

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

**CITY OF NEWPORT                    )  
UTILITIES DEPARTMENT,        )  
WATER DIVISION                 )**         **DOCKET NO. 4025**

**DIRECT TESTIMONY  
OF  
THOMAS S. CATLIN**

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

**APRIL 2009**

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**EXETER**

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

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WATER DIVISION	)	

Direct Testimony of Thomas S. Catlin

**Introduction**

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

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

Q.           PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

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

Q.           WOULD YOU PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE?

A.   From August 1976 until June 1977, I was employed by Arthur Beard Engineers in Phoenix, Arizona, where, among other responsibilities, I conducted economic

1 feasibility, financial and implementation analyses in conjunction with utility  
2 construction projects. I also served as project engineer for two utility valuation  
3 studies.

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

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

1 This experience has involved electric, natural gas transmission and distribution, and  
2 telephone utilities, as well as water and wastewater companies.

3 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY  
4 PROCEEDINGS ON UTILITY RATES?

5 A. Yes. I have previously presented testimony on more than 225 occasions before the  
6 Federal Energy Regulatory Commission and the public utility commissions of  
7 Arizona, California, Colorado, Delaware, the District of Columbia, Florida, Idaho,  
8 Illinois, Indiana, Kentucky, Louisiana, Maine, Maryland, Montana, Nevada, New  
9 Jersey, Ohio, Oklahoma, Pennsylvania, Utah, Virginia and West Virginia, as well as  
10 before this Commission. I have also filed rate case evidence by affidavit with the  
11 Connecticut Department of Public Utility Control.

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

13 A. Yes. I am a member of the American Water Works Association (AWWA) and the  
14 Chesapeake Section of the AWWA. I serve on the AWWA's Rates and Charges  
15 Committee and on the AWWA Water Utility Council's Technical Advisory Group on  
16 Economics.

17 Q. ON WHOSE BEHALF ARE YOU APPEARING?

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

20 Q. HAVE YOU PREVIOUSLY TESTIFIED ON WATER UTILITY ISSUES  
21 BEFORE THIS COMMISSION?

22 A. Yes, I have been asked by the Division to address water utility issues on several  
23 occasions. I testified on revenue requirement, cost of service and/or rate design  
24 issues in Newport Water Division, Docket Nos. 2029, 2985, 3457, 3578, 3675 and

1 3818; Providence Water Supply Board, Docket Nos. 2022, 2048, 2304, 2961, 3163,  
2 3446, 3684, and 3832; Kent County Water Authority, Docket Nos. 2098 and 3942,  
3 Woonsocket Water Department, Docket Nos. 2099 and 2904; United Water Rhode  
4 Island, Inc., (formerly Wakefield Water Company), Docket Nos. 2006 and 2873; and  
5 Pawtucket Water Supply Board, Docket Nos. 3193, 3378, 3497 and 3674.

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

7 A. Exeter Associates was retained by the Division to assist it in the evaluation of the rate  
8 filing submitted by the City of Newport Utilities Department, Water Division  
9 (Newport Water or the Water Division) on December 9, 2009. This testimony  
10 presents my findings and recommendations with regard to the overall revenue  
11 increase to which Newport is entitled and with regard to the design of rates to recover  
12 those revenues.

13 Q. HAVE YOU PREPARED SCHEDULES TO ACCOMPANY YOUR  
14 TESTIMONY?

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

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

23 A. Consistent with Newport Water's filing, I have utilized a test year that corresponds  
24 with the fiscal year ended June 30, 2006 and a rate year that corresponds to the fiscal

1 year (FY) ending June 30, 2008 as the basis for determining the Water Division's  
2 revenue requirements and the revenue increase necessary to recover those  
3 requirements.

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

6 A. As shown on Schedule TSC-1, it is my recommendation that Newport Water receive  
7 a revenue increase of \$1,763,385 in this proceeding. This amount is \$923,009 less  
8 than the increase of \$2,680,394 that Newport Water has identified as necessary based  
9 on rate year revenues at present rates.

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

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

15  
16 **Review of Rate Year Expenses**

17 Q. PLEASE PROVIDE AN OVERVIEW OF THE APPROACH THAT YOU  
18 HAVE TAKEN IN THE REVIEW AND EVALUATION OF NEWPORT  
19 WATER'S CLAIMED OPERATING EXPENSES FOR THE RATE YEAR?

20 A. I have reviewed Newport Water's claims for the rate year in light of the amounts  
21 approved in Docket No. 3818 for the 2008 test year, actual 2008 test year expenses,  
22 and historical expenses for years prior to FY 2008. To perform this evaluation, I have  
23 also reviewed the justification for the claimed increases or decreases in expenses for  
24 the rate year based on the supporting documentation provided in Newport Water's

1 testimony as well as in its responses to Division, Commission and intervenor data  
2 requests.

3 Based on my review, I believe that several elements of Newport Water's  
4 claimed costs are likely to overstate actual rate year expenses (e.g., dues and  
5 subscriptions, conferences and training, tuition reimbursement, etc.). However, for  
6 the most part, the cost elements in question are small. In developing my  
7 recommendation, I have elected to accept Newport Water's requested rate year  
8 expenses where the amount of the expense is small and/or where the amount of any  
9 adjustment that I would propose to an element of expense would be small. I have  
10 instead focused on several larger elements of costs for which I believe adjustments to  
11 the claimed rate year expenses are appropriate. These items are discussed in the  
12 subsequent sections of my testimony.

13  
14 **Employee Vacancies**

15 Q. PLEASE SUMMARIZE THE BASIS FOR NEWPORT WATER'S RATE  
16 YEAR CLAIM FOR SALARIES AND WAGES.

17 A. Newport Water has calculated its claim for salaries and wages based on the projected  
18 FY 2010 projected salaries for its full complement of 48 full time employees. The  
19 salary and wage amounts reflect the pay changes that were implemented in 2009 as  
20 the result of a job classification study. While the overall number of employees does  
21 not change, the requested wages also reflect proposed changes in the staffing at the  
22 water treatment plants to add an Assistant Water Quality Supervisor.

23 Q. WHAT CONCERN DO YOU HAVE WITH NEWPORT WATER'S  
24 CLAIM?



1 A. I disagree with Newport Water's assumption that all of the employee positions will be  
2 filled throughout the rate year. Currently, Newport Water has four vacant positions  
3 and it has at least two unfilled positions in every quarter of FY 2007, FY 2008 and  
4 FY 2009 to date. The average number of employee vacancies was 2.75 in FY 2006,  
5 2.5 in FY 2007 and 2.75 in FY 2008. Such employee vacancies occur as the result of  
6 normal employee turnover and it is unreasonable to assume that no employee  
7 vacancies will occur with FY 2010 rate year.

