

DIRECT TESTIMONY  
OF  
JULIA FORGUE, P.E.  
ON BEHALF OF THE CITY OF NEWPORT, UTILITIES DEPARTMENT,  
WATER DIVISION

In re: City of Newport Utilities Department, Water Division

Docket No.

December 2008

1 **I. INTRODUCTION**

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

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

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

7 A. I began my employment with the City of Newport on March 12, 2001 as Director of Public  
8 Works. While Director of Public Works, I also served as the General Manager of the Water  
9 Division. In December 2007 a reorganization of City Departments was finalized and my new  
10 position is now Director of Utilities.

11  
12 **Q. What are your responsibilities as Director of Utilities with regard to the Newport Water  
13 System?**

14 A. As Director of Utilities, I serve as general manager of the water and water pollution control  
15 divisions. I am responsible for planning, organizing and directing the activities for the Water  
16 Division. I direct and supervise the work of supervisors on administrative and technical issues  
17 conforming to a policy framework established by the City as well as State and Federal agencies.

18  
19 **Q. Can you provide a brief description of your work experience?**

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

26  
27 **Q. What is your educational background?**

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

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

2 A. Yes, I am a member of the American Water Works Association, New England Waterworks  
3 Association and the Rhode Island Waterworks Association. I served as President of the RIWWA  
4 December 2001 to December 2003. I am also a member of the Water Environment Association  
5 and the American Public Works Association in which I served as President of the New England  
6 Chapter in 2002.

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

9 A. To support the request of the City of Newport, Utilities Department, Water Division  
10 (hereinafter “Newport” or “Newport Water”) for a rate increase. In Docket 3818 Newport was  
11 authorized to collect an additional \$911,458 for a total cost of service of \$9,401,731 effective  
12 September 1, 2007. For the proposed rate year, Newport requests a total cost of service of  
13 \$12,754,756 (before offsets), which is a total revenue increase of \$3,353,023 over the amount  
14 granted in Docket 3818.

15  
16 In this filing, Newport has used a test year of Fiscal Year 2008 (July 1, 2007 to June 30, 2008).  
17 The rate year is Fiscal Year 2010 (July 1, 2009 to June 30, 2010). The application for increased  
18 rates is comprised of increases in Debt Service and Capital Spending (\$1,197,822) and Operation  
19 and Maintenance Expenses (\$1,949,530). The biggest increases in Operations and Maintenance  
20 expenses are:

- 21 1. Salaries and Wages
- 22 2. Employee Benefits
- 23 3. City Services (pursuant to Newport’s Cost Allocation Manual)
- 24 4. Electricity
- 25 5. Chemicals

26  
27 In my testimony, I will present and explain the differences between amounts shown in the test  
28 year and the proposed rate year.

29  
30

1 **Q. Will the revenues from current rates be sufficient to cover expenses for the upcoming**  
2 **2008 fiscal year?**

3 A. No. The revenues generated from the existing rates will not be sufficient to recover the  
4 expenses for the rate year (FY10). However, the proposed rates should recover revenues  
5 sufficient to recover the rate year expenses.

6  
7 **II. PRIOR ORDERS**

8 **Q. The Commission's Order in Docket 3818, and in prior Dockets, set forth a number of**  
9 **reporting requirements. Has Newport complied with these requirements?**

10 A. Yes. As of this date, Newport has complied with the Commission's orders in Dockets 3578,  
11 3675 and 3818. As set forth in the Docket 3578 order, Newport Water was allowed to repay the  
12 City of Newport \$2,500,000 for monies advanced by the General Fund to the Water Fund. The  
13 repayment was spread over five years, with payments of \$500,000 per year. As a precondition to  
14 the repayment, Newport Water was required to demonstrate compliance with the Commission's  
15 reporting requirements. The first repayment was deferred until December 2004, and Newport  
16 Water was ordered to file a report by November 15, 2004 demonstrating that it had complied  
17 with the reporting requirements to that point. This report was filed, and the Commission  
18 ultimately approved the first repayment. Since that time, the Commission has approved all of the  
19 subsequent repayments, and the City of Newport has been completely reimbursed. After the final  
20 payment in June 2008, Newport Water was ordered to transfer all remaining funds in the  
21 restricted Repayment to City Account to Debt Service. Newport Water has complied with this  
22 Order. In this Docket, Newport Water proposes to close this account.

23  
24 In Docket 3675, the Commission also ordered Newport Water to submit an additional monthly  
25 report on accrual basis consistent with a format and due date to be approved by the Commission.  
26 This "monthly trial balance" report was ultimately approved by the Commission and Newport  
27 has been filing it along with its monthly cash flow reports.

1 **Q. The Commission’s Order in Docket 3818 also included some new reporting**  
2 **requirements. Has Newport complied with these new requirements?**

3 A. Yes. One of the new requirements was that Newport Water conduct a mixing system  
4 feasibility study to explore reducing the age of water supplied to the Portsmouth Water and Fire  
5 District (“PWFD”/“Portsmouth”). Newport Water filed the report required by the Commission  
6 and conducted the feasibility study. This project is projected to cost \$600,000 and is included in  
7 Newport’s current Capital Improvement Program (“CIP”). Newport was also ordered to file  
8 quarterly reports on its capital projects and its progress in completing a cost of service study.  
9 Newport has filed these reports with the Commission.

10  
11 **Q. In Docket 3675 and 3818 Newport’s Water Pollution Control (WPC) Division to make**  
12 **certain payments in recognition of benefits it receives from Newport Water’s Customer**  
13 **Accounts division. Can you provide an update on the status of these payments?**

14 A. Yes in Docket 3675, the Settlement Agreement called for the WPC Division to pay 50% of  
15 the Customer Accounts costs. The WPC Division has been making these payments.

16  
17 In addition, in Docket 3818, the Commission ordered Newport Water to collect from the WPC  
18 Division “one half of the cost incurred... in installing and implementing the remote radio read  
19 program.” The contract for this project was executed on July 2, 2008. As such, this project has  
20 only recently begun and no debt service payments have been made yet.

21  
22 Also, in Docket 3818, the WPC Division was ordered to pay one half of the cost associated with  
23 the move to quarterly billing, which has been paid. However, in this Docket, Newport Water  
24 seeks two changes to the way it collects these funds.

25  
26 **Q. Please explain why?**

27 A. Newport Water has 14,442 water accounts as of 9/30/08, of these, 9,452 are also Newport  
28 Sewer Customers and 4,619 are Middletown customers whose usage information we provide to  
29 the Town of Middletown for their sewer bills. As such, Newport Water proposes that the  
30 Newport WPC Division pay one half of the costs attributable to 62.42% of the water bills and

1 that the Town of Middletown pay one half of the costs on 31.19% of the water bills. The WPC  
2 Division should only be required to pay for its proportional share of the Customer Services costs.  
3 By paying for half of the total costs associated with all of the Water Division's accounts, the  
4 WPC Division is absorbing costs in its rates that are associated with preparation of billings that  
5 are not part of the WPC system such as the water retail accounts in Portsmouth.

6  
7 In addition, Newport seeks to directly bill both the WPC Division and the Town of Middletown  
8 for their proportional costs. Currently, Newport Water charges the WPC Division for one half of  
9 all the costs. The WPC then bills the Town of Middletown, which only reimburses the WPC for  
10 their proportional share of costs based on number of Middletown accounts. Thus, the WPC is  
11 currently advancing funds to the Water Division on behalf of the Town of Middletown.

12  
13 **Q. In Docket 3818, the Commission ordered Newport Water to change from tri-annual**  
14 **billing to quarterly billing. The Commission also ordered Newport Water to restrict the**  
15 **revenue from the billing charge on the "extra" bill. Was this done?**

16 A. Yes it was. As of the end of FY08, there was approximately \$90,328 in the restricted account.  
17 At the end of FY09, we anticipate there will be approximately \$240,960 in the account prior to  
18 any withdrawals.

19  
20 **Q. What does Newport propose to do with the funds in this account?**

21 A. Pursuant to the Commission's Order in Docket 3818, a portion of the money in this fund is to  
22 be used to pay for the PUC sponsored management study. Newport has been notified that this  
23 study will cost approximately \$65,000. As such, Newport would request that the balance of this  
24 fund be used to pay any outstanding payables Newport has at the conclusion of this case.

25  
26 **Q. What is the status of Newport's Cost of Service Study?**

27 A. Newport continues to work on issues related to the Cost Of Service Study. This Study will  
28 include a Demand Study, and Newport plans to collect additional data related to the Demand  
29 Study between May and September 2009. Newport is aware that the Commission set a  
30 September 1, 2009 deadline to file the Cost of Service Study. It is likely that Newport will have

1 to seek relief from the Commission to extend this deadline another 30 to 60 days. Newport will  
2 address this issue with the Commission at the appropriate time.

3  
4 **Q. In Docket 3818, Newport Water was also ordered to pro-rate customer bills for the**  
5 **increase that was granted. Did Newport do this?**

6 A. Yes we did.

7  
8 **III. CASH FLOW ISSUES**

9 **Q. It appears that Newport Water's cash flow issues have improved since the conclusion of**  
10 **Docket 3818. Can you discuss Newport's progress in this regard?**

11 A. Yes. One of the main reasons for the improved cash flow was the Commission based Newport  
12 Water's rates in Docket 3818 on actual consumption for FY07. In FY08 Newport sold more  
13 water than forecasted to its Residential and Commercial customer as well as Portsmouth.  
14 Newport Water sold less water than forecasted to the Navy and Governmental customers.  
15 However, it should be noted that a portion of the increased sales to quarterly customers was due  
16 to the switch from tertiary to quarterly billing.

