difference in dollars (\$13,300), I have included the full funding allowance of
24 \$26,300 requested by Newport Water in my updated recommendation on behalf of the

1 Division. I would like to emphasize, however, that the insurance premiums for all
2 existing employees are already included in the cost of service. Therefore, only at such
3 time as an existing employee retires and a replacement employee becomes eligible for
4 and begins to receive insurance coverage would Newport Water begin to pay incremental
5 premiums that would be eligible to be paid for from these funds. This is discussed in
6 further detail on page 10 of my direct testimony in this proceeding.
7

8 **City Legal and Administrative Services**

9 Q. DID NEWPORT WATER ACCEPT ANY OF THE ADJUSTMENTS THAT
10 YOU RECOMMENDED WITH REGARD TO THE COSTS OF CITY LEGAL
11 AND ADMINISTRATIVE SERVICES ALLOCABLE TO NEWPORT
12 WATER?

13 A. Yes. In his rebuttal testimony, Mr. Smith agreed that the allocation factor used to
14 allocate costs to Newport Water should be modified to reflect the Water Division's final
15 budget.¹ He also accepted my adjustments to the costs of the City Council, City Clerk
16 and Finance Administration departments eligible to be allocated to the Water Division.
17 In addition, he accepted an adjustment to the allocation of Facilities Maintenance costs
18 proposed by Mr. Christopher Woodcock on behalf of the Portsmouth Water and Fire
19 District (PWFD). This adjustment had a similar purpose to the adjustment I proposed to
20 the allocation of Facilities Maintenance costs and I accept that revision to the allocation
21 of Facilities Maintenance costs.

¹ In developing his allocation percentage, Mr. Smith reflected the cost of service in his supplemental testimony, but did not recognize the revisions adopted in his rebuttal testimony. I have revised the allocation percentage to reflect the Division's recommended cost of service.

1 Q. WHAT REMAINING ISSUES REMAIN BETWEEN NEWPORT WATER
2 AND THE DIVISION WITH REGARD TO CITY LEGAL AND
3 ADMINISTRATIVE SERVICES COSTS?

4 A. Newport Water has disagreed with my adjustments to treat only one-half of the costs of
5 the City Solicitor's office being allocable to the Water Division and to eliminate any
6 allocation of the costs of the Assessment Division.

7 Q. WHAT WAS NEWPORT WATER'S RESPONSE WITH REGARD TO THE
8 COSTS ASSOCIATED WITH THE CITY SOLICITOR'S OFFICE?

9 A. In his rebuttal, Mr. Smith acknowledges that one of the two Assistant City Solicitors only
10 represents the City in law enforcement matters and that Newport Water must engage its
11 own outside counsel for rate matters. However, he argues that the City Solicitor still
12 provides valuable services to the Water Division. His proposal is to reduce the portion of
13 the budget allocable to Newport Water by \$41,000, which he identifies as the cost
14 associated with one assistant City Solicitor.

15 Q. DO YOU AGREE WITH THESE ARGUMENTS?

16 A. I do not disagree that the City Solicitor's office provides services to Newport Water.
17 That is why I have proposed to include one-half of the costs of the City Solicitor's office
18 as allocable to the Water Division. However, Newport Water's proposal to reduce the
19 costs subject to allocation by \$41,000 for the cost of one Assistant City Solicitor fails to
20 account for the benefits, overheads, support and supervision attributable to that position.
21 Moreover, it fails to recognize that the City Solicitor is also involved in addressing law
22 enforcement matters. Accordingly, I continue to recommend that only one-half of the
23 costs of the City Solicitor's office be treated as allocable to the Water Division for the
24 reasons discussed in my direct testimony as well as those discussed above.

1 Q. WHAT POSITION DID NEWPORT WATER TAKE WITH REGARD TO THE
2 ELIMINATION OF THE ASSESSMENT DIVISION FROM THE CITY
3 ADMINISTRATIVE COSTS ALLOCATED TO THE WATER DIVISION?

4 A. Newport Water has taken the position that my adjustment to eliminate the Assessment
5 Division from the costs allocable to the Water Division is improper. Ms. Forgue has
6 argued that while the description of the functions of the Assessment Division provided in
7 response to Division Data Request 3-4 (Div. 3-4) does not identify activities that relate to
8 Newport Water, the Assessment Division does provide specific services to Newport
9 Water. These services are related to assisting Newport Water in matters involving the
10 taxes Newport Water pays to other communities.

11 Q. WHAT IS YOUR POSITION BASED ON THE ADDITIONAL
12 INFORMATION NEWPORT WATER HAS PROVIDED IN ITS REBUTTAL?

13 A. Based on the additional information provided in Ms. Forgue's rebuttal, it appears
14 reasonable to include some allowance for the Assessment Division in determining the
15 City legal and administrative service costs allocable to the Water Division. At the same
16 time, the primary function of the Assessment Division is, as stated in response to Div. 3-
17 4, to assess property within Newport and to process and approve tax exemptions.
18 Clearly, dealing with the tens, if not hundreds, of thousands of residential and
19 commercial properties with an Newport requires the vast majority of the Assessment
20 Division's time and resources. Hence, allocating 14 percent of the Assessment
21 Division's costs to Newport Water is not realistic. As a compromise, I am proposing to
22 recognize only 25 percent of Assessment Division costs as allocable to Newport Water.
23 If Newport believes a higher share of these costs are attributable to the Water Division, it

1 should present a comprehensive time and resources analysis to support such a claim in a
2 future proceeding.

