

**Rebuttal Testimony of Harold J. Smith**  
**Docket No. 3675**

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

2 A. My name is Harold J. Smith and my business address is 511 East Boulevard,  
3 Charlotte, North Carolina 28203.

4

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

7 A: Yes, I am.

8

9 **Q: What is the purpose of this testimony?**

10 A: I would like to respond to certain points or conclusions that were made in the pre-filed  
11 testimony filed by the Division, Portsmouth and the Navy. I will address some of the  
12 points raised in these testimonies and Julia Forgue will address certain issues in her  
13 rebuttal testimony.

14

15 **Q. Have you had an opportunity to review the testimony submitted by Portsmouth,**  
16 **the Division and the Navy with regard to Newport's rate filing in this docket?**

17 A. Yes. I have reviewed the testimony submitted by Mr. Woodcock on behalf of  
18 Portsmouth, Mr. Catlin on behalf of the Division and Mr. Harwig on behalf of the Navy.  
19 I will address the issues raised in their testimony in the following way. I will first discuss  
20 issues related to Newport's revenue requirements. For the most part, Newport's requested  
21 revenue was addressed primarily by Mr. Catlin and Mr. Woodcock, and in many  
22 instances they addressed similar issues. However, Mr. Catlin's testimony delved into  
23 more areas, so I will track the order of the subjects raised in his testimony. I will then  
24 address issues raised regarding Newport's proposed cost allocation.

25

26 **Q. Have you prepared schedules that show the impact of any revisions on the**  
27 **proposed rates and charges?**

28 A. Yes, we have revised the rate model submitted with my original testimony to  
29 incorporate any revisions that we believe need to be made. These schedules are attached

1 as Schedules RFC – 1 Rebuttal through RFC – 9 Rebuttal and Schedules RFC – A  
2 Rebuttal through RFC - K Rebuttal.

3

4 **REVENUE REQUIREMENT**

5 **CUSTOMER CHARGE REVENUE**

6 **Q. Please discuss Mr. Catlin’s proposed revision relating to the Customer Charge**  
7 **Revenues.**

8 A. Mr. Catlin suggests increasing the projection of customer bills during the rate year  
9 such that the total number of bills projected during the rate year is equal to the number of  
10 bills issued in FY 2005.

11

12 **Q. Do you agree with this recommendation?**

13 A. Yes, I do. Customer bill data for the entire FY 2005 is more current than the  
14 information that was available when the original rate filing for this docket was submitted.  
15 This information reflects billing frequency changes that Newport Water has implemented  
16 over the past few years. Schedule RFC H Rebuttal reflects this revision.

17

18 **Q. What is the impact of this revision?**

19 A. The impact of this change alone is relatively minor and is consistent with Mr. Catlin’s  
20 Schedule TSC-3. Taken alone, this change would result in an approximate 1 cent  
21 reduction in the Billing Charge.

22

23 **Q. Didn’t Mr. Catlin also recommend that Newport Water’s tariff be revised?**

24 A. Yes, Mr. Catlin suggested that Newport Water’s tariff be revised to state that all  
25 customers with meters 1-inch and larger will be billed on a monthly basis.

1 **Q. Do you agree with this recommendation?**

2 A. I agree in principle with Mr. Catlin's recommendation, in fact I would encourage  
3 Newport Water to move toward billing all of its customers on a monthly basis. However,  
4 there are some practical considerations that must be taken into account prior to making a  
5 change in the tariff.

6

7 **Q. Please discuss these considerations.**

8 A. First, contrary to Mr. Catlin's testimony, Newport Water did not begin billing all  
9 customers with a 1-inch or larger meter on a monthly basis in FY 2004. Newport Water  
10 does currently bill almost all of its Commercial customers and certain Residential  
11 customers with meters 1-inch and larger on a monthly basis. However, since some  
12 accounts with larger meters still only consume a relatively small amount of water, if they  
13 were to be billed monthly, the Billing Charge would be the predominate portion of their  
14 bill. Newport Water did not believe it was appropriate to bill these low volume  
15 customers monthly therefore not all of the customers with 1-inch and larger meters are  
16 currently billed monthly.

17 Second, Newport needs to look at certain residential accounts with 1-inch and larger  
18 meters to determine whether they truly need a meter of this size before these accounts are  
19 switched to monthly billing.

20 Third, Newport's decision to not bill all customers with meters 1-inch and larger results  
21 in approximately 660 customers with meters 1-inch or larger that are not billed monthly.  
22 If they are directed to do so by the Commission, Newport can begin taking actions that  
23 will allow for the monthly billing of these accounts; however, this will involve changing  
24 meter reading routes and route assignments and may take as long as 12 months to  
25 implement.

26 Fourth, billing each of these 660 customers monthly in the future will result in Newport  
27 preparing and sending an additional 7,260 bills per year, the cost of which is not included  
28 in the revenue requirements that Newport is requesting in this docket. Additionally, the  
29 proposed Billing Charge does not take into account these additional bills.

1 Fifth, Newport Water is in the process of refining their new billing system and is also  
2 evaluating meter reading technologies that will dramatically improve meter reading  
3 capabilities in the future.

4

5 **Q. What is your recommendation with respect to Mr. Catlin's proposed change in**  
6 **the tariff?**

7 A. As mentioned previously, I believe that Newport Water should move toward monthly  
8 billing of all of its customers. However, I do not believe that a change to the tariff is  
9 appropriate at this point in time. Newport Water should be allowed to address the  
10 practical issues discussed above and perhaps incorporate a proposal for increased use of  
11 monthly billing in its next rate filing.

12

13 **EMPLOYEE VACANCIES**

14 **Q. Do you agree with Mr. Catlin's recommendations with respect to Employee**  
15 **Vacancies?**

16 A. No I do not agree with Mr. Catlin's suggestion that Newport Water's request for  
17 wages and benefits be reduced by an amount equal to the average expense associated  
18 with two employees.

