

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

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

4

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

6 A. I began my employment at the City of Newport in my current position March 12, 2001.

7

8 **Q. What are your responsibilities as Public Works Director with regard to the Newport
9 Water System?**

10 A. As Director of Public Works, I also serve as general manager of the water division. I am
11 responsible for planning, organizing and directing the activities of the Water Division. I direct
12 and supervise the work of supervisors on administrative and technical issues conforming to a
13 policy framework established by the City and state and federal agencies.

14

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

16 A. Prior to working for the City of Newport, I was employed by the City of East Providence for
17 14 years with the last 11 years as Director of Public Works. At DPW in East Providence, I
18 managed the water division. The City of East Providence purchases water wholesale from
19 Providence Water and operates and maintains its own transmission and distribution system with
20 approximately 15,000 services. Prior to working for the City of East Providence, I was
21 employed as a project engineer at consulting firms in Colorado and New Hampshire.

22

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

24 A. In 1981 I received a B.S. in Civil Engineering from Northeastern University and in 1982 a
25 M.S. in Civil Engineering from the University of Colorado at Boulder. I am a registered
26 Professional Engineer in Rhode Island and New Hampshire.

27

28

29

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

2 A. Yes, I am a member of the American Water Works Association, New England Waterworks
3 Assoc and the Rhode Island Waterworks Association. I served as President of the RIWWA
4 December 2001 to December 2003. I currently serve on the RIWWA’s Executive Committee as
5 Past President. I am also a member of the American Public Works Association and served as
6 President of the New England Chapter in 2002.

7
8 **Q. What is the purpose of this testimony?**

9 A. To support the request of the City of Newport, Utilities Department, Water Division
10 (hereinafter “Newport” or “Newport Water”) for a rate increase. In FY 2004, Newport collected
11 \$7,876,417 in total revenue. Based on the rate year revenue requirements we are requesting rates
12 and charges that should generate \$9,542,139 in rate revenues, which is \$1,297,187 in additional
13 revenues over those revenues that would be generated in FY 2006 at existing rates. The revenue
14 requirements for the rate year can be broken down as follows:

15	O&M	\$6,760,498	69.0%
16	Capital	\$2,895,856	29.5%
17	Additional Revenue Requirements	<u>\$144,845</u>	<u>1.5%</u>
18	Total Revenue Requirements	\$9,801,199	100.0%
19	Less Offsets	<u>(\$259,060)</u>	
20	Net Revenue Requirements	\$9,542,139	

21 In my testimony, I will present and explain the differences between amounts shown in the test
22 year and in the proposed rate year. A test year of actual expenses for the Water Fund from July
23 1, 2003 through June 30, 2004 will aid in the establishment of revenue requirements for the rate
24 year upon which rates and charges for retail and wholesale customers will be based in order to
25 collect revenue to support the O&M and capital costs for the Water Fund.

26
27
28

1 **Q. Will the revenues from current rates be sufficient to cover expenses for the upcoming**
2 **2004 fiscal year?**

3 A. No. The revenues generated from the existing rates will not be sufficient to recover the
4 expenses for the rate year (FY 2006). However, the proposed rates should recover revenues
5 sufficient to recover the rate year (FY 2006) expenses.

6
7 **PRIOR ORDERS**

8 **Q. The Commission's Order in Docket 3578 set forth a number of reporting requirements.**
9 **Has Newport complied with these requirements?**

10 A. Yes as of this date, Newport has complied with the Commission's order in Docket 3578. As
11 set forth in the Docket 3578 order, Newport Water was allowed to repay the City of Newport
12 \$2,500,000 for monies advanced by the General Fund to the Water Fund. The repayment was
13 spread over five years, with payments of \$500,000 per year. As a precondition to the repayment,
14 Newport Water is required to demonstrate that it has complied with the Commission's reporting
15 requirements. The first repayment was deferred until December 2004, and Newport Water was
16 ordered to file a report by November 15, 2004 demonstrating that it had complied with the
17 reporting requirements to that point. This report was filed, and the Commission ultimately
18 approved the first repayment.

19
20 **Q. Has Newport encountered any difficulty in preparing and submitting these reports?**

21 A. Yes, there have been some struggles. As the Commission knows, an issue arose with respect
22 to a schedule known as TSC-16, which was a part of the settlement agreement in Docket 3578.
23 Ultimately, we believe the issue was resolved through the data requests that were exchanged and
24 ultimately through the discussions among representatives from Newport (Laura Sitrin and Harold
25 Smith), the Division (Tom Catlin) and Portsmouth (Chris Woodcock). However, the resolution
26 of this issue demonstrated to Newport the need to take further steps to strengthen our financial
27 management.

1 **Q. Please elaborate.**

2 A. As the Commission pointed out in the Docket 3578 order, Newport Water was, and is, at a
3 crossroads. As was testified to in the last Docket, the Utility has faced a number of financial and
4 managerial crises in the past. As also noted in the Order, the current managerial team is serious
5 about maintaining a financially sound utility. Most of our efforts in the past have focused on
6 crisis management and solving problems that had been caused over a number of years. At this
7 point, we believe we are at a crossroads in that we are trying to transition from looking backward
8 and solving past problems to looking forward and planning for the future in an effort to avoid
9 problems.