17  
18 **Q. It also appears that Newport Water was able to reduce its outstanding payables. Can**  
19 **you discuss this?**

20 A. Yes. As of August 30, 2007, the date Docket 3818 was decided, Newport Water's outstanding  
21 payables were \$1,359,243.45, broken down as follows:

22	Accrued payrolls to be transferred to City	\$1,006,329.49
23	Vendor Payables (over 90 days)	\$ 36,417.82
24	Vendor Payables (over 60 days)	\$ 88,440.26
25	Vendor Payables (over 30 days)	\$ 114,985.35
26	Vendor Payables (current)	\$ 113,070.53

27  
28 As of August 30, 2008, Newport Water's payables were \$509,426, broken down as follows:

29	Accrued payrolls to be transferred to City	\$137,887
30	4 <sup>th</sup> Quarter OH Allocation	\$ 93,886

1	WPC Allocation	\$ 73,139
2	Vendor Payables (over 90 days)	\$ 13,674
3	Vendor Payables (over 60 days)	\$ 60,167
4	Vendor Payables (over 30 days)	\$ 24,270
5	Vendor Payables (current)	\$106,403

6

7 Newport was able to reduce its payables due to increased revenue and its conservative approach  
8 to purchasing, which reduced operations and maintenance spending.

9

10 **Q. In August 2008 the Water Division was evaluated by Standard & Poor’s in connection**  
11 **with its non-subsidized borrowing for repairs to the Easton Pond Dam. What was**  
12 **Newport’s rating?**

13 A. Newport received an A+ rating, which was based on a number of factors including consistent  
14 financial operations. One of the mitigating factors was low unrestricted day’s cash on hand.  
15 Nevertheless, Newport Water was pleased to receive such a positive rating.

16

17 **IV. CAPITAL IMPROVEMENT PLAN**

18 **Treatment Plant Projects**

19 **Q. Newport’s Capital Improvement Plan in Docket 3818, and in this Docket, identified two**  
20 **significant future projects - a potential new water treatment plant at Lawton Valley and**  
21 **improvements to the Station 1 Plant. Can you provide an update on these projects?**

22 A. Yes. In 2004 Newport Water conducted a comprehensive regulatory compliance evaluation  
23 and facility condition evaluation for the two water treatment plants – Station 1 and Lawton  
24 Valley. Based on the evaluations, long term recommendations were made for each facility. The  
25 long term recommendation for Lawton Valley was to replace, rather than rehabilitate, the 1943  
26 facility. This recommendation was made primarily for two reasons. First, significant work was  
27 needed to achieve treatment reliability to maintain regulatory compliance. Second, structural,  
28 mechanical, and electrical improvements are required to comply with current building codes and  
29 to ensure that adequate health and safety provisions are in place.



1 The long term goal for Station 1 is to achieve treatment reliability to provide the maximum day  
2 design capacity of 9 MGD with one treatment unit off-line. Currently the plant can handle 9  
3 MGD hydraulically. However in terms of providing consistently reliable treatment, Station 1 is  
4 limited to a maximum daily flow of 6 MGD with all units in service. To achieve the reliable  
5 treatment and capacity goal, an additional pretreatment/clarification unit (train) is recommended  
6 to be installed.

7

8 However, before Newport Water could make any decisions on these projects, it needed to  
9 conduct a preliminary analysis of several issues. Thus, Newport Water sought to engage the  
10 services of an engineer/consultant to assist with this analysis. The engineer/consultant's role  
11 would be to assist as the City of Newport's advisor throughout the bidding and construction  
12 process. As such, the engineer/consultant would not be eligible to bid on the project itself. In  
13 March 2008, Newport Water entered into a contract with CDM to act as the City's advisor for  
14 the implementation of long term improvements at the Lawton Valley and Station 1 treatment  
15 plants. CDM's work will consist of providing professional services in five phases:

- 16 Phase 1- (A) Utility Ownership/Governance; and
- 17 (B) Project Delivery Strategy;
- 18 Phase 2- Utility Financing;
- 19 Phase 3- Engineering Studies and Preliminary Design;
- 20 Phase 4- Procurement Documents and process; and,
- 21 Phase 5- Monitoring of Contract awarded as part of Phase 4.

22

23 Presently, CDM has completed Phase 1A. In the course of completing Phase 1A, CDM  
24 examined all possible strategic options available for the ownership, financing and governance of  
25 the water system. CDM concluded that the City of Newport's continued ownership and  
26 governance of the system, with rate-payer financing, would be in the best long-term interest of  
27 the rate payers. CDM has prepared the Phase 1B report and presented it to the City Council. The  
28 report is scheduled to be reviewed at the City Council meeting on December 10, 2008. As part of  
29 Phase 1B, CDM developed, evaluated, and recommended project delivery options for the Station  
30 1 and Lawton Valley. The original plan remains to complete the Station 1 improvements first, so  
31 Newport has reliable capacity before construction begins on a new Lawton Valley facility.  
32 However, there are a number of issues concerning these two treatment facilities that overlap. As

1 such, in the Phase 1B report, CDM is recommending a single Performance/Design Alternatives  
2 Design/Build (DB) contract procurement for both Station 1 and Lawton Valley with continued  
3 operation of both facilities by the City of Newport. It is CDM's position that their  
4 recommendation is the most advantageous strategy for project delivery consistent with Newport  
5 Water's unique requirements.

6  
7 **Q. What are the next steps to be taken on these two projects?**

8 A. I have included as Exhibit A, a proposed schedule from CDM outlining the anticipated timing  
9 for the completion of these projects. The process with the recommended Design/Build (DB)  
10 procurement will begin with the issuance of a Request for Qualifications (RFQ) to initiate the  
11 competitive proposal process. This is scheduled to be done in February 2009. The qualification  
12 statements are scheduled to be reviewed between June and September 2009, at which time a  
13 short list of proposers will be identified to receive a Request for Proposals (RFP). The Request  
14 for Proposals and draft DB contract are scheduled to be issued to the short listed firms by  
15 December 2009. The proposals submitted will be evaluated and the preferred proposal selected  
16 in order to negotiate the final D/B Contract. Once an acceptable contract has been negotiated, it  
17 will be presented to the City Council for approval. This is scheduled to be completed by March  
18 2011.

19  
20 Beginning in Phase 2 of their work, CDM will provide a range of financial consulting services to  
21 assist in the selection of the most advantageous Design/Build proposer and financing for the  
22 project. These services will be provided from the development of the RFP through the final  
23 financing transactions. CDM's objective in Phase 3 is to provide the City with a detailed set of  
24 tasks to address all engineering and design issues related to Station 1 and Lawton Valley. Major  
25 components that are critical to the development of clear and complete engineering evaluations  
26 and technical requirements include establishing water demand and supply (safe yield) for water  
27 treatment plant design capacity; site assessment and site selection for the new Lawton Valley  
28 plant; pilot testing at both plants to establish the process to treat water from multi-reservoir  
29 sources; geotechnical evaluations; permit planning; and, definition of technical project  
30 development (quality/performance) requirements. CDM's objectives in Phase 4 are to provide

1 the City with a detailed set of tasks to assist with a single D/B procurement process for the  
2 Station 1 improvements and a new Lawton Valley plant. These tasks include the preparation of  
3 the RFQ and RFP documents; support to legal counsel in preparation of the DB contract;  
4 assistance in conducting the procurement process; and, negotiation of the final DB contract.  
5 Several of the tasks in Phases 2, 3, and 4 will proceed concurrently. After award of a DB  
6 contract, Phase 5 will be implemented for construction oversight of the project.

7  
8 **Q. Is Newport seeking funds in this case for the construction of these two projects?**

9 A. No, at this time we are not seeking any funds for construction. We are merely keeping the  
10 Commission apprised of the status of these projects as they will have an impact on future rates.  
11 As set forth in Mr. Smith's schedules, Newport anticipates an estimated \$11.45 million Rhode  
12 Island Drinking Water State Revolving Fund ("DWSRF") loan in FY11 ("2011 SRF A") to fund  
13 the design build contract for the Station 1 improvements. In FY 12, Newport anticipates a \$41.1  
14 million DWSRF loan (2012 SRF A) for the design and construction of the new Lawton Valley  
15 plant.

16  
17 **Debt Service**

18 **Q. In Docket 3818, Newport Water sought funds for debt service related to the Radio Read**  
19 **Program and repairs to the Easton Pond Dam. In addition, the Commission ordered**  
20 **Newport to fund consulting work related to the potential new treatment plant at Lawton**  
21 **Valley through debt. As of this date, has Newport taken steps to borrow this money?**

22 A. Yes. In 2008, Newport filed two applications for borrowing authority with the Division of  
23 Public Utilities and Carriers. The first application was filed on January 14, 2008 (Division  
24 Docket D-08-03), which included the borrowings for the radio read program and to hire an  
25 engineer/consultant to evaluate issues concerning a potential new water treatment plant at  
26 Lawton Valley and installation an additional pretreatment/clarification train at the Station 1 plant  
27 as described above. This application was granted on March 4, 2008.