19

20 **Q. Why do you disagree with this recommendation?**

21 A. I disagree with this recommendation because it effectively reduces Newport Water's  
22 approved staffing level by two positions and makes it financially infeasible for Newport  
23 Water to fully staff its system. If the Division has an issue with Newport Water's  
24 proposed staffing plan, then they should address that issue specifically and make  
25 recommendations as to which positions it believes Newport Water should eliminate.

26 Additionally, the recommendation to reduce salaries and wages contradicts Mr. Catlin's  
27 statement that he accepts the need for a new finance related position within the Water  
28 Department. If funding for two positions is eliminated, it will place Ms. Forgue in the

1 difficult position of deciding whether to use available funding to fill the new finance  
2 position or to simply continue relying on the City's finance department and use the  
3 available funds to fill a vacant operations position.

4 I do not believe it is appropriate to eliminate funding for two positions in the Water  
5 Department. However, if it is decided that this funding should be eliminated, then I  
6 contend that the requested allocation of Finance Department costs be approved since  
7 under this scenario, it is likely that the new finance position will remain unfilled and the  
8 City's Finance Department will be required to expend the same level of effort on water  
9 related issues as it has over the past several years.

10

11 **ACCRUED BENEFITS BUY OUT (ABB)**

12 **Q. Please address the issues raised by both Mr. Woodcock and Mr. Catlin regarding**  
13 **the Accrued Benefits Buyout costs?**

14 A. Both Mr. Woodcock and Mr. Catlin recommend that these funds be restricted.  
15 However, Mr. Woodcock was in agreement with the requested level of funding for this  
16 item, but Mr. Catlin recommended that the requested amount be reduced.

17

18 **Q. Do you agree with the recommendation made by Mr. Woodcock or the**  
19 **recommendation of Mr. Catlin?**

20 A. On the issue of whether the Accrued Benefits Buyout funds should be restricted, I  
21 agree with both. As for the level of funding allowed, I agree with Mr. Woodcock's  
22 statement that begins on line 13, page 10 of his testimony:

23 *“Newport should be provided with sufficient funds to pay its operating*  
24 *expenses. As explained in Ms. Forgue's response to this data request,*  
25 *there is a degree of uncertainty with the proposed rate year expenses.*  
26 *However, I don't think Newport should have to scramble for funds to pay*  
27 *the ABB costs if they do indeed materialize.”*

1 **Q. If the Commission allows Newport Water to recover the requested amount for**  
2 **Accrued Benefits Buyout, isn't it possible that the balance in the restricted account**  
3 **could grow inordinately large if the utility's accrued benefit buyout obligations are**  
4 **less than anticipated?**

5 A. Yes, it is possible that the balance in the restricted account could exceed the utility's  
6 needs; however, it should be remembered that these funds will be in a restricted account  
7 that can only be accessed for the purpose of meeting accrued benefits buy-out  
8 obligations. If, over a number of years, the balance in this restricted account is sufficient  
9 to meet the needs in the foreseeable future, Newport Water would discontinue or reduce  
10 recovery of this cost through its rates.

11

12 **RETIREE INSURANCE COVERAGE**

13 **Q. Please discuss Mr. Catlin's recommendation regarding funding for Retiree**  
14 **Insurance Coverage.**

15 A. First of all, Mr. Catlin recognizes the increase in the amount for Retiree Insurance  
16 costs that was requested in Newport's response to Division 1-8. He also recommends  
17 that the Commission allow less than half of the additional funding that Newport Water  
18 has requested to cover the costs associated with insurance coverage for employees that  
19 are eligible for retirement. Instead of agreeing to the \$26,300 that Newport requested to  
20 cover the costs associated with two additional retirees per year, Mr. Catlin recommends  
21 establishing a restricted account into which Newport Water will contribute \$13,000  
22 annually. The funds in this account will then be used to cover any costs associated with  
23 paying the insurance premiums for new retirees.

24

25 **Q. What is your reason for disagreeing with Mr. Catlin's suggestion?**

26 A. I do not have an issue with Mr. Catlin's suggestion to establish a restricted account for  
27 funds needed to meet retiree insurance obligations. Restricting these funds such that they  
28 can only be used for their intended purpose is advisable. I do, however, believe that this  
29 new restricted account should be funded such that funds will be available to cover

1 Newport Water's potential exposure in the coming years. Over the next six years, 12 of  
2 Newport Water's employees will be eligible for retirement and while it is not known  
3 when or even if these employees will retire, if Newport is not allowed to recover the costs  
4 associated with their retirement they could easily be placed in a position during the next  
5 several years of being unable to fund its retiree insurance obligations.

6 Since the account will be restricted, Newport's ratepayers can rest assured that any  
7 balance that accrues in this account will not be used for purposes other than that for  
8 which they were intended. In the event that the balance in this account grows to the  
9 extent that the annual contribution can be reduced, and still allow Newport Water to meet  
10 its annual retiree insurance obligations, then the amount recovered through rates can be  
11 decreased as part of a subsequent rate filing.

12

13

14 **CITY LEGAL AND ADMINISTRATIVE SERVICES**

15 **Q. Did Mr. Catlin and Mr. Woodcock recommend reductions in Newport Water's**  
16 **proposed payments to the City of Newport for Legal and Administrative Services?**

17 A. Yes both Mr. Catlin and Mr. Woodcock made several recommended reductions in this  
18 area.

19

20 **Q. Do you agree with any of Mr. Woodcock's and Mr. Catlin's positions regarding**  
21 **Newport Water's payments to the City of Newport for Legal and Administrative**  
22 **Services?**

23 A. Yes. I agree that some of Newport's requests in this area should be reviewed and  
24 modified. This includes the amount of the Water Department and City budgets used to  
25 determine the allocation factors for indirect costs and the amounts allocated to the Water  
26 Department for services provided by the City Solicitor, the City Clerk, the Finance  
27 Department, and Facilities Maintenance.

