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May 13, 2009

**Via First Class and Electronic Mail**

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

**Re: *Newport Water – Docket 4025***

Dear Ms. Massaro:

I enclose for filing an original and nine copies of the Surrebuttal Testimony of Christopher P.N. Woodcock.

Please feel free to contact me at (401) 457-5216 if you have any questions concerning this filing.

Very truly yours,



David M. Marquez

Enclosures

cc: Docket 4025 Service List

975845 (38210-137951)

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**RHODE ISLAND PUBLIC UTILITIES COMMISSION**  
**DOCKET NO. 4025**  
**CITY OF NEWPORT WATER DIVISION**  
**PREFILED SURREBUTTAL TESTIMONY OF**  
**CHRISTOPHER P.N. WOODCOCK**



1 this expense item because the initial rate year amount was so much higher  
2 than projections for subsequent years. I believe that the removal of the  
3 \$600,000 in the rate year plus \$260,000 the following year eliminates the con-  
4 cern of the high rate year amount. As shown on Schedule 5 of my prefiled di-  
5 rect testimony, the existing fund balances along with an annual allowance of  
6 \$1,154,000 provides sufficient funds for the rate year plus at least two addi-  
7 tional years.

8  
9 **Q: Please comment on Mr. Harwig's recommendations.**

10 A: Mr. Harwig has also recommended a number of adjustments to the revenue re-  
11 quirements proposed by Newport. I have these comments:

- 12 • City Services (Schedule EH-2): Like Mr. Catlin, Mr. Harwig has also recom-  
13 mended a number of reductions to Newport's claimed cost for "City Services".  
14 While I generally do not disagree, I don't think Mr. Harwig has gone far enough  
15 in analyzing and reducing Newport's claims; there are other adjustments that I  
16 believe he has missed.
- 17 • Capital Financing (EH-3): Mr. Harwig has suggested that a number of longer  
18 lived capital projects be funded through borrowing rather than rates to better  
19 match the expense with the useful life of the asset. I had made a similar rec-  
20 ommendation in the prior docket regarding the new treatment plant design and  
21 construction costs. Philosophically I agree with Mr. Harwig, but I do not believe  
22 all the items he has identified need to be debt financed. I am concerned that  
23 too much debt financing may, as Mr. Smith points out, jeopardize Newport's  
24 ability to maintain sufficient debt service coverage and could impact its bond  
25 rating and borrowing costs. I also believe that Mr. Harwig should also have  
26 removed the \$600,000 for the Lawton Valley aeration design and construction  
27 as discussed above.
- 28 • Operating Revenue (EH-4): Mr. Harwig has proposed an allowance of 1.5% of  
29 the allowed operating expense allowance. As I have testified many times, I do  
30 not believe this is sufficient and the allowance ought to be based on revenues

1           – not expenses. Further, I still maintain that the City owes the Water Fund for  
2           pre-June 30, 2005 borrowings and that plus the restricted amount from quar-  
3           terly billing surpluses should be the source for funding the operating revenue  
4           allowance.

5 **Newport’s Rebuttal Testimony**

6 **Q: Have you reviewed the rebuttal testimony filed on behalf of Newport Water by**  
7 **Mr. Smith, Ms. Forgue, and Ms. Sitrin?**

8 A: Yes I have. Rather than address the testimony of the individuals, I believe it would  
9       be easier to follow if I address the issues, since the testimony of all three some-  
10      times overlaps on the issues.

11 **City Services**

12 **Q: Please begin with City Services.**

13 A: I have attached schedule (CW (SUR)-A) that presents a comparison of the posi-  
14      tions of the parties. Newport has reduced its overall claim for City Services from  
15      \$765,275 to \$550,290. My initial position was \$350,894, while Mr. Catlin recom-  
16      mended \$484,253 and Mr. Harwig recommended \$592,637.

17  
18 **Q: What is your overall reaction to these recommendations?**

19 A: I am glad to see Newport’s agreement to reduce its claim. I still believe that the  
20      City’s claims for administrative functions (Manager, Council, Clerk, Human Re-  
21      sources) and financial support are out of line with other similar utilities.

22  
23 **Q: Didn’t Mr. Smith address this matter in his rebuttal testimony?**

24 A: He did touch on this in a broad sense. I agree with Mr. Smith’s contention (page 8,  
25      line 4) that it is common for municipalities to recover the cost of support services  
26      provided to their utilities. I am also not surprised that the survey Mr. Smith men-  
27      tions finds “some type of transfer to their parent city or county.” That is not an is-  
28      sue in this docket. I do, however, take issue with the applicability of average  
29      amounts from a survey that is not in evidence. I also am troubled by the relevancy

1 of what others may have done where there is no testimony as to how the transfers  
2 were determined or if they had an independent review.