28  
29 The second application was filed on April 9, 2008 (Division Docket D-08-15), and it requested  
30 funding for the Easton Pond Dam repairs. This application was granted on May 19, 2008. As set

1 forth in Section 3.7.1.1 of the Rhode Island Department of Health *Rules and Regulations*  
2 *Pertaining to the Drinking Water State Revolving Fund*, projects associated with dams or  
3 rehabilitation of dams are not eligible for subsidized funding as part of the DWSRF. As such,  
4 after the borrowing was approved by the Division, the City worked with the Rhode Island Clean  
5 Water Finance Agency (RICWFA) and its Financial Advisor to proceed with non subsidized  
6 borrowing.

7  
8 As set forth above, in August 2008 the Water Division received a rating of A+ from Standard &  
9 Poor's. Also in August 2008, Newport Water was advised by the RICWFA that because the  
10 Rhode Island Department of Environmental Management (RIDEM) is the regulatory agency  
11 responsible for Dam Safety, the Easton Pond Dam Project had to be included in the Clean Water  
12 Project Priority List, and would require a Non-DWSRF Certificate of Approval from RIDEM.  
13 As such, Newport Water submitted applications to RIDEM for the project priority list, and for  
14 the Non-DWSRF Certificate of Approval. The final design and construction for the Easton Pond  
15 dam project was approved and placed on the Clean Water Project Priority List. However,  
16 RIDEM will only issue a Certificate of Approval for the *design* at this time. RIDEM requires the  
17 submission of the final construction plans and specifications in order to issue a Certificate of  
18 Approval for construction. The Non-DWSRF Certificate of Approval for design only was issued  
19 October 30, 2008. The City and its Financial Advisors are reviewing how to proceed as the \$6.35  
20 million borrowing included final design *and* construction costs, but as explained above, the Non-  
21 DWSRF Certificate of Approval is for design only. The City submitted a request to RICWFA for  
22 short term financing in an amount not to exceed \$500,000 to complete the design and prepare the  
23 contract documents for construction bidding.

24  
25 **Q. What is the status of these projects?**

26 A. As set forth above, following the Division's approval in Docket D-08-03, Newport Water  
27 executed a contract in March 2008 with CDM to act as the City's Advisor for the Station 1 and  
28 Lawton Valley projects. Presently, CDM has completed Phase 1(A) and has completed its report  
29 on Phase 1(B).

1 In July 2008, the City executed a contract with Stiles Company, Inc. for installation of the radio  
2 read system. Newport Water and Stiles have completed the initial work of the interface between  
3 the new meter reading software and the billing software. The new meter reading hardware and  
4 software has been installed. The training for the new system and the field testing has been  
5 completed. The system implementation is schedule to begin in December 2008 starting with the  
6 commercial accounts.

7  
8 The preliminary design tasks for the Easton Pond Dam Project were completed in December  
9 2007. In July 2008, the City issued a Request for Proposals for engineering services to complete  
10 the final design of the dam improvements. Proposals were received in August 2008. While  
11 reviewing the proposals, the issues described above regarding the requirements for the Non-  
12 DWSRF borrowing were identified. The award recommendation for the engineering services is  
13 pending until the funding issues are resolved.

14  
15 **Q. Is Newport seeking an increase in funding for debt service in this Docket?**

16 A. Yes, we are seeking an increase of \$842,985.

17  
18 **Q. Please describe the projects that are the subject of the requested financing.**

19 A. In FY10 Newport Water will be seeking two DWSRF loans from RICWFA. The first loan, in  
20 the approximate amounts \$7.1 million (2010 SRF A), is for Phases 2 through 5 of the CDM  
21 contract (see my testimony above), and additional professional services, associated with the  
22 implementation and procurement of capital improvements at Station 1 and Lawton Valley. The  
23 second loan for \$3.6 million ( 2010 SRF B) is for Distribution Main Improvements to fund  
24 construction of the water main improvement project pursuant to the design work currently  
25 underway as part of the Series 2008 SRF A loan. It will also include engineering design costs  
26 for the next water main improvement project that is scheduled to start in FY12.

1 **Rate Funded Projects**

2 **Q. Are there projects that Newport Water plans to fund directly from rates?**

3 A. Yes. Schedule RFC 4 shows that \$1,652,019 will be funded through rates in the Rate Year  
4 and lists each individual project.

5  
6 **V. NORMALIZED TEST YEAR.**

7 **Q. Has Newport Water presented a Normalized test year in this filing?**

8 A. Yes we have.

9  
10 **Q. Would you please identify and explain how Newport arrived at its normalized test year?**

11 A. Yes, I would be happy to do so. A review of RFC Schedules 2 and 3 shows that a number of  
12 normalization adjustments were made to the test year. Many of these adjustments were necessary  
13 due Newport's efforts to reduce its outstanding payables. In addition, there are some differences  
14 between the expenses allowed in Docket 3818 and actual test year costs, which are carried over  
15 into the normalized test year.

16  
17 Herein below, I have identified and provided an explanation to the normalization adjustments,  
18 and carry over expenses that are incorporated into the normalized test year. I have limited my  
19 explanations to those that exceed \$5,000 or 10% of the test year, whichever is less. In my  
20 testimony I will refer to the Newport Water Budget line item, and will be referencing RFC  
21 Schedules 2 and 3 attached to Harold Smith's testimony. RFC Schedules 2 and 3 set forth the  
22 test year, and the normalization adjustment requirements for each of Newport Water's budget  
23 accounts and individual budget line items. I will address each of the adjustments in order as they  
24 appear on RFC Schedules 2 and 3.

25  
26 **Administration**

27 **Q. Could you please explain the \$22,016 increase in Salaries & Wages that is carried over  
28 into the normalized test year?**

29 A. The City's recent reclassification of the Director of Public Works to Director of Utilities  
30 reduced the Director's base salary and changed the allocation of the Director's pay to 60% to the  
31 Water Division from 40% in January. Similarly, the City hired a new Clean City Coordinator in

1 the Public Works Department which resulted in the salary allocation of the Administrative  
2 Secretary being changed from 70% to the Water Division to 60%. The Administrative Secretary  
3 is a member of NEA and the rate filing for Docket 3818 was based on the expectation that a new  
4 contract would be approved for FY 08. This did not happen in FY 08 and the Administrative  
5 Secretary's salary was not changed in FY 08. A settlement on this contract is anticipated in FY  
6 09.

7  
8 **Q. Could you please explain the \$34,103 increase in Accrued Benefits Buyout costs that are**  
9 **carried over into the normalized test year?**

10 A. Accrued Benefits Buyout had been budgeted for 2 employees retiring at an average cost of  
11 \$35,000 per employee. In FY 08, three employees retired at a total buyout cost of \$104,103.

12  
13 **Q. Could you please explain the \$24,929 increase in Retiree Health Care costs that are**  
14 **carried over into the normalized test year?**

15 A. The Retiree Health Care increased due to the addition of the premiums for the 2 employees  
16 who retired in FY 08, one in July and one in February.

17  
18 **Q. Could you please explain the \$11,455 increase in Workers' Compensation Insurance**  
19 **costs that are carried over into the normalized test year?**

20 A. The amount used in Docket 3818 was based on the initial August 2007 premium from the RI  
21 Interlocal Risk Management Trust. There were additional premiums in March of FY 08 for  
22 claims filed.

23  
24 **Q. Could you please explain the \$2,169 normalizing adjustment to Conferences and**  
25 **Training?**

26 A. The spending in conferences and training was cut back in FY 08 to reduce our outstanding  
27 payables and does not reflect a normal year of expenses.

1 **Q. Could you please explain the \$1,460 normalizing adjustment to Tuition**  
2 **Reimbursement?**

3 A. Only one employee took advantage of this benefit in FY 08 but it must be included to allow  
4 for others to take advantage of the contractual benefit.

5  
6 **Q. Could you please explain the \$52,946 normalizing adjustment for Consultant Fees?**

7 A. The consultant fees associated with the rate filing for Docket 3818 were approximately  
8 \$262,000 spread over FY 07 and FY 08 for an average annual spending of \$131,000 in rate filing  
9 assistance from consultants. In addition, there was spending on consultant fees in FY 08 of  
10 approximately \$37,000 for bond filings and other services. The normalized rate year is the  
11 amount spent on these additional consultant fees for FY 08 plus the average annual cost of the  
12 previous rate filing.

13  
14 **Q. Could you please explain the \$5,811 decrease in Telephone and Communication costs**  
15 **that are carried over into the normalized test year?**

16 A. \$4,500 of the decrease was due to the charge for the Verizon landline telephones being paid  
17 by the City of Newport and included in the City's Data Processing Allocation instead of being  
18 paid directly by the Water Division as budgeted. This is a change in City policy which took  
19 effect as of July 2007. The remainder of the decrease was due to lower charges than expected on  
20 cell phones.

21  
22 **Q. Could you please explain the \$5,400 increase in Regulatory Assessment costs that are**  
23 **carried over into the normalized test year?**

24 A. The RIWWA Assessment was budgeted at \$630 but the actual spent was \$1,260. The  
25 Division of Public Utilities and Carriers' assessment was budgeted at \$22,980 but the actual was  
26 \$29,138. The RIDOH license was budgeted at \$16,151 and the actual was \$16,302. The RIPDES  
27 permit was budgeted at \$1,400 but the actual was \$700. The balance of the estimate was \$839 for  
28 rounding and there were no other charges assessed to this account.