1 **Q. Are the recommendations made by Messrs. Catlin and Woodcock in their**  
2 **testimonies consistent with one another?**

3 A. No, while both Mr. Catlin and Mr. Woodcock recommend reducing the amounts  
4 allocated to the Water Department, the amount of their recommended reductions and the  
5 approaches used for their respective reductions is different in most cases. Furthermore,  
6 on some topics they both made recommendations, and in other areas they made  
7 suggestions alone. As such, I will begin by addressing those topics that were addressed in  
8 both of their testimonies.

9

10 **Q. Will you please address Mr. Woodcock's and Mr. Catlin's suggestions regarding**  
11 **the budget amounts used to determine the applicable factor for allocating indirect**  
12 **costs?**

13 A. Yes, as presented in my original testimony, the allocation factor used to allocate the  
14 costs associated with functions performed by certain General Fund departments is  
15 determined by dividing the amount of the Water Department budget by the amount of the  
16 total City budget, less the budget for schools and libraries. The resulting percentage is  
17 then applied to the budget of each department that provides services to the Water  
18 Department to determine the amount of their budget that should be recovered from the  
19 Water Department. The amounts shown in my original testimony were based on  
20 estimates of both the Water Department budget and the total City budget, since neither  
21 budget had been finalized when the rate filing was submitted.

22

23 In their testimony, both Mr. Catlin and Mr. Woodcock suggest that the amount used for  
24 the Water Department budget should be consistent with the revenue requirements that  
25 Newport has requested in the rate filing. Mr. Catlin recommends using an amount of  
26 \$9,603,274, while Mr. Woodcock recommends an amount of \$9,124,932. The amount  
27 recommended by Mr. Catlin is equal to the total revenue requirements shown on  
28 Schedule RFC 1 Supplemental that was included with my supplemental testimony  
29 submitted on August 5, 2005. It is not clear how Mr. Woodcock derived the amount that

1 he is recommending. Additionally, Mr. Woodcock suggests that the amount used for the  
2 total City budget should include the amount budgeted for schools and libraries.

3

4 **Q. Do you agree with the testimony of Mr. Woodcock and Mr. Catlin that the**  
5 **budgets amounts used to determine the allocation factors for General Fund costs**  
6 **should be revised?**

7 A. Yes, I agree with Mr. Catlin that the Water Department budget should be revised to  
8 equal the total revenue requirements requested by Newport Water in my supplemental  
9 testimony. As indicated in Mr. Catlin's testimony, this amount is \$9,603,274. I do not  
10 agree with Mr. Woodcock's recommendation that the amount used for the total City  
11 budget should include the budgets for schools and libraries since as indicated in  
12 Newport's responses to data requests, the departments whose costs are being allocated  
13 with the resulting allocation factor do not provide services to the schools and libraries.

14

15 **Q. What impact does this revision have on the amounts that Newport is requesting**  
16 **for these indirect costs?**

17 A. As shown on Schedule RFC C Rebuttal, this revision results in the allocation factor  
18 used to allocate the costs associated with certain General Fund departments to the Water  
19 Department decreasing from 15.69% to 14.16%, which in turn results in a decrease in the  
20 amounts allocated to the Water Department.

21

22 **Q. Please address Mr. Catlin's and Mr. Woodcock's position that the allocable**  
23 **budget for the City Solicitor be reduced.**

24 A. Both Mr. Catlin and Mr. Woodcock recommend that the allocable budget for the City  
25 Solicitor's office be reduced by 50%, as Newport Water engages outside counsel to assist  
26 with rate related issues. Additionally, Mr. Catlin points out that one of the Assistant City  
27 Solicitors only represents the City in law enforcement matters that do not benefit the  
28 Water Department.

1 **Q. Do you agree with the reduction in the allocable City Solicitor's budget**  
2 **recommended by Messrs Woodcock and Catlin?**

3 A. I agree that the allocable portion of the City Solicitor's budget should be reduced, but  
4 not by the amount recommended by either Mr. Catlin or Mr. Woodcock. First of all,  
5 despite the fact that Newport Water engages outside counsel to assist with rate related  
6 issues, the City Solicitor still provides valuable services to the Water Department on  
7 matters related to labor agreements, employee lawsuits and customer lawsuits among  
8 other matters. Therefore, the allocable amount of the City Solicitor's budget should not  
9 be reduced simply because his office does not have primary responsibility for addressing  
10 rate related issues. I do however agree that the Water Department should not be allocated  
11 costs associated with the Assistant Solicitor who deals primarily with law enforcement  
12 matters. Therefore, I recommend that the allocable portion of the City Solicitor's budget  
13 be reduced by \$41,000 which is the cost associated with one Assistant City Solicitor.

14

15 **Q. What impact does this revision have on the indirect costs that Newport Water is**  
16 **requesting in this rate case?**

17 A. As shown on Schedule RFC C Rebuttal, this revision, in conjunction with the  
18 previously discussed revision to the allocation factor, reduces the City Solicitor's costs  
19 allocated to the Water Department from \$56,602 to \$45,282 a reduction of \$11,320.

20

21 **Q. Do you agree with the recommendations made by Mr. Woodcock and Mr. Catlin**  
22 **to reduce the allocation of City Clerk costs to the Water Department?**

23 A. I am comfortable with Mr. Catlin's recommendation that the costs associated with the  
24 Land Evidence office be removed from the City Clerk costs that are allocable to the  
25 Water Department. I do not agree with Mr. Woodcock's recommendation to only  
26 allocate 1% of the City Clerk costs to the Water Department.