3  
4 I suspect that all the parties in this case recognize and understand that it is not un-  
5 common for municipalities to try to maximize the interfund transfers from user fee  
6 supported utilities to reduce the reliance on general fund taxes; particularly in cases  
7 where substantial utility revenues are collected from outside customers that have  
8 no vote nor receive general fund services. This has become more common over  
9 the past decade as can be seen by recent initiatives and actions on this matter in  
10 other states.

11  
12 **Q: Mr. Smith has testified (rebuttal testimony page 9, line 6) that the City of New-**  
13 **port's revised claim is approximately 7% of the claimed O&M budget. What is**  
14 **your reaction to that?**

15 A: Mr. Smith is correct; it is approximately 7% of the operating amount Newport  
16 claims. While that is less than the average in the survey he mentions, it is more  
17 than the 5.7% median he has also testified to. What we don't know is how much  
18 other administrative and financial support is provided by the utilities in the survey or  
19 whether the allowed amounts have been reviewed.

20  
21 **Q: Are there other utilities you can suggest as valid comparisons?**

22 A: The Commission regulates several utilities in RI. I suggest that these provide a bet-  
23 ter comparison than unnamed utilities that may have no oversight or regulation.

24  
25 Newport Water's annual operating costs are approximately \$8.4 million.

- 26 • The Pawtucket Water Supply Board is perhaps the most similarly situated  
27 water utility in Rhode Island with annual operating costs (including property  
28 taxes) of \$9,360,385 (docket 3945). The city service charges are \$194,673  
29 or 2.1% of the total operating budget.

- 1 • The Providence Water Board has annual operating costs of \$38,418,451 and  
2 an allowed city services allocation of \$839,167 (docket 3832). This is 2.2% of  
3 the total operating budget.

4 In both these cases, the allowed city services charges are just over 2% of the al-  
5 lowance for annual operating costs. This is significantly lower than the 7% calcu-  
6 lated by Mr. Smith for Newport or even the approximately 4% I have calculated for  
7 Newport. This contradicts Mr. Smith's claim that Newport's charges are in line with  
8 the charges assessed to other utilities.

9

10 **Q: Ms. Sitrin testifies that Newport Water “requires a greater degree of attention**  
11 **and extra effort to understand the applicable regulations and ensure compli-**  
12 **ance.” Do you agree?**

13 A: It's not clear who or what it is that Ms. Sitrin is making this comparison to – a great-  
14 er degree of attention and effort than what? If she is referring to other City Depart-  
15 ments, this may be true. However, it is no different than Pawtucket or Providence  
16 where a far lesser allocation of costs (as a percentage of operating budget) is  
17 needed. There is no evidence to suggest that Newport Water is different in this re-  
18 gard than other regulated water utilities in Rhode Island.

19

20 **Q: In discussing why the total Water Budget is an applicable allocation method,**  
21 **Ms. Sitrin goes to great length discussing the many and varied services from**  
22 **various City boards and departments. Has this changed your position from**  
23 **your initial pre-filed testimony?**

24 A: No it has not. After more than three decades of working with water utilities  
25 throughout the country, including more than a quarter century as a member of  
26 elected and appointed municipal utility oversight boards, I understand the adminis-  
27 trative and financial requirements of water utilities fairly well. I understand that,  
28 while the presence of a separate board may remove some political considerations  
29 from decision making, it does not significantly impact the amount of administrative  
30 oversight needed.

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With a competent director or manager, it should not require additional expenses of nearly \$83,000 for administrative oversight (\$4,408 from the City Council, \$18,383 from the City Clerk, and \$59,885 from the City Manager) as the City of Newport has suggested. The Kent County Water Authority Board is paid \$15,000 per year – less than 1/5<sup>th</sup> what Newport is asking in this case. The General Manager, Mr. Timothy Brown has responsibilities commensurate with those of Ms. Forgue.

Newport is not unique because it has to sign off on contracts related to capital expenditures, process purchase orders, spend time capitalizing additions and determining depreciation followed by posting of items, reconciling, and auditing. Again, the Kent County Water Authority has a similar size budget to Newport’s, yet Kent County’s total office, finance, human resources, accounting, secretarial, purchasing, billing, collection and assessment staff consists of a director and 4 employees. Newport Water has a director (Deputy Utility Director of Finance), a financial analyst, an administrative secretary, and a principal account clerk – one less person than Kent County. Yet Ms. Sitrin would have us believe that Newport Water also needs an additional \$168,955 from the City for support (\$39,137 for Human Resources, \$42,850 plus \$6,918 for Finance Administration, \$16,763 for Purchasing, \$5,673 for Assessments, \$47,865 for Collections, and another \$9,749 for Accounting).