1 **Q. Could you please explain the \$15,881 normalizing adjustment for Office Supplies?**

2 A. The purchasing of office supplies was curtailed in an effort to reduce our outstanding  
3 payables. As such, the test year does not reflect a typical year of expenses.

4  
5 **Q. Could you please explain the \$10,000 normalization adjustment in Self Insurance?**

6 A. The Self Insurance expense is for claims that are not covered by Newport Water's policy with  
7 the Rhode Island Interlocal Risk Management Trust and include (1) deductible billing from the  
8 trust and (2) liability claims requiring City Solicitor and/or City Council approval. No self  
9 insurance was needed in FY 08. However, this account needs to be funded in the event we have a  
10 claim.

11  
12 **Q. Could you please explain the \$12,000 normalization adjustment in Unemployment  
13 Claims?**

14 A. No employees were laid off in FY 08. However, this account requires funding in the event of  
15 a claim.

16  
17 **Customer Service**

18 **Q. Could you please explain the \$46,741 normalization adjustment to Salaries and Wages?**

19 A. One employee retired in July and was not replaced during the year. This resulted in a  
20 difference of \$45,845. This position will be replaced. Another employee received injury pay of  
21 \$602 which reduced his base salary but was included in injury pay. Also, as a result of an  
22 AFSCME contractual job reclassification study performed by an independent firm, there were  
23 changes made to wages which netted to an additional increase of \$294.

24  
25 **Q. Could you please explain the \$17,792 normalization adjustment to Temporary Salaries?**

26 A. There were two temporary positions budgeted in Docket 3818. Only one temporary employee  
27 was hired late in the year and was employed for five weeks in FY 08. This was done to conserve  
28 cash in order to reduce outstanding payables. As such, this was not reflective of typical year of  
29 expenses.

1 **Q. Could you please explain the \$50,322 normalization adjustment to Employee Benefits?**

2 A. As noted above under Salaries and Wages, one employee retired in July and was not replaced  
3 during the test year, but will be replaced in the rate year. Also, two employees were budgeted for  
4 family medical and dental insurance but only availed themselves of individual plans.

5  
6 **Q. Could you please explain the \$6,279 normalization adjustment to Contract Services?**

7 A. The City of Newport MIS Department paid \$3,500 budgeted for the OPAL maintenance  
8 Contract as part of the Data Processing Charge. This should properly have been paid by the  
9 Newport Water Division. In addition, \$2,825 that was budgeted for security changes and other  
10 enhancements was delayed until FY 09 in order to reduce payables.

11  
12 **Q. Could you please explain the \$10,772 increase in spending for Gasoline & Vehicle  
13 Maintenance that is carried over into the Normalized Test Year?**

14 A. The Docket 3818 expense of \$ 14,482 was based upon FY 06 actual charges for three  
15 vehicles plus an inflation adjustment of 17.28%. The actual amount charged by the City to  
16 Customer Service was \$25,254 based upon 2,355 gallons of gasoline at an average cost of  
17 \$2.479/gal; insurance charges of \$820 per vehicle and a per vehicle allocated portion of the  
18 City's cost of maintaining the City's fleet of vehicles of \$16,958.

19  
20 **Source of Supply – Island**

21 **Q. Could you please explain the \$27,386 normalization adjustment in Salaries & Wages?**

22 A. An employee was absent due to disability for approximately three months, which reduced the  
23 Salaries & Wages by \$10,458. The Supervisor of Water Distribution/Collection is a member of  
24 NEA and the rate filing for Docket 3818 was based on the expectation that a new contract for  
25 NEA employees would be approved for FY 08. This did not happen in FY 08 and the  
26 Supervisor's salary was not changed in FY 08. This accounted for a \$15,206 reduction. A  
27 settlement on the NEA contract is anticipated in FY 09. Injury pay of \$681 was paid in FY 08  
28 and budgeted in Salaries and Wages for the rate year. Also, as a result of an AFSCME  
29 contractual job pay reclassification study performed by an independent firm, there were other  
30 changes made to pays which netted to an additional increase of \$1,041.

1 **Q. Could you please explain the normalization adjustment of \$22,080 to Employee**  
2 **Benefits?**

3 A. There are two things that caused this adjustment. First, coverage changes to increase the  
4 equivalent of one employee who did not have medical and dental coverage in FY 08 to family  
5 coverage are more representative of normal conditions. In addition, there is an increase in  
6 Pension and FICA benefits due to the changes in Salaries and Wages mentioned above.

7  
8 **Q. Could you please explain the \$13,024 increase in Gas/Vehicle Maintenance Account that**  
9 **is carried over into the normalized test year?**

10 A. The Docket 3818 expense of \$ 30,422 was based on FY 06 actual charges for five vehicles  
11 plus an inflation adjustment of 17.28%. The actual amount charged by the City to Source of  
12 Supply Island was \$43,446 based on 1,798 gallons of gasoline at an average cost of \$2.492/gal;  
13 556 gallons of diesel fuel at an average cost of \$3.2322 per gallon; insurance charges of \$820 per  
14 vehicle and a per vehicle allocated portion of the City's cost of maintaining the City's fleet of  
15 vehicles of \$31,704.

16  
17 **Q. Could you please explain the \$10,915 normalizing Adjustment to Reservoir**  
18 **Maintenance?**

19 A. In accordance with new Dam Safety Regulations, mandatory dam inspections originally  
20 budgeted at \$7,000 were not required to be spent in FY 08. The initial dam inspections were  
21 performed by RIDEM as part of the promulgation of the new regulations. Depending on the  
22 hazard classification of the dam, re-inspections are required every two years. Dam inspections  
23 will be performed by the City starting in FY 10. Raw material purchases for dam repairs were  
24 limited, as well as tree removals budgeted at \$3,000 were not performed.

25  
26 **Source of Supply – Mainland**

27 **Q. Could you please explain the \$4,242 normalizing adjustment to Overtime?**

28 A. Overtime was limited to 250 hours at the Sakonnet Pump station (which is required to be  
29 manned 24 hours per day, seven days a week when operating) because additional temporary

1 employees were utilized for the work. Thus, the test year expense does not reflect a typical year  
2 of expenditures.

3  
4 **Q. Could you please explain the \$5,754 normalizing adjustment in Repairs and**  
5 **Maintenance?**

6 A. A portion of the costs in the test year were for emergency repairs to the controls and piping at  
7 the Sakonnet Raw Water Pump Station. Some of these repairs were extraordinary in nature and  
8 Newport Water does not foresee emergency repairs remaining at this level.

9  
10 **Treatment – Newport Plant**

11 **Q. Could you please explain the \$43,230 normalization adjustment for Salaries and Wages?**

12 A. Part of the reduced spending in the test year was due to the fact that the Water  
13 Quality/Production Supervisor retired in February and was replaced by the Foreman Position on  
14 an interim basis until May when the replacement was made permanent. In addition, there were  
15 three operator positions that were open for portions of the year; new employees who filled these  
16 positions were hired at lower pay rates than the employees that they replaced. Other changes due  
17 to the AFSCME job classification study previously mentioned amounted to an additional cost of  
18 \$1,590.

19  
20 **Q. Could you please explain the \$14,441 decrease normalization adjustment to Overtime?**

21 A. Overtime at the treatment plants is required due to the operational nature of the facility,  
22 requiring the plant to be manned 24 hours per day, seven days a week. Overtime is required to  
23 cover vacation and sick time in addition to any vacancies which may exist. Vacancies in the  
24 permanent positions required unusual levels of overtime during FY 08.

25  
26 **Q. Could you please explain the \$33,484 normalization adjustment to Employee Benefits?**

27 A. In FY 08, one employee did not elect to utilize the medical coverage, two more only had  
28 individual coverage and new hires were not eligible for medical and dental insurance during their  
29 six month probationary period. The adjustment is made to reflect a more normal distribution as  
30 two employees with individual coverage and the balance with family coverage.

1 **Q. Could you please explain the \$6,267 increase in Gasoline/Vehicle Maintenance spending**  
2 **that is carried over into the normalized test year?**

3 A. The expense of \$882 allowed in Docket 3818 was based on FY 06 actual charges for one  
4 vehicle plus an inflation adjustment of 17.28%. The actual amount charged by the City to  
5 Treatment Plant - Newport was \$7,549 based upon 274 gallons of gasoline at an average cost of  
6 \$2.468/gal; insurance charges of \$820 per vehicle and a per vehicle allocated portion of the  
7 City's cost of maintaining the City's fleet of vehicles of \$5,653.

8  
9 **Q. Could you please explain the \$9,148 normalization adjustment in the Repairs and**  
10 **Maintenance account?**

11 A. The Water Division deferred maintenance at the plant including repairs to air handling  
12 equipment, heat and hot water heater maintenance, and replacement of analyzers. Thus, the test  
13 year expenses do not reflect a typical year of expenditures.

14  
15 **Q. Could you please explain the \$31,713 increase in the Sewer account spending that is**  
16 **carried over into the normalized test year?**

17 A. There are two reasons why spending was greater. The first is due to the sewer rates increases.  
18 The rate was \$5.17 per thousand gallons in FY 07 and the budget was developed based upon an  
19 estimated rate of \$5.40 per thousand gallons. The actual rate was established at \$6.00 per  
20 thousand gallons.

