



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

150 South Main Street • Providence, RI 02903

(401) 274-4400

TDD (401) 453-0410

*Patrick C. Lynch, Attorney General*

*Via First Class Mail and Electronic Transmission*

September 15, 2005

Ms. Luly Massaro  
Commission Clerk  
Public Utilities Commission  
89 Jefferson Blvd.  
Warwick, RI 02888

**Re: City of Newport, Utilities Department, Water Division**  
**Docket No. 3675**

Dear Ms. Massaro:

Enclosed for filing in the above-captioned proceeding, on behalf of the Division of Public Utilities and Carriers, please find an original and nine (9) copies of the Direct Testimony of Thomas S. Catlin.

Thank you for your attention to this matter.

Very truly yours,

Leo J. Wold  
Special Assistant Attorney General

Encl.

cc: Service List

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

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

**DIRECT TESTIMONY  
OF  
THOMAS S. CATLIN**

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

**SEPTEMBER 2005**

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**EXETER**

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

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PUBLIC UTILITIES COMMISSION  
OF RHODE ISLAND

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

Direct 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.            PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A.    I hold a Master of Science Degree in Water Resources Engineering and Management from Arizona State University (1976). Major areas of study for this degree included pricing policy, economics, and management. I received my Bachelor of Science Degree in Physics and Math from the State University of New York at Stony Brook in 1974. I have also completed graduate courses in financial and management accounting.

Q.            WOULD YOU PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE?

A.    From August 1976 until June 1977, I was employed by Arthur Beard Engineers in Phoenix, Arizona, where, among other responsibilities, I conducted economic feasibility, financial and implementation analyses in conjunction with utility construction projects. I also served as project engineer for two utility valuation studies.

1           From June 1977 until September 1981, I was employed by Camp Dresser &  
2           McKee, Inc. Prior to transferring to the Management Consulting Division of CDM in  
3           April 1978, I was involved in both project administration and design. My project  
4           administration responsibilities included budget preparation and labor and cost monitoring  
5           and forecasting. As a member of CDM's Management Consulting Division, I performed  
6           cost of service, rate, and financial studies on approximately 15 municipal and private  
7           water, wastewater and storm drainage utilities. These projects included: determining  
8           total costs of service; developing capital asset and depreciation bases; preparing cost  
9           allocation studies; evaluating alternative rate structures and designing rates; preparing bill  
10          analyses; developing cost and revenue projections; and preparing rate filings and expert  
11          testimony.

12           In September 1981, I accepted a position as a utility rates analyst with Exeter  
13          Associates, Inc. I became a principal and vice-president of the firm in 1984. Since  
14          joining Exeter, I have continued to be involved in the analysis of the operations of public  
15          utilities, with particular emphasis on utility rate regulation. I have been extensively  
16          involved in the review and analysis of utility rate filings, as well as other types of  
17          proceedings before state and federal regulatory authorities. My work in utility rate filings  
18          has focused on revenue requirements issues, but has also addressed service cost and rate  
19          design matters. I have also been involved in analyzing affiliate relations, alternative  
20          regulatory mechanisms, and regulatory restructuring issues. This experience has  
21          involved electric, natural gas transmission and distribution, and telephone utilities, as  
22          well as water and wastewater companies.

23          Q.           HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY  
24                        PROCEEDINGS ON UTILITY RATES?

1 A. Yes. I have previously presented testimony on more than 200 occasions before the  
2 Federal Energy Regulatory Commission and the public utility commissions of Arizona,  
3 California, Colorado, Delaware, the District of Columbia, Florida, Idaho, Illinois,  
4 Indiana, Kentucky, Louisiana, Maine, Maryland, Montana, Nevada, New Jersey, Ohio,  
5 Oklahoma, Pennsylvania, Utah, Virginia and West Virginia, as well as before this  
6 Commission. I have also filed rate case evidence by affidavit with the Connecticut  
7 Department of Public Utility Control.

8 Q. ON WHOSE BEHALF ARE YOU APPEARING?

9 A. I am presenting testimony on behalf of the Division of Public Utilities and Carriers (the  
10 Division).

11 Q. HAVE YOU PREVIOUSLY TESTIFIED ON WATER UTILITY ISSUES  
12 BEFORE THIS COMMISSION?

13 A. Yes, I have been asked by the Division to address water utility issues on several  
14 occasions. I testified on revenue requirement, cost of service and/or rate design issues in  
15 Newport Water Division, Docket Nos. 2029, 2985, 3457 and 3578; Providence Water  
16 Supply Board, Docket Nos. 2022, 2048, 2304, 2961, and 3163 and 3446; Kent County  
17 Water Authority, Docket No. 2098, Woonsocket Water Department, Docket Nos. 2099  
18 and 2904; United Water Rhode Island, Inc., (formerly Wakefield Water Company),  
19 Docket Nos. 2006 and 2873; and Pawtucket Water Supply Board, Docket Nos. 3193,  
20 3378, 3497 and 3674.

21 Q. ARE YOU A MEMBER OF ANY PROFESSIONAL SOCIETIES?

22 A. Yes. I am a member of the American Water Works Association (AWWA) and the  
23 Chesapeake Section of the AWWA. I serve on the AWWA's Rates and Charges

1 Committee and on the AWWA Water Utility Council's Technical Advisory Group on  
2 Economics.

3 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

4 A. Exeter Associates was retained by the Division to assist it in the evaluation of the rate  
5 filing submitted by the City of Newport Utilities Department, Water Division (Newport  
6 Water or the Water Division) on April 19, 2005. This testimony presents my findings  
7 and recommendations with regard to the overall revenue increase to which Newport is  
8 entitled. In addition, my testimony also addresses cost allocation and rate design issues.

9 Q. HAVE YOU PREPARED SCHEDULES TO ACCOMPANY YOUR  
10 TESTIMONY?

11 A. Yes. I have prepared Schedules TSC-1 through TSC-10. Schedule TSC-1 provides a  
12 summary of revenues and expenses under present and proposed rates. Schedules TSC-2  
13 through TSC-9 present my adjustments to Newport Water's claimed revenues, operating  
14 expenses and debt service costs and other supporting information. Schedule TSC-10  
15 presents the development of the rates necessary to generate the Division's recommended  
16 revenues.

17 Q. WHAT TIME PERIODS HAVE YOU UTILIZED IN MAKING YOUR  
18 DETERMINATION OF NEWPORT'S REVENUE REQUIREMENTS?

19 A. Consistent with Newport Water's filing, I have utilized a test year ended June 30, 2004  
20 and a rate year ending June 30, 2006 as the basis for determining the Water Division's  
21 revenue requirements and the revenue increase necessary to recover those requirements.

22 Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE  
23 APPROPRIATE INCREASE IN REVENUES IN THIS PROCEEDING?