Simply detailing work that needs to be accomplished does not justify using the total City water budget of nearly \$20 million in lieu of the allowed revenues of approximately \$11 million. Going on to concede using the allowed revenue requirements as a basis does not make ignoring the school or library budgets any more proper or correct. I believe that the evidence submitted as part of my direct testimony clearly shows the City of Newport’s involvement in the school activities.



1 Ms. Sitrin's proposed concession to use the allowed revenues instead of the in-  
2 flated (\$20 million) water budget in turn for ignoring the school budget is baseless.  
3 On pages 5 and 6 of her testimony Ms. Sitrin admits that there is some minimal in-  
4 volvement despite earlier claims of virtually no involvement. I have not suggested  
5 that the Manager or City Council have control over the School Department as sug-  
6 gested by Ms. Sitrin. I do contend that there is involvement of time and effort in  
7 School (and Library) activities however, and that City management involvement in  
8 these two entities' activities should be reflected in the allocations.

9  
10  
11 **Q: On pages 7-8 of her testimony Ms. Sitrin claims that the January 7, 2009 meet-**  
12 **ing of the School Committee and City Council was just a workshop put on by**  
13 **the Finance Department for representatives from various City Departments**  
14 **and the School Department was just invited to attend like any other depart-**  
15 **ment. Do you agree with this characterization?**

16 A: First I need to point out that I did not say that this was "yet another example of how  
17 the City Council is responsible for the School operations" as Ms. Sitrin's testimony  
18 suggests; rather, I characterized it as evidence of "some level of involvement and  
19 support from the Council, the Manager and the Finance Director."

20  
21 Next, the minutes of this meeting indicate that it was not simply a presentation put  
22 on by the Finance Director involving "representatives from various departments".  
23 The minutes are clear that it was a "Special Joint Workshop" of the School Commit-  
24 tee and City Council. The minutes do not reflect any other attendees other than the  
25 School Committee and its staff, the City Council, the City Manager, and Ms. Sitrin.  
26 In addition to the presentation on post employment benefits there was an executive  
27 session called by Mr. DeAscentis of the School Committee; this is quite unusual for  
28 what Ms. Sitrin claims was a meeting for all departments in the City where the  
29 School Committee was only a casual invitee along with the City's various depart-  
30 ments.

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**Q: Is there any other new information you would like to comment on regarding the inclusion of the school budget in determining the allocation of various City departments?**

A: Yes. In the response to Div 4-1, Ms. Sitrin provided the budgeted expenses and revenues for the Newport Schools. The total school budget for FY 2009 is \$38.124 million. To fund these expenses, the City relies on external sources (e.g. federal and state aid) as well as local (city) sources. These revenues include \$2.115 million from various local sources plus \$23.143 million from the City tax appropriations. In determining the initial allocations in my direct testimony I had only used the \$23.143 million of tax revenues for the budget, not the full \$38.124 million of expenses. This resulted in a higher allocation of certain costs to the Water Division than if I had used the full expenditure budget.

**Q: Ms. Sitrin testified that the allocation of Finance Administration (80%) is justified based on the many different functions or services provided to the Water Fund in comparison to other departments of the City. Does that testimony change your conclusions about how the Finance Department should be allocated to the Water Division?**

A: No, I don't believe her testimony addresses the basic issue that Newport Water has been provided considerable ratepayer funds to pay for positions within the Water Division to deal with the issues that Ms. Sitrin has outlined. Referring to the November 9, 2005 transcript (pg. 79, docket 3675), Ms. Wilson-Frias asked, based on the new position of Deputy Utility Director of Finance, if it was Newport Water's intent to reduce its reliance on the City Finance Department regarding various commission activities. Ms. Forgue answered in the affirmative, stating that the new Deputy Utility Director of Finance would "be taking most of the responsibilities that fell onto the City's Finance Director" and that the Deputy Utility Director of Finance would "have access to all records that are related to the water fund."

1 The point of my testimony regarding the number of Water Division employees de-  
2 voted to finance is that Newport Water has more employees to deal with these ex-  
3 tra issues than the other departments. When the Deputy of Director – Finance po-  
4 sition was funded in Docket 3675 it was with the understanding that Newport Water  
5 would be able to reduce its reliance on the City Finance Department and the new  
6 Deputy Utility Director of Finance “would be taking most of the responsibilities that  
7 fell onto the City’s Finance Director”. Ms. Sitrin has ignored this aspect of my testi-  
8 mony totally, choosing instead to list all the activities rather than explain why the ex-  
9 tra staff that Newport Water was provided cannot handle those activities as Ms.  
10 Forgue had represented to the Commission in 2005.