21  
22 The second is due to the increased discharge of wastes at the plant from 25,300,000 gallons to  
23 28,260,000 gallons. This increased discharge is due to increased production at Station 1 as the  
24 Water Division minimizes production at the Lawton Valley Plant, in accordance with the consent  
25 agreement signed with RIDEM. The consent agreement requires the Water Division to minimize  
26 plant residuals discharges to the Lawton Brook, which requires the increased production at  
27 Station 1.

1 **Treatment Plant – Lawton Valley**

2 **Q. Could you please explain the \$12,307 increase in the Overtime account that is carried**  
3 **over into the rate year?**

4 A. Overtime at the treatment plants is required due to the operational nature of the facility,  
5 requiring the plant to be manned 24 hours per day, seven days a week. Overtime is required to  
6 cover vacation and sick time in addition to any vacancies which may exist. The facility requires  
7 1,200 hours per year of overtime to fully staff the plant and cover expected absences. This was  
8 underestimated at 923 hours in Docket 3818.

9  
10 **Q. Could you please explain the \$6,459 spending increase for Gasoline/Vehicle**  
11 **Maintenance that is carried over into the normalized test year?**

12 A. The Docket 3818 expense of \$ 948 was based on FY 06 actual charges for one vehicle plus  
13 an inflation adjustment of 17.28%. The actual charged by the City to Treatment Plant – Lawton  
14 Valley was \$7,549 based upon 196 gallons of gasoline at an average cost of \$2.5684/gal;  
15 insurance charges of \$820 per vehicle and a per vehicle allocated portion of the City’s cost of  
16 maintaining the City’s fleet of vehicles of \$6,083.

17  
18 **Q. Could you please explain the \$36,423 normalization adjustment to Repairs and**  
19 **Maintenance?**

20 A. The Water Division has deferred maintenance at the plant, including maintenance to heat and  
21 hot water heater systems, valve updates, spare parts, and supplies, in an effort to reduce  
22 outstanding payables. There were also several major capitol projects performed at the plant,  
23 including the Residuals Management project, repairs to Sedimentation Basin #1, the Sodium  
24 Hydroxide feed system project, and the Lawton Valley reservoir aeration project, which delayed  
25 some of the maintenance work. Upgrades to the plant fire alarm and sprinkler system will be  
26 performed in FY 09.

27  
28 **Q. Could you please explain the \$83,139 normalization adjustment to Sewer Charge?**

29 A. Startup of the Residuals Management system was accomplished on January 30, 2008, later  
30 than originally anticipated from the previous rate filing. The previous rate filing had assumed

1 startup in July 2007. The expended amount only takes into account five months operation of the  
2 system in lieu of the 12 months budgeted.

3  
4 **Q. Could you please explain the \$6,564 normalization adjustment to Operating Supplies?**

5 A. The anticipated service contract for the SCADA system budgeted at \$11,440 was not  
6 required during FY 08 as this was covered under the warranty period of the Residuals  
7 Management system and the Caustic Conversion project. The warranty period expires in  
8 December 2008 and will require partial year funding in FY 09 and full year funding starting in  
9 FY 10.

10  
11 **Water Laboratory**

12 **Q. Can you explain the \$7,714 decrease in the Regulatory Assessment account spending  
13 that is carried over into the rate year?**

14 A. As part of the Long Term 2 Enhanced Surface Water Treatment Rule, the analysis for  
15 cryptosporidium was budgeted for twelve months in the previous rate filing. This analysis was  
16 scheduled to run for two years starting in April 2006 and was completed in March 2008,  
17 resulting in three months savings of approximately \$3,000. RIDOH lab fees were also \$3,000  
18 less than originally estimated.

19  
20 **Transmission and Distribution**

21 **Q. Could you please explain the \$61,401 normalization adjustment to Salaries and Wages?**

22 A. The Heavy Equipment Operator retired in July 2007 and his position was filled by promotion  
23 of a Skilled Laborer Equipment Operator. The Skilled Laborer Equipment Operator Position was  
24 replaced by a new hire. During this period of transition, \$16,007 was not spent in this account.  
25 The Senior Maintenance Mechanic retired in July 2006 and has not been replaced at this time  
26 due to an issue finding a replacement with the required Grade 3 Operator Certification. A  
27 Maintenance mechanic is currently in the position on an interim basis. During this period of  
28 transition, \$37,053 was not spent in this account. The Supervisor of Water  
29 Distribution/Collection is a member of NEA and the rate filing for Docket 3818 was based upon  
30 the expectation that a new contract for NEA employees would be approved for FY 08. This did

1 not happen in FY 08 and the Supervisor's salary was not changed in FY 08. This accounted for a  
2 savings of \$3,114. The City Council's approval of the proposed NEA contract is anticipated in  
3 FY 09. As a result of the AFSCME contractual City-wide pay reclassification study of union  
4 employees previously mentioned, other pays increased by a net of \$5,227.

5  
6 **Q. Could you please explain the \$21,473 normalization adjustment to Overtime?**

7 A. Unscheduled overtime is dependent on many variables including water main breaks, freeze  
8 ups during unusually cold weather, emergency dig safes, etc. The mild winter of 2007-2008  
9 resulted in a reduction from normal overtime requirements.

10  
11 **Q. Could you please explain the \$10,000 normalization adjustment to Temporary Wages?**

12 A. Temporary seasonal help was not used during FY 08 in an effort to reduce our outstanding  
13 payables. As such, the test year expenses were not typical of a normal year of expenditures.

14  
15 **Q. Could you please explain the normalization adjustment of \$33,270 to Employee  
16 Benefits?**

17 A. All employees were budgeted for family coverage. Two employees elected individual  
18 coverage and spending was decreased due to the open positions mentioned in Salaries and  
19 Wages. The normalization adjustment reflects full manning for the year.

20  
21 **Q. Could you please explain the \$8,225 normalization adjustment to Heavy Equipment  
22 Rental?**

23 A. The rental of heavy equipment occurs when additional equipment is needed by the Water  
24 Division during times such as large water main breaks which cannot be supported by the  
25 department's equipment, or in circumstances where the department does not have a specialized  
26 piece of equipment. The rental of this equipment was not required during FY 08 but is being  
27 normalized to reflect the necessity of funding for the expenditure.



1 **Q. Could you please explain the \$3,681 normalization adjustment to Conferences and**  
2 **Training?**

3 A. The spending for conferences and training was held to the minimum necessary to maintain  
4 certifications in FY 08 in order to reduce payables. As such, the test year did not reflect a normal  
5 year of expenses.  
6

7 **Q. Could you please explain the \$23,008 increase in Gas/Vehicle Maintenance that is**  
8 **carried over into the normalized test year?**

9 A. The \$67,556 expense set in Docket 3818 was based on FY 06 actual charges for ten vehicles  
10 plus an inflation adjustment of 17.28%. The actual amount charged by the City to Distribution  
11 was \$90,564 based upon 7,727 gallons of gasoline at an average cost of \$2.500/gal; 194 gallons  
12 of diesel fuel at an average cost of \$2.9239 per gallon; insurance charges of \$820 per vehicle and  
13 a per vehicle allocated portion of the City's cost of maintaining the City's fleet of vehicles of  
14 \$57,425.  
15

16 **Q. Could you please explain the \$27,441 normalizing adjustment for Repairs &**  
17 **Maintenance?**

18 A. Repairs and Maintenance for Transmission & Distribution includes the garage portion of the  
19 building at 70 Halsey Street and the Forest Avenue pump station. Maintenance has been  
20 deferred at these two facilities. By way of example, roof replacement, air conditioning, and  
21 overhead doors were deferred during FY 08. Therefore, the expenses in the test year were not  
22 reflective of a typical year of normal expenses.  
23

24 **Q. Could you please explain the \$20,761 normalization adjustment for Main Maintenance?**

25 A. In an effort to reduce our outstanding payables, the replacement of materials inventory,  
26 including ductile iron pipe, fittings, tapping sleeves, etc. were kept at a minimum during the test  
27 year. As a result, the test year did not reflect a typical year of expenses.  
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**Q. Could you please explain the \$16,010 normalization adjustment for Service Maintenance?**

A. In an effort to reduce our outstanding payables, the replacement of materials inventory, including copper pipe, service boxes, fittings, etc. was kept at a minimum during this year. Replacement of service barricades, safety cones and tools was also deferred. As such, the test year did not reflect a typical year of expenses.

**VI. RATE YEAR ADJUSTMENTS**

**Multiple Accounts**

**Q. Are there rate year adjustments to the budget line items that occur in more than one account?**

A. Yes there are, and as these make up the majority of the requested Operations and Maintenance increases, I will address these adjustments first.

**Q. Why are Salaries & Wages increasing?**

A. The Salary and Wage increases in each of the affected accounts are primarily caused by COLA increases and step increases provided for in the two applicable union contracts. The AFSCME contract was effective starting July 1, 2006 and continues until June 30, 2009. This contract covers 39 employees and provides for annual COLA's of 3.0% and we have used 3.0% as a projection in FY 10. As a part of the contract, a job pay classification review of all AFSCME positions in the City was conducted and salaries have been adjusted to comply with this review.