8 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO  
9 NEWPORT'S CLAIMED COST OF SERVICE TO RECOGNIZE VACANT  
10 EMPLOYEE POSITIONS DURING THE RATE YEAR?

11 A. I am proposing to reduce rate year salaries and wages and benefits expense to reflect  
12 an average of two vacant positions. To calculate the adjustment to rate year expenses  
13 for these vacant positions, I have utilized the average wages and average benefits for  
14 the four vacant positions that currently exist. As shown on Schedule TSC-3, this  
15 adjustment reduces rate year expense by a total of \$145,752.

16

17

**Overtime Wages**

18 Q. WHAT ADJUSTMENTS TO OVERTIME WAGES ARE YOU  
19 RECOMMENDING?

20 A. I am proposing to reduce the overtime wages included by Newport Water for two  
21 divisions – Customer Service and Source of Supply-Mainland. During the FY 2008  
22 test year, Customer Service division employees worked 131.5 overtime hours.  
23 (Response to Div. 2-4.) According to Newport Water, an additional 500 overtime  
24 hours are projected to be necessary during the rate year in conjunction with the

1 program to install radio read meters because many customers are only available on  
2 weekends. However, in developing its claimed cost of service, Newport Water  
3 included 743 overtime hours, an increase of 611.5 hours compared to the test year.  
4 The level of overtime in the test year is consistent with the three-year historical  
5 average for FY 2006 through FY 2008 (143 hours). Accordingly, I am proposing to  
6 limit the increase on overtime hours to the 500 hours for which Newport Water has  
7 provided a justification. This results in a reduction in overtime expense of \$3,680 for  
8 the Customer Service Division, as shown on Schedule TSC-4.

9 Q. PLEASE EXPLAIN YOUR CONCERN WITH REGARD TO SOURCE OF  
10 SUPPLY-MAINLAND OVERTIME.

11 A. Newport Water has included 444 overtime hours in the rate year claim for the Source  
12 of Supply-Mainland division, an increase of 194 hours compared to the 250 overtime  
13 hours for Source of Supply Mainland employees in the test year. Ms. Forgue  
14 indicates that this increase is necessary to normalize the level of overtime to reflect  
15 the variability in the amount the Sakonnnet raw water pump station is utilized from  
16 year to year. However, a review of the historical data does not support the requested  
17 increase.

18 As noted above, the number of overtime hours worked by Source of Supply-  
19 Mainland employees in the FY 2008 test year was 250. This compares to zero hours  
20 in FY 2004, FY 2005 and FY 2007 and 224 hours in FY 2006. Moreover, the hours  
21 worked by temporary employees, who are used to help man the raw water pump  
22 station in coordination with overtime by regular employees, were also at 5-year highs  
23 in FY 2008. Accordingly, Newport Water has not demonstrated any justification for  
24 the claimed increase.

1 Q. WHAT ADJUSTMENTS ARE YOU PROPOSING?

2 A. I am proposing to eliminate the claimed 194 hour increase in overtime hours for the  
3 Source of Supply-Mainland division that were included in Newport Waters rate year  
4 claim. To be conservative, I have not reduced overtime or temporary employee hours  
5 below the test year level even though both were at five-year highs. As shown on  
6 Schedule TSC-4, this adjustment reduces rate year expense by \$3,429. Combined  
7 with the adjustment to Customer Service division overtime, the total reduction in  
8 overtime expense I am recommending is \$7,172.

9

10

**Consultant Fees**

11 Q.

PLEASE SUMMARIZE NEWPORT WATER'S RATE YEAR CLAIM FOR  
CONSULTANT FEES.

12

13 A.

According to the response to Div. 1-27, Newport Water's rate year claim for  
consultant fees is comprised of the following:

14

15

• Current Rate Case (amortized over 2 years)	\$116,500
• Cost of Service Study (for next case)	50,000
• Updated Risk Management Study	10,000
• Other Fees	<u>73,500</u>
Total	\$250,000

16

17 Q.

WHAT ADJUSTMENTS ARE YOU PROPOSING TO MAKE TO THE  
ALLOWANCE FOR CONSULTANTS INCLUDED IN RATES?

18

19 A.

I am proposing three changes to the Newport Water's claimed level of consultant  
fees. First, I am recommending that the projected costs associated with preparing the  
class cost of service study be deferred and recovered as a part of the costs of Newport  
Water's next rate case. This is appropriate because the undertaking of such a study is

20

21

22

1 infrequent and the results are expected to be used to set rates when Newport files its  
2 next rate case.

3 Second, an updated risk management study and countermeasures study is only  
4 undertaken every five years. Therefore, rather than treating the costs of this study as  
5 an annual expense, I am proposing to amortize the cost over two years, the same  
6 amortization period proposed by Newport Water for rate case expense. In order to  
7 minimize the cash flow effects, I have proposed an amortization period of two years,  
8 rather than five years based on the frequency of such risk management studies.

9 Finally, I am proposing to reduce the amount included for other consultant  
10 fees from \$73,500 to \$50,000. Newport has indicated it expects to incur additional  
11 costs in the rate year due to expected debt financings. However, no other support has  
12 been provided for its claimed expense. Over the last three years, non-rate case  
13 consultant fees have been \$31,119 in FY 2006, \$8,162 in FY 2007 and \$37,747 in FY  
14 2008 for an average of less than \$26,000 per year. My recommended allowance of  
15 \$50,000 represents an expense of approximately twice this annual average.

16 Q. HAVE YOU PREPARED A SCHEDULE SUMMARIZING YOUR  
17 ADJUSTMENT TO CONSULTANT FEES?

18 A. Yes. Schedule TSC-5 shows the derivation of my adjustment. As shown there, the  
19 three changes I have recommended reduce rate year expense by \$78,500.  
20

### 21 Chemical Costs

22 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO CHEMICAL EXPENSES.

23 A. Newport Water, like other Rhode Island utilities with which I am familiar  
24 experienced significant increase in chemical prices in 2008. These increases were  
25 driven by world-wide demand as well as increases in energy in prices. In preparing

1 its projection of chemical costs for the rate year, Newport Water assumed that it  
2 would experience increases in chemicals prices in FY 2010 that were comparable to  
3 the increases experienced in FY 2009 compared to FY 2008.