1 **Q. What is the impact of accepting Mr. Catlin's recommendation with respect to the**  
2 **allocation of City Clerk costs?**

3 A. Implementing Mr. Catlin's recommendation in conjunction with the previously  
4 discussed changes to the allocation factor serves to reduce the amount of City Clerk costs  
5 allocated to the Water Department by \$35,436 from \$72,021 to \$36,585.

6

7 **Q. Mr. Catlin and Mr. Woodcock have both suggested reducing by 50% the Finance**  
8 **Administration budget that is subject to allocation to the Water Department. Do**  
9 **you agree with this reduction?**

10 A. Both Mr. Woodcock and Mr. Catlin suggest that since Newport Water is being  
11 allowed additional costs associated with a new finance position within the Water  
12 Department, the City's Finance Department will be required to spend less time  
13 addressing water related issues than it has during the past several years. While I generally  
14 concur with their line of thinking, I hesitate to agree completely.

15

16 **Q. Why are you reluctant to agree with this reduction?**

17 A. The proposed reduction in the Finance Department allocation is premised on the  
18 concept that since Newport will be allowed to recover the costs for the Deputy Director -  
19 Finance, it will not be required to rely so heavily on the City's Finance Department.  
20 However, as discussed previously in this testimony, Mr. Catlin has recommended that the  
21 amount allowed for wages and benefits be reduced by an amount that is equal to the costs  
22 associated with two positions, thereby effectively reducing the number of funded  
23 positions by one and placing Newport Water in the position of deciding whether it should  
24 seek to fill the vacant Deputy Director - Finance position or one of the other vacant  
25 positions within its organization. I would venture to say that if placed in a similar  
26 situation most utility directors would opt to hire a person with the technical capabilities  
27 needed to fill a vacant operational position and hope that the City's Finance Director  
28 would continue to provide the financial expertise that would have been otherwise  
29 provided by the person filling the new finance position. This decision would force the

1 Finance Department to expend the same amount of effort on water related matters as they  
2 have in the recent past.

3

4 **Q. What is your suggestion with respect to the allocation of Finance Department**  
5 **costs to the Water Department?**

6 A. To the extent that Newport Water is indeed allowed to recover the costs associated  
7 with a new Deputy Director - Finance position, I would agree to a 50% reduction in the  
8 Finance Department budget that is subject to allocation to the Water Department. This  
9 reduction, in conjunction with the previously discussed adjustment to the allocation  
10 percentage, would reduce the allocation of Finance Department costs by more than 50%  
11 from \$51,679 to \$23,323.

12 However, if the allowance for wages and benefits is reduced as recommended by Mr.  
13 Catlin, then 100% of the of Finance Department should be available for allocation to the  
14 Water Department since under this scenario it is very likely that Newport Water would  
15 not be able to fund the new finance position and the Finance Department would be  
16 required to provide services to Newport Water as they have done for the past several  
17 years.

18

19 **Q. Will you address Mr. Catlin's and Mr. Woodcock's positions regarding the**  
20 **Assessment Division?**

21 A. Yes, with respect to the allocation of Assessment Division costs to Newport Water,  
22 Mr. Catlin suggests that none of these costs should be allocated to the Water Department;  
23 while Mr. Woodcock recommends that only 1% of these costs be allocated to the Water  
24 Department. Both recommendations fail to recognize the services that the Assessment  
25 Division provides to Newport Water. As Ms. Forgue describes in her rebuttal testimony,  
26 the City tax assessor represents the Water Department in tax related disputes that arise  
27 between Newport Water and communities where Newport Water owns taxable property  
28 and according to Ms. Forgue, if it were not for the efforts of the Assessment Division,

1 Newport Water would be required to engage a property appraiser and potentially an  
2 attorney to support Newport Water in these disputes.

3

4 **Q. Is it your contention that the allocation of Assessment Division costs should**  
5 **remain the same as that requested in the schedules submitted with your**  
6 **Supplemental Testimony?**

7 A. I am suggesting that the approach to the allocation of Assessment Division costs  
8 remain the same as that used in my Supplemental Testimony. However, as discussed  
9 previously, the allocation percentage used to allocate General Fund costs has changed as  
10 a result of adjusting the amount of the Water Department budget. Therefore, the  
11 allocation of Assessment Division costs should be reduced by \$4,141 from \$42,511 to  
12 \$38,370.

13

14 **Q. Do you agree with Mr. Catlin's and Mr. Woodcock's recommended reduction**  
15 **for Facilities and Maintenance Costs?**

16 A. Yes, both Mr. Catlin and Mr. Woodcock recommend a reduction in the allocation of  
17 Facilities Maintenance costs to the Water Department. Mr. Catlin suggests the reduction  
18 be accomplished through a two-thirds reduction in the amount of the Facilities  
19 Maintenance budget that is subject to allocation. Mr. Woodcock suggests that only 5% of  
20 the total Facilities Maintenance budget be allocated to the Water Department.

21

22 **Q. Do you agree with either of these suggestions?**

23 A. The resulting allocation to the Water Department is very similar regardless of which  
24 approach is used; however, after further review of this matter, I am more comfortable  
25 with the approach recommended by Mr. Woodcock. This approach recognizes that  
26 approximately 3% of the custodial staff's time is dedicated to the Water Department and  
27 also allows an additional 2% of the total budget to account for supervision and other  
28 services that the Facilities Maintenance division performs for the Water Department.

1 **Q. What impact does this reduction have on the Facilities Maintenance portion of**  
2 **the Legal and Administrative expenses requested by Newport?**

3 Mr. Woodcock's recommendation, coupled with the revision to the allocation percentage,  
4 reduces the allocation of Facilities Maintenance costs to the Water Department from  
5 \$94,484 to \$30,106, a reduction of \$64,378.

