



DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND
LITIGATION OFFICE
720 KENNON STREET SE ROOM 136
WASHINGTON NAVY YARD DC 20374-5051

IN REPLY REFER TO

May 12, 2009

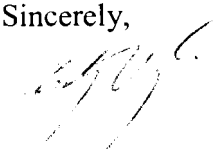
Luly Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

In Re: City of Newport, Water Division
Rate Filing
Docket No. 4025

Dear Ms. Massaro

Enclosed please find the original and nine copies of the Department of the Navy's Surrebuttal Testimony of Ernest Harwig for the above-referenced docket. Copies have been sent electronically to the parties.

Sincerely,


AUDREY VAN DYKE
Counsel for the
Secretary of the Navy

Cc: (on May 13 by email)
Service List

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
BEFORE THE
RHODE ISLAND PUBLIC UTILITIES COMMISSION

IN RE:
CITY OF NEWPORT, UTILITIES DEPARTMENT,
WATER DIVISION APPLICATION TO CHANGE
RATE SCHEDULES

Docket No. 4025

Surrebuttal Testimony of

Ernest Harwig

On behalf of

The United States Department of the Navy

Project 9095
May 13, 2009



BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
BEFORE THE
RHODE ISLAND PUBLIC UTILITIES COMMISSION

IN RE:
CITY OF NEWPORT, UTILITIES DEPARTMENT,
WATER DIVISION APPLICATION TO CHANGE
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Surrebuttal Testimony of Ernest Harwig

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Ernest Harwig. My business address is 57 Cedar Summit Road,
3 Asheville, North Carolina, 28803.

4 Q. ARE YOU THE SAME ERNEST HARWIG WHO FILED DIRECT TESTIMONY ON
5 BEHALF OF THE UNITED STATES DEPARTMENT OF THE NAVY IN THIS
6 PROCEEDING?

7 A. Yes, I am.

8 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

9 A. I would like to respond to certain statements that were made in the Rebuttal
10 Testimony of Mr. Harold Smith on behalf of the Water Division of the City of Newport
11 (NWD or Newport). Specifically, I will address Mr. Smith's assertions about the Debt
12 Service Coverage Ratios (DSCR) produced by my adjustments to NWD's original
13 revenue request. I will also respond to his comments about the incorporation of the

1 results of NWD's currently on-going peak demand study into a class cost of service
2 study and any changes in general service rates that may emerge from that study.

3 **Q. WHAT WAS MR. SMITH'S ARGUMENT WITH RESPECT TO THE DSCR**
4 **PRODUCED BY YOUR CUMULATIVE ADJUSTMENTS TO NWD'S ORIGINAL**
5 **REVENUE INCREASE REQUEST?**

6 A. At page 5 of his Rebuttal Testimony, Mr. Smith asserts that I failed to take into
7 consideration that the Trust Indentures for NWD's existing RICWFA loans require that
8 NWD maintain a DSCR of 1.25 times annual net revenues. Mr. Smith further claims
9 that my recommendation to fund an additional \$553,199 of capital projects with debt
10 effectively reduces net revenues by that same amount and serves to lower Newport's
11 DSCR. Finally, at page 6, Mr. Smith states that my recommendation would likely
12 result in Newport being unable to meet the DSCR requirements on its proposed
13 FY 2010 borrowings.

14 **Q. WHAT IS YOUR RESPONSE TO MR. SMITH'S STATEMENTS?**

15 A. First, my adjusted revenue requirement for NWD did factor in its proposed borrowings
16 for FY 2010. Second, Mr. Smith did not provide a calculation of Newport's DSCR for
17 FY 2010 under my recommendations to support his assertion that they would result in
18 NWD being unable to meet DSCR requirements. Third, I would note that the
19 cumulative adjustments made by Mr. Smith to NWD's original revenue request in his
20 rebuttal exhibits (\$919,996) are greater than the total adjustment that I recommended
21 (\$840,890).

22 Specifically, with respect to our respective adjustments to the amount of debt
23 service to be included in NWD's revenue requirement, Mr. Smith's reduction to

1 cash-financed capital spending is \$505,101, while my recommended reduction is
2 \$553,199. Thus, we achieved roughly similar results, although each of us offered a
3 different rationale. Therefore, it is difficult to conclude that my recommendations are
4 more deleterious to Newport's DSCR, than Mr. Smith's positions on rebuttal.

5 **Q. PLEASE SUMMARIZE MR. SMITH'S REBUTTAL TESTIMONY REGARDING RATE**
6 **DESIGN IN THIS PROCEEDING.**

7 A. Mr. Smith states that NWD intends to file the results of its currently on-going peak
8 water demand study and a cost of service study to the Commission in the Fall of
9 2009. In this phase of the current proceeding, NWD proposes to increase rates by an
10 equal percent across-the board to generate any additional revenues approved by the
11 Commission. Once the Commission issues a ruling on the cost of service study, the
12 rates can be appropriately adjusted.

13 **Q. WHAT IS THE NAVY'S POSITION ON THE TIMING OF ADJUSTMENTS TO**
14 **NWD'S RATES TO REFLECT THE RESULTS OF THE COST OF SERVICE**
15 **STUDY?**

16 A. The ability of NWD's rates to accurately reflect the cost of serving its various
17 customer classes has been a persistent issue in NWD's prior rate cases. The current
18 demand study is a welcome event to address this problem. As I stated in my direct
19 testimony, the Commission should order a Phase II to this proceeding to implement a
20 revenue-neutral adjustment to NWD's rates. Phase II implementation will result in
21 equitable movement toward cost of services rates without delay, as opposed to
22 waiting until NWD's next rate case to implement cost-based rates and prolonging rate
23 discrimination.

1 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

2 **A. Yes, it does.**

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