4 In light of the ongoing recession and the significant decline in energy prices  
5 that has occurred in late 2008 and 2009, it is no longer reasonable to expect that FY  
6 2010 chemical prices will increase by as much as 20 percent over FY 2009 prices.  
7 Newport Water indicates that its actual FY 2010 chemical prices will be known in  
8 May 2009. Pending receipt of these actual prices, I have adjusted chemical costs to  
9 reflect the prices now in effect. As shown on Schedule TSC-6, this adjustment  
10 reduces projected rate year chemical costs by \$82,500. At such time as new prices  
11 become known, it would be appropriate to update rate year costs.

12  
13 **Motor Vehicle Fuel Expense**

14 Q. PLEASE EXPLAIN THE ISSUE YOU HAVE IDENTIFIED WITH  
15 REGARD TO MOTOR VEHICLE FUEL EXPENSE?

16 A. In its filing, Newport Water adjusted test year gasoline and diesel fuel costs to reflect  
17 the highest prices that it paid for those fuels in FY 2008, adjusted upward by three  
18 percent to account for additional fuel cost increases. Since Newport Water prepared  
19 its filing, gasoline and diesel fuel prices have declined significantly and the prices  
20 utilized by Newport Water are no longer representative.

21 Q. HOW DO THE PRICES THAT NEWPORT WATER USED FOR  
22 GASOLINE AND DIESEL FUEL COMPARE TO RECENT PRICES?

23 A. In its filing, Newport Water utilized a price of \$3.18 per gallon for gasoline. In  
24 comparison, Newport Water paid \$1.74 per gallon for gasoline in November, \$1.55

1 per gallon in December, and \$1.58 per gallon in January. For diesel fuel, the price  
2 per gallon utilized by Newport Water was \$4.16. In comparison, Newport Water paid  
3 an average of \$2.52 per gallon in November, \$2.12 per gallon in December and \$2.22  
4 per gallon in January.

5 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO  
6 NEWPORT WATER'S CLAIMED EXPENSE?

7 A. I am proposing to adjust motor vehicles full expense to reflect the average prices paid  
8 for gasoline and diesel fuel in November 2008 through January 2009. As shown on  
9 Schedule TSC-7, this adjustment results in a reduction in projected rate year expenses  
10 of \$25,469.

11  
12 **City Services**

13 Q. PLEASE SUMMARIZE NEWPORT WATER'S CLAIM WITH REGARD  
14 TO PAYMENTS TO THE CITY OF NEWPORT FOR LEGAL AND  
15 ADMINISTRATIVE SERVICES AND DATA PROCESSING SERVICES?

16 A. Newport Water has presented a new set of allocations of the costs of City services  
17 that is based on the methodology set forth in the Cost Allocation Manual filed with  
18 the Commission in October 2008. Based on that new methodology, Newport Water  
19 is seeking to increase the amount paid to the City for legal and administrative services  
20 from the \$219,177 approved for the FY 2008 rate year in Docket No. 3818 to  
21 \$539,500 for the FY 2010 rate year in this case. This represents a 146 percent  
22 increase. For data processing services, Newport Water is seeking an increase from  
23 the \$156,368 approved in Docket No. 3818 to \$226,000, an increase of 45 percent.

1 Combined, the proposed increases in payments to the City of Newport total \$389,955  
2 and account for nearly 15 percent of the total increase sought in this proceeding.

3 Q. HAS THE COST ALLOCATION MANUAL BEEN REVIEWED BY THE  
4 PARTIES AND APPROVED PRIOR TO THIS PROCEEDING?

5 A. No. In Docket No. 3818, the Commission directed Newport Water to file a Cost  
6 Allocation Manual (CAM). This proceeding represents the Division's and  
7 intervenors' first opportunity to address the allocation procedures set forth in the  
8 CAM. Considering that Newport Water has proposed numerous changes in the  
9 allocation procedures approved by the Commission in Docket No. 3818, the new  
10 methodology is clearly subject to review and challenge in this docket.

11 Q. WHAT IS YOUR POSITION WITH REGARD TO THE ALLOCATION  
12 METHODOLOGY PROPOSED BY NEWPORT WATER?

13 A. It is my position that several of the proposed allocation procedures result in the  
14 overstatement of the costs allocated to Newport Water.

15 Q. WHAT IS YOUR FIRST CONCERN WITH REGARD TO THE  
16 ALLOCATION OF CITY OF NEWPORT LEGAL AND  
17 ADMINISTRATIVE AND DATA PROCESSING COSTS TO NEWPORT  
18 WATER?

19 A. My first concern relates to the calculation of Newport Water's share of the City's  
20 budget, which is used to allocate City Manager, City Solicitor, Finance  
21 Administration and a portion of data processing (MIS) costs to Newport Water.  
22 Rather than using its allowed revenue requirement as the Commission approved in  
23 Docket No. 3675 and No. 3818, Newport Water utilized a budget figure that includes  
24 O&M expense, depreciation, repayment to the City of Newport, capital funded fixed

1 assets, rate funded capital expenditures, debt service and the operating/revenue  
2 reserve. This is inappropriate because depreciation, debt service, debt funded capital  
3 expenditures and rate funded capital expenditures are overlapping measures of capital  
4 costs and inclusion of all four items results on a significant overstatement of costs. In  
5 addition, the repayment of the City of Newport has now been completed and should  
6 not be included. Finally, the operating/revenue reserve is not a true expense, but is  
7 more like a contingency allowance that is not included for other city operations.

8 In addition to overstating Newport Water's costs, the overall City budget is  
9 understated by the exclusion of the City's General Fund contribution to the School  
10 Department and Public Library.<sup>1</sup> This is inconsistent with the procedure approved in  
11 Docket No. 3818 and is inappropriate for several reasons. First, it is unreasonable to  
12 assume that the City Manager who is responsible for preparing the City's budget is  
13 not at all involved in addressing the portion of that budget that goes to the schools or  
14 the library. Second, the City's finance director and two City Council members are  
15 members of the School Department's ad hoc building committee. Third, the City  
16 Council holds workshops and joint meetings to address the school and library  
17 budgets. The City Manager and finance director presumably participate in those  
18 meetings. Finally, the listing of bank and investment accounts for which the Finance  
19 Administration division is responsible, as provided in response to PWFD 1-15(e),  
20 includes numerous School Department accounts.

21 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO THE  
22 CALCULATION OF NEWPORT WATER'S PERCENTAGE OF THE  
23 TOTAL CITY BUDGET?

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<sup>1</sup> It should be noted that General Fund contribution is only a small component of the total School Department budget.