10

11 **Q. What steps has Newport taken?**

12 A. The first and most obvious step is to comply with the Commission's reporting requirements.
13 As stated above, in doing so, we have realized that we need to take further steps. The most
14 important of these is the hiring of a Deputy Utilities Director (For Finance), which will be a high
15 level financial position as set forth in the job description attached to my testimony.

16

17 **Q. Why did Newport decide to create this new position?**

18 A. In December 2004, the Deputy Director for Public Works resigned. The job duties for this
19 position included supervising the operation and maintenance of the Water Division including
20 water sources, water treatment plants, transmission and distribution, and meters. The duties also
21 includes monitoring the Water Pollution Control service contract. In the six months between the
22 Order in Docket 3578 and the Deputy Director's resignation, Newport Water had been working
23 on a number of financial issues.

24

25 In particular, Newport Water was adjusting its restricted accounts to effectuate the retroactive
26 nature of the settlement agreement in Docket 3578; ensuring that reports to the Commission were
27 filed in a timely manner; resolving issues related to TSC-16; and dealing with cash flow issues
28 related to Newport Water's status as a stand alone account separate from the General Fund.

1 These responsibilities fell primarily on Laura Sitrin, the Finance Director for the City of
2 Newport, and caused a severe strain on Ms. Sitrin's time and resources. As the Commission can
3 no doubt appreciate, Ms. Sitrin has a number of other responsibilities in her position as City
4 Finance Director. In the months following the conclusion of Docket 3578, Ms. Sitrin was also
5 responsible for completing the 2004 City audit, participating in the Police arbitration, and
6 preparing the Citywide CIP for FY 2006-2010 on top of her day to day managerial
7 responsibilities.

8

9 As Newport Water addressed its financial issues, we consulted with other municipal water
10 utilities such as Providence Water and the Pawtucket Water Supply Board. We discovered that
11 the City Finance Directors for these municipalities did not have the same level of day to day
12 involvement with the regulatory process as did Ms. Sitrin. We also discovered that these utilities
13 had a higher level financial position to deal with the increasingly complex regulatory and
14 compliance issues faced by regulated water utilities. As such, it was decided that Newport should
15 create the new position of Deputy Utilities Director (Finance) using the funds available from
16 the vacant Deputy Director position. (See attached job description).

17

18 **Q. In Docket 3578, it is noted in the Order that you felt that Newport had the management**
19 **in place to move forward in a positive direction, including complying with the Commission**
20 **reporting requirements. Do you believe that the creation of this new position conflicts with**
21 **your testimony?**

22 A. No. I do feel that the management we had in place during Docket 3578 had allowed us to
23 move forward from the problems we experienced in the past. I also believe that with respect to
24 the regulatory process, Newport Water is improving and making progress. However, there is
25 always room for improvement, and we want to strengthen our financial management. As I
26 testified hereinabove, we want to move forward, not backward. In that regard, it is simply not
27 feasible to ask the City Finance Director to have day to day involvement with the Water Fund, or
28 to ask that she be routinely available to address the Water Fund's financial issues.

1 **Q. Newport currently has a financial analyst position. Please explain why a Deputy Utilities**
2 **Director (Finance) is also necessary, and how these two positions will work together.**

3 A. The Financial Analyst position provides necessary support to the Water Fund by managing
4 billing, preparing payrolls, monitoring spending, processing purchase requisitions and claim
5 vouchers, managing the conversion to the new billing software, coordinating preparation of the
6 operating budget, and assisting the Finance Director in the preparation of the financial reports.

7 As with the City Finance Director, it was not feasible to have the Financial Analyst assume the
8 duties that will be performed by the new Deputy Utilities Director (Finance) in addition to her
9 current responsibilities. It is proposed that the Financial Analyst will work under the supervision
10 of the Deputy Utilities Director (Finance) position in managing the financial aspects of Newport
11 Water. Attached is an organizational chart illustrating the proposed management of Newport
12 Water.

13
14 **Q. Is Newport asking for funding in this case for this new position?**

15 A. Yes and no. We plan on using the funds that became available when the Deputy Utilities
16 Director - Engineering resigned for the new Finance position. So what we are asking for are
17 funds to restore the Engineering position. Presently, as the only engineer in the division, I am
18 performing the duties of the Deputy Director- Engineering in addition to my administrative
19 responsibilities. It is not feasible to expect the Water Division to continue operating in this
20 manner while implementing a progressive capital improvement program. Without assistance
21 from a Deputy Director- Engineering, I do not feel I will be able to provide the appropriate
22 supervision for improved operations of the Water Division in addition to my other
23 responsibilities as Director of Public Works.

24
25 **Q. Newport Water's February 2005 cash flow statement details some issues facing Newport**
26 **Water with respect to restricted account funding, payroll reimbursements, accounts**
27 **payable and administrative reimbursements that were not made. Can you please provide**
28 **and update on these issues.**

1 A. Yes. As set forth in a February 25, 2005 letter submitted by Newport's legal counsel to the
2 Commission's legal counsel, Newport had billing and collection difficulties in January and
3 February 2005. The staffing issues in the Meter Section are being addressed. The final interviews
4 for the Meter Foreman will be completed in early April with an offer for employment following
5 thereafter. The Meter Reader Repairman that was injured was allowed to return to work March
6 7th, and we have two (2) temporary employees assisting with the readings. The Meter Mechanic
7 position was filled by promoting a Meter Reader Repairman and we are now in the process of
8 filling the vacancy created with the promotion. The February meter readings were sent to the
9 billing contractor on March 8th with certain sections estimated in order to avoid further delays in
10 the billing. The March meter readings were forwarded on April 1st. While the Meter Section is
11 not at full staff, the readings are back on the desired schedule for billing purposes. Meter
12 maintenance is being performed on a priority basis at this time until the Meter Section is fully
13 staffed.