6

7 **Q. Mr. Catlin also recommended a reduction in costs associated with the City**  
8 **Council. Do you agree with his position?**

9 A. With respect to the allocation of City Council costs, Mr. Catlin recommends that costs  
10 in the City Council budget associated with the Sister City program and celebrations be  
11 removed from the amount that is subject to allocation the water department. Since these  
12 two items have no relation to providing water service, I agree that none of these costs  
13 should be allocated to Newport Water. This revision, in conjunction with the previously  
14 discussed change in the allocation factor results in Newport Water's share of City  
15 Council costs being reduced by \$9,209 from \$20,436 to \$11,227.

16

17 **DATA PROCESSING SERVICES**

18 **Q. Please discuss Mr. Woodcock's and Mr. Catlin's recommendations with respect**  
19 **to the allocation of data processing costs to the Water Department.**

20 A. Both Mr. Woodcock and Mr. Catlin recommend a significant decrease in the amount  
21 of data processing costs that are allocated to the Water Department. Mr. Woodcock cites  
22 Newport's response to Division data request 1-19 as justification for only allocating 5.5%  
23 of the MIS budget to the Water Department, while Mr. Catlin suggests that a portion of  
24 the school budget should be included in the total City budget that is used to determine the  
25 percent allocation for the MIS costs.

1 **Q. Do you agree with the approach recommended by either Mr. Woodcock or Mr.**  
2 **Catlin?**

3 A. No, I do not. Mr. Woodcock's approach fails to recognize that in addition to the time  
4 that the MIS Department personnel spend addressing Water Department data processing  
5 needs, the MIS department incurs other costs on behalf of the Water Department. These  
6 costs include computer hardware and software purchases, contract programming services,  
7 computer training and various other computer related supplies such as paper, toner and  
8 ink. Mr. Catlin's recommendation recognizes the need to adjust the amount of the Water  
9 Department budget for the purpose of determining the allocation percentage for General  
10 Fund costs, but overstates the degree to which the schools rely on the MIS Department.

11

12 **Q. Do you agree that the allocation of MIS Department cost should be revised from**  
13 **that presented in your original filing? If so, please explain how the MIS department**  
14 **costs should be allocated to the Water Department.**

15 A. I do agree that the allocation of MIS department costs should be revised. In order to  
16 recognize the minor degree to which the schools do rely on the MIS Department, that  
17 portion of the MIS Department budget that is related to the schools should be removed  
18 from the MIS budget that is subject to allocation to the Water Department. Information  
19 provided by the manager of the City's MIS department indicates that approximately  
20 \$50,000 of the MIS budget is associated with the schools; therefore, I am recommending  
21 the MIS budget be reduced by \$50,000 prior to allocating the MIS budget to the Water  
22 Department.

23

24 **Q. What is the impact of your recommendation on the allocation of data processing**  
25 **costs to the Water Department?**

26 A. My recommendation, in conjunction with the previously discussed revision to the  
27 allocation percentage, results in a \$35,292 reduction from \$289,663 to \$254,371.

28

1 **WATER POLLUTION CONTROL BILLING**

2 **Q. Please discuss the testimony of Mr. Catlin and Mr. Woodcock with respect to**  
3 **revenues from the Water Pollution Division and explain why you disagree with their**  
4 **testimony.**

5 A. In this rate filing, Newport Water included a \$10,560 transfer from Newport's Water  
6 Pollution Control (WPC) division as a source of revenue. This was done in recognition of  
7 the fact that since sewer charges are included on the water bill, the WPC should bear a  
8 portion of the costs associated with preparing and mailing the utility bills. This is a new  
9 source of revenue that has not been included in any of Newport's rate filings in the recent  
10 past.

11 Both Mr. Woodcock and Mr. Catlin recognize the appropriateness of this transfer;  
12 however, they both recommend that the transfer be increased to include a portion of the  
13 costs budgeted under the Customer Accounts account of the Water Department. Their  
14 justification for the increase in the transfer being that the WPC and its customers benefit  
15 from the services provided by the Customer Accounts division and therefore should cover  
16 a portion of the Customer Accounts costs.

17

18 **Q. Do you disagree that the WPC and its customers are benefiting from the service**  
19 **provided by the Customer Accounts division of Newport Water and therefore**  
20 **should be responsible for a portion of that division's costs?**

21 A. No, I agree that the WPC and its customers are benefiting from services provided by  
22 the Customer Accounts division of Newport Water and should pay a fair share of that  
23 division's costs. It is my contention that allocating more of the Customer Accounts costs  
24 to WPC would actually result in an inequitable recovery of costs from the WPC's  
25 customers to the detriment of the customers located within the City of Newport and to the  
26 benefit of those customers located in the Town of Middletown.

1 **Q. Please explain.**

2 A. Currently, there are only one or two of Newport Water's customers that are located  
3 within the City of Newport that are not both water and sewer customers. For customers  
4 that receive both water and sewer service directly from Newport, it makes no practical  
5 difference whether Customer Accounts costs are allocated to Newport Water or to the  
6 WPC. Either way, they will pay the same amount. However, the water customers  
7 located in Middletown, most of which are indirectly provided wastewater treatment  
8 service by Newport, only receive a water bill from Newport Water. Their sewer bill is  
9 generated by the Town of Middletown, based on water meter data provided at no charge  
10 by Newport Water. As a result of this arrangement with Middletown, the only way to  
11 ensure that customers located in Middletown pay their fair share of the costs incurred by  
12 the Customer Accounts division is to include all of those costs in water related charges.