1 A. As shown on Schedule TSC-1, it is my recommendation that Newport Water receive a  
2 revenue increase of \$1,111,498 in this proceeding. This amount is \$185,689 less than the  
3 increase of \$1,297,187 that the Water Division requested in its initial Application to  
4 Change Rates. My recommendation is \$615,423 less than the revenue deficiency of  
5 \$1,726,921 identified in the Supplemental Testimony of Harold J. Smith. As explained  
6 by Mr. Smith in that testimony, the increase in the revenue deficiency was due to  
7 correcting an error in the test year water sales and, in turn, projected rate year water sales  
8 and revenue. The effect of that error was partially offset by a reduction in Newport  
9 Water's claim for bad debt expense from \$225,000 to \$30,000.

10 Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO HOW THE  
11 ADDITIONAL REVENUES SHOULD BE RECOVERED?

12 A. I have accepted Newport Water's proposal to recover the allowed increase through a  
13 uniform percentage increase in existing rates and charges for metered water services and  
14 fire protection services.

15  
16 **Customer Charge Revenue**

17 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO CUSTOMER  
18 CHARGE REVENUES AT EXISTING RATES?

19 A. In July of 2004, Newport Water began billing all customers with one-inch and larger  
20 meters on a monthly basis. Previously, some of those customers had been billed three  
21 times per year. In addition, Newport Water also switched to a new billing system which  
22 more accurately identifies intermittent accounts. As a result of these changes, the number  
23 of bills in fiscal year (FY) 2005 increased to 49,801 compared to 48,510 in FY 2004.



1 In its filing, Newport Water based the number of bills subject to a customer  
2 charge on a five year average for the period FY 2000 through FY 2004. This resulted in  
3 an average of 49,171 bills. In order to recognize the billing changes that have taken  
4 place, I am proposing to base rate year customer charge revenues on the actual number of  
5 bills in FY 2005. As shown on Schedule TSC-3, this results in an increase in revenue of  
6 \$6,930 at the current charge of \$11.00 per bill.

7 Q. DO YOU HAVE ADDITIONAL RECOMMENDATIONS WITH REGARD TO  
8 THE FREQUENCY OF BILLING?

9 A. Yes. Currently, Newport Water's tariffs state that the customer billing charge shall be  
10 rendered in advance either monthly or tri-annually, concurrent with the billing cycle. The  
11 tariff for metered sales states that metered sales shall be billed in arrears either monthly  
12 or tri-annually, at the option of Newport Water Division. In order to avoid confusion, I  
13 would recommend that Newport Water's tariffs be modified to state that metered water  
14 customers with one-inch and larger meters will be billed monthly and customers with  
15 5/8-inch and 3/4 -inch meters will be billed tri-annually. Any changes to billing  
16 frequency would then require an approved tariff change.

17  
18 **Employee Vacancies**

19 Q. WHAT ASSUMPTION HAS NEWPORT WATER MADE WITH REGARD TO  
20 EMPLOYEE VACANCIES IN THE RATE YEAR?

21 A. In developing its claimed rate year cost of service, Newport Water has included salaries  
22 and wages for its full complement of employees for the entire year. That is, Newport  
23 Water has assumed that there will be no vacant positions during the rate year.

24 Q. IS THIS ASSUMPTION REASONABLE?

1 A. No. Employee vacancies will occur over the course of the rate year (or any other year)  
2 due to normal employee turnover. In fact, as of the beginning of the rate year on July 1,  
3 2005 Newport Water had three employee vacancies, not including the new Deputy  
4 Utilities Director-Finance position. Based on recent experience, Newport Water has  
5 averaged approximately two vacant positions.

6 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO THE RATE  
7 YEAR COST OF SERVICE TO REFLECT EMPLOYEE VACANCIES?

8 A. I am proposing to adjust rate year salaries and wages and employee insurance costs to  
9 reflect an average of two vacant positions. I have developed my adjustment based on the  
10 average salary level and average insurance cost per employee for the rate year. As shown  
11 on Schedule TSC-4, this adjustment reduces the rate year cost of service by \$117,594.

12

13

**Accumulated Benefits Buyout**

14 Q. PLEASE SUMMARIZE NEWPORT WATER'S CLAIM FOR  
15 ACCUMULATED BENEFITS BUYOUT COSTS.

16 A. Newport Water has requested an allowance of \$70,000 for accumulated benefits buyout  
17 (ABB) expense. ABB costs represent the amount owed for unused vacation and sick  
18 leave when an eligible employee retires from the Water Division.<sup>1</sup> Newport Water has  
19 based its claim on a maximum benefits buyout cost of \$35,000 per retirement for two  
20 employees. Newport Water indicates it has three employees eligible for retirement  
21 currently with one additional employee becoming eligible in FY 2007.

22 Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THIS  
23 REQUEST?

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<sup>1</sup> Eligibility is based on having 30 years of service with the City or having 58 years of age with 10 years of service. Military service is considered under certain conditions.

1 A. I am recommending that Newport Water's request to fund ABB costs be accepted with  
2 two modifications. First, I am recommending that a restricted account be established to  
3 account for ABB costs. Because an employee becomes eligible to retire and receive an  
4 ABB does not mean that the eligible employee will retire at that time. Hence, the timing  
5 of the payout for accumulated benefits is not known and may not occur in the rate year.  
6 Establishing a restricted account will allow the funds to be set aside and actual  
7 expenditures tracked. To the extent that actual payouts are more or less than established  
8 in this proceeding, the funding allowance can be adjusted in future cases.

9 My second recommended change to Newport Water's request is to adjust the  
10 amount of funding allowed in rates in this proceeding. For the three employees currently  
11 eligible to retire, the total buyout obligation is \$75,992 or \$25,331 per employee. This  
12 amount could change by the time these employees retire. However, it is clear that the  
13 actual buyout cost will be less than \$35,000 each. Therefore, rather than basing the rate  
14 allowance on the maximum exposure per employee, I am proposing to base the allowance  
15 for ABB costs on the average cost per employee based on the existing exposure for the  
16 three currently eligible employees and the two employees who retired in FY 2004. This  
17 results in an average allowance per employee of \$27,000 and an annual funding  
18 allowance of \$54,000. As shown on Schedule TSC-5, this results in a reduction in rate  
19 year expense of \$16,000.

20  
21 **Retiree Insurance Expense**

22 Q. PLEASE SUMMARIZE NEWPORT WATER'S CLAIM WITH REGARD TO  
23 RETIREE INSURANCE EXPENSE.

1 A. Newport Water has increased the cost incurred in the test year to provide medical and  
2 dental insurance to retirees to reflect the projected rate year levels of such costs. In doing  
3 so, Newport Water has both recognized increases in the premiums for existing retirees  
4 and included \$13,150 per employee (\$26,300 total) for two potential new retirees,  
5 consistent with its claim for ABB costs. In total, Newport Water's filing includes  
6 \$198,661 for retiree insurance costs.