11  
12 Again, it is instructive to compare Newport Water to Kent County and Pawtucket.  
13 All three have a similarly sized staff. However, in Kent County’s case, there is no  
14 reliance on an outside Finance Department and in Pawtucket Water case, minimal  
15 reliance.

16  
17 **Q: Does Ms. Sitrin’s explanation of the disparity between the Auditor’s time on**  
18 **Water Department activities (6%) and the allocation of the Finance Depart-**  
19 **ment (21%) change your opinion?**

20 **A:** No. I pointed out that the auditors only needed to spend 6% of their time on the  
21 Water Department while the Finance Department says it spends 21%. Her expla-  
22 nation does not address this issue at all. She simply states that the Finance De-  
23 partment prepares work papers and financial statements for the audit – presumably  
24 they do this for all departments, and that the auditors are looking for material mis-  
25 statements – again presumably they do this for all departments. The “high marks”  
26 from the auditors seems to be for all departments – not just water. There is nothing  
27 in Ms. Sitrin’s response that goes to the real question: Why does the Finance De-  
28 partment need to spend more than triple the percentage of time on Water Depart-  
29 ment activities than do the auditors?

1 **Q: Ms. Sitrin has proposed a revision for the Finance Department time spent on**  
2 **invested accounts. Do you agree with this?**

3 A: Yes I do, I believe the proposed revisions and her explanation are reasonable.

4

5 **Q: Ms. Sitrin says your recommendation regarding the appropriate share of City**  
6 **Council time to allocate to the Water Fund is made “without any basis or ex-**  
7 **perience.” Do you agree?**

8 A: I have over 30 years experience as a member of utility oversight boards in municipi-  
9 pal government. I also have over 35 years experience working with municipal  
10 boards and committees, including the Newport City Council. To suggest that my  
11 recommendation is “without any basis or experience” is incorrect.

12

13 I agree that there is not a perfect method to determine the percentage of City  
14 Council time spent on water issues vs. other issues. I still maintain that simply  
15 counting agenda items is NOT the best method or even a rational method – it is just  
16 a convenient method that gets Newport to a comfortable place. Ms. Sitrin seems  
17 convinced that using the Council minutes is the best method. As both Ms. Sitrin  
18 and I have pointed out, this does not reflect time spent outside City Council meet-  
19 ings; thus, she appears to concede that this method is flawed.

20

21 I am not swayed by the contentions that the City Clerk can’t keep proper minutes  
22 unless it is a simple item, “such as a horse-drawn carriage request”<sup>1</sup> or that time is  
23 spent outside of meetings. The latter is true of all issues, not just water issues.

24

25 I don’t believe Ms. Sitrin’s proposed modification to counting items within the min-  
26 utes is much of an improvement. I don’t understand why major topics like budgets,  
27 CIPs, and union contracts should be excluded; they seem to be significant areas of  
28 City Council involvement in all departments.

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<sup>1</sup> If the Clerk does not understand water issues it raises a question regarding any allocation of the Clerk’s time.

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**Q: Do you have any new suggestions?**

A: The Commission only used the Council salaries/stipends as a basis for allocations in the last docket – not the full council budget. If this is used as a base, then Ms. Sitrin's 5.7% would be acceptable (vs. the 5% I had suggested).

The City's proposal to charge over \$82,000 for the Manager, Council and Clerk is absurd on its face. Ms. Sitrin claims much of this is needed because there is no other oversight board. The Kent County Water Authority Board gets \$15,000 per year. The Pawtucket Water Supply Board gets \$0. To suggest that the Newport Council, Manger and Clerk need 5.5 times what the Kent County Board gets makes no sense.

**Q: Ms. Sitrin believes the City Clerk's time should also be allocated based on items in the City Council minutes. Do you agree?**

A: No I do not. She makes this claim because the Clerk's responsibility is to "prepare, disseminate, and post the agendas and to prepare and post minutes." It is unclear why this service is worth nearly \$20,000 to Newport Water's rate payers.

As far as other duties go, Ms. Sitrin is aware from previous dockets that I and Mr. McGlinn, the General Manager and Chief Engineer of the Portsmouth Water & Fire District, both attempted on several occasions to obtain documents from the City Clerk's office. Her attempt to make an issue of whether we can provide the names of the persons we spoke with, or whether we should have made the document requests in person, is a distraction from the fact that the Clerk's office could not or would not provide the requested data, instead referring us to the Water Department. (If someone calls the Clerk's office for information and the staffperson answering the phone does not have it, they can ask someone else in the office rather than just referring the caller to the water department.)