14
15 As of the beginning of April, the Water Division is current on contributions to the restricted
16 accounts, the accounts payable to vendors has been reduced to an acceptable level, and the City
17 has been reimbursed for the payrolls for January and February. The cash flow continues to
18 require the City to cover payroll. While the Water Fund cash flow has been improved since
19 February, it still is an issue

20
21 **Q. Other than payroll, and reimbursement discussed above, has Newport Water borrowed**
22 **money from the City of Newport General Fund?**

23 A. No. Newport Water has not borrowed any money from the City of Newport General Fund.

24
25 **Q. Newport was ordered to provide better reporting on IFR and Capital. Has Newport**
26 **complied with this directive?**

27 A. Yes. The City contracted with CDM, Inc. to prepare the update of the 1999 Water
28 Infrastructure Replacement Plan in accordance with the rules and regulations established by the

1 RIDOH. The updated plan used in preparing this rate filing was submitted January 31, 2005 to
2 the RIDOH for review and approval, and was also submitted to the Commission.

3
4 **Q. Newport Water was authorized to borrow up to \$3 million dollars from The Rhode
5 Island Clean Water Finance Agency in Division Docket D-02-03. As of this date, has
6 Newport borrowed this money?**

7 A. No. As set forth in my rebuttal testimony in Docket 3578, due to the uncertainty that existed
8 with that rate filing, the City did not feel it was prudent to borrow this money at that time.

9 Without knowing the results of Docket 3578, Newport could not be certain that it would be in a
10 position to repay the loan in a timely manner.

11
12 **Q. Does Newport now plan to borrow the authorized funds from the Drinking Water State
13 Revolving Fund?**

14 A. Yes, if we are granted the rates necessary to increase debt service, we plan to borrow these
15 funds to address projects identified in the CIP (developed by CDM) for the rate year. The total
16 cost of these projects, minus \$579,879 in Water Quality Protection funds, is approximately \$3
17 million which will be funded through proceeds from the SRF loan. The debt service on this loan
18 has been included in the revenue requirements for the rate year. The projects that have been
19 identified for funding with proceeds from the SRF include:

20	• Lawton Valley Water Main Replacement	\$ 1,415,507
21	• Distribution Main Improvements	\$1,400,000
22	• Finished Water Storage Tank Maintenance	<u>\$764,000</u>
23	Total	\$3,579,507
24	Less Water Quality Protection Funds	<u>\$579,879</u>
25	Adjusted Total	\$2,999,628

26
27 **Q. Paragraph twenty-four (24) of the settlement agreement addresses Water Quality Issues
28 raised in Docket 3578. Can you please address the status of the requirements set forth in
29 this portion of the settlement?**

1 A. Staff from Newport Water, Portsmouth Water & Fire District (PWFD), and Naval Station
2 Newport (NSN) worked cooperatively to develop the Request for Proposals (RFP) for the joint
3 water study. The City advertised the RFP on September 1, 2004. The City received three
4 responses from engineering firms on September 30, 2004. The selection committee (Newport
5 Water, PWFD, and NSN) reviewed the written proposals and interviewed the firms. After
6 meeting several times, the consensus of the selection committee was to recommend a contract
7 award to the Maguire Group. The Newport City Council approved the award of a contract for the
8 not to exceed amount of \$105,205 to the Maguire Group at its January 26, 2005 meeting. The
9 contract and agreement was executed between the City and the Maguire Group and the notice to
10 proceed was issued March 3, 2005. The schedule provides for a final report being issued in six
11 months. Newport Water has notified, and continues to notify, the PWFD and NSN of the agreed
12 to events identified in the settlement agreement.

13
14 **ADJUSTMENTS FROM TEST YEAR TO RATE YEAR.**

15 **Operating Budget**

16 **Q. Is Newport seeking increased revenue related to adjustments in specific Operating**
17 **Budget, Items?**

18 A. Yes we are.

19
20 **Q. Would you please identify each of these items, and explain the adjustments to the Test**
21 **Year revenue requirements?**

22 A. Yes, I would be happy to do so. Herein below, I have identified, and provided an explanation
23 to, the adjustments to the test year. In my testimony I will be referencing Schedule RFC 3 and
24 Support Schedule RFC C attached to Harold Smith's testimony. RFC 3 sets forth the test year,
25 the rate year adjustments and the rate year revenue requirements for each of Newport Water's
26 budget accounts and individual budget line items. RFC C provides detailed support for the test
27 year adjustments that exceeds \$5,000 or 10% of the test year amount or whichever is less. I will
28 address each of the adjustments in order as they appear on RFC 3 and RFC C.