3
4 **Data Processing Services**

5 Q. WHAT ADJUSTMENT HAVE YOU PROPOSED TO THE ALLOCATION OF
6 CITY DATA PROCESSING SERVICE COSTS TO NEWPORT WATER?

7 A. In addition to correcting the Water Department budget used to calculate the allocation
8 factor, I also proposed to include that portion of the Schools budget paid for out of
9 transfers from the General Fund. I included only the portion of the Schools budget paid
10 for from the General Fund, not the full Schools budget, in order to recognize that the
11 Schools have some independent MIS systems in addition to the City MIS systems that
12 they utilize.

13 Q. WHAT WAS NEWPORT'S RESPONSE?

14 A. In his rebuttal, Mr. Smith argues that my adjustment overstates the degree to which the
15 Schools rely on the City MIS Department. In order to recognize the fact that the Schools
16 do rely on the City's MIS Department, he removed \$50,000 from the total MIS budget of
17 \$1.85 million.

18 Q. DO YOU AGREE WITH NEWPORT WATER'S POSITION?

19 A. No. Newport Water's argument is essentially that a budget-based allocation overstates
20 the costs assigned to the Schools. I have two concerns with this position. First, the claim
21 that the Schools receive only \$50,000 worth of services is not realistic given that the
22 Schools utilize the City's general ledger, payroll, and human resources systems and the
23 Schools administration utilizes the City's e-mail system. Second, by focusing on the
24 Schools, Newport Water has ignored its own data that demonstrate that its proposal to

1 allocate 14.16 percent of the MIS budget to the Water Division overstates the costs
2 assigned to the Water Division.

3 Q. PLEASE EXPLAIN.

4 A. As I noted in my direct testimony, the response to Div. 1-19 reveals that the time spent by
5 MIS personnel on Water Division issues has ranged from 4.5 percent to 10.7 percent per
6 month. My proposal to allocate MIS costs based on the Water Departments budget as a
7 percent of the City's General Fund budget including the transfer to the Schools (but
8 excluding the library) results in an allocation of Newport Water of 10.57 percent of data
9 processing costs. This is at the upper end of the amount of time spent by MIS personnel
10 on Water Division issues in any month.

11 Q. HAVE YOU MODIFIED YOUR ORIGINAL RECOMMENDATION?

12 A. No. As shown on updated Schedule TSC-3, I am continuing to recommend that the data
13 processing costs allocated to Newport Water be based on the total MIS budget times the
14 Newport Water budget as a percent of the total City budget including the General Fund
15 transfer to the Schools. The amount of my adjustment to Newport Water's claim is
16 smaller than the adjustment presented in my direct testimony as the result of the revisions
17 which Newport Water made in its rebuttal filing.

18
19 **Sewer Billing Service**

20 Q. PLEASE SUMMARIZE NEWPORT WATER'S REBUTTAL TESTIMONY
21 WITH REGARD TO CHARGING THE WATER POLLUTION CONTROL
22 DIVISION FOR THE COSTS ASSOCIATED WITH PROVIDING SEWER
23 BILLING SERVICE.

1 A. On behalf of Newport Water, Mr. Smith argues that Newport Water should not charge the
2 Newport Water Pollution Control Division (WPC) any more than the \$10,560 which has
3 already been recognized in Newport Water's filing. Newport Water does not dispute that
4 there are additional costs associated with providing sewer billing services. Instead, Mr.
5 Smith argues that it would be inequitable to charge the WPC for sewer billing services
6 because Newport Water provides the billing information to the Town of Middletown for
7 free. Accordingly, he argues that the fairest way to recover the costs is to recover all of
8 the billing related costs in Newport Water's bills. He also argues that because the WPC
9 did not include charges from Newport Water in its budget, it would not be able to pay
10 them.

11 Q. WHAT IS YOUR RESPONSE TO THESE ARGUMENTS?

12 A. First, the fact that Newport Water provides billing data to the Town of Middletown for
13 free does not mean that water customer's should bear all of the costs. Rather, it indicates
14 that a portion of Newport Water's Customer Accounts costs should also be recovered
15 from Middletown. Prior to its next rate proceeding, Newport Water should take the
16 necessary steps to begin recovering the costs of providing billing data to the Town of
17 Middletown from the Town of Middletown.

18 Second, the argument that Newport Water should not charge WPC for the costs it
19 incurs to provide a service to WPC is inconsistent with the Water Division's own
20 proposals in this case that it should pay for the full cost of the services provided by other
21 City Departments to the Water Division. If WPC does not have sufficient revenues
22 available to pay for the service, it can increase sewer rates just as Newport Water has
23 sought to increase water rates to pay the City for the services it provides. Accordingly, I
24 have not modified my recommendations to charge WPC for sewer billing services.