7 Q. WHAT CONCERNS DO YOU HAVE WITH REGARD TO NEWPORT  
8 WATER'S CLAIM FOR RETIREE INSURANCE COVERAGE?

9 A. I believe Newport Water's proposal to include the costs for two additional retirees  
10 overstates rate year costs for several reasons.

11 Q. PLEASE EXPLAIN THE BASES FOR YOUR CONCERN.

12 A. First, as discussed previously with regard to ABB costs, it is not known whether either of  
13 the eligible employees will retire in the rate year and, if so, when. As a result, it is not  
14 known whether any additional costs will be incurred for new retirees in the rate year.  
15 Second, even if both eligible employees did retire in the rate year, the cost of medical and  
16 dental insurance for those employees is already included as part of employee insurance  
17 expense. Accordingly, Newport Water would not incur any additional expense until  
18 replacement employees are hired and began to receive medical and dental insurance.  
19 Third, there is a six-month waiting period before new employees become eligible for  
20 medical and dental insurance. Therefore, the maximum amount which Newport Water  
21 would incur in the rate year is twelve months of additional premiums if both employees  
22 retired and were replaced immediately.

23 Q. WHAT IS YOUR RECOMMENDATION TO ADDRESS THIS ISSUE?

1 A. I am proposing to revise Newport Water's claim for retiree insurance expense to exclude  
2 the \$26,300 for potential new retirees. Instead, I am proposing to include an allowance of  
3 \$13,000 to establish a restricted account to fund incremental retiree insurance costs. At  
4 such time as an existing employee retires and a replacement employee becomes eligible  
5 for insurance coverage, any incremental costs that Newport Water incurs to pay the  
6 additional premiums for the replacement employee would be funded out of this account  
7 until those additional premiums are reflected in rates.

8 Q. COULD YOU PROVIDE AN EXAMPLE OF HOW THIS WOULD ACCOUNT  
9 WOULD FUNCTION?

10 A. Yes. Let's assume that both of the eligible employees retire in the first day of the rate  
11 year and that the two-replacement employees are both hired 3 months later. Also assume  
12 that the health insurance premiums for each retiring employee are \$13,000 per year and  
13 the annual premiums for one replacement employee are \$7,400 and, for the other are  
14 \$13,000. The premiums for the retiring employees are already included in rates.  
15 Therefore, Newport Water would begin to incur incremental premiums of \$1,700 per  
16 month (\$7,400 plus \$13,000 per year divided by twelve) for the last three months of the  
17 rate year (when the six-month waiting period is over). At the end of the rate year, the  
18 balance in the fund would be the \$13,000 funding amount less \$5,100 in incremental  
19 premiums, or \$7,900. This balance would be carried over until the next year and used to  
20 help fund the \$1,700 per month of incremental premiums until rates are reset. Ultimately  
21 the account will be reconciled and the annual contribution can be adjusted in each rate  
22 case.

1 Q. ARE YOU PROPOSING ANY OTHER ADJUSTMENTS TO NEWPORT  
2 WATER'S CLAIMED ALLOWANCE FOR RETIREE INSURANCE  
3 EXPENSE?

4 A. Yes. Newport Water provided a corrected calculation of the rate year cost for retiree  
5 insurance costs in response to Div. 1-8. That response identifies the rate year cost for  
6 existing retirees to be \$183,326, with a total rate year cost of \$209,626 when the  
7 additional \$26,300 for two potential existing retirees is added. This represents an  
8 increase of \$10,965 for existing retirees which I have included in my analysis pending  
9 verification of the actual premiums for FY 2006.

10 Q. HAVE YOU PREPARED A SCHEDULE THAT SHOWS THE EFFECT OF  
11 YOUR RECOMMENDATIONS ON THE RATE YEAR COST OF SERVICE?

12 A. Yes. Schedule TSC-6 summarizes the changes that I am proposing to Newport Water's  
13 claim for retiree insurance premiums. As indicated there, the net effect of my  
14 adjustments is to reduce the rate year cost of service by \$2,335.

15

16 **City Legal and Administrative Services**

17 Q. WHAT CLAIM HAS NEWPORT WATER MADE FOR LEGAL AND  
18 ADMINISTRATIVE SERVICES PROVIDED BY THE CITY OF NEWPORT?

19 A. Newport Water has requested a rate year allowance of \$510,408 to be paid to the City of  
20 Newport for legal and administrative services. This represents an increase of \$397,708  
21 compared to the test year allowance for these costs. Coupled with the increase of  
22 \$208,563 in the amount which Newport Water is proposing to pay the City for data  
23 processing services (discussed subsequently), the total requested increase in payments for  
24 services is \$606,271. When the associated operating reserve requirement is included, this

1 accounts for nearly one-half (47.4 percent) of the rate increase proposed in Newport  
2 Water's initial filing and over one-third (36.8 percent) of the revenue deficiency reflected  
3 in Mr. Smith's supplemental testimony.

4 Q. HOW WAS NEWPORT WATER'S REQUESTED ALLOWANCE FOR CITY  
5 LEGAL AND ADMINISTRATIVE SERVICES DETERMINED?

6 A. The claimed allowance for legal and administrative services includes costs associated  
7 with twelve City departments. Of this total, the costs of nine departments are allocated  
8 based on the Water Division's percentage of the total budget excluding the City's  
9 contribution to the Schools and the Library. These departments, which account for  
10 \$446,764 of the total \$510,408 of proposed charges, include:

- 11 • City Council
- 12 • City Manager
- 13 • City Solicitor
- 14 • City Clerk
- 15 • Finance Administration
- 16 • Assessment
- 17 • Collections
- 18 • Administrative Services
- 19 • Facilities Maintenance

20 The additional three departments, Human Resources, Accounting and Purchasing,  
21 are allocated to Newport Water based on payroll checks, vendor checks and purchase  
22 orders, respectively. The costs of these three departments total \$63,644.

1 Q. DO YOU AGREE WITH THE INCREASED AMOUNT OF COSTS  
2 ALLOCATED TO NEWPORT WATER FOR CITY ADMINISTRATIVE AND  
3 LEGAL SERVICES?

4 A. No. I recognize that the existing payment for City services has been in place for some  
5 years and some increase may be reasonable. However, the proposed allocation of  
6 administrative and legal costs in this proceeding is not appropriate and should be  
7 adjusted.

8 Q. WHAT ADJUSTMENTS ARE YOU PROPOSING TO MAKE TO THE  
9 CLAIMED ALLOWANCE FOR CITY ADMINISTRATIVE AND LEGAL  
10 SERVICES?