1 **Adjustments to Administration (Account No. 15-500-2200)**

2 **Q. Please explain why Newport is projecting increases in Salaries and Wages (line item**
3 **001) and Employee Insurance Coverage (line item 100).**

4 A. As indicated in Schedule RFC C, the increase can be attributed salary increases in FY 2005
5 and projected increases for FY 2006. Also, as indicated herein above, Newport Water proposes
6 to restore the Deputy Director – Engineering position during the rate year. As set forth, earlier in
7 my testimony, the Deputy Director vacancy is being filled in FY 2005 with a person with high
8 level accounting experience in the new position of Deputy Director- Finance in order to perform
9 the work currently performed by the City’s Finance Director. The build up of these amounts are
10 shown in this schedule.

11
12 **Q. Why is Newport projecting an increase in Accrued Benefits Buy-Out under the**
13 **Administration account (line item ABB).**

14 A. Two employees of Newport Water retired during fiscal year 2005. The employees were
15 eligible for the maximum amount that can be used to buy back sick leave for employees hired
16 prior to July 1, 1995 (\$25,000). Employees hired prior to July 1, 1998 receive a buy back for up
17 to 400 hours of unused vacation leave. The two retirees received a combined buy out of
18 approximately \$60,000. Past history shows no allowance for funding of this liability. It should
19 be noted that in addition to the two employees who retired in FY 2005, there are three additional
20 employees who currently are eligible to retire also at the maximum amount and could do so at
21 any time. Over the next five years an additional nine employees become eligible for retirement
22 based on years of service (30 years). The amount of \$70,000 for the rate year as indicated in
23 Schedule RFC C is recommended in order to start funding for this liability.

24
25 **Q. Please explain why Newport is projecting an increase in Retiree Insurance Coverage**
26 **(line item 103) for the rate year.**

27 A. Currently Newport Water is paying \$14,522 per month for FY 2005 for retiree insurance
28 coverage as shown in Schedule RFC C. By annualizing this amount to the remainder of FY
29 2005, an estimated amount of \$174,264 as of June 30, 2005 is the result. In addition, the

1 Newport Finance Department in consultation with the City's insurance carriers has projected a
2 14% annual increase associated with the costs of this coverage for the rate year which has been
3 applied to this projected FY 2005 amount. This increase amount is inclusive of 2 additional
4 possible retirees in fiscal 2006.

5

6 **Q. Please explain the increase in Workers' Compensation under the Administration**
7 **account (line item 105).**

8 A. Based on Historical claims for the Water Division and rates provided by the Rhode Island
9 Inter local Trust, Newport Water's provider of insurance, a projected 30% increase in Workmen
10 Compensation premiums are projected by the Department. Rates are based prior claims, severity
11 of those claims, classifications of positions and are a percentage of salary. Additionally, costs are
12 included for the proposed position of Deputy Finance Director and COLA increases for
13 department staff.

14

15 **Q. Please explain why Newport is projecting a decrease in Consultant Fees under the**
16 **Administration account (line item 220).**

17 A. We wished to remain consistent with the amount of \$100,000 that was prescribed in Schedule
18 TSC-6 in Docket #3578 which allows \$200,000 related to attorney and consultant fees amortized
19 over a two year period as shown in RFC C.

20

21 **Q. Please explain why Newport is projecting an increase in Telephone & Communication**
22 **under the Administration account (line item 251).**

23 A. As indicated in RFC C, the increase can be attributed to two new phones and the replacement
24 of other communication equipment that Newport Water has projected during the rate year.

25

26

1 **Q. Please explain why Newport is projecting increases in Legal & Administrative (line item**
2 **266) for the rate year compared to the test year.**

3 A: The costs included in this line item are the costs associated with services that the City of
4 Newport's General Fund departments provide to Newport Water. The services provided by the
5 General Fund departments are services that Newport Water would need to provide internally if it
6 was an independent entity.

7

8 The increase between the rate year and the test year is due to a change in the way in which the
9 City of Newport recognizes the costs associated with services that General Fund departments
10 provide to other City departments and divisions and then recovers those costs from those other
11 City departments and divisions. This new approach to allocating General Fund costs replaces an
12 approach that was instituted many years ago but failed to accurately recognize and allocate the
13 costs that General Fund departments incur in providing services to other departments.

14

15 **Q. Please explain how General Fund Costs are now assigned?**

16 A. In general, General Fund costs are now assigned to other departments in one of two ways.
17 First, all costs that can be allocated by determining the water fund's share of production are
18 allocated on this basis. These include Human Resources, Accounting & Payroll and Purchasing.
19 Human Resources costs are allocated based on each department's proportionate share of the total
20 number of payroll checks issued. This results in Newport Water being allocated approximately
21 5.8% of the budgeted costs for the Human Resources Department. Accounting & Payroll's costs
22 are allocated based on the number of vendor checks written and results in Newport Water being
23 allocated approximately 10.8% of the Accounting & Payroll costs. The Purchasing Department
24 costs are allocated based on the number of purchase orders issued and results in Newport Water
25 being allocated approximately 14.9% of the Purchasing Department's costs.

26

27 The second way costs are allocated is based on Newport Water's budget as a percentage of the
28 City's total budget for all funds. This method is used for additional resources and services the

1 general fund provides to Newport Water that cannot or have not been tracked. These include the
2 functions of City Council, City Manager, City Solicitor, City Clerk, Assessment, Collections,
3 Administrative Services and Facilities Maintenance. These costs are allocated based on Newport
4 Water's percentage as applied to the FY2006 proposed budget. All allocations are reviewed with
5 the individual departments for reasonableness.