The NEA has been working without a contract since July 1, 2004, but a tentative agreement has been reached, and it is anticipated that the City Council will approve this contract in FY09. It calls for a 3.85% COLA for FY 2005 through 2009 and a 3.00% COLA for FY 10. There are currently 4 positions in the Newport Water Division in the NEA. The COLA's for 2005-2008 are not a budgeted item and will have to be paid from our operating account, which may cause some cash flow issues.

1       **Administration** - the increase from \$236,016 to \$265,000 is attributable to three factors;  
2       (1) As a result of the City's recent reclassification of the Director of Public Works to  
3       Director of Utilities, the allocation of the Director's pay increased from 40% to the Water  
4       Division in Docket 3818 to 60% to the Water Division for FY 10 (2) Two COLA  
5       increases (FY09 and FY10) totaling 6% (3) Step increases to employees.

6  
7       **Customer Service** - the increase from \$300,500 to \$326,100 is primarily due to COLA  
8       increases of 3% per year in FY 09 and FY 10 for AFSCME employees. In addition, there  
9       were classification adjustments for AFSCME employees and step adjustments for some  
10      employees. Salaries and Wages also include longevity pay.

11  
12      **Source of Supply Island** - the increase from \$243,756 to \$264,000 is primarily due to  
13      COLA increases. For AFSCME employees the increases are 3% per year in FY 09 and  
14      FY 10. For the NEA employee, the COLA is 3.85% in 2009 and 3% in FY 10. In  
15      addition, there were classification adjustments for AFSCME employees and step  
16      adjustments for some employees.

17  
18      **Treatment - Newport (Station One)** - the increase from \$424,555 to \$441,500 is  
19      attributable to COLA increases of 3% per year in FY 09 and FY 10 for AFSCME  
20      employees. There were also classification adjustments for AFSCME employees and step  
21      adjustments for some employees. In addition, there is a proposal, which has not yet been  
22      approved, to convert a Water Plant Operator position to an Assistant WQP Supervisor  
23      position which would be allocated 50% to Station One and 50% to Lawton Valley. The  
24      Operator Forman position would be reduced to Operator 3. There would be no net change  
25      in total headcount for the Newport Water Division.

26  
27      **Treatment - Lawton Valley** – the reasons for the increase from \$405,500 to \$500,100  
28      are identical to those in the Station 1 account.

1           **Laboratory** - the increase from \$102,596 to \$127,700 reflects COLAs of 3.85% through  
2           FY 09 and a COLA of 3.00% in FY 10.

3  
4           **Transmission & Distribution** - the increase from \$392,000 to \$463,300 is based on  
5           COLA increases of 3% per year in FY 09 and FY 10 for AFSCME employees. For the  
6           NEA employee, the COLA increase is 3.85% in FY 09 and 3% in FY 10. In addition,  
7           there were classification adjustments for AFSCME employees and step adjustments for  
8           some employees.

9  
10   **Q. Can you explain the reason for the increase in Overtime?**

11   A. Yes, in all the accounts where there is an increase in overtime pay, there is an underlying  
12   increase in base salaries due to COLA increases and step increases as identified above. The  
13   reason for actual overtime hours varies in each account:

14           **Customer Service** – we are proposing an increase from the \$8,000 in the normalized test  
15           year to \$24,600. It is anticipated that 500 hours of overtime work will be required to  
16           support working Saturdays for the Radio Read project.

17  
18           **Source of Supply Island** – we are proposing an increase from the \$28,055 in the  
19           normalized test year to \$28,200. Overtime is used to staff the Paradise Raw Water Pump  
20           Station on weekends and to cover storm events and emergency repairs to the island  
21           reservoirs. Newport is requesting approximately 870 hours of overtime for this account.

22  
23           **Treatment Plant - Newport (Station 1)** – we are proposing an increase from the  
24           \$51,500 in the normalized test year to \$58,100. Due to the operational nature of the  
25           facility, the plant must be manned 24 hours per day, seven days a week. Overtime is  
26           required to cover vacation and sick time in addition to any vacancies that may exist.  
27           Newport is requesting 1,900 hours of overtime for this account.

28  
29           **Treatment Plant - Lawton Valley** – we are proposing an increase from the \$42,307 in  
30           the normalized test year to \$42,400. Due to the operational nature of the facility, the

1 plant must be manned 24 hours per day, seven days a week. Overtime is required to  
2 cover vacation and sick time in addition to any vacancies which may exist. NWD is  
3 requesting 1,200 hours of overtime for this account.  
4

5 **Q. Why has Holiday Pay increased?**

6 A. The increase in this expense at Treatment Plant - Newport (Station 1) and Treatment Plant -  
7 Lawton Valley reflects an increase in base pay for the operators as noted above.  
8

9 **Q. Why did Temporary Salaries increase?**

10 A. In Customer Service, the increase reflects a pay increase from \$12.00 per hour to \$15.00 per  
11 hour to attract a more qualified level of temporary employee.  
12

13 For Source of Supply Mainland, the increase reflects a pay increase from \$10.00 per hour to  
14 \$12.00 per hour. Temporary salaries are required to operate the Sakonnet Raw Water Pump  
15 Station. When operating, this pump station must be manned 24 hours per day, 7 days a week.  
16 This typically occurs for six to ten weeks every year in the late summer to early fall.  
17

18 **Q. Why is the spending for Employee Benefits increasing?**

19 A. The increase is caused by a number of factors:

- 20 1. FICA, which is 7.65% of pay, increased due to the increase in salaries, holiday pay,  
21 overtime and standby pay.
- 22 2. The City's contribution to the State of Rhode Island Pension Fund (MERS), which is  
23 calculated as a percentage of base pay, increased due to the increase in salaries and also  
24 due to the State of Rhode Island increasing the required employer's MERS contribution.  
25 The percentage used in Docket 3818 was 11.99%. The actual required percentage in FY  
26 09 is 14.58%. An assumed percentage of 15% is used in this filing for calculating the  
27 required MERS contribution in the rate year.
- 28 3. Medical insurance rates are expected to increase by 26%. This is based on a 16%  
29 premium increase from FY 08 to FY 09 and an estimated further 10% increase in FY 10.
- 30 4. Dental insurance remained the same and life insurance costs decreased slightly.

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**Q. Why is the Annual Leave Buyback expense increasing?**

A. The increase is due to the corresponding increases in salaries for the same period.

**Q. What is the reason for the increase in the Fire & Liability Insurance?**

A. The increase is based on rate information received from the RI Interlocal Risk Management Trust.

**Q. Can you explain the increase in the cost of Electricity?**

a. Yes. This expense has increased in several accounts for an overall increase of \$169,637. Newport’s cost for supply is obtained through a contract the City of Newport has with the REAP program of the RI League of Cities & Towns that expires in February 2009. The current base cost is expected to increase at that time from \$0.0596 per kwh to \$0.094 per kwh based on information received from the RI League of Cities & Towns. No change is projected for fixed charges or delivery cost per kwh.

**Administration** - The increase from \$6,115 to \$8,000, is attributable to the costs at 70 Halsey St. Docket 3818 and was based on an estimated usage of 57,000 kwh at a delivered cost of \$0.10 per kwh. FY 10 usage of 48,000 kwh is based on FY 08 actual usage. The FY 10 cost is broken down into fixed charges of \$150 per year; delivery costs of \$0.057 per kwh and Cost of Supply which is projected to be \$0.094 per kwh for electricity plus a gross receipts tax. Current cost of supply is \$0.0596 per kwh plus a gross receipts tax.

**Source of Supply Island** - The increases from \$25,233 to \$34,000 is for electricity at the Paradise and St. Mary’s pumping stations. The normalized test year expenses were based on a usage of 272,000 kwh at a delivered cost of \$0.10 per kwh. FY 10 usage of 238,000 kwh is based on FY 08 actual usage of 237,540 KWH. The FY 10 cost is broken down into fixed charges of \$1,313 per year, delivery costs of \$0.039 per kwh, and Cost of

1 Supply which is projected to be \$0.094 per kwh for electricity plus a gross receipts tax.  
2 Current cost of supply is \$0.0596 per kwh plus a gross receipts tax.

3  
4 **Source of Supply Mainland** - The increase from \$68,896 to \$92,100 is for electricity  
5 costs at the Sakonnet pumping station. The Docket 3818 costs were based on an  
6 estimated usage of 648,000 kwh at a delivered cost of \$0.10 per kwh. FY 10 usage of  
7 647,000 kwh is based on FY 08 actual usage of 646,829 KWH. The FY 10 cost is broken  
8 down into fixed charges of \$2,917 per year; delivery costs of \$0.04 per kwh and Cost of  
9 Supply which is projected to be \$0.094 per kwh for electricity plus a gross receipts tax.  
10 Current cost of supply is \$0.0596 per kwh plus a gross receipts tax.

11  
12 **Treatment Newport Plant (Station 1)** – This expense, which increase from \$173,534 to  
13 \$238,900 in FY 10, is for the Bliss Mine Road Treatment Plant. The costs in Docket 3818  
14 were based on an estimated usage of 1,877,500 kwh at a delivered cost of \$0.095 per  
15 kwh. FY 10 usage of 1,870,000 kwh is based on FY 08 actual usage of 1,869,440 KWH.  
16 The FY 10 cost is broken down into fixed charges of \$2,837 per year; delivery costs of  
17 \$0.032 per kwh and Cost of Supply which is projected to be \$0.12 per kwh for electricity  
18 plus a gross receipts tax. Current cost of supply is \$0.0596 per kwh plus a gross receipts  
19 tax.