1 A. Consistent with past practice and Commission precedent, I am proposing to base the  
2 percentage on Newport Water's cost of service as ultimately approved in this  
3 procedure compared to the City's budget. For the City Manger, City Solicitor, and  
4 Finance Administration costs, I am also including the General Fund contribution to  
5 the Schools and Library in the total budget. For data processing costs I have not  
6 included the General Fund contribution to the Schools because I have accepted  
7 Newport's indication that the schools have their own computer systems. As shown  
8 on Schedule TSC-8, page 2 of 2, these revisions result in a Newport Water budget  
9 percentage allocation factor of 11.17 percent non-MIS costs and 14.29 percent for  
10 MIS costs based on the Division's recommended cost of service. These percentages  
11 compare to the 22.30 percent allocation proposed by Newport Water (as reflected in  
12 RFC Schedule D, Corrected 2 provided in response to PWFD 1-14). In Docket No.  
13 3818, the percentage of costs allocated to Newport Water based on the budget  
14 allocator was 10.39 percent.

15 Q. DO YOU HAVE ANY CONCERNS WITH THE COSTS ALLOCATED  
16 USING THE BUDGET PERCENTAGE?

17 A. Yes. Newport Water has divided the budget for Finance Administration into four  
18 components. First, it pulled out the purchasing agent budget and allocated 17.90  
19 percent of those costs to Newport Water based on the number of purchase orders. It  
20 then took 80 percent of the remaining budget and allocated that component on the  
21 budget percentage. Ten percent of the remainder after excluding the purchasing agent  
22 was allocated 31 percent to Newport Water based on the number of bank and  
23 investment accounts. The final 10 percent was not allocated to Newport Water.

1 Overall, this resulted in \$98,147 or 20.5 percent of the total Finance Administration  
2 budget being allocated to Newport Water.

3 Again, I have several concerns with this methodology. First, little or no  
4 recognition is being given to the fact that Newport Water shares a Director of Finance  
5 with the WPC Division and pays 60 percent of the associated salary and benefits. In  
6 addition, Newport Water has its own full-time financial analyst. In the last two  
7 proceedings, this has been accounted for by including only 50 percent of the Finance  
8 Administration budget as allocable to Newport Water.

9 My second concern is the number of water-related bank and investment  
10 accounts is overstated by the inclusion of a separate Water Billing Charges accounts  
11 and a Water Repayment Account, both of which are being eliminated. In addition,  
12 two water debt service accounts, two water debt service reserve accounts, and a water  
13 sinking fund account have all been included. It is unclear why duplicative accounts  
14 are required. Finally a separate account is included for each restricted fund. It does  
15 not appear reasonable to give each of these accounts the same weight as City's  
16 General Fund Account and Imprest Account that are used for all City departments  
17 other than water.

18 My third concern pertains to the purchasing agent component of Finance  
19 Administration costs. As noted by Ms. Forgue on page 35 of her testimony, the costs  
20 associated with advertising for bids and RFPs are now directly charged to Newport  
21 Water for its bids. However in determining Newport Water's share of the purchasing  
22 agent's total budget, no adjustment was made for this direct assignment.

23 Q. WHAT CHANGES ARE YOU PROPOSING TO THE ALLOCATION OF  
24 FINANCE ADMINISTRATION COSTS?

1 A. To address the concerns discussed above, I am proposing to calculate Newport  
2 Water's share of Finance Administration costs other than for Purchasing by applying  
3 my revised budget allocator to one-half of the total budget for this division. This is,  
4 consistent with the procedure approved in prior proceedings. For purchasing, I am  
5 proposing to exclude legal advertising costs, totaling \$14,000, from the costs eligible  
6 for allocation to Newport Water.

7 Q. WHAT OTHER ISSUES HAVE YOU IDENTIFIED WITH REGARD TO  
8 THE PROPOSED ALLOCATION OF CITY OF NEWPORT LEGAL AND  
9 ADMINISTRATIVE COSTS TO NEWPORT WATER?

10 A. I have identified issues with regard to the allocation of City Council and City Clerk  
11 costs, Assessment Division costs, Collections Division costs and Accounting Division  
12 costs.

13 Q. PLEASE EXPLAIN YOUR CONCERN WITH THE ALLOCATION OF  
14 CITY COUNCIL AND CITY CLERK COSTS?

15 A. Newport Water's share of these costs has been calculated based on the number of  
16 Council meeting agenda items for water matters compared to the total number of  
17 Council meeting agenda items. Based on this methodology, Newport concluded that  
18 11.4 percent of the time of the City Council and City Clerk are devoted to Newport  
19 Water. However, a review of the Council minutes indicates that Newport has  
20 significantly overstated the percentage of time devoted to water issues.

21 Q. PLEASE EXPLAIN.

22 A. First, the 11.4 percent is based only on the agenda items at regular council meetings.  
23 It does not include the items addressed by the Council in executive session or the  
24 items addressed by the Council serving as the Licensing Commission. It also does

1 not consider the time Council members spend at meetings and workshops and special  
2 events, serving on the School's Ad Hoc Building Committee or any other activities in  
3 which council members participate.

4 In addition, the count of agenda items used by Newport treats all items on the  
5 consent agenda as a single time. However, a review of the Council meeting minutes  
6 reveals that there are numerous items on the consent agenda each month and that the  
7 items on that agenda are frequently removed and discussed individually. For  
8 example, the minutes from the November 14, 2007 Council meeting included 14  
9 consent agenda items, two of which included multiple subparts. Eight of those items  
10 were removed and the minutes include almost three pages of discussion on the  
11 removed items. Out of 8 pages of minutes for that meeting, six lines relate to the  
12 three water items on that agenda. However, under Newport's approach three  
13 twenty-firsts (14.3 percent) of the Council's time at that meeting was devoted to  
14 Newport Water issues.<sup>2</sup>

15 Q. WHAT IS YOUR RECOMMENDATION?

16 A. Based on the information provided, an allocation of 11.4 percent of the City  
17 Council's and Clerk's budgets to Newport Water is excessive. For the City Council,  
18 it is my recommendation that no more than five percent of the costs be allocated to  
19 Newport Water. With regard to the City Clerk, Newport Water has not demonstrated  
20 that the allocation should differ from the one percent approved by the Commission in  
21 Docket No. 3818 and I have used that one percent allocation.

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<sup>2</sup> It is also worth noting that one of the twenty-one numbered agenda items at the meeting includes a resolution allowing the Mayor to sign a letter seeking funds from the Rhode Island Department of Education for Newport's Schools.