11 A. I am proposing to make several adjustments to amount of costs for several of the City  
12 departments whose costs were allocated to Newport Water based on percent of budget. I  
13 have also adjusted the Water Division's percentage of the budget to reflect Newport  
14 Water's filed cost of service. I am not proposing to make any changes to the amount of  
15 costs for those departments that were allocated to the Water Division based on objective  
16 measures of the services provided (Human Resources, Accounting and Purchasing).

17 Q. PLEASE EXPLAIN THE ADJUSTMENTS THAT YOU ARE PROPOSING TO  
18 THE ALLOCATION OF THE COSTS OF THOSE CITY DEPARTMENTS  
19 THAT ARE BASED ON PERCENT OF BUDGET.

20 A. The first adjustment I have made is to the budgeted City Council costs allocated to  
21 Newport Water. The City Council budget includes \$30,000 for the Sister City program  
22 and \$20,962 for public celebrations. I have excluded both of these cost claims because  
23 they are similar to charitable contributions and image building advertising costs and are  
24 not properly recovered through rates.



1 My second adjustment relates to the costs of the City Solicitor's office allocated  
2 to Newport Water. Including the total of the City Solicitor's office as subject to  
3 allocation to the Water Department is not appropriate because it fails to recognize that the  
4 Water Department engages its own outside counsel. Moreover, one of the two assistant  
5 City Solicitors represents the City as a prosecutor on law enforcement matters and, thus,  
6 is not involved in matters involving Newport Water. Accordingly, I have included only  
7 one-half of the costs of the City Solicitor's office as subject to allocation to Newport  
8 Water.

9 Third, I have made an adjustment to the costs of the City Clerk's office eligible  
10 for allocation to Newport Water. In its filing, the costs included under the City Clerk  
11 allocation include budgets for both the City Clerk and the Land Evidence division within  
12 the Department of Public Records. The Land Evidence division is "responsible for  
13 recording deeds, mortgages, leases, condominium declarations, quitclaim deeds, certified  
14 copies of documenting and other similar instruments." (Response to Div. 3-4.) These are  
15 not services utilized by Newport Water. Therefore, I have excluded the budgeted costs  
16 for the Land Evidence division from the costs allocable to Newport Water. I have  
17 accepted the costs of the actual City Clerk's office as allocable to the Water Division.

18 Fourth, I have limited the costs of the Finance Administration department  
19 allocable to the Water Division to one-half of the total budget. Newport Water has  
20 requested approval for a Deputy Utilities Director – Finance position to allow it to  
21 strengthen its own internal financial management and take more responsibility for its own  
22 finances. (I have accepted that request and have included the cost of that new position in  
23 my recommended cost of service.) Therefore, it is appropriate to recognize that this new  
24 Deputy Director will reduce the reliance on the City and will distinguish the Water

1 Division from other City departments. At the same time, it is also appropriate to  
2 recognize that Newport Water will continue to rely on the City for financial management  
3 assistance. Accordingly, I am proposing to include one-half of the Financial  
4 Administrative costs in the allocation of City services costs to Newport Water.

5 The fifth adjustment I have made to the City legal and administrative costs that  
6 are allocated to Newport Water is to eliminate the costs of the Assessment Division  
7 within the Department of Finance. This division is responsible for the distribution of the  
8 total tax burden using acceptable evaluation methods as well as for processing and  
9 approving tax exemptions. (Response to Div. 3-4.) These are not services performed on  
10 behalf of the Water Division or for the benefit of the Water Division. Therefore, I have  
11 removed the costs of the Assessment Division from those included in the allocation of  
12 City legal and administrative costs to Newport Water.

13 The sixth and final adjustment I have made to the costs of those City departments  
14 that are allocated based on percent of budget relates to the Facilities Maintenance costs  
15 allocated to the Water Division. The Facilities Maintenance (or Property  
16 Management/Maintenance) division is responsible for maintaining the cleanliness and  
17 structural integrity of the public facilities within the City. In Newport Water's filing,  
18 approximately \$95,000 out of the total \$602,000 budget for this division has been  
19 allocated to the Water Division. This amount is excessive, especially considering that the  
20 response to Div. 1-17 states that 25 percent of one custodian's time is allocated to the  
21 Water Division, along with supervision. Therefore, I have reduced the Facilities  
22 Maintenance budget subject to allocation to Newport Water by \$400,000 to \$202,116.  
23 This results in an allocation to the Water Division for custodial and related services of  
24 approximately \$30,000.

1 Q. PLEASE EXPLAIN WHAT CHANGES YOU HAVE MADE TO THE WATER  
2 DIVISION'S BUDGET USED TO CALCULATE ITS PERCENTAGE SHARE  
3 OF THE TOTAL CITY BUDGET.

4 A. The budget utilized in Newport Water's filing to calculate the Water Division's  
5 percentage share of the total City budget was \$10,832,300. This compares to a filed cost  
6 of service of \$9,801,199 in the original filing and \$9,603,274 in the supplemental filing.  
7 Newport Water has indicated that its filed claim is based on its FY 2005-2006 budget.  
8 Therefore, I have revised Newport Water's share of the total City budget to reflect its  
9 filed claim in this case. To be conservative, I have elected not to reduce the filed claim to  
10 reflect my adjustments to Newport Water's claimed cost of service.

11 Q. WHAT IS THE EFFECT OF YOUR ADJUSTMENTS TO THE AMOUNT  
12 ALLOCATED TO NEWPORT WATER FOR CITY LEGAL AND  
13 ADMINISTRATIVE SERVICES?

14 A. As shown on Schedule TSC-7, the adjustments that I have made to the costs subject to  
15 allocation to the Water Division result in a reduction of \$1,267,551. Adjusting Newport  
16 Water's percentage share of the total City budget used to allocate costs reduces that  
17 percentage from 15.69 percent to 14.16 percent. The combined effect of these  
18 adjustments is to reduce the amount allocated to Newport Water for City legal and  
19 administrative services from the \$510,408 claimed by Newport Water to \$287,365. This  
20 represents a reduction of \$223,043 to Newport Water's filed claim. However, my  
21 recommendation still represents an increase of \$174,665 compared to the previously  
22 approved allowance of \$112,700 for City legal and administrative services.

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**Data Processing Services**

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Q. PLEASE SUMMARIZE NEWPORT WATER'S CLAIM RELATED TO DATA PROCESSING SERVICES FROM THE CITY OF NEWPORT.

A. Newport Water has included \$289,663 in the rate year cost of service for the costs of data processing services from the City of Newport. This amount was calculated by multiplying the FY 2006 budget for the Management Information Systems division (MIS) by Newport Water's share of the City's total FY 2006 budget excluding the Schools and the Library. This claimed rate year expense represents an increase of \$208,563 over the previously authorized allowance of \$81,100 for data processing services booked in the test year.