20  
21 **Treatment Lawton Valley** - This increase from \$113,996 to \$179,800 in FY 10 is for  
22 the Lawton Valley Treatment Plant and pumping station. The cost in Docket 3818 was  
23 based on an estimated usage of 1,180,000 kwh at a delivered cost of \$0.104 per kwh. FY  
24 10 usage of 1,317,000 kwh is based on FY 08 actual usage of 1,131,000 KWH, plus an  
25 additional 185,000 kwh for the residual management pump station. The FY 10 cost is  
26 broken down into fixed charges of \$4,078 per year; delivery costs of \$0.035 per kwh and  
27 Cost of Supply, which is projected to be \$0.094 per kwh for electricity plus a gross  
28 receipts tax. Current cost of supply is \$0.0596 per kwh plus a gross receipts tax.

1           **Transmission & Distribution Maintenance** - This increase from \$14,919 to \$19,500 in  
2           FY 10, is for electricity at the Forest Avenue pump station, and the Goulart Lane, and  
3           Reservoir Road tanks. The costs in Docket 3818 were based on an estimated usage of  
4           216,000 kwh at a delivered cost of \$0.10 per kwh. FY 10 usage of 131,000 kwh is based  
5           on FY 08 actual usage of 130,192 KWH. The FY 10 cost is broken down into fixed  
6           charges of \$1,620 per year; delivery costs of \$0.038 per kwh and Cost of Supply which is  
7           projected to be \$0.094 per kwh for electricity plus a gross receipts tax. Current cost of  
8           supply is \$0.0596 per kwh plus a gross receipts tax. This price is obtained through the  
9           contract which the City has with the REAP program of the RI League of Cities & Towns  
10          which expires in February 2009.

11  
12          **Q. Please explain the increase to the Water/Sewer Charge.**

13          A. The increase from \$169,535 to \$184,000 at the Newport Plant (Station 1) is based on two  
14          factors. The first is that sewer rates in Docket 3818 were estimated to be \$.0054/gal in FY2008.  
15          The actual sewer rate adopted in FY2008 was \$0.006/gal which increased to \$0.00618 for  
16          FY2009. An estimated proposed rate of \$.0065/gal is being used for FY 10. The second factor is  
17          that the discharge of wastes at Station 1 has increased from the projected 25,300,000 gallons  
18          used in Docket 3818 to the actual 28,260,000 gallons in FY2008. The increase is due to  
19          increased production at Station 1 as the Water Division minimizes production at the Lawton  
20          Valley Plant in accordance with a consent agreement signed with RIDEM. The consent  
21          agreement requires the Water Division to minimize plant residuals discharges to the Lawton  
22          Brook, which requires increased production at Station 1.

23  
24          The increase from \$136,986 to \$242,000 at Lawton Valley is for similar reasons. First, the sewer  
25          rates will increase as set forth above. Second, the discharge of wastes at the plant increases from  
26          the 22,800,000 gallons anticipated in Docket 3818 to 37,230,000 gallons proposed for FY2010.  
27          This proposed increased discharge is due to maximizing waste flows from the plant to the  
28          Residuals Management system in accordance with the consent agreement signed with RIDEM.  
29          Additional flows consist of diverting approximately 25% of the filter backwashes to the residuals  
30          management system in lieu of discharging directly to the Lawton Brook.



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**Q. What is the reason for the increase in the Gasoline & Vehicle Maintenance Allowance?**

A. For FY 10 the Gasoline & Vehicle Allowance is broken down into three components:

1. Fuel - the fuel cost for FY2010 is developed from the actual fuel usage in FY 08 priced at the highest cost per gallon in FY 08, increased by 3% to account for possible fuel cost increases.
2. Insurance - the insurance portion is based on information received from the Rhode Island Interlocal Trust.
3. Parts & Labor - the parts and labor portion is allocated monthly from the City of Newport Equipment Operations Division on a per vehicle basis. To arrive at the FY 10 parts and labor cost, the actual cost allocated to Administration for FY 08 was increased by 9.5% in FY 09 and 3% in FY 10 to reflect increases in the Equipment Operations Division's budget in those years removing the fuel and insurance costs.

**Q. Can you explain the increase in Repairs & Maintenance – Equipment?**

A. Yes. The reasons for the increases differ in each account:

**Customer Service** – The proposed increase to \$41,500 is related to repairs and maintenance to the water meters. Newly included in this account are costs for the repair and/or replacement of meter pits. Damaged meter pits located in roads and sidewalks of the City are a liability to the City and are repaired by Water Department personnel as discovered. A small reduction was noted in the overall cost of the meters.

**Source of Supply Island** – Newport Water is proposing an increase to \$8,300. This account includes the repairs and maintenance of the Paradise Avenue raw water pump station as well as repairs and maintenance to the equipment associated with maintenance of all the reservoir properties. Additional proposed expenditures include the Paradise Avenue pump station building which is in need of roof repairs and new security windows.

1           **Source of Supply Mainland** – Newport Water is proposing an increase from the  
2           normalized test year amount of \$4,800 to \$8,800. This account includes the Sakonnet  
3           Raw Water Pump Station in Tiverton which is normally used during the high demand  
4           season of summer and early fall. Due to the age of the pump station, additional repairs  
5           and maintenance are required. In addition to the annual maintenance contract with an  
6           electrical contractor, repairs are needed to the pumping equipment and to the doors for  
7           security purposes.

8  
9           **Transmission & Distribution** – Newport Water is proposing an increase to \$32,000.  
10          This account is for the building at 70 Halsey Street and the Forest Avenue pump station.  
11          Maintenance has been deferred at both facilities due to cash flow concerns. Roof, door  
12          and window repairs are required at Forest Avenue. Equipment racks to properly store  
13          piping, valves, hydrants and fittings are needed at Halsey Street.

14  
15          **Fire Protection** – Newport Water is proposing an increase to \$21,000. The increase in  
16          this account is due primarily to the purchase of 5 new hydrants. These are required to  
17          replace hydrants damaged during vehicular accidents, which cannot be repaired.  
18          Payments received by insurance recovery is treated as a revenue offset and is not put  
19          back into this account. The remaining increase is due to historical increases in hydrant  
20          parts which are bid every year as part of the waterworks supply bid package.

21  
22          **Q. Could you explain the increase in the Chemicals expense?**

23          A. Yes. In the Source of Supply Island Account, this expense is for copper sulfate, which is used  
24          to control algae blooms in the reservoirs. The Water Division annually applies approximately  
25          28,000 pounds of copper sulfate to the reservoirs. The increase is based on using 28,000 pounds  
26          for budgeting purposes and utilizing the actual bid price of \$2.19 per pound for FY 09, then  
27          adding 10% for FY 10.

28  
29          In the Treatment Plant Accounts for Station 1 and Lawton Valley, chemical purchases are bid out  
30          every year as part of the normal operations of the plants. For FY 09 there was an average

1 increase of approximately 30% per chemical. The Water Division has assumed an additional  
2 increase of 10% for FY 10. The Water Division also uses a three year running average for  
3 quantities of chemicals estimated for use at the plants.

4  
5 **Individual Accounts**

6 **Q. Are there rate year adjustments to the budget line items that occur in only one account?**

7 A. Yes there are, and as these make up the remainder of the requested increase, I will now  
8 address these adjustments.

9  
10 **Administration Department**

11 **Q. Can you explain the increase in the Accrued Benefits Buyout from the normalized**  
12 **amount of \$104,103 to \$175,000 in the Rate Year?**

13 A. Yes, In FY 08, three employees retired at a cost of \$104,103. By FY 10, there will be 9  
14 employees eligible to retire (5 with 30 year service, and 4 with 10 years of service over 58 years  
15 of age). We are assuming that 5 of the 9 employees will retire in FY 10. It should be noted that 5  
16 employees have retired since the restricted fund was established in FY 06.

17  
18 **Q. Why is the spending for Administration Retiree Insurance Coverage increasing from**  
19 **\$234,929 to \$362,000?**

20 A. Due to changes in the number of retirees, together with a rate increase for coverage, the  
21 current monthly premium has increased to \$21,179.64. We are projecting a 10% increase in FY  
22 10 in line with our projected increase in medical insurance included in Employee Benefits. In  
23 addition, there are 5 employees who will have 30 years of service by FY 10 and 4 employees  
24 who will have 10 years of service and 58 years of age by FY 10. We are projecting that 5 of  
25 these employees will retire, which would also increase the annual premium.

1 **Q. Please explain the increase in Worker's Compensation from \$76,000 to \$114,000 in FY**  
2 **10?**

3 A. This increase is based on an expected premium of \$.0486 per payroll dollar per information  
4 provided by the RI Interlocal Insurance Trust. This expense in Docket 3818 was based on the  
5 August 2007 premium.

6  
7 **Q. Could you explain the increase of \$7,500 in spending for Advertisement?**

8 A. In prior years, advertising for bids and RFP's were kept in the Purchasing Agent's budget. Per  
9 the Cost Allocation Manual developed by the Finance Department, advertising for bid's and  
10 RFP's would be charged directly to the applicable divisions. In FY 08, the Water Division had  
11 20 bids at an average cost of \$375 each. This is the additional cost that has been included in  
12 advertisement spending.