6
7 **Q. Please explain why Newport is projecting increases in Data Processing (line item 267)**
8 **for the rate year compared to the test year.**

9 A. The allocation of costs to Data Processing is determined by taking the water fund's
10 percentage of FY2006 budget to the total funds' FY2006 budgets and allocating that percentage
11 of time to the FY2006 original adopted MIS department budget.

12 The MIS division tracks the time spent on the Water Fund. They do not track resources other
13 than time. The time allocation alone indicates that personnel spend between 6% and 11% of
14 time on Water Fund issues in any given month. The MIS budget includes \$351,725 for
15 personnel, \$279,200 for phone and communication charges, \$65,000 for payroll and
16 infrastructure programming charges, \$168,080 for annual licensing fees and contractual
17 obligations related to computer software, infrastructure and hardware, \$800,000 for a new
18 general ledger and payroll system and \$155,800 for supplies, equipment, and training and
19 postage costs (not including water bills). All of these include costs for the Water Fund.

20
21 **Q. Please explain why Newport is projecting a significant decrease in Regulatory Expense**
22 **under the Administration Account (line item 280).**

23 A. Since the last rate filing the PUC has identified certain costs under this line item that should
24 be considered a capital expense. The most significant of these is the Vulnerability Assessment
25 which has been transferred to the CIP and will be funded through the capital spending account.
26 The amounts shown for FY 2004, FY 2005 (as of January 7), and the rate year amounts shown
27 indicate the effect the reclassification of the Vulnerability Assessment has on this line item.

1 **Q. Please explain why Newport is projecting an increase in Office Supplies under the**
2 **Administration Account (line item 361).**

3 A. For the rate year, Newport Water has consolidated the expenses for office supplies for the
4 entire Department to line item 361 under the Administration Account. As shown in Schedule
5 RFC C costs include new items that will improve the efficiency of the Water Division and costs
6 associated with the upgrading, service contracts, and supplies for the newly acquired technology.

7
8 **Q. Please explain why Newport is projecting an increase in Allowance for Doubtful**
9 **Accounts under the Administration Account (line item 999, Schedule RFC 3).**

10 A. As part Newport's FY 2004 audit, the auditors recommended that \$225,000 be used under this
11 line item and represents the amount of revenue that is projected to be uncollected in the rate year,
12 for instance due to move-outs and turnovers.

13
14 **Customer Accounts, Account No. 15-500-2209**

15 **Q. Please explain why Newport is projecting a decrease in Overtime (line item 002).**

16 A. A portion of FY 2004 overtime was due to an absence due to an extended illness in the Meter
17 Section. While Newport Water will incur some overtime costs associated with the
18 implementation of the new billing software during fiscal 2005 and fiscal 2006, in addition to the
19 ordinary need for overtime in the Meter Section, the amount should not be as high as it was in
20 FY 2004.

21
22 **Q. Please explain why Newport has included a new line item called Temp Account (line**
23 **item 004 since the prior rate filing under Docket #3578.**

24 A. We have determined that it is more cost effective to rely on temporary employees during
25 periods of labor shortages rather than to have permanent employees work overtime. The build
26 up of this amount is provided in Schedule RFC C and is based on 20 weeks during the year.

1 **Q. Please explain why Newport has included a new line item called Conferences & Training**
2 **(line item 212) since the prior rate filing under Docket #3578.**

3 A. A new Meter Foreman will be joining Newport Water during fiscal 2005 and we are seeking
4 additional training for all Meter Section personnel. Currently, our readers are entering confined
5 spaces and are in need of OSHA required training in confined space entry. Additionally,
6 NEWWA provides training for meter repairs and testing that will be beneficial for the employees
7 of this section.

8
9 **Q. Please explain why Newport is projecting an increase in Support Services (line item 225)**
10 **for the rate year compared to the test year.**

11 A. Increased costs are associated with the purchase of the billing software including an annual
12 payment of \$5,000 for a support service agreement. Training and additional support costs for the
13 new billing software outside of that included in a service agreement are also included. Average
14 costs is \$75.00 to \$100.00 per hour depending on the type of service.

15
16 **Q. Please explain why Newport is projecting an increase in Repair & Maintenance -**
17 **Equipment (line item 275) the rate year compared to the test year.**

18 A. In the past, all meter costs were reported under the CIP acct of 2209-0850. This account will
19 now be a strictly Capital Account where we are improving existing meters. The 275 account will
20 be used for meters paid for by the customer with a damaged meter or a developer who is adding
21 a new account. This way we will be able to better account for our “improvements” revenue
22 offsets account for some of the cost associated with these installation and repairs, whereas the
23 meter replacement program under the CIP (and account 850) tracks scheduled meter changeouts
24 due to age and/or downsizing which are the responsibility of Newport Water and not accounted
25 for with revenue offsets.. The build up for this line item is provided in Schedule RFC C.

26
27 **Q. Please explain why Newport is projecting an increase in Operating Supplies (line item**
28 **311) for the rate year compared to the test year.**

1 A. The test year amount represents equipment necessary to perform daily metering requirements
2 such as hand held radios, magnetic locators, gas detectors and other equipment as indicated in
3 Schedule RFC C which shows the build up to the rate year amount. OSHA regulations require
4 the use of gas detection equipment before entering confined spaces. The Department is in need of
5 additional and updated equipment. Fiscal 2004 expenses are not representative of our
6 requirements.