Q. DO YOU AGREE WITH THE CLAIMED ALLOWANCE FOR DATA PROCESSING SERVICES FROM THE CITY OF NEWPORT?

A. No. The proposal to calculate Newport Water's data processing costs by allocating the total MIS budget based on its share of the total City budget is inappropriate for two reasons. First, this procedure resulted in 15.69 percent of the total MIS budget being allocated to Newport Water. This is inconsistent with the fact that amount of time spent by MIS personnel on Water Division issues has ranged from only 4.5 to 10.7 percent of their time each month. (Response to Div. 1-19.) Second, excluding the schools entirely from the allocation of MIS division costs ignores the fact that the school system utilizes the City's general ledger, payroll and human resources systems.

Q. WHAT ADJUSTMENTS ARE YOU PROPOSING TO MAKE TO THE COST OF CITY DATA PROCESSING SERVICES ASSIGNED TO THE WATER DIVISION?

1 A. I am proposing to revise the allocation factor utilized to determine Newport Water's  
2 share of the MIS division's costs to reflect two changes. First, I have revised the Water  
3 Division budget to reflect its filed cost of service as discussed previously with regard to  
4 the allocation of City legal and administrative costs. Second, I have adjusted the total  
5 City budget to include the amount included in the FY 2006 General Fund budget as the  
6 transfer to the schools in order to recognize that the City provides MIS support to the  
7 schools.<sup>2</sup> However, by only including the General Fund portion of the Schools budget,  
8 not the entire Schools budget, I have also recognized that the Schools also have some  
9 independent MIS systems. The effect of these two changes is to reduce the percentage of  
10 MIS division costs allocated to Newport Water from 15.69 percent to 10.57 percent. As  
11 shown on Schedule TSC-8, this reduces the total MIS costs allocated to Newport Water  
12 from \$289,663 claimed by Newport Water to \$195,138, a reduction of \$94,525. As with  
13 City's legal and administrative costs, this still represents a significant increase (\$110,038)  
14 over the previously authorized allowance for data processing services.

15  
16 **Sewer Billing Service Revenue**

17 Q. PLEASE EXPLAIN WHAT REVENUE NEWPORT WATER HAS INCLUDED  
18 FOR THE PROVISION OF BILLING SERVICE TO THE NEWPORT WATER  
19 POLLUTION CONTROL DIVISION.

20 A. Newport Water has included \$10,560 of miscellaneous revenue from the Newport Water  
21 Pollution Control Division (the WPCD) for the provision of sewer billings in the rate  
22 year. This amount was calculated based on an equal sharing of the contract billing costs  
23 and postage associated with sending combined water and sewer bills to customers in the

---

<sup>2</sup> Per the response to Div. 3-5, the General Fund Transfer to the Schools is \$23,041,396.

1 City of Newport. Prior to FY 2006, Newport Water has not charged the WPCD for any  
2 of the costs of billing.

3 Q. DO YOU AGREE WITH NEWPORT WATER'S DETERMINATION OF THE  
4 CHARGE TO THE WPCD FOR SEWER BILLING?

5 A. No. Newport Water includes the bills for sewer service to customers in the City of  
6 Newport on its bill for water services. The rates for sewer service in Newport consist of  
7 both a monthly customer charge and volumetric charges, like the rates for water service.  
8 Accordingly, those billings rely on same meter readings and other customer accounting  
9 services necessary to bill for water service. Therefore, charging only for a share of the  
10 costs of the outside contract billing services and postage understates the costs which are  
11 reasonably billed to the WPCD for the billing of sewer service.

12 Q. HOW ARE YOU PROPOSING TO DETERMINE THE CHARGES TO THE  
13 WPCD FOR PROVIDING THE BILLS FOR SEWER SERVICE?

14 A. I am proposing that the charge to the WPCD be based on a pro rata share of the operation  
15 and maintenance expenses for the Customer Accounts function of the Water Division.  
16 The derivation of my adjustment is presented on Schedule TSC-9. As shown there, I  
17 have allocated 33.21 percent of Customer Accounts O&M costs to sewer billing services.  
18 This is based on an equal sharing of the costs attributable to the 66.4 percent of Water  
19 Division customers that are also billed for sewer service. As shown on Schedule TSC-9,  
20 this results in \$158,750 of costs billable to the WPCD, an increase of \$148,190 compared  
21 to the amount recognized in Newport Water's filing. In developing my adjustment, I  
22 have assumed that one of the employee vacancies which I am proposing to recognize  
23 occurs in the Customer Accounts function. This has the effect of reducing the costs  
24 allocable to the WPCD for sewer billing services.

1 Q. COULD A LARGER CHARGE FOR SEWER BILLING SERVICES BE  
2 JUSTIFIED?

3 A. Yes. As noted previously, I have assumed that one of the two employee vacancies for  
4 which I have made an adjustment will always exist in the Customer Accounts function.  
5 This has the same effect as assuming one employee is not billable to the WPCD. Second,  
6 I have not included any capital outlays or debt service associated with water meters or  
7 other aspects of customer accounting. Finally, I have not included any administrative  
8 costs or other overhead charges in developing the amount billable to the WPCD.

9 Q. IS REQUIRING THE WPCD TO BEAR A PROPORTIONATE SHARE OF  
10 THE COSTS OF THE CUSTOMER ACCOUNTING FUNCTION  
11 APPROPRIATE?

12 A. Yes. Requiring the WPCD to pay for a pro rata share of the costs associated with  
13 providing joint billing is no different than requiring Newport Water to pay an allocated  
14 share of the costs associated with legal, administrative and data processing services  
15 provided by the City of Newport. Moreover, sharing the billing function between the  
16 Water Division and the WPCD results in lower costs than each division performing its  
17 own billing. It is, therefore, appropriate to share the costs and the savings. There is no  
18 reason why the WPCD should effectively realize all of the benefits while Newport Water  
19 bears all of the costs.

20

21 **Cash Flow Difficulties**

22 Q. PLEASE SUMMARIZE NEWPORT WATER'S REQUEST WITH REGARD  
23 TO ADDRESSING ITS CASH FLOW DIFFICULTIES.

1 A. In FY 2005, Newport Water experienced cash flow difficulties in its debt service  
2 restricted account which necessitated the temporary transfer of funds from another  
3 restricted account to make its debt service payment in November 2004. In his testimony,  
4 Mr. Smith notes that Newport Water expects to experience a cash deficiency in the debt  
5 service restricted account again in November 2005. This problem arises because the  
6 amounts deposited to the restricted account in July through November are not sufficient  
7 to cover the November debt service payment even though the annual amount deposited to  
8 the debt service account is adequate to cover Newport Water's annual debt service  
9 payments. To address this problem, Newport Water has requested that it be allowed to  
10 combine its separate debt service and capital spending restricted accounts into a single  
11 account.