1 **Q: Do you have any comments on Ms. Sitrin's proposed revision to the alloca-**  
2 **tion for the Assessor's office?**

3 A: I had suggested \$3600 for the Assessor's office support. Mr. Catlin suggested  
4 \$5673 based on 99 hours of water department related work out of 2080 total hours  
5 (4.75%). Based on the analysis provided for the Assessor's Office time as re-  
6 counted in my direct testimony, the following is provided:

7	Tangible property declaration	8 hrs/yr
8	Appraisal of 25 Properties (@4 hrs/parcel/every 3 yrs)	33 hrs/yr
9	WTP Appraisal (80 hrs every 3 yrs)	27 hrs/yr
10	Meetings	9 hrs/yr

11 Based on this I believe that only 77 hours per year is sufficient or 3.7% of the As-  
12 sessor's cost.

13  
14 While it is unclear if the Assessor is the person spending all this time, I have used  
15 the \$113,456 salary presented on RFC Schedule D Rebuttal to derive \$4,200 for  
16 the Assessor's office. This falls between the values I initially suggested and that  
17 suggested by Ms. Sitrin.

18  
19 **Q: Did Ms. Sitrin address the concerns you raised regarding the allocation of the**  
20 **Accounting office?**

21 A: She seems to acknowledge that there is far more happening than check writing,  
22 which is the issue I raised in my testimony. Yet, after acknowledging that several  
23 other services are provided, including services to the School, she has not sug-  
24 gested any change in allocation. Apparently she believes that this office should be  
25 allocated based on those fifty checks per day. As explained in my prefiled testi-  
26 mony, I do not agree and believe the method I recommended is more appropriate.

27  
28 **Q: Have your concerns regarding human resources been addressed?**

29 A: Ms. Sitrin acknowledges that HR provides some services for seasonal employees.  
30 She suggests that seasonal employees require less of HR's time because they do

1 not get benefits or have to take tests upon hiring. However, unlike full time em-  
2 ployees that do not have to be hired each year – seasonal employees do have to  
3 be hired and removed from the payroll each year. In some aspects, I suspect they  
4 take more time than a full time employee that has worked for 10 or more years at  
5 the City.

6  
7 I have revised the allocation of human resources to reflect the 5 seasonal employ-  
8 ees at the Water Department that are identified in response to PWFD 4-3.

9  
10 **Q: Ms. Sitrin testified that the City of Newport does receive nearly \$1.3 million**  
11 **from PILOT payments from the State. Does this change your testimony that**  
12 **the proposed charge for police and fire service is a “thinly veiled tax”?**

13 A: No it does not. A PILOT is typically agreed to by the parties and is not a tax. A vo-  
14 luntary payment is not a tax. Tax exempt properties do not pay property taxes and  
15 Newport Water is tax exempt within the City of Newport.

16  
17 **Pumping Costs**

18 **Q: You raised the issue of keeping separate records for pumping costs vs.**  
19 **treatment costs. Has Newport Water addressed this concern in its rebuttal**  
20 **testimony?**

21 A: Ms. Forgue addresses this matter on pages 10-11 of her testimony. She presents  
22 some history and then concludes: “Therefore, Newport has not identified pumping  
23 costs separately from treatment. Newport Water will address the pumping costs  
24 with the demand study and cost allocation study that will be completed and submit-  
25 ted in the Fall of 2009.”

26  
27 From this testimony it is clear that Newport intends to prepare and submit a cost al-  
28 location study. It is NOT clear that records for pumping costs will be maintained  
29 and retained as we requested. I believe that the separate identification of distribu-

1 tion vs. treatment pumping costs is an essential element to the cost allocation  
2 study. While Mr. Esten is clearer in his response to PWFD 4-4 (“Newport will agree  
3 to keep these costs separate from the treatment costs.”), it is not clear if Ms. For-  
4 gue, the Director of Utilities and Mr. Esten’s supervisor, agrees.

5  
6 Accordingly, I ask that the Commission make clear in its Order that Newport must  
7 maintain these records so there can be no misunderstanding on Newport Water’s  
8 part.

### 9 **Repayments to the City**

10 **Q: Ms. Forgue has raised a number of issues regarding your recommendation to**  
11 **fund the operating revenue from amounts you claim the City owes the Water**  
12 **Department. Would you like to address these?**

13 A: The wording in the settlement in Docket 3578 was very clear:

14 *“Newport Water further agrees that it will not seek to recover in*  
15 *rates any additional monies that it may borrow from the City of*  
16 *Newport up through and including June 30, 2005”*

17  
18 The wording says “*additional monies that it may borrow*” with the clear understand-  
19 ing that these were in *addition* to the \$2.5 million agreed to be repaid to the City. It  
20 is also clear that the \$2.5 million was considered to have been *borrowed* – it was  
21 not some amorphous “payable”.