1 Q. PLEASE ADDRESS YOUR CONCERN WITH REGARD TO THE  
2 ALLOCATION OF THE CITY ASSESSOR'S OFFICE COSTS TO  
3 NEWPORT WATER.

4 A. In its filing, Newport Water has been allocated 10 percent of the City Assessor's  
5 salary and benefits. This allocation was based on the Assessor's estimate that he  
6 spends 10 percent of his time dealing with Newport Water matters. However, in  
7 response to PWF 2-9, Newport Water provided an analysis that indicated that the  
8 average cost of the services performed by the assessor would be approximately  
9 \$12,400 per year if they were outsourced at a cost of \$125 per hour. (\$12,400 divided  
10 by \$125 per hour equals 99 hours.) This indicates an allocation of 5 percent of the  
11 Assessor's salary and benefits is more reasonable and I have utilized this percentage  
12 as the basis for my recommendation.

13 Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE  
14 ALLOCATION OF COLLECTIONS COSTS?

15 A. The Collections Division of the Finance Department has been allocated to Newport  
16 Water based on the number of water payments collected compared to the total tax  
17 water and sewer and ticket payments processed. This allocation fails to give any  
18 weight to the additional tax notices and delinquent notices or to the Collection  
19 Division's other activities including the issuance of residential parking and fishing  
20 permits, as well as verifying and depositing funds received from other City  
21 departments.

22 In recognition of the other activities performed by the Collection Division, I  
23 have included not only payments processed, but also tax notices, parking permits,  
24 fishing permits and MLCs issued in the denominator for determining Newport

1 Water's percentage responsibility for the Division's costs. This reduces the  
2 percentage from 20.5 percent to 17.1 percent. I believe that even this percentage is  
3 likely to overstate Newport Water's share of Collections costs because I have not  
4 included delinquent notices issued.

5 Q. WHAT IS YOUR CONCERN WITH REGARD TO THE ALLOCATION OF  
6 ACCOUNTING DIVISION COSTS?

7 A. In Newport Water's filing, 5 percent of the Controller's and Accounting Supervisor's  
8 salary and benefits have been "pulled out" and directly assigned to Newport Water.  
9 The remainder of the Accounting Division's costs has been allocated to Newport  
10 Water based on the relative payroll and vendor checks. No justification for the direct  
11 assignment of 5 percent of Controller's and Accounting Supervisor's payroll costs  
12 other than the statement in the CAM that those employees spend a significant amount  
13 of time on water fund transfers and cash flow issues. This separate allocation is  
14 arbitrary and unsupported. Accordingly, I have allocated all Accounting Division  
15 costs on the basis of the relative number of checks.

16 Q. HAVE YOU PREPARED A SCHEDULE THAT PRESENTS YOUR  
17 CALCULATION OF THE APPROPRIATE CHARGES FOR CITY  
18 SERVICES?

19 A. Yes. Schedule TSC-8 presents my analysis of the charges for City Services after  
20 recognizing the revisions discussed above. As indicated there, I am proposing an  
21 allowance of \$331,622 for legal and administrative City services and \$152,631 for  
22 data processing services compared to Newport Water's claims of \$539,500 and  
23 \$226,000, respectively.

24

1 Debt Service

2 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO DEBT  
3 SERVICE EXPENSE?

4 A. Subsequent to the time that Newport Water prepared its filing, the timing and interest  
5 rates for its planned new debt service issuances have changed. I have adjusted rate  
6 year debt service expense to reflect the resulting changes in projected rate year debt  
7 service. As shown on Schedule TSC-9, this adjustment reduces rate year debt service  
8 expense by \$179,884.

9  
10 Capital Spending Restricted Account Contribution

11 Q. PLEASE EXPLAIN YOUR ADJUSTMENTS TO THE CLAIMED  
12 CONTRIBUTION TO THE CAPITAL SPENDING RESTRICTED  
13 ACCOUNT.

14 A. Newport Water based the contribution to the capital spending restricted account on  
15 the capital improvement projects scheduled for FY 2010. Because of the lag in the  
16 cash payment for capital projects, as described in the response to Div. 1-36, it is likely  
17 that actual capital expenditures in FY 2010 will be below the projected costs of the  
18 FY 2010 planned capital improvements. In addition, the costs of the planned projects  
19 in FY 2011 (and subsequent years) are less than the costs of those planned for 2010.  
20 Accordingly, I have adjusted the required contribution to the capital spending  
21 restricted account to reflect the average cost of the capital improvements projects  
22 planned for FY 2010 and FY 2011. As shown on Schedule TSC-10, this adjustment  
23 reduces rate year costs by \$75,101.  
24

1 Revenue Offsets

2 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING TO THE  
3 REVENUE OFFSETS THAT NEWPORT WATER HAS RECOGNIZED IN  
4 THE RATE YEAR?

5 A. Newport Water has included the amounts that it recovers for the costs of providing  
6 metering and customer accounting services to Newport's Water Pollution Control  
7 (WPC) Division as a revenue offset. In calculating the rate year revenue offset,  
8 Newport Water included 50 percent of customer accounting O&M and debt service  
9 associated with the radio read program. However, it did not include a portion of the  
10 rate year cash expenditures for meter replacements. Consistent with the treatment of  
11 other metering and customer accounting costs, I am recommending that the rate year  
12 revenue offset from the WPC Division be adjusted to include one-half of the  
13 expenditures for meter replacements.<sup>3</sup> As shown on Schedule TSC-11, this  
14 adjustment increases the rate year revenue offsets by \$32,766. I have based this on  
15 the average budgeted expenditures in FY 2010 and FY 2011, consistent with my  
16 adjustment to the contribution to the capital spending restricted fund.

17  
18 Operating Reserve Allowance

19 Q. WHAT IS NEWPORT WATER'S PROPOSAL WITH REGARD TO THE  
20 OPERATING REVENUE ALLOWANCE THAT IT SHOULD RECEIVE?

21 A. Newport Water has requested an operating revenue allowance equal to three percent  
22 of total O&M expense. Mr. Smith indicates that Newport Water is willing to accept

---

<sup>3</sup> Currently, Newport Water bills the WPC Division for all of the costs attributable to sewer services, in turn, and the WPC Division bills the Town of Middletown for a portion of those costs. Prospectively, Newport Water is proposing to bill the WPC Division and the Town of Middletown separately for their prospective shares of the costs.