12 Q. WHAT IS YOUR POSITION WITH REGARD TO THIS PROPOSAL?

13 A. I would recommend that Newport Water be allowed to combine the cash balances in its  
14 debt service and capital spending restricted accounts into a single account. However, I  
15 would also recommend that Newport Water continued to be required to separately track  
16 the amounts of funding and expenditures for debt service and capital outlays. This would  
17 alleviate the cash flow problems associated with funding the November debt service  
18 payment. At the same time it would ensure that the amounts included in rates for debt  
19 service and capital outlays are utilized for those purposes.

20

21

**Rate Design**

22 Q. HAVE YOU DEVELOPED RATES TO RECOVER THE REVENUE  
23 INCREASE THAT YOU HAVE IDENTIFIED AS NECESSARY?



1 A. Yes. As noted previously, I am proposing that the allowed rate increase be recovered  
2 through a uniform percentage increase in the rates for water service and fire service. As  
3 shown on page 1 of Schedule TSC-10, the revenue increase of \$1,111,498 which I have  
4 recommended on behalf of the Division represents an increase of 14.58 percent with the  
5 rate year revenue from existing water and fire service rates. Page 2 of Schedule TSC-10  
6 presents the calculation of the rates necessary to generate this increase and provides a  
7 proof of revenue at proposed rates.

8 Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

9 A. Yes, it does.  
10  
11

12 W:\3226\tsc\direct\direct.doc

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

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

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

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

**SEPTEMBER 2005**

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**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<br>Amount Per<br>Newport | Division<br>Adjustments | Rate Year<br>at Present<br>Rates | Proposed<br>Rate<br>Increase | Rate Year<br>at Proposed<br>Rates |
|---|------------------------------------|-------------------------|----------------------------------|------------------------------|-----------------------------------|
| <b>Revenue</b>                          |                                    |                         |                                  |                              |                                   |
| Customer Charge                         | \$ 540,877                         | \$ 6,934                | \$ 547,811                       | \$ 79,682                    | \$ 627,493                        |
| Retail Consumption                      | 5,553,219                          | -                       | 5,553,219                        | 809,249                      | 6,362,468                         |
| Wholesale/Bulk Sales                    | 736,392                            | -                       | 736,392                          | 107,483                      | 843,876                           |
| Fire Protection                         | 786,805                            |                         | 786,805                          | 115,044                      | 901,849                           |
| Miscellaneous                           | 259,060                            | 148,190                 | 407,250                          | -                            | 407,250                           |
| <b>Total Revenue</b>                    | <b>\$ 7,876,353</b>                | <b>\$ 155,124</b>       | <b>\$ 8,031,477</b>              | <b>\$ 1,111,458</b>          | <b>\$ 9,142,935</b>               |
| <b>Expenses</b>                         |                                    |                         |                                  |                              |                                   |
| Water Administration                    | 2,032,168                          | (394,700)               | 1,637,468                        | -                            | 1,637,468                         |
| 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                            |
| <b>Subtotal</b>                         | <b>\$ 6,565,498</b>                | <b>\$ (453,497)</b>     | <b>\$ 6,112,001</b>              | <b>\$ -</b>                  | <b>\$ 6,112,001</b>               |
| 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                         |
| <b>Total Expenses</b>                   | <b>\$ 9,461,354</b>                | <b>\$ (453,497)</b>     | <b>\$ 9,007,857</b>              | <b>\$ -</b>                  | <b>\$ 9,007,857</b>               |
| Operating Reserve                       | 141,920                            | (6,802)                 | 135,118                          | -                            | 135,118                           |
| <b>Total Cost of Service</b>            | <b>\$ 9,603,274</b>                | <b>\$ (460,299)</b>     | <b>\$ 9,142,975</b>              | <b>\$ -</b>                  | <b>\$ 9,142,975</b>               |
| <b>Revenue Surplus/(Deficiency)</b>     | <b>(\$1,726,921)</b>               | <b>\$615,423</b>        | <b>(\$1,111,498)</b>             | <b>\$ 1,111,458</b>          | <b>(\$41)</b>                     |

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                | 6,934               | Schedule TSC-3 |
| Miscellaneous Charges                  | 148,190             | Schedule TSC-9 |
| Total Revenue Adjustments              | <u>155,124</u>      |                |
| Employee Vacancies                     | (117,594)           | Schedule TSC-4 |
| Accumulated Benefits Buyout            | (16,000)            | Schedule TSC-5 |
| Retiree Insurance Costs                | (2,335)             | Schedule TSC-6 |
| City Legal & Administrative Services   | (223,043)           | Schedule TSC-7 |
| City Data Processing Services          | (94,525)            | Schedule TSC-8 |
| Operating Reserve                      | <u>(6,802)</u>      | See Note (1)   |
| Total Expense Adjustments              | <u>\$ (460,299)</u> |                |
| Total Adjustment to Revenue Deficiency | <u>(615,423)</u>    |                |

Note:

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

CITY OF NEWPORT--WATER DIVISION

Adjustment to Customer Charge Revenue  
at Existing Rates  
Rate Year Ending June 30, 2006

|   |                        |
|---|------------------------|
| Number of Bills in FY 2005 (1)                | 49,801                 |
| Current Customer Charge Per Bill              | <u>\$ 11.00</u>        |
| Increase                                      | \$ 547,811             |
| Customer Charge Revenue per Newport Water (2) | <u>540,877</u>         |
| Increase in Customer Charge Revenue           | <u><u>\$ 6,934</u></u> |

Notes:

(1) Per update to Div. 2-4.

(2) Per Schedule RFC-5.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Wages and Benefits  
To Reflect Employee Turnover  
Rate Year Ending June 30, 2006

|  | <u>Adjustment</u>          |
|--|----------------------------|
| Compensation Per Employee (1)          |                            |
| Average Salary and Wages               | \$ 40,674                  |
| Average Employee Insurance             | <u>18,123</u>              |
| Total Compensation per Employee        | \$ 58,797                  |
| Average Employee Vacancies (2)         | <u>2</u>                   |
| Total Adjustment to Wages and Benefits | <u><u>\$ (117,594)</u></u> |

Notes:

- (1) Based on total rate year amounts per Schedule RFC 2 less amounts for Administrative personnel divided by 43 employees.
- (2) Based on response to informal request.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Accrued Benefits Buyout Expense  
Rate Year Ending June 30, 2006

|   | <u>Total</u>              |
|---|---------------------------|
| Average Accrued Benefits Buyout Obligation per Employee (1) | \$ 27,000                 |
| Average Annual Employee Retirements                         | <u>2</u>                  |
| Annual Expense Allowance per Division (1)                   | \$ 54,000                 |
| Annual Expense per Filing (2)                               | <u>\$ 70,000</u>          |
| Adjustment to Expense                                       | <u><u>\$ (16,000)</u></u> |

Notes:

(1) Based on average for 3 eligible employees per response to Div. 1-6 and amounts for 2 recent employees per Direct Testimony of Julia Forgue at page 10.