22  
23 It is also clear that Newport Water did not have sufficient funds on June 30, 2005 to  
24 meet its expenses. Ms. Forgue’s rebuttal testimony (page 8, line 4) acknowledges  
25 a deficit on June 30, 2005. The City paid employees for time in June 2005 and the  
26 Water Department did not have any money to reimburse the City for these pay-  
27 ments. It was not until after July 1 that Newport Water had sufficient funds to reim-  
28 burse the City for the June payroll costs (along with payments to Water Pollution



1 Control and to the City of Newport), but then it didn't have sufficient funds to reim-  
2 burse the City for the July costs.

3  
4 In sum, Newport Water owed money to the City and could not pay it back. Calling  
5 any of these amounts owed to the City a "payable" does not change these facts. In  
6 addition, Newport Water listed amounts due to other funds in its annual report to  
7 the Commission for the year ending June 30, 2005. This was a key element of the  
8 settlement agreement in Docket 3578.

9  
10 **Q: Ms. Forgue claims Newport Water had a surplus in July 2006 as evidence that**  
11 **the pre- June 30, 2005 loans were repaid.**

12 A: First, it is irrelevant if Newport Water had a surplus. If it had started out July 1,  
13 2005 owing nothing to the City (as the Settlement Agreement contemplated), the  
14 surplus would have been greater by some \$700,000.

15  
16 In addition, the only reason that Newport Water showed a surplus a year later in Ju-  
17 ly 2006 was because the City prepaid a full year's worth of public fire protection  
18 charges in July. If the City had been billed and paid according to the approved tar-  
19 iff, only 1/12 the annual fire charge would have been paid in July and there would  
20 have been no surplus for the month. That the City paid upfront does not dismiss  
21 the fact that Newport Water started out on July 1, 2005 with a \$700,000 deficit and  
22 this was contrary to the settlement agreement that the City of Newport signed.

23  
24 **Q: Do you fault the City for paying the fire protection charges up front?**

25 A: No I do not. It was a magnanimous gesture on the part of the City. I do fault the  
26 Water Department for using this artificial, one-time cash surplus as an excuse to  
27 say they didn't pay the City back for additional amounts owed as of June 30, 2005.  
28 As shown on the exhibit attached to Ms. Forgue's rebuttal testimony, this up-front  
29 payment caused a positive cash position for July 2006 that quickly returned to a  
30 deficit the very next month and stayed that way. If the amount owed to Newport on

1 June 30, 2005 was not repaid, as contemplated by the Settlement Agreement, Ms.  
2 Forgue's exhibit would show the Water Department with a positive cash position in  
3 12 of the 24 months – not just the one month with the infusion of cash from the  
4 City.

5  
6 In addition, if the pre-June 30, 2005 "payables" had not been reimbursed, as called  
7 for in the stipulation, Newport's most current (April 2009) cash flow would show \$0  
8 in payrolls owed to the City (rather than 5 periods) and nothing owed to WPC for  
9 sludge treatment.

10  
11 **Q: You noted that this provision of the settlement was a key element. Please ex-**  
12 **plain why.**

13 A: As I noted in my direct testimony, the importance of this provision – of starting out  
14 on July 1, 2005 with a \$0 balance owed to the City, was critical. Mr. Catlin also  
15 noted this in his June 2, 2004 testimony in Docket 3578 (page 32):

16 "That was an important aspect of this for all parties because we  
17 wanted to fix the amount at the 2.5 million that would be owed to the  
18 City of Newport and the settlement sets forth some strict require-  
19 ments as to the fact that that's what we're going to repay, that's what  
20 we're going to ask the ratepayers to repay and *to limit it to that* and if  
21 that needs to be changed, Newport would have to come to this  
22 Commission and say, 'We need to change and here's why.' It won't  
23 just be allowed to – in the next case or at some point in time to say,  
24 'Oh by the way, we owe them another million or another \$500,000.'  
25 That was an important aspect for each of the parties in this case."  
26 (emphasis added)

27 The reason this was so important was that neither Newport nor any of the other  
28 parties could identify where the \$2.5 million that was repaid to the City went. No  
29 one could explain why Newport Water was in the red by \$2.5 million or what that  
30 money was spent on. Given this uncertainty regarding the \$2.5 million that was

1 agreed to be paid back to the City, the parties wanted to be assured that NO addi-  
2 tional money would be claimed or paid back through June 30, 2005.