13

14 **Q. So, are you suggesting that given the current situation, including all of the**  
15 **Customer Accounts costs in the water bill is the most equitable way of recovering**  
16 **these costs from customers in both Newport and Middletown?**

17 A. Yes.

18

19 **Q. But doesn't that argument lead to eliminating the currently requested transfer**  
20 **from WPC to Newport Water to cover the costs of preparing and mailing utility**  
21 **bills?**

22 A. No, it does not. If all of the costs associated with preparing and mailing the bills were  
23 included as Water Department costs, then customers located in Middletown would be  
24 paying for the preparation and mailing of a sewer bill that they do not receive from  
25 Newport.

1 **Q. Do you have any other concerns with Mr. Woodcock's and Mr. Catlin's**  
2 **suggestion to increase the amount Newport Water charges the Water Pollution**  
3 **Control Division?**

4 A. Yes. As indicated above, it was Newport Water that actually suggested charging the  
5 Water Pollution Control Division, and it is likely that Newport Water will recover the  
6 suggested amount of \$10,560. However, Mr. Woodcock has suggested that Newport  
7 Water collect \$178,938 from the Water Pollution Control Division and Mr. Catlin has  
8 suggested a figure of \$158,570. Since this amount has neither been included in the Water  
9 Pollution Control division's budget, nor recovered through the current sewer rates, it is  
10 highly unlikely that the Water Pollution Control division would be able to pay the  
11 amounts suggested by Mr. Woodcock and Mr. Catlin. Absent this payment from Water  
12 Pollution Control, Newport Water would experience a revenue shortfall.

13 **CASH FLOW DIFFICULTIES**

14 **Q. Please discuss Mr. Catlin's testimony regarding Newport Water's cash flow**  
15 **difficulties.**

16 A. In his testimony, Mr. Catlin expresses support for the proposal put forth in my original  
17 testimony that Newport Water be allowed to combine the balances of the Debt Service  
18 Restricted Account and the Capital Restricted Account. By combining these accounts,  
19 Newport should be able to meet all debt service obligations in a timely manner with out  
20 the need to use funds from a separate account.

21

22 **Q. Obviously you agree with Mr. Catlin's testimony on this issue since he supports**  
23 **the recommendation put forth in your original testimony.**

24 A. Yes, I appreciate Mr. Catlin's support on this matter and agree with the added  
25 stipulation in his testimony that funding and expenditures for each account be tracked  
26 separately to help ensure that all funds are being used for their intended purpose.

1 **RATE YEAR CONSUMPTION**

2 **Q. Do you agree with Mr. Woodcock's position on projected rate year consumption?**

3 A. Yes, Mr. Woodcock recommended that projected water sales be revised downward  
4 from the amounts projected in the rate model submitted with my supplemental testimony.  
5 As you may recall, the projections in the rate model submitted with my supplemental  
6 testimony corrected a significant overstatement of projected sales to the commercial  
7 customer class.

8

9 **Q. Please discuss Mr. Woodcock's testimony with respect to projected water sales.**

10 A. Mr. Woodcock uses consumption data from FY 2005 to support his recommendation  
11 that projected sales volumes for the rate year be reduced from those presented in my  
12 supplemental testimony. Mr. Woodcock suggests total projected sales for the rate year of  
13 2,168,571 thousand gallons while the total projected sales volume presented in my  
14 supplemental testimony was 2,247,170 thousand gallons.

15

16 **Q. Do you agree with Mr. Woodcock's recommendation regarding projected sales**  
17 **volume?**

18 A. I do. In fact, after review of the data for FY 2005 subsequent to my supplemental  
19 testimony, I was considering the preparation of additional supplemental testimony  
20 requesting that projected sales volumes for the rate year be reduced.

21

22 **Q. What impact will a reduction in projected sales volumes have on the water rates**  
23 **requested in this rate filing?**

24 A. Since Newport Water must recover a set amount of revenues in order to meet revenue  
25 requirements, a reduction in projected sales volume leads to an increase in the rate that is  
26 charged for each unit of sales. When the other adjustments that have been addressed in  
27 my testimony are taken into consideration, the rate increase required to generate the

1 required revenues using Mr. Woodcock's recommended sales volumes is 23.9% as  
2 opposed to a 19.9% increase if the sales projections presented in my supplemental  
3 testimony are used.

4

5 **COST ALLOCATION**

6 **Q. Were there any issues addressed by both Mr. Woodcock and Mr. Catlin that**  
7 **were not related to specific revenues or expenses included in Newport Water's rate**  
8 **filing that you agree with?**

9 A. Yes, both Mr. Woodcock and Mr. Catlin agreed that an equal percentage increase  
10 applied to the rates for all customers is the appropriate means of adjusting rates so that  
11 Newport Water's rates will generate the revenues needed to meet their costs.

12

13 **Q. But didn't both Mr. Harwig, representing the Navy, and Mr. Woodcock both**  
14 **present testimony raising an objection to the cost allocations that underlie the**  
15 **proposed rates in this rate case. Could you please address this issue?**

16 A. Yes, both Mr. Woodcock and Mr. Harwig took issue with a perceived implication on  
17 my part, through my original testimony and responses to data requests, that Portsmouth  
18 and the Navy had agreed to cost allocations that underlie Newport Water's current rates.

19

20 **Q. Do you contend that Portsmouth and the Navy have accepted the cost allocations**  
21 **that underlie Newport's rates?**

22 A. No. The purpose of statements made in my testimony and responses to data requests  
23 was to communicate the fact that Newport Water has not performed a cost allocation  
24 study as part of this rate filing and simply requests approval to implement an equal across  
25 the board rate increase, similar to the increase incorporated into the settlement agreement  
26 in Docket 3578.