7

8 **Q. Please explain why Newport is projecting an increase in Customer Service Supplies (line**
9 **item 380) for the rate year compared to the test year.**

10 A. The rate year amount is related to the water conservation program which will be reinstated
11 in June 2005. The rate year amount includes water conservation kits, booklets, and brochures.

12

13 **Source of Supply – Island (Account No. 15-500-2212)**

14 **Q. Please explain why Newport is projecting an increase in Salaries and Wages (line item**
15 **001) and an increase in Employee Insurance Coverage (line item 100) for the rate year**
16 **compared to the test year.**

17 A. The increase can be attributed to salary increase's (COLA's) in fiscal 2005 and and projected
18 for fiscal 2006.

19

20 **Q. Please explain why Newport is projecting a decrease in Consultant Fees (line item 220)**
21 **for the rate year compared to the test year.**

22 A. In the rate year Newport Water will now account for all consultant fees under the
23 Administration (2200) account or in the CIP where rate funded studies are represented as
24 contributions to the Capital Spending account. We removed the line item from Source of Supply-
25 Island as with all the other sections, and consultant fees are now with the specific capital project
26 or drawn from Admin (220).

27

1 **Q. Please explain why Newport is projecting an increase in Reservoir Maintenance (line**
2 **item 277) for the rate year compared to the test year.**

3 A. Newport Water plans to address more of its reservoir maintenance needs during the rate year.
4 The build up for this line item is provided in Schedule RFC C. Newport was not able to
5 accomplish many required needs in fiscal 2004 due to ongoing financial issues and therefore
6 fiscal 2004 is not representative of our true needed costs.

7
8 **Q. Please explain why Newport is projecting an increase in Operating Supplies (line item**
9 **311) for the rate year compared to the test year.**

10 A. The build up for this item is provided in Schedule RFC C which represents the needed costs.

11
12 **Source of Supply – Mainland (Account No. 15-500-2213)**

13 **Q. Please explain why Newport is projecting an increase in Overtime (line item 002) and**
14 **Temporary/Seasonal Wages (line item 004) for the rate year compared to the test year.**

15 A. Line items 002 and 004 are used to staff the Sakonnet pump station when it is operating,
16 which is primarily when we have conditions of high demand and low supply or in an emergency
17 situation . It was not brought on line during the test year due to a higher than normal amount of
18 rainfall. However, a rate year amount should be maintained in these line items should these
19 specific conditions occur.

20 **Q. Please explain why Newport has included a new line item called Permanent/Part Time**
21 **(line item PPT) since the prior rate filing under Docket #3578.**

22 A. This line item was created primarily to differentiate between the modes of the operation and
23 maintenance of the Sakonnet Pump Station whether it is operating or not. Currently a long time
24 employee of Newport Water performs the service of caretaker for the Sakonnet Pump Station.
25 The employee checks the pump station when it is not operating, inspects our properties in
26 Tiverton and Little Compton, works with RIDEM regarding the fish ladder, and meets
27 contractors for maintenance purposes, and reports the weekly rainfall and reservoir levels for
28 Watson and Nonquit to the office at Halsey Street. Line item PPT will provide a stipend of \$100
29 per week for the services of this longtime employee. When the Sakonnet Pump Station is in

1 operation this employee serves as the primary operator and the additional hours for overseeing
2 the operation of the pump station are paid from line item 004.

3
4 **Q. Please explain why Newport is projecting an increase in Reservoir Maintenance (line
5 item 277) for the rate year compared to the test year.**

6 A. Newport Water plans to address more of its reservoir maintenance needs during the rate year.
7 The build up for this line item is provided in Schedule RFC C.

8
9 **Treatment Plant – Newport (Account Account No. 15-500-2222)**

10 **Q. Please explain why Newport is projecting increases in Salaries and Wages (line item
11 001) and increases in Employee Insurance Coverage (line item 100) for the rate year
12 compared to the test year.**

13 A. The build up of both line items is provided in 2005 RFC Schedule C where each position is
14 listed.

15
16 **Q. Please explain why Newport is projecting a decrease in Overtime (line item 002) for the
17 rate year compared to the test year.**

18 A. Overtime is used for shift coverage for operator's vacations and absences due to illness.
19 Currently, all operator positions are filled. This requested amount is based on actual history of
20 the overtime account. FY 2004 overtime was \$55,748.00 and \$50,000.00 is a reasonable estimate
21 for fiscal 2006.

22
23 **Q. Please explain why Newport is projecting an increase in Conferences & Training (line
24 item 212) for the rate year compared to the test year.**

25 A. As shown in Schedule RFC C, the required Hazardous Materials training in addition to
26 operator certification for ten employees is listed to determine the rate year amount. Attendance
27 at local and regional conferences is supported in this line item.

1 **Q. Please explain why Newport is projecting an increase in Equipment Service Charge**
2 **(line item 271) account for the rate year compared to the test year.**

3 A. This amount is based on the amount in Docket #3578, \$3,680, escalated 7%. The escalation
4 factor was provided by the Finance Department and reflects the projected increase in fuel and
5 other prices.