3  
4 **Q: Do you think the Commission's findings in Docket 3818 that Ms. Forgue**  
5 **quotes should be ignored?**

6 A: No, I do not. However, I am not certain all the information was clear when the  
7 Commission reported its findings in Docket 3818. For example, I believe there was  
8 an impression that the \$1,584,171<sup>2</sup> deficit all happened in FY 2007. Ms. Forgue's  
9 testimony on page 8, line 14 of her rebuttal testimony suggests the deficit was "built  
10 up in FY 2007". Also, the open meeting minutes make it clear that Newport had to  
11 apply to the Commission to demonstrate any savings from efficiencies. In addition,  
12 I certainly recognize that the Commission can change its mind.

13  
14 **Operating Revenue**

15 **Q: Do you have any comments on Mr. Smith's testimony regarding an allowance**  
16 **for an operating reserve?**

17 A: I agree with Newport's request for a 3% allowance that has the same terms and  
18 conditions as those imposed by the Commission in Docket 3942 (Kent County Wa-  
19 ter Authority). On page 15 of his testimony, Mr. Smith seems to suggest that the  
20 operating allowance could increase by \$125,000 per year, unrestricted, for at least  
21 for 8 years. The Commission's decision in Docket 3942 placed a limit on the re-  
22 stricted portion of the fund of 6% of total revenues. I urge that same restriction be  
23 applied in this case.

24  

---

<sup>2</sup> Newport's annual report for the year ending June 30, 2007 showed that the Water Division owed the City in excess of \$1.9 million.

1 **Operating Expenses**

2 **Q: You mentioned you were relying on the Division's testimony regarding any**  
3 **adjustments to the operating expenses. Is there anything the Division did not**  
4 **raise that you would like to discuss?**

5 A: Yes. Ms. Forgue accepted the minor adjustment we had for the annual dues to the  
6 Rhode Island Water Works Association. I had also raised a concern regarding  
7 costs associated with fire protection. Newport Water provided an explanation for  
8 this increase in its response to PWFD 4-8 when it was explained that they were  
9 planning to purchase 5 new hydrants each year. I have accepted that.

10

11 There was one other matter. In response to PWFD 4-10, Newport Water indicated  
12 that the City is scheduled to receive a surplus distribution of medical insurance  
13 premiums in FY 2010 of \$136,909, which will be credited against a future invoice.  
14 The Water Division's share of this is 11.6% or \$15,881. Since this is to be credited  
15 on a future bill, either the expense for health care should be reduced by this  
16 amount, or revenue offsets (miscellaneous revenues) should be increased by this  
17 amount.

18

19 **Q: Are there any other matters you would like to address?**

20 A: While this does not impact the overall revenue requirements or resulting rates, I  
21 was surprised by the response to PWFD 4-9. We know from the prior docket that  
22 the City of Newport paid the full annual public fire protection bill in July 2006. From  
23 the response to PWFD 4-9 it appears that the City was billed for public fire protec-  
24 tion on July 20, 2007 and then on October 2, 2007. The current and proposed tar-  
25 iffs for Public Fire Service (Schedule A), indicate that public fire service charges are  
26 to be rendered monthly and in advance. I am not sure if the City is being billed  
27 monthly in advance. This may help the Water Division's cash flow if they were bill-  
28 ing according to the tariff.

# EXHIBIT A

**Summary of Revenue Requirements**

	<u>NWD Rebuttal</u>	<u>PWFD</u>	<u>PWFD</u>	<u>Notes</u>
	<u>Rate Year</u>	<u>Adjustments</u>	<u>Proposed</u>	
<u>Operating Revenue Requirements</u>				
Administration	\$ 2,310,030	\$ (252,712)	\$ 2,057,318	(1,2)
Customer Service	\$ 719,939	\$ (1,751)	\$ 718,188	(2)
Source of Supply - Island	\$ 620,400	\$ (73,376)	\$ 547,024	(2)
Source of Supply - Mainland	\$ 142,800		\$ 142,800	(2)
Treatment - Station One	\$ 1,700,700	\$ (204)	\$ 1,700,496	(2)
Treatment - Lawton Valley	\$ 1,604,950	\$ (146)	\$ 1,604,804	(2)
Water Laboratory	\$ 249,450		\$ 249,450	(2)
Transmission & Distribution Maintenance	\$ 1,094,300	\$ (78,614)	\$ 1,015,686	(2)
Fire Protection	\$ 14,500		\$ 14,500	(2)
Total Operating Requirements	\$ 8,457,069	\$ (406,803)	\$ 8,050,266	
<u>Capital Revenue Requirements</u>				
Contribution to Debt Service Account	\$ 2,010,823		\$ 2,010,823	
Contribution to Repayment to City Account	\$ -		\$ -	
Contribution to Capital Spending Account	\$ 1,146,918		\$ 1,146,918	
Total Capital Requirements	\$ 3,157,741	\$ -	\$ 3,157,741	
Subtotal Revenue Requirements	\$ 11,614,810	\$ (406,803)	\$ 11,208,007	
Additional Rev Requirements (Operating Revenue)	\$ 253,712	\$ (253,712)	\$ -	(4)
Revenue Requirements before Offsets	\$ 11,868,522	\$ (660,515)	\$ 11,208,007	
Less: Revenue Offsets	\$ (741,827)	\$ (15,882)	\$ (757,709)	(3)
Net Revenue Requirements	\$ 11,126,695	\$ (676,396)	\$ 10,450,299	
Revenue From Current Rates (RFC Sch. 10)	\$ 9,340,564		\$ 9,340,564	
Increase Needed	\$ 1,786,131		\$ 1,109,735	
% Increase	19.1%		11.9%	