(2) Per Schedule RFC C.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Retiree Insurance Expense  
Rate Year Ending June 30, 2006

|   | <u>Amount</u>            |
|---|--------------------------|
| Rate Year Insurance Costs for Existing Retirees |                          |
| Updated Estimate (1)                            | \$ 183,326               |
| As Filed Amount (2)                             | <u>172,361</u>           |
| Adjustment for Existing Retirees                | \$ 10,965                |
| Allowance for New Retirees                      |                          |
| Division Allowance to Fund Reserve Account      | 13,000                   |
| As Filed allowance (1)                          | <u>26,300</u>            |
| Total Adjustments                               | \$ (13,300)              |
| Adjustment to Rate Year Expense                 | <u><u>\$ (2,335)</u></u> |

Notes:

(1) Per response to Div. 1-8.

(2) Reflects filed request of \$198,661 less \$26,300 allowance of new retirees.



CITY OF NEWPORT--WATER DIVISION

Adjustment to City Legal and Administrative Services Expense  
 Rate Year Ending June 30, 2006

|                                       | Allocable<br>FY 2006 Budget<br>Per Newport (1) | Division<br>Exclusions (2) | Allocable<br>FY 2006 Budget<br>Per Division |
|---------------------------------------|--|----------------------------|---|
| City Council                          | \$ 130,230                                     | \$ (50,962)                | \$ 79,268                                   |
| City Manager                          | 296,918  | -                          | 296,918                                     |
| City Solicitor                        | 360,705  | (180,353)                  | 180,353                                     |
| City Clerk                            | 458,964  | (200,664)                  | 258,300                                     |
| Finance Administration                | 329,332  | (164,666)                  | 164,666                                     |
| Assessment                            | 270,906  | (270,906)                  | -   |
| Collections                           | 263,286  | -                          | 263,286                                     |
| Administrative Services               | 134,628  | -                          | 134,628                                     |
| Facilities Maintenance                | # 602,116                                      | (400,000)                  | 202,116                                     |
| Balance Subject to Allocation         | <u>\$ 2,847,085</u>                            | <u>\$ (1,267,551)</u>      | <u>\$ 1,579,535</u>                         |
| <br>                                  |  |                            |   |
| Newport Water Budget                  | \$ 10,832,300                                  | \$ (1,229,026)             | \$ 9,603,274                                |
| Total City Budget (3)                 | <u>69,030,823</u>                              | <u>(1,229,026)</u>         | <u>67,801,797</u>                           |
| Allocation Factor                     | <u>15.692%</u>                                 |                            | <u>14.164%</u>                              |
| <br>                                  |  |                            |   |
| Newport Water Allocation              | \$ 446,764                                     |                            | \$ 223,721                                  |
| <br>                                  |  |                            |   |
| Human Resources                       | 13,440   | -                          | 13,440                                      |
| Accounting                            | 36,785   | -                          | 36,785                                      |
| Purchasing                            | <u>13,419</u>                                  | -                          | <u>13,419</u>                               |
| <br>                                  |  |                            |   |
| Total Legal & Administrative Services | <u>\$ 510,408</u>                              |                            | <u>\$ 287,365</u>                           |
| <br>                                  |  |                            |   |
| Division Adjustment                   |  |                            | <u>\$ (223,043)</u>                         |

Notes:

(1) Per Schedule RFC C.

(2) Refer to Testimony of Thomas S. Catlin for explanation of adjustments.

(3) Per Schedule RFC C. Excludes Schools and Library general fund amounts.

CITY OF NEWPORT--WATER DIVISION

Adjustment to City Data Processing Services Expense  
 Rate Year Ending June 30, 2006

|                                | Allocable<br>FY 2006 Budget<br>Per Newport (1) | Division<br>Adjustments (2) | Allocable<br>FY 2006 Budget<br>Per Division |
|--------------------------------|--|-----------------------------|---|
| Management Information Systems | \$ 1,845,933                                   | \$ -                        | 1,845,933                                   |
| Newport Water Budget           | \$ 10,832,300                                  | (1,229,026)                 | 9,603,274                                   |
| Total City Budget              | 69,030,823                                     | 21,812,370                  | 90,843,193                                  |
| Allocation Factor              | 15.692%  |                             | 10.571%                                     |
| <br>Newport Water Allocation   | <br>\$ 289,663                                 |                             | <br>\$ 195,138                              |
| <br>Division Adjustment        |  |                             | <br>\$ (94,525)                             |

Notes:

(1) Per Schedule RFC C.

(2) Refer to Testimony of Thomas S. Catlin for explanation of adjustments.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Sewer Billing Service Revenue  
Rate Year Ending June 30, 2006

|  | <u>Total</u>             |
|--|--------------------------|
| Customer Accounts O&M Costs (1)                    | \$ 478,018               |
| Percent Allocable to Sewer Billings (2)            | <u>33.21%</u>            |
| Costs Billable to Water Pollution Control Division | \$ 158,750               |
| Amount per Newport Water (2)                       | <u>10,560</u>            |
| Adjustment to Miscellaneous Revenue                | <u><u>\$ 148,190</u></u> |

Notes:

(1) Per Schedule TSC-1. Amount assumes 1 vacancy in Customer Accounts division.

(2) Per response to Div. 2-1.

CITY OF NEWPORT--WATER DIVISION

Calculation of Uniform Percentage Increase in Rates  
 Required to Generate Additional Revenues  
 Rate Year Ending June 30, 2006

| <u>Customer Class</u>                                    | <u>Existing<br/>Rate</u>   | <u>Rate Year<br/>Sales (1)<br/>(1,000 gals)</u> | <u>Rate Year<br/>Revenues at<br/>Existing Rates</u> |
|--|----------------------------|---|---|
| Retail   | \$ 3.38                    | 1,384,515                                       | \$ 4,679,661  |
| Navy   | 2.0873                     | 418,511   | 873,558   |
| Portsmouth   | 1.658                      | 444,145   | <u>736,392</u>                                      |
| Metered Sales Revenues at Existing Rates                 |                            |   | \$ 6,289,611  |
|  |                            |   |   |
| <u>Type of Charge</u>                                    | <u>Existing<br/>Charge</u> | <u>Number<br/>Billed (2)</u>                    | <u>Rate Year<br/>Revenues at<br/>Existing Rates</u> |
| Billing Charge (2)                                       | \$ 11.00                   | 49,801  | 547,811   |
| Fire Protection Charges (Public)                         | \$ 560.00                  | 982   | 549,920   |
| Fire Protection Charges (Private)                        |                            |   |   |
| less than 2"   | \$ 11.00                   | -   | -   |
| 2"   | 46.00                      | -   | -   |
| 4"   | 285.00                     | 55  | 15,675  |
| 6"   | 570.00                     | 234   | 133,380   |
| 8"   | 1,305.00                   | 62  | 80,910  |
| 10"  | 2,155.00                   | -   | -   |
| 12"  | 3,460.00                   | 2   | <u>6,920</u>  |
| Total Private Fire Service                               |                            |   | \$ 236,885  |
| Total Rate Year Revenues from Existing Rates and Charges |                            |   | <u>\$ 7,624,227</u>                                 |
| Net Rate Year Revenue Requirements (3)                   |                            |   | <u>\$ 8,735,726</u>                                 |
| Additional Revenue Needed                                |                            |   | \$ 1,111,498  |
| % Revenue Increase Required                              |                            |   | <u>14.58%</u>                                       |

Notes:

(1) Per Schedule RFC 5 Supplemental, except number of bills.