1 the same restrictions on the use of this reserve that the Commission ordered for Kent  
2 County Water Authority (KCWA) in Docket No. 3942.

3 Q. WHAT IS YOUR POSITION?

4 A. I do not object to Newport Water receiving an operating revenue allowance equal to  
5 three percent of O&M as long as its use of those funds is subject to the same  
6 restrictions adopted for KCWA.

7  
8 **Rate Design**

9 Q. HAVE YOU DEVELOPED RECOMMENDED RATES TO RECOVER  
10 THE REVENUE INCREASE THAT YOU HAVE IDENTIFIED AS  
11 NECESSARY?

12 A. Yes. I am proposing that the allowed revenue increase be recovered through a  
13 uniform percentage increase in all rates for water service and fire service. The  
14 calculations of my rate recommendations are presented on Schedule TSC-12. As  
15 shown on page 1 of that schedule, the revenue increase of \$1,763,385 that I have  
16 recommended on behalf of the Division represents an increase of 18.85 percent over  
17 the rate year revenue at existing water and fire service rates. Page 2 of Schedule  
18 TSC-11 presents the calculation of the rates necessary to generate this increase and  
19 provides a proof of revenue at proposed rates.

20 Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

21 A. Yes, it does.  
22

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

**CITY OF NEWPORT            )  
UTILITIES DEPARTMENT,    )  
WATER DIVISION            )**         **DOCKET NO. 4025**

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

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

**APRIL 2009**

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**EXETER**

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

CITY OF NEWPORT--WATER DIVISION

Summary of Revenues and Expenses at  
Present and Proposed Rates  
Rate Year Ended June 30, 2010

	Rate Year Amount Per Newport	Division Adjustments	Rate Year at Present Rates	Proposed Rate Increase	Rate Year at Proposed Rates
<b>Revenue</b>					
Customer Charge	\$ 846,410	\$ -	\$ 846,410	\$ 159,700	\$ 1,006,110
Retail Consumption	5,631,416	-	5,631,416	1,061,782	6,693,198
Wholesale/Bulk Sales	1,799,352	-	1,799,352	339,313	2,138,665
Fire Protection	1,079,120	-	1,079,120	203,608	1,282,728
Miscellaneous	708,065	32,766	740,831	-	740,831
<b>Total Revenue</b>	<b>\$ 10,064,363</b>	<b>\$ 32,766</b>	<b>\$ 10,097,129</b>	<b>\$ 1,764,403</b>	<b>\$ 11,861,532</b>
<b>Expenses</b>					
Water Administration	2,527,400	(360,446)	2,166,954	-	2,166,954
Customer Accounts	724,850	(7,352)	717,498	-	717,498
Source of Supply-Island	633,700	(83,780)	549,920	-	549,920
Source of Supply-Mainland	146,500	(3,492)	143,008	-	143,008
Treatment & Pumping-Newport Plant	1,712,800	(38,127)	1,674,673	-	1,674,673
Treatment & Pumping-Lawton Valley	1,650,150	(38,906)	1,611,244	-	1,611,244
Water Laboratory	249,450	-	249,450	-	249,450
Transmission & Distribution Maintenance	1,100,900	(88,536)	1,012,364	-	1,012,364
Fire Protection	21,000	-	21,000	-	21,000
<b>Subtotal</b>	<b>\$ 8,766,750</b>	<b>\$ (620,639)</b>	<b>\$ 8,146,111</b>	<b>\$ -</b>	<b>\$ 8,146,111</b>
Payment to City General Fund	-	-	-	-	-
Debt Service	2,072,985	(179,884)	1,893,101	-	1,893,101
Capital Outlays	1,652,019	(75,101)	1,576,918	-	1,576,918
<b>Total Expenses</b>	<b>\$ 12,491,754</b>	<b>\$ (875,624)</b>	<b>\$ 11,616,130</b>	<b>\$ -</b>	<b>\$ 11,616,130</b>
<b>Operating Reserve</b>	<b>263,003</b>	<b>(18,619)</b>	<b>244,383</b>	<b>-</b>	<b>244,383</b>
<b>Total Cost of Service</b>	<b>\$ 12,754,757</b>	<b>\$ (894,243)</b>	<b>\$ 11,860,513</b>	<b>\$ -</b>	<b>\$ 11,860,513</b>
<b>Revenue Surplus/(Deficiency)</b>	<b>(\$2,690,394)</b>	<b>\$927,009</b>	<b>(\$1,763,385)</b>	<b>\$ 1,764,403</b>	<b>\$ 1,019</b>

CITY OF NEWPORT--WATER DIVISION

Summary of Division Adjustments to  
Rate Year Expenses  
Rate Year Ended June 30, 2010

<u>Description</u>	<u>Amount</u>	<u>Source</u>
Employee Vacancies	\$ (145,752)	Schedule TSC-3
Overtime Wages	(7,172)	Schedule TSC-4
Consultant Fees	(78,500)	Schedule TSC-5
Chemical Costs	(82,500)	Schedule TSC-6
Motor Vehicle Fuel Expense	(25,469)	Schedule TSC-7
City Services--Legal & Administrative	(207,878)	Schedule TSC-8
City Services--Data Processing	(73,369)	Schedule TSC-8
Updated Debt Costs	(179,884)	Schedule TSC-9
Capital Outlays	(75,101)	Schedule TSC-10
Operating Reserve	<u>(18,619)</u>	See Note (1)
Total Expense Adjustments	\$ (894,243)	
Revenue Offsets	<u>32,766</u>	Schedule TSC-11
Total Division Adjustments to Income	<u>\$ 927,009</u>	

Note:

(1) Based on 3.0% of total O&M expenses as reflected on Schedule TSC-1.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Salaries and Wages to  
 Reflect Normal Employee Vacancies  
 Rate Year Ended June 30, 2010

<u>Current Vacant Positions (1)</u>	<u>Salary (2)</u>	<u>Benefits (2)</u>
Maintenance Mechanic-Distribution	\$ 52,518	\$ 27,640
Maintenance Mechanic-Source of Supply	51,003	28,663
Laborer-Source of Supply	37,840	15,711
Assistant Water Quality Production Supervisor	49,748	28,380
Average	\$ 47,777	\$ 25,099
Normal Employee Vacancies (3)	<u>2</u>	<u>2</u>
Reduction in Claimed Salaries and Benefits	\$ 95,555	\$ 50,197
Total Adjustment to Rate Year Expense (4)		<u>\$ 145,752</u>

Notes:

- (1) Per responses to Div. 1-5 and 2-1.
- (2) Per RFC Schedule B-3, B-5, B-6 and B-8.
- (3) Per response to Div. 1-6.
- (4) Adjustment has been included one-half in Distribution and one-half in Source of Supply for income summary purposes.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Overtime Wages  
Rate Year Ended June 30, 2010

	<u>Adjustment</u>
<u>Customer Service Division</u>	
Test Year Overtime Hours (1)	131.5
Additional Hours for Radio Read	<u>500.0</u>
Overtime Hours per Division	631.5
Hours per Newport Water Filing (2)	<u>743.0</u>
Adjustment to Overtime Hours	(111.5)
Overtime Hourly Rate (2)	<u>\$ 33.00</u>
Adjustment to Customer Service Expense	\$ (3,680)
<u>Source of Supply-Mainland</u>	
Test Year Overtime Hours (3)	250.0
Additional Hours to Normalize	<u>-</u>
Overtime Hours per Division	250.0
Hours per Newport Water Filing (3)	<u>444.0</u>
Adjustment to Overtime Hours	(194.0)
Overtime Hourly Rate (3)	<u>\$ 18.00</u>
Adjustment to Source of Supply-Mainland Expense	\$ (3,492)
Total Adjustment to Overtime Wages	<u><u>\$ (7,172)</u></u>

Notes:

- (1) Per response to Div. 2-4.
- (2) Per RFC Schedule B-2
- (3) Per RFC Schedule B-4.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Consulting Fees  
Rate Year Ended June 30, 2010

	<u>Amount Per Newport (1)</u>	<u>Amount Per Division</u>	<u>Adjustment</u>
Rate Case Expense	\$ 116,500	\$ 116,500	\$ -
Cost of Service Study (2)	50,000	-	(50,000)
Updated Risk Management Study (3)	10,000	5,000	(5,000)
Other Fees	73,500	50,000	<u>(23,500)</u>
Adjustment to Expense			<u>\$ (78,500)</u>

Notes:

- (1) Per response to Div. 1-27.
- (2) Division recommendation is for deferral and recovery of rate case expense when study is presented.
- (3) Division recommendation is for amortization over 2 years.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Chemicals Expense  
 Rate Year Ended June 30, 2010

	Amount Per Newport (1)	Amount Per Division (2)	Adjustment
Newport Plant	\$ 411,000	\$ 373,300	\$ (37,700)
Lawton Valley	261,000	222,400	(38,600)
Source of Supply Island	<u>67,500</u>	<u>61,300</u>	<u>(6,200)</u>
Adjustment to Include costs in Debt Service Restricted Account	\$ 739,500	\$ 657,000	<u>\$ (82,500)</u>

Notes:

- (1) Amounts per RFC Schedule 3.
- (2) Amounts per Div. 2-10 excluding projected 2010 unit price increases. For Source of Supply-Island, Division amount is calculated based on FY 2009 copper sulfate price and usage per Schedule RFC B-3.



CITY OF NEWPORT--WATER DIVISION

Adjustment to City Services Costs  
 Rate Year Ended June 30, 2010

	<u>Gallons (1)</u>	<u>Price per Gallon (2)</u>	<u>Cost per Division</u>	<u>Cost per Newport Water</u>	<u>Adjustment</u>
Administration	448	\$ 1.623	\$ 727	\$ 1,426	\$ (699)
Customer Service	2,355	1.623	3,822	7,495	(3,673)
Source of Supply-Island	556	2.287	1,272	2,315	(1,043)
Source of Supply-Island	2,346	1.623	3,808	7,468	(3,660)
Newport Plant	274	1.623	445	872	(427)
Lawton Valley	196	1.623	318	624	(306)
Distribution	1,924	2.287	4,400	8,007	(3,607)
Distribution	7,727	1.623	12,541	24,594	(12,053)
Total	15,826		\$ 27,332	\$ 52,801	\$ (25,469)

Notes:

(1) Per RFC Schedules B-1 through B-8.

(2) Based on average prices paid in November 2008 through January 2009.

CITY OF NEWPORT--WATER DIVISION

Adjustment to City Services Costs  
 Rate Year Ended June 30, 2010

<u>Legal and Administrative Services</u>	<u>Total City Budget</u>	<u>Adjustment (1)</u>	<u>Allocable Budget</u>	<u>Allocation to Water Division</u>	<u>Percent</u>	<u>Note</u>
City Council	\$ 76,755	\$ -	\$ 76,755	\$ 3,838	5.00%	(1)
City Clerk	319,706	-	319,706	3,197	1.00%	(1)
City Manager	418,103	-	418,103	46,723	11.17%	(2)
City Solicitor	289,177	-	289,177	32,315	11.17%	(2)
Human Resources	303,338	-	303,338	39,131	12.90%	(3)
Finance Administration	387,963	(193,982)	193,982	21,677	11.17%	(2)
Purchasing	90,123	(14,000)	76,123	13,626	17.90%	(3)
Assessment	113,456	-	113,456	5,673	5.00%	(3)
Collections	313,663	-	313,663	53,636	17.10%	(2)
Accounting	393,700	-	393,700	43,996	11.17%	(3)
Audit Fees	84,875	-	84,875	5,245	6.18%	(3)
Citizen Survey	16,000	-	16,000	1,328	8.30%	(3)
Public Safety	28,531,884	-	28,531,884	28,532	0.10%	(3)
Facilities Maintenance	654,108	-	654,108	32,705	5%	(3)
Total Allocated on Budget	\$ 31,992,851	\$ (207,982)	\$ 31,784,870	\$ 331,622	0.00%	

Amount per Newport Water

539,500

Adjustment to Legal & Administrative

\$ (207,878)

<u>Data Processing Services</u>	<u>Total City Budget</u>	<u>Adjustment</u>	<u>Allocable Budget</u>	<u>Allocation to Water Division</u>	<u>Percent (1)</u>	
MIS - Communications Costs	\$ 328,960	-	328,960	25,988	7.90%	(3)
MIS - Other Costs	886,172	-	886,172	126,643	14.29%	(2)
	\$ 1,215,132	\$ -	\$ 1,215,132	\$ 152,631		

Amount per Newport Water

226,000

Adjustment to Data Processing Services

\$ (73,369)

Notes:

- (1) Refer to testimony
- (2) Refer to page 2 of this schedule..
- (3) Percentage per Newport Water Filing