13  
14 **Q. Will you explain the change in Administration Consultant Fees?**

15 A. The hourly rates for legal consultants increased 11% in FY 09. The increased hourly rates are  
16 expected to add \$15,000 to consultant fees. An update to the risk management and spill controls  
17 and countermeasures plan is proposed for FY10 which is estimated to cost \$10,000. In addition,  
18 Newport Water expects in FY 10 to utilize consultants for borrowing filings, cost of service  
19 studies, and litigation for an additional \$57,000 in excess of FY 08 expenditures.

20  
21 **Q. What is the reason for the increase in property taxes?**

22 A. The property tax increase from \$175,827 in the normalized rate year to \$229,000 in FY 10 is  
23 attributable to two factors. First, as a result of the revaluation in Portsmouth, property taxes  
24 increased by \$43,500. Second, a 4% increase is anticipated over actual FY 09 bills for  
25 Portsmouth, Tiverton, Little Compton & Middletown to reflect annual increases which ranged  
26 from 3% in Middletown to 7% in Tiverton in FY 09 from FY 08 not including the revaluation  
27 increase from Portsmouth. In addition, with the current economic climate in the state, it is likely  
28 that state aid to communities will not be increasing in FY 10 which will lead to additional  
29 pressure to increase local property taxes.

1 **Q. Can you explain the increase in Legal & Administrative Expense from \$219,177 in the**  
2 **normalized rate year to \$539,500 in FY 10?**

3 A. Yes. The Legal & Administrative expense is for various support services provided by the City  
4 to the Water Division. In past rate filings, the Water Department requested rates to reimburse the  
5 City for these based on the percentage of the Water Fund's budget as compared to the combined  
6 total budgets of all the City's enterprise funds and the General Fund. In Docket 3818, the PUC  
7 allowed \$219,177 for City Services.

8  
9 In Docket 3818, the PUC also ordered Newport Water to develop a Cost Accounting Manual that  
10 would set forth a more detailed methodology for assigning these costs. As such, the Finance  
11 Department developed a Cost Accounting Manual that details the allocation of costs to  
12 departments and the rationale behind the allocation. This Cost Allocation Manual has been filed  
13 with the Commission.

14  
15 The new manner in which City Services will be allocated to the Water Fund have increased these  
16 reimbursements based on the methodology set forth in this Manual, a summary of which is set  
17 forth below. (Please also see the testimony of Laura Sitrin):

- 18
- 19 • **City Manager and City Solicitor** - will be allocated on the basis of the Water Fund's  
20 budget to the total city budget less appropriations to the school, library and civic support.  
21
  - 22 • **Audit Fees** - will be allocated based on the amount of hours spent on the Water Fund.  
23
  - 24 • **OPEB contribution** - will be allocated to the Water Fund based on actuarial calculations.  
25
  - 26 • **City Council and City Clerk** - will be based on the Water Fund's share of items  
27 addressed at Council Meetings in a fiscal year and may also be adjusted for the percent of  
28 workshop hours as compared to the total number of workshop hours.  
29
  - 30 • **Citizens Survey** –will be allocated based on questions relating to a specific fund.

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- **Human Resources** –will be allocated based on the percentage of employees.
- **Finance** - costs for Finance Administration (80% of costs) will be allocated on the basis of the Water Fund’s budget to the total city budget less appropriations to the school, library and civic support. The investment and debt related functions of Finance (10% of costs) will be allocated based on the share of bank/investment accounts to total bank/investment accounts or debt. Purchasing salary and benefits will be allocated based on the fund’s share of purchase orders. 10% of the Assessor’s salary will be allocated to the Water fund. Collections will be allocated based on the number of payments processed. 5% of the Controller and Accounting Supervisor Salaries & Benefits will be allocated directly to the Water Fund to reflect the amount of time spent on transfers and cash flow. The remainder of the Accounting costs will be allocated based on the amount of payroll and vendor checks.
- **Public Safety** - will be allocated based on the fund’s percentage of assessed value to the total assessed value of the City less the value of Navy and federal property.
- **Facilities Maintenance** - will be allocated based on the square footage served.

**Q. Can you explain the increase in Data Processing charges?**

A. Yes, In Docket 3818, the PUC allowed the City of Newport to charge the Water Division 10.39% of the MIS City’s adjusted MIS cost, or \$156,368. Per the Cost Accounting Manual, the MIS costs are now broken down into two areas, Telephone & Communications and all other. The Telephone & communications (which includes the base costs of landlines which were included in Docket 3818 under 50251 Telephone & Communications) is allocated based on the number of telephone lines in a fund. The balance of MIS costs is allocated based on the percent of an enterprise fund’s budget to the combined City Budget. These costs are based on the City’s approved FY 09 budget.

1 **Customer Service Department**

2 **Q. Why is Postage increasing from \$27,652 to \$34,300?**

3 A. Postage increased for three reasons. First, an additional \$3,528 was budgeted for mailings to  
4 schedule installations on the Radio Read Project. Second, \$1,104 was added for a postage rate  
5 increase in May, 2008. Third, an additional \$2,016 is necessary to reflect the full year of  
6 quarterly billings.

7

8 **Q. Please explain the increase in Customer Service Supplies from \$5,250 to \$15,000.**

9 A. The increase is due to the Rhode Island Water Resources Board's mandate that water  
10 conservation packages be available to customers. As such, \$15,000 is requested for the purchase  
11 and disbursement of these packets.

12

13 **Source Of Supply - Mainland**

14 **Q. What is the reason for the increase in Permanent Part Time from \$5,200 to \$13,000?**

15 A. The increase in this account is for the caretaker position at the Sakonnet Raw Water Pump  
16 Station. Included in his duties are daily security checks at the pump station and the two  
17 mainland reservoirs, and weekly reservoir level readings. The current employee is in his 80's  
18 and is paid \$100/week, which has not changed in several years. It is anticipated that a higher pay  
19 of \$250/week will be necessary to obtain a replacement.

20

21 **Transmission & Distribution Maintenance**

22 **Q. Could you explain the increase in Repairs/Main Maintenance from \$79,000 to \$84,800?**

23 A. The increase includes increases in gravel from \$12/ton to \$16.50/ton for a total increase of  
24 \$8,100, and cold patch asphalt from \$55/ton to \$83.75/ton for a total increase of \$3,450.

25

26 **Miscellaneous Fees and Charges**

27 **Q. Is Newport Water suggesting any other changes to fees in the tariff?**

28 A. Yes. Newport Water is proposing increase to miscellaneous charges for various items and  
29 new charges for additional items. The existing miscellaneous charges are detailed in the Current  
30 Tariff established pursuant to the Commission's Order in Docket 3818 and the proposed fee

1 schedule is presented in the Proposed Tariff for this filing. The Current and Proposed Tariffs are  
2 provided in the Appendix as part of Item 2.5(a).

3

4 **Q. What are the miscellaneous fees that you are referring to?**

5 A. Since Docket 2029 (effective July 1, 1992), Newport Water has maintained the same fees for  
6 the Miscellaneous Charges. The Deputy Utilities Director for Finance evaluated the fees to  
7 assure they were appropriately recovering Newport Water's costs for the services provided. The  
8 fees adjusted in the Proposed Tariff include those for: Temporary Water Service ; Meter Test;  
9 Seasonal Turn-on and Turn-off; Non-Payment Turn –on; Meter Service; Interest on Delinquent  
10 Accounts ; and Special Billings. The new fees proposed are for: Water Sample Testing; Flow  
11 Testing; Pressure Testing; Service Application Fees; Statement Charge; and photocopying. It is  
12 also proposed to remove the Connection Charge and incorporate into the Meter Service charge  
13 which will include new installations, repairs and replacements.

14

15 **Q. Does this conclude your direct testimony?**

16 A. Yes it does.

17





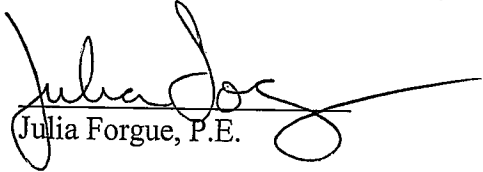
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: CITY OF NEWPORT, UTILITIES DEPARTMENT, WATER DIVISION

DOCKET NO:


ATTESTATION OF FINANCIAL DATA PURSUANT TO RULE 2.7  
OF THE RULES OF PRACTICE AND PROCEDURE  
OF THE PUBLIC UTILITIES COMMISSION

I, Julia Fogue, P.E., Director of Utilities for the City of Newport, Utilities Department, Water Division, in conformance with Rule 2.7 of the Rules of Practice and Procedure with the Public Utilities Commission, hereby attest to the accuracy of the test year financial data presented in the rate base, cost of service and other financial statements; that such data purports to reflect the books of the Newport Water, and the results of operations; and that all differences between the books and the test year data, and any changes in the manner or recording an item on the company's books during the test year, have been expressly noted.

  
Julia Fogue, P.E.

STATE OF RHODE ISLAND

Subscribed and sworn to me this <sup>5<sup>th</sup></sup> day of December, 2008.

  
Notary Public:  
My Commission Expires: 9-19-2011