1 **Q. Does that mean that you agree with Mr. Woodcock and Mr. Harwig with respect**  
2 **to this issue?**

3 A. Yes, I agree that neither the Navy nor Portsmouth have specifically agreed to the cost  
4 allocations that underlie Newport Water's current rates.

5

6 **Q. Are there any issues addressed solely by Mr. Harwig's testimony that you agree**  
7 **with?**

8 A. No, aside from the issue of whether or not Portsmouth and the Navy approved the cost  
9 allocations that underlie Newport's existing rates, which was also addressed by Mr.  
10 Woodcock, I do not agree with Mr. Harwig's testimony.

11

12 **Q. Will you please address the portions of Mr. Harwig's testimony on which you**  
13 **disagree with the position set forth in his testimony?**

14 A. Yes, Mr. Harwig seems to be focusing on three issues in his testimony. The first issue  
15 relates to whether the proposed across the board increase violates the terms of the  
16 settlement reached by the parties to Newport's most recent previous rate filing, Docket  
17 No. 3578. Specifically, the Settlement Agreement signed by all parties to Docket No.  
18 3578 stated that Newport Water would not seek to allocate costs associated with  
19 transmission or distribution or peak costs associated with supply or treatment in future  
20 rate cases unless such an allocation was supported by a demand study. In his testimony,  
21 Mr. Harwig draws the conclusion that since a portion of the increase in revenues  
22 requested in this case will cover costs associated with transmission, distribution, supply  
23 and treatment, the rate for Portsmouth must include transmission, distribution, supply and  
24 treatment costs.

25

26 **Q. Is this not the case?**

27 A. No, Mr. Harwig's conclusion fails to recognize that in this rate case, costs have not  
28 been allocated between functional categories such as transmission, distribution, supply  
29 and treatment. The only allocation that has been performed is the allocation of total costs

1 to Newport Water's various revenue sources. The cost categories shown on Schedule  
2 RFC -1 are solely based on Newport Water's budgeting and cost accounting conventions  
3 and should not be misconstrued as functional categories into which costs have been  
4 allocated for the purposes of rate setting. Granted, it is likely that if a cost allocation  
5 study were performed, the majority of the costs shown under the Transmission &  
6 Distribution Maintenance line item would be allocated to a transmission and/or  
7 distribution functional categories. However, a cost allocation study was not performed  
8 and therefore it is inappropriate to draw conclusions regarding exactly which costs have  
9 been allocated to whom.

10

11 **Q. It seems that Mr. Harwig believes that a cost allocation study should have been**  
12 **performed as part of this rate filing. Do you agree?**

13 A. Setting rates based on a proper and well supported cost allocation study is desirable;  
14 however, a proper and well supported cost allocation study is dependent upon having  
15 comprehensive data pertaining to customer demand and consumption characteristics and  
16 takes a significant amount of time to perform. Unfortunately, as demonstrated in Docket  
17 3578, Newport Water did not have reliable data on customer demand and consumption  
18 characteristics. Additionally, Newport Water's financial situation dictated that it seek  
19 rate relief almost immediately after the conclusion of Docket No. 3578. As a result, there  
20 was not sufficient time to gather the necessary data and prepare a full cost allocation  
21 study.

22 Furthermore, it was Newport's belief that the terms of the Settlement Agreement in  
23 Docket 3578 applied to the issue of when, and whether, Newport was obligated to  
24 perform full Cost Allocation Study. As set forth in the Settlement Agreement, Newport is  
25 obligated to submit a demand study when, and if, it seeks to charge Portsmouth with  
26 transmission, distribution or peak costs associated with supply or treatment. As Newport  
27 was not seeking to charge these costs to Portsmouth in this Docket, a demand study was  
28 not required. This does not mean that Newport will *only* file a demand study if it seeks to  
29 charge Portsmouth with the costs cited above. If Newport has the data necessary to  
30 perform a study, it will do so. However, it must be remembered that, according to the

1 Settlement agreement, “The requirements of the demand study shall be established by the  
2 experts for the four parties in this Docket.”

3

4 **Q. Will Newport Water be able to provide a cost allocation study as part of its next**  
5 **rate filing?**

6 A. This will depend on a number of factors, such as: when Newport files its next rate  
7 application; whether it is economically practical to perform such a study; and, whether  
8 Newport has the applicable data. In fact, these factors were considered when the parties  
9 entered into the Docket 3578 Settlement Agreement. As set forth in Exhibit 2 to the  
10 Agreement:

11 *“Once it has been determined that the Demand Study is necessary,*  
12 *Newport Water will propose a methodology to each of the parties in this*  
13 *docket for review and comment. It is expected that it may be necessary to*  
14 *gather data on a daily basis from the meters used to measure consumption*  
15 *by each of Newport’s wholesale customers and from statistically*  
16 *representative samples of each of Newport’s retail customer classes:*  
17 ***Retail** – Newport may gather daily demand data from a statistically*  
18 *representative sample of customers from each of its retail customer*  
19 *classes or may determine the peak demands of the retail class through*  
20 *some other agreed upon method. This data can be gathered either by*  
21 *using remote meter reading capabilities or by direct daily reading of*  
22 *meters without remote read capabilities. It is anticipated that these data*  
23 *collection efforts would focus on those periods of the year or years in*  
24 *which peak demands are expected to occur and therefore would not*  
25 *necessarily continue during the course of an entire year(s).*

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*Portsmouth – Newport may utilize daily demand data for Portsmouth that is collected by Portsmouth’s SCADA system.*

*Navy – It is anticipated that daily demand data for the Navy can be gathered by reading the meters used to serve the Navy on a daily basis during the portion of the year(s) in which peak demands are expected to occur.*

*The maximum cost for the study should be limited to \$75,000 unless it can be demonstrated that a study of that magnitude will not yield the necessary information.”*

Thus, all of these factors will have to be considered prior to Newport performing a full cost allocation study.