6
7 **Q. Please explain why Newport is projecting an increase in Repair & Maintenance –**
8 **Equipment (line item 275) for the rate year compared to the test year.**

9 A. The build up of the rate year amount for both accounts is shown in Schedule RFC C.

10
11 **Q. Please explain why Newport is projecting an increase in Operating Supplies (line item**
12 **311) for the rate year compared to the test year.**

13 A. The build up of the rate year is shown in Schedule RFC C.

14
15 **Treatment – Lawton Valley (Account No. 15-500-2223)**

16 **Q. Please explain why Newport is projecting increases in Salaries and Wages (line item**
17 **001) and Employee Insurance (line item 100) for the rate year compared to the test year.**

18 A. The build up of both line items is provided in Schedule RFC C where each position is listed.

19
20 **Q. Please explain why Newport is projecting an increase in Holiday Pay (line item 003) for**
21 **the rate year compared to the test year.**

22 A. Holiday Pay has been estimated for nine operators for Lawton Valley. In the past this was not
23 calculated correctly. The correct build up to the rate year amount is shown in Schedule RFC C.

24
25 **Q. Please explain why Newport is projecting an increase in Conferences & Training (line**
26 **item 212 for the rate year compared to the test year.**

27 A. As shown in Schedule RFC C, operator certification for ten employees is listed to determine
28 the rate year amount. Attendance at local and regional conferences is supported in this line item.

1 **Q. Please explain why Newport is projecting an increase in Repair & Maintenance –**
2 **Equipment (line item 275) for the rate year compared to the test year.**

3 A. The build up of the rate year amount for both accounts is shown in Schedule RFC C.

4
5 **Q. Please explain why Newport is projecting an increase in Operating Supplies (line item**
6 **311, Schedule RFC 3) for the rate year compared to the test year.**

7 A. The build up of the rate year amount for both accounts is shown in Schedule RFC C.

8
9 **Water Laboratory – Account No. 15-500-2235**

10 **Q. Please explain why Newport is projecting increases in Regulatory Assessment (line item**
11 **281, Schedule RFC 3) under the Water Laboratory (2235) account for the rate year**
12 **compared to the test year.**

13 A. The build up of the rate year amount is shown in Schedule RFC C.

14
15 **Q. Please explain why Newport is projecting increases in Operating Supplies (line item 311)**
16 **for the rate year compared to the test year.**

17 A. Further detail of this line item is provided in Schedule RFC C. Also listed in the build up are
18 operating supplies for Treatment – Newport and Treatment – Lawton Valley that are laboratory
19 related and are therefore tracked under the Water Laboratory account.

20
21 **Transmission & Distribution Maintenance – Account No. 15-500-2241**

22 **Q. Please explain why Newport is projecting increases in Conferences and Training (line**
23 **item 212,) .**

24 A. The increase is based on sixteen continuing education hours for RIDOH certification as
25 shown in Schedule RFC C.

1 **Q. Please explain why Newport is projecting increases in Contract Services (line item 225).**

2 A. The rate year amount is related to welding services at various places such as storage tanks,
3 pump stations, treatment plants, etc. Each fiscal year a water storage tank is inspected by divers
4 as part of a regular maintenance schedule. The build up is as shown in Schedule RFC C.

5
6 **Q. Please explain why Newport is projecting increases in Main Maintenance (line item**
7 **295), Service Maintenance (line item 296), and Gate Maintenance (line item 298).**

8 A. These accounts are used for ongoing maintenance and repair of the existing water mains,
9 service connections and gate valves in the water system. The Town of Middletown, City of
10 Newport, and RIDOT's road way improvement programs can be attributed to some of the
11 increase so that repairs to the water system are made prior to road paving projects. The build up
12 for these rate year amounts for materials and equipment are shown in Schedule RFC C.

13
14 **Fire Protection – Account No. 15-500-2245**

15 **Q. Please explain why Newport is projecting increases in Repair & Maintenance –**
16 **Equipment (line item 275).**

17 A. The build up for this rate year amount is shown in Schedule RFC C.

18
19 **Electricity – Restricted Account**

20 **Q. Please explain why Newport is projecting an overall increase in the Contribution to the**
21 **Electricity Account (line item 254, Schedule RFC 3).**

22 A. Due to allocation issues from the last rate filing, we thought that showing the total projected
23 contribution to the electricity account rather than address the contributions separately under each
24 rate year account would provide a better representation of electricity costs. As shown in
25 Schedule RFC C, the projected amount for FY 2005 is shown for informational purposes. The
26 adjustment of approximately \$50,000 from the test year to the rate year is necessary in
27 anticipation of operating the Mainland pump stations which as I stated previously was not done
28 during the test year.

1 **Chemical Restricted Account**

2 **Q. Please explain why Newport is projecting an overall decrease in the Contribution to the**
3 **Chemical Account (line item 335, Schedule RFC 3).**

4 A. Due to allocation issues from Docket #3578, we thought that showing the total projected
5 contribution to the chemical account rather than address the contributions separately under each
6 rate year account would provide a better representation of chemical costs. As shown in Schedule
7 RFC C the overall adjustment shows a net decrease which is attributable to the Newport plant.
8 The reallocation of the chemical costs between the two plants and Source of Supply- Island has
9 resulted in the overall decrease.