CITY OF NEWPORT--WATER DIVISION

Calculation of City Services Allocation Factors  
 Rate Year Ended June 30, 2010

<u>Percentage Applicable to Non-MIS Costs</u>	<u>FY 2009 Adopted Budget</u>	<u>Percentage</u>
General Fund Including School & Library	\$ 77,948,747	73.44%
Maritime	\$ 1,483,000	1.40%
Water Fund	\$ 11,860,513	11.17%
WPC	\$ 12,628,836	11.90%
Parking	\$ 1,347,952	1.27%
Beach	\$ 866,324	0.82%
Total Budget	\$ 106,135,372	100.00%

<u>Percentage Applicable to MIS - Other Costs</u>	<u>FY 2009 Adopted Budget</u>	<u>Percentage</u>
General Fund Less School	\$ 54,806,022	66.04%
Harbor	1,483,000	1.79%
Water Fund	11,860,513	14.29%
WPC	12,628,836	15.22%
Parking	1,347,952	1.62%
Beach	866,324	1.04%
Total Budget	\$ 82,992,647	100.00%

CITY OF NEWPORT--WATER DIVISION

Adjustment to Reflect Updated Debt Service Costs  
for Debt Service Restricted Account Contribution  
Rate Year Ended June 30, 2010

	<u>Total</u>
Existing Debt Service (1)	\$ 1,280,215
Proposed Debt Service (1)	<u>612,886</u>
Adjusted Debt Service Requirement (1)	\$ 1,893,101
Amount per Newport Water Filing (2)	<u>2,072,985</u>
Adjustment to Debt Service Restricted Account Contribution	<u><u>\$ (179,884)</u></u>

Notes:

(1) Per response to Div. 2-11.

(2) Per RFC Schedule 2.

CITY OF NEWPORT--WATER DIVISION  
Adjustment to Capital Spending Requirements  
Rate Year Ended June 30, 2010

	<u>Total</u>
Capital Spending in FY 2010 (1)	\$ 1,652,019
Capital Spending in FY 2011 (1)	<u>1,501,817</u>
Average Annual Spending	\$ 1,576,918
Amount per Newport Water Filing (3)	<u>1,652,019</u>
Adjustment to Capital Spending Restricted Account Contribution	<u><u>\$ (75,101)</u></u>

Notes:

(1) Per RFC Schedule 5.

(2) Per RFC Schedule 2.

CITY OF NEWPORT--WATER DIVISION

Adjustment to Revenue Offsets  
Rate Year Ended June 30, 2010

	<u>Total</u>
Cash Expenditures for Meter Replacements (1)	\$ 65,532
Portion allocable to Water Service at 50%	<u>32,766</u>
Portion allocable to Wastewater Service at 50%	<u>\$ 32,766</u>

Note:

(1) Based on average of \$64,247 in FY 2010 and \$66,817 in FY 2011.

CITY OF NEWPORT--WATER DIVISION

Calculation of Uniform Percentage Increase in Rates  
 Required to Generate Additional Revenues  
 Rate Year Ended June 30, 2010

<u>Customer Class</u>	<u>Existing Rate</u>	<u>Rate Year Sales (1) (1,000 gals)</u>	<u>Rate Year Revenues at Existing Rates</u>
Retail	\$ 4.540	1,240,400	\$ 5,631,416
Navy	\$ 2.795	288,013	804,996
Portsmouth	\$ 2.227	446,500	994,356
Metered Sales Revenues at Existing Rates			\$ 7,430,768
<u>Type of Charge</u>	<u>Existing Charge</u>	<u>Number Billed (1)</u>	<u>Rate Year Revenues at Existing Rates</u>
Billing Charge	\$ 13.25	63,880	846,410
Fire Protection Charges (Public)	\$ 752.00	999	751,248
Fire Protection Charges (Private)			
less than 2"	\$ 14.76	-	-
2"	62.00	1	62
4"	382.00	57	21,774
6"	765.00	246	188,190
8"	1,751.00	62	108,562
10"	2,891.00	-	-
12"	4,642.00	2	9,284
Total Private Fire Service			\$ 327,872
Total Rate Year Revenues from Existing Rates and Charges			\$ 9,356,298
Net Rate Year Revenue Requirements (2)			\$ 11,119,682
Additional Revenue Needed			\$ 1,763,385
% Revenue Increase Required			<u>18.85%</u>

Notes:

(1) Per Schedule RFC 7.

(2) Per Schedule TSC-1. Equals total cost of service less miscellaneous revenue.

CITY OF NEWPORT--WATER DIVISION

Calculation of Proposed Rates and  
 Proof of Revenue at Proposed Rates  
 Rate Year Ended June 30, 2010

<u>Customer Class</u>	<u>Existing Rate</u>	<u>Percent Increase (1)</u>	<u>Proposed Rate</u>	<u>Rate Year Sales (2) (1,000 gals)</u>	<u>Rate Year Revenues at Proposed Rates</u>
Retail	\$ 4.540	18.85%	\$ 5.396	1,240,400	\$ 6,693,198
Navy	2.795	18.85%	\$ 3.322	288,013	956,779
Portsmouth	2.227	18.85%	\$ 2.647	446,500	1,181,886
<b>Metered Sales Revenues at Proposed Rates</b>					<b>\$ 8,831,863</b>
<u>Type of Charge</u>	<u>Existing Charge</u>	<u>Percent Increase (1)</u>	<u>Proposed Rate</u>	<u>Number Billed</u>	<u>Rate Year Revenues at Proposed Rates</u>
Billing Charge	\$ 13.25	18.85%	\$ 15.75	63,880	1,006,110
Fire Protection Charges (Public)	\$ 752.00	18.85%	\$ 894.00	999	893,106
Fire Protection Charges (Private)					
less than 2"	\$ 14.76	18.85%	\$ 18.00	-	-
2"	62.00	18.85%	74.00	1	74
4"	382.00	18.85%	454.00	57	25,878
6"	765.00	18.85%	909.00	246	223,614
8"	1,751.00	18.85%	2,081.00	62	129,022
10"	2,891.00	18.85%	3,436.00	-	-
12"	4,642.00	18.85%	5,517.00	2	11,034
<b>Total Private Fire Service</b>					<b>\$ 389,622</b>
<b>Total Rate Year Revenues from Proposed Rates and Charges</b>					<b>\$ 11,120,701</b>
<b>Net Rate Year Revenue Requirements (3)</b>					<b>\$ 11,119,682</b>
<b>Difference</b>					<b>\$ 1,019</b>

Notes:

- (1) Per page 1 of this schedule.
- (2) Per Schedule RFC 7.
- (3) Per Schedule TSC-1. Equals total cost of service less miscellaneous revenue.