(2) Per Schedule TSC-4.

(3) Per Schedule TSC-1.

CITY OF NEWPORT--WATER DIVISION

Calculation of Proposed Rates and  
Proof of Revenue at Proposed Rates  
Rate Year Ending June 30, 2006

| <u>Customer Class</u>                                    | <u>Existing Rate</u>   | <u>Percent Increase (1)</u> | <u>Proposed Rate</u>   | <u>Rate Year Sales (2)<br/>(1,000 gals)</u> | <u>Rate Year Revenues at Proposed Rates</u> |
|--|------------------------|-----------------------------|------------------------|---|---|
| Retail   | \$ 3.38                | 14.58%                      | \$ 3.873               | 1,384,515                                   | \$ 5,362,227                                |
| Navy   | 2.0873                 | 14.58%                      | \$ 2.39                | 418,511                                     | 1,000,241                                   |
| Portsmouth   | 1.658                  | 14.58%                      | \$ 1.90                | 444,145                                     | 843,876                                     |
| Metered Sales Revenues at Proposed Rates                 |                        |                             |                        |   | \$ 7,206,343                                |
| <u>Type of Charge</u>                                    | <u>Existing Charge</u> |                             | <u>Existing Charge</u> | <u>Number Billed</u>                        | <u>Rate Year Revenues at Proposed Rates</u> |
| Billing Charge (3)                                       | \$ 11.00               | 14.58%                      | \$ 12.60               | 49,801                                      | 627,493                                     |
| Fire Protection Charges (Public)                         | \$ 560.00              | 14.58%                      | \$ 642.00              | 982   | 630,444                                     |
| Fire Protection Charges (Private)                        |                        |                             |                        |   |   |
| less than 2"   | \$ 11.00               | 14.58%                      | \$ 13.00               | -   | -   |
| 2"   | 46.00                  | 14.58%                      | 53.00                  | -   | -   |
| 4"   | 285.00                 | 14.58%                      | 327.00                 | 55  | 17,985                                      |
| 6"   | 570.00                 | 14.58%                      | 653.00                 | 234   | 152,802                                     |
| 8"   | 1,305.00               | 14.58%                      | 1,495.00               | 62  | 92,690                                      |
| 10"  | 2,155.00               | 14.58%                      | 2,469.00               | -   | -   |
| 12"  | 3,460.00               | 14.58%                      | 3,964.00               | 2   | 7,928                                       |
| Total Private Fire Service                               |                        |                             |                        |   | \$ 271,405                                  |
| Total Rate Year Revenues from Proposed Rates and Charges |                        |                             |                        |   | \$ 8,735,685                                |
| Net Rate Year Revenue Requirements (4)                   |                        |                             |                        |   | \$ 8,735,726                                |
| Difference   |                        |                             |                        |   | \$ (41)                                     |

Notes:

- (1) Per page 1 of this schedule.
- (2) Per Schedule RFC 5 Supplemental, except number of bills.
- (3) Per Schedule TSC-4.
- (4) Per Schedule TSC-1.

CITY OF NEWPORT--WATER DIVISION

Calculation of Proposed Rates and  
 Proof of Revenue at Proposed Rates  
 Rate Year Ending June 30, 2006

| <u>Customer Class</u>                                    | <u>Existing Rate</u>   | <u>Percent Increase (1)</u> | <u>Proposed Rate</u>   | <u>Rate Year Sales (2)<br/>(1,000 gals)</u> | <u>Rate Year Revenues at Proposed Rates</u> |
|--|------------------------|-----------------------------|------------------------|---|---|
| Retail   | \$ 3.38                | 14.58%                      | \$ 3.873               | 1,384,515                                   | \$ 5,362,227                                |
| Navy   | 2.0873                 | 14.58%                      | \$ 2.39                | 418,511                                     | 1,000,241                                   |
| Portsmouth   | 1.658                  | 14.58%                      | \$ 1.90                | 444,145                                     | 843,876                                     |
| Metered Sales Revenues at Proposed Rates                 |                        |                             |                        |   | \$ 7,206,343                                |
| <u>Type of Charge</u>                                    | <u>Existing Charge</u> |                             | <u>Existing Charge</u> | <u>Number Billed</u>                        | <u>Rate Year Revenues at Proposed Rates</u> |
| Billing Charge (3)                                       | \$ 11.00               | 14.58%                      | \$ 12.60               | 49,801                                      | 627,493                                     |
| Fire Protection Charges (Public)                         | \$ 560.00              | 14.58%                      | \$ 642.00              | 982   | 630,444                                     |
| Fire Protection Charges (Private)                        |                        |                             |                        |   |   |
| less than 2"   | \$ 11.00               | 14.58%                      | \$ 13.00               | -   | -   |
| 2"   | 46.00                  | 14.58%                      | 53.00                  | -   | -   |
| 4"   | 285.00                 | 14.58%                      | 327.00                 | 55  | 17,985                                      |
| 6"   | 570.00                 | 14.58%                      | 653.00                 | 234   | 152,802                                     |
| 8"   | 1,305.00               | 14.58%                      | 1,495.00               | 62  | 92,690                                      |
| 10"  | 2,155.00               | 14.58%                      | 2,469.00               | -   | -   |
| 12"  | 3,460.00               | 14.58%                      | 3,964.00               | 2   | 7,928                                       |
| Total Private Fire Service                               |                        |                             |                        |   | \$ 271,405                                  |
| Total Rate Year Revenues from Proposed Rates and Charges |                        |                             |                        |   | \$ 8,735,685                                |
| Net Rate Year Revenue Requirements (4)                   |                        |                             |                        |   | \$ 8,735,726                                |
| Difference   |                        |                             |                        |   | \$ (41)                                     |

Notes:

- (1) Per page 1 of this schedule.
- (2) Per Schedule RFC 5 Supplemental, except number of bills.
- (3) Per Schedule TSC-4.
- (4) Per Schedule TSC-1.