10
11 **Q. Are there any line items in the Operating Budget with projected rate year adjustments**
12 **of less than \$5,000?**

13 A. Yes there are, and some of these items have been addressed in Schedule RFC 3, however I
14 have not addressed these line items in this testimony due to the minimal nature of the increases
15 and decreases, but I would be happy to provide information on these accounts if requested.

16 **DEBT SERVICE AND CAPITAL OUTLAY**

17 **Q. Has Newport made adjustments to its test year amounts for contributions to the**
18 **restricted Debt Service and Capital Accounts?**

19 A. Yes it has. These adjustments are also set forth in Schedule RFC 3, and the detail for the
20 adjustments is set forth in Support Schedule RFC C. I will address the detail of the adjustments
21 set forth in Schedule RFC C starting with the Debt Service adjustments, and then the Capital
22 Outlay Adjustments.

23 **Debt Service**

24 **Q. Please explain why Newport is projecting an increases for General Debt Principal, line**
25 **item 451 and General Debt Interest, line item 452, under Source of Supply – Island,**
26 **Treatment – Newport Plant, Treatment – Lawton Valley and Transmission & Distribution.**

1 A. These increases represent future debt service on the approved \$3 million in SRF funds that
2 Newport Water plans to use during the rate year. The debt service is allocated to the above
3 accounts by type of project funded through the loan as shown in Schedule RFC C.
4

5 **Q. The rate year contributions to the Capital Spending Account has increased by \$176,748,
6 can you explain this increase?**

7 A. Yes there is an overall net increase in the contributions to this restricted account, which is
8 identified as line item CSA. However, there are both increases and decreases in the individual
9 budget accounts. I will explain these adjustments that are detailed in Schedule C.
10

11 **Q. Please explain the increase to the contribution to the capital spending account for the
12 rate year under Administration.**

13 The amount reflects projects in the CIP that are to be rate funded. Specifically, these projects
14 include the Safe Yield Study (\$200,000) and Equipment and Vehicle Replacement (\$157,000).
15 The Equipment and Vehicle Replacement amount represents the equipment to be purchased in
16 FY 2006.
17

18 **Q. Please explain the increase to the contribution to the capital spending account for the
19 rate year under Customer Accounts.**

20 A: The amount reflects projects in the CIP that are to be rate funded. Specifically, these projects
21 include the Meter Replacements (\$50,000) and the purchase of new billing software (\$18,500).
22 The amount for meter replacements represents the amount that Newport Water anticipates it will
23 spend replacing water meters. The new billing software should allow Newport Water to collect
24 valuable consumption data and will also help ensure that all customers are being billed
25 appropriately.
26

27 **Q. Please explain the increase to the contribution to the capital spending account (line item
28 CSA) for the rate year under Source of Supply – Island (2212).**

1 The amount shown in Schedule RFC 3 reflects projects in the CIP that are to be rate funded.
2 Specifically, these projects include the Easton Pond Dam and Moat Study (\$100,000) and the
3 Lawton Valley Sluice Gate (\$9,278).

4

5 **Q. Please explain the increase to the contribution to the capital spending account (line item**
6 **CSA) for the rate year under Treatment-Lawton Valley (2222).**

7 A: The amount shown in Schedule RFC 3 reflects projects in the CIP that are to be rate funded.
8 Specifically, these projects include the Lawton Valley WTP - Chloramine Conversion
9 (\$147,000) and the Lawton Valley WTP- Residuals Management (\$520,710) resulting in total
10 project costs of \$667,710; however the costs of the projects are being offset by \$347,400 in grant
11 funding designated for water treatment plant improvements for a resulting in a net cost of
12 \$320,710.

13

14 **Q. Please explain the increase to the capital spending account for Fire Protection?**

15 A. The amount shown in Schedule RFC 3 reflects projects in the CIP that are to be rate funded.
16 Specifically, these projects are Fire Hydrant Replacement (\$41,600) and Fire Code Upgrades
17 (\$80,000)

18

19 **Q. Please explain the decrease to the contribution to the capital spending account (line item**
20 **CSA) for the rate year under Treatment-Newport Plant (2222).**

21 A: As shown on RFC C, the project being performed at the Newport Plant, Station 1 Chloramine
22 Conversion (\$140,000), is being funded with grant funding designated for water treatment plant
23 improvements and therefore the cost of these improvements does not represent a revenue
24 requirement.

25

26 **Q. Please explain the decrease to the contribution to the capital spending account (line item**
27 **CSA) for the rate year under Transmission & Distribution Maintenance (2241).**

1 The amount shown in Schedule RFC 3 reflects projects in the CIP that are to be rate funded.
2 Specifically, these projects are GIS and Hydraulic Modeling (\$200,000), Leak Detection
3 Equipment (\$30,000), and Water Trench Restoration (\$60,000).

4

5 **OTHER COMPLIANCE ITEMS**

6 **Q. Please explain the increase in the Contribution to Payment to City Account line item**
7 **from the test year to the rate year.**

8 A. We plan to start funding the \$250,000 annually for next three years and repaying the City
9 \$500,000 over the same time period until the \$2.5 million has been paid as shown in Schedule
10 RFC 9.

11

12 **Q. Will you provide information on lease payments for the test year and the rate year?**

13 A. There were no lease payments for the test year as shown in response to Item 2.9(g) in this
14 filing.

15

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

17 A. Yes, except for providing any testimony in response to submissions by any parties to this
18 proceeding, this concludes my Direct Testimony.

19

20