**Q. Mr. Harwig also suggests that the 22.7% rate increase requested in your supplemental testimony would constitute “rate shock” and place an undue economic burden on Newport Water’s customers. Do you agree with this assessment?**

A. Absolutely not. As a matter of fact, I find it more “shocking” that Newport Water has been able to operate despite the fact that it has not had a rate increase since 2000. Granted, Newport Water must take the blame for not being able to properly support a rate increase until this time, but that should not overshadow the fact that Newport Water has done a remarkable job of containing costs in an economic environment in which consumer costs have increased by approximately 2.3% annually.

**Q. Still, isn’t a 22.7% increase rather dramatic?**

A. No, a 22.7% increase is consistent with the rate increases implemented by other US water utilities over the same time frame. According to data collected to prepare the AWWA/Raftelis Financial Consulting 2004 Water and Wastewater Rate Survey, median water charges for residential customers in the US have increased at an annual rate of 4.3%. This translates into an increase of approximately 23% between 2000 and 2005. Additionally, a 22.7% increase over a five year period is significantly lower than rate increases recently allowed by the Commission for other utilities that it regulates. For

1 instance, according to the Report and Order for Docket No. 3626 the Commission has  
2 allowed cumulative rate increases in excess of 70% for the City of Woonsocket during  
3 the five year period from 1999 to 2004.

4

5 **CONCLUSION**

6 **Please summarize your position with respect to the issues raised in the testimony**  
7 **submitted on behalf of the Division, Portsmouth and the Navy?**

- 8       • I agree with Mr. Catlin’s recommendation that the projected number of customer  
9       bills in the rate year be revised upward.
- 10       • I agree that Newport should move toward monthly billing of its customers with  
11       one inch or larger meters. However, I don’t believe that the tariff should be  
12       changed until Newport can fully address and resolve the practical issues involve  
13       with this billing change.
- 14       • I disagree with Mr. Catlin’s recommendation that the amount that Newport is  
15       requesting for Wages and Benefits be reduced to account for employee vacancies.
- 16       • I agree with the recommendation made by both Mr. Woodcock and Mr. Catlin  
17       that the funding for Accrued Benefits Buyout be placed in a restricted account;  
18       however, I disagree with Mr. Catlin’s recommendation that the amount requested  
19       for Accrued Benefits Buyout be reduced.
- 20       • I disagree with Mr. Catlin’s recommendation that the amount requested for  
21       Retiree Insurance coverage be reduced.
- 22       • I agree with both Mr. Catlin and Mr. Woodcock that the amount of the Water  
23       Department budget that is used to determine the allocation factor that is applied to  
24       certain General Fund department costs be reduced such that it is consistent with  
25       the revenue requirements requested in this rate filing.
- 26       • I agree with Mr. Catlin and Mr. Woodcock that the allocation of City Solicitor  
27       costs to the Water Department be reduced, but that the reduction should only be  
28       the amount that reflects the removal of the costs associated with one Assistant

1 City Solicitor from the City Solicitor budget that is allocable to the Water  
2 Department.

3 • I agree with Mr. Catlin that the portion of the City Clerk budget associated with  
4 the Land Evidence should not be allocable to the Water Department, but I do not  
5 agree with Mr. Woodcock that only 1% of the City Clerk budget be allocated to  
6 the Water Department..

7 • I agree with Mr. Catlin's and Mr. Woodcock's recommendation that the  
8 allocation of Finance Administration costs be reduced by 50%, but only if  
9 Newport Water is allowed to recover wages and benefits for all of its approved  
10 positions.

11 • I disagree with the recommendation of Messrs. Woodcock and Catlin that the  
12 allocation of Assessment Division costs be significantly reduced if not eliminated.

13 • I agree with Mr. Woodcock's recommendation the only 5% of the Facilities  
14 Maintenance budget be allocated to the Water Department.

15 • I agree with Mr. Catlin that costs associated with the sister City program and  
16 celebrations be excluded from the City Council budget allocable to the Water  
17 Department.

18 • I disagree with both Mr. Woodcock and Mr. Catlin that the allocation of MIS  
19 department costs should be reduced significantly. I do however; suggest that the  
20 costs that the MIS department incurs serving the schools be excluded from the  
21 MIS budget that is allocable to the Water Department.

22 • I disagree with both Mr. Catlin and Mr. Woodcock that the transfer from the  
23 Water Pollution Control division be increased to include recovery of a portion of  
24 the Customer Accounts costs.

25 • I appreciate Mr. Catlin's support of my recommendation to combine the Capital  
26 and Debt Service restricted accounts in an effort to avoid cash flow difficulties  
27 similar to those that Newport Water experienced during November of 2004.

- 1       • I agree with Mr. Woodcock that rate year consumption projections should be  
2       decreased to reflect an apparent decrease in overall consumption.
- 3       • I appreciate Mr. Woodcock's and Mr. Catlin's support of my recommendation for  
4       an equal percent increase to the rates charged to all customers.
- 5       • I agree with the assertion of both Mr. Woodcock and Mr. Harwig that neither the  
6       Navy nor Portsmouth approved of the cost allocations that underlie Newport  
7       current or proposed rates.
- 8       • I disagree with Mr. Harwig's implication that an equal percent increase to the  
9       rates charged to all customers violates the terms of the settlement reached in  
10      Docket No. 3578.
- 11      • I agree with Mr. Harwig that it is desirable to base rates on a full cost allocation  
12      study; however, in this case, circumstance precluded the preparation of a full cost  
13      allocation study.
- 14      • I disagree with Mr. Harwig's contention that a 22.7% increase in rates constitutes  
15      "rate shock"

16   **Q: Does this conclude your rebuttal testimony?**

17   A: Yes it does.