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Division Recommendation

Q. HAVE YOU UPDATED YOUR RECOMMENDATION ON BEHALF OF THE DIVISION AS TO THE REVENUE INCREASE TO WHICH NEWPORT WATER SHOULD RECEIVE IN THIS PROCEEDING?

A. Yes. As shown on Schedule TSC-1 Updated 10/20/05, I have determined that Newport Water has a revenue deficiency of \$1,373,100. This represents a reduction of \$392,171 compared to the revenue increase of \$1,765,271 sought by Newport Water in its rebuttal testimony.

In addition to updated Schedule TSC-1, I have also updated my Schedules TSC-2 through TSC-10 as necessary to reflect the changes discussed previously in my surrebuttal testimony. These schedules highlight the remaining differences between Newport Water’s claimed cost of service and my recommendation on behalf of the Division Schedule TSC-10, Updated 10/20/05 presents the development of the rate necessary to generate the Division’s recommended revenues.

Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

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**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND**

**CITY OF NEWPORT)
UTILITIES DEPARTMENT,)
WATER DIVISION)** **DOCKET NO. 3675**

**SCHEDULES ACCOMPANYING THE
SURREBUTTAL TESTIMONY
OF
THOMAS S. CATLIN**

**ON BEHALF OF THE
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

OCTOBER 2005

EXETER
ASSOCIATES, INC.
5565 Sterrett Place
Suite 310
Columbia, Maryland 20904

CITY OF NEWPORT--WATER DIVISION

Summary of Revenues and Expenses at
 Present and Proposed Rates
 Rate Year Ended June 30, 2006

	Rate Year Amount Per Newport	Division Adjustments	Rate Year at Present Rates	Proposed Rate Increase	Rate Year at Proposed Rates
Revenue					
Customer Charge	\$ 547,811	\$ -	\$ 547,811	\$ 99,602	\$ 647,413
Retail Consumption	4,475,333	-	4,475,333	834,160	5,309,493
Wholesale/Bulk Sales	1,578,395	-	1,578,395	293,192	1,871,587
Fire Protection	786,805		786,805	146,137	932,942
Miscellaneous	259,060	148,190	407,250	-	407,250
Total Revenue	\$ 7,647,404	\$ 148,190	\$ 7,795,594	\$ 1,373,091	\$ 9,168,684
Expenses					
Water Administration	1,844,385	(181,578)	1,662,807	-	1,662,807
Customer Accounts	536,815	(58,797)	478,018	-	478,018
Source of Supply-Island	455,087		455,087	-	455,087
Source of Supply-Mainland	95,663		95,663	-	95,663
Treatment & Pumping-Newport Plant	1,352,566		1,352,566	-	1,352,566
Treatment & Pumping-Lawton Valley	1,026,354		1,026,354	-	1,026,354
Water Laboratory	213,952		213,952	-	213,952
Transmission & Distribution Maintenance	838,893		838,893	-	838,893
Fire Protection	14,000		14,000	-	14,000
Subtotal	\$ 6,377,715	\$ (240,375)	\$ 6,137,340	\$ -	\$ 6,137,340
Payment to City General Fund	250,000		250,000	-	250,000
Debt Service	1,378,768		1,378,768	-	1,378,768
Capital Outlays	1,267,088		1,267,088	-	1,267,088
Total Expenses	\$ 9,273,571	\$ (240,375)	\$ 9,033,196	\$ -	\$ 9,033,196
Operating Reserve	139,104	(3,606)	135,498	-	135,498
Total Cost of Service	\$ 9,412,675	\$ (243,981)	\$ 9,168,694	\$ -	\$ 9,168,694
Revenue Surplus/(Deficiency)	(\$1,765,271)	\$392,171	(\$1,373,100)	\$ 1,373,091	(\$9)

CITY OF NEWPORT--WATER DIVISION

Summary of Division Adjustments to
Rate Year Revenues and Expenses at Present Rates
Rate Year Ending June 30, 2006

<u>Description</u>	<u>Amount</u>	<u>Source</u>
Customer Billing Charge	-	Schedule TSC-3
Miscellaneous Charges	148,190	Schedule TSC-9
Total Revenue Adjustments	<u>148,190</u>	
Employee Vacancies	(117,594)	Schedule TSC-4
Accumulated Benefits Buyout	-	Schedule TSC-5
Retiree Insurance Costs	-	Schedule TSC-6
City Legal & Administrative Services	(56,517)	Schedule TSC-7
City Data Processing Services	(66,264)	Schedule TSC-8
Operating Reserve	<u>(3,606)</u>	See Note (1)
Total Expense Adjustments	<u>\$ (243,981)</u>	
Total Adjustment to Revenue Deficiency	<u>(392,171)</u>	

Note:

(1) Based on 1.5% of total expenses as reflected on Schedule TSC-1.