(1) City Services adjustments -- see CW Sch 3

(2) Adjustments reflect Division surrebuttal testimony on recommended operating cost adjustments except City Services

(3) Adjustment to rate funded capital & insurance reimbursement-- see CW Sch 4

(4) See Testimony of C. Woodcock. Deposit to be derived from Credit on pre-June 30, 2005 amounts paid to City.

**Determination of Budget Percentages**

	<b>NWD FY2009 Adopted Budget</b>	<b>Percentage</b>	<b>PWFD Revised FY2009 Budget</b>	<b>Percentage</b>
Total General Fund Budget (Adopted)	76,683,576		76,683,576	
Add: Equipment Operations Fund	1,449,071		1,449,071	
Less:				
School Appropriation	(23,142,725)		-	
Library Appropriation	(1,655,167)		-	
Civic Support Requests	(183,900)		-	
Transfers to Capital Funds				
<b>Total General Fund Budget For Allocation</b>	<b>53,150,855</b>	<b>59.44%</b>	<b>78,132,647</b>	<b>73.94%</b>
Water Fund	19,943,420	22.30%	11,208,007	10.61%
WPC Fund	12,628,836	14.12%	12,628,836	11.95%
Maritime Fund	1,483,000	1.66%	1,483,000	1.40%
Beach Fund	866,324	0.97%	866,324	0.82%
Parking Fund	1,347,952	1.51%	1,347,952	1.28%
<b>Combined Budgets</b>	<b>89,420,387</b>	<b>100.00%</b>	<b>105,666,766</b>	<b>100.00%</b>

**Allocation of Legal and Administrative Costs to Enterprise Funds**

<b>Allocated Item</b>	<b>Cost To Be Allocated</b>	<b>Water %</b>	<b>Water Fund</b>
Audit Fees	\$ 84,875	6.18%	5,245
OPEB Contribution (1)	\$ 3,500,000	0.00%	-
City Council	\$ 16,000	5.70%	912
Citizen Survey	\$ 16,000	5.00%	800
City Clerk	\$ 275,000	1.00%	2,750
City Manager	\$ 133,250	10.61%	14,134
Human Resources	\$ 303,388	10.06%	30,517
City Solicitor (50%)	\$ 144,589	10.61%	15,336
Finance Admin (half of 80%)	\$ 193,981	10.61%	20,575
Finance Admin 5%	\$ 18,698	37.00%	6,918
Purchasing	\$ 90,123	18.60%	16,763
Assessment	\$ 113,456	3.70%	4,198
Collections	\$ 313,663	15.26%	47,865
Accounting - 5%	\$ 9,749	100.00%	9,749
Accounting	\$ 373,951	5.30%	19,832
Public Safety	\$ 28,531,884	0.00%	-
Facilities Maintenance	\$ 823,521	1.47%	12,106

<b>Legal &amp; Administrative</b>	<b>207,701</b>
rounded	<b>\$ 207,700</b>
<b>NWD Proposed Rebuttal</b>	<b>\$ 403,821</b>
Difference	<b>(196,120)</b>

**Allocation of Data Processing Costs to Enterprise Funds**

<b>Allocated Item</b>	<b>Cost To Be Allocated</b>	<b>Water %</b>	<b>Water Fund</b>
MIS - Communications Cost	\$ 328,960	7.90%	25,988
MIS - Other Costs	\$ 841,172	10.61%	89,223

<b>Data Processing (1)</b>	<b>115,210</b>
rounded	<b>\$ 115,000</b>
<b>NWD Proposed Rebuttal</b>	<b>\$ 146,469</b>
Difference	<b>(31,259)</b>

**Adjustments to Miscellaneous Revenues**

	<u>NWD Rate</u>	<u>PWFD</u>	
	<u>Year Rebuttal</u>	<u>Adjusted RY</u>	
Sundry charges	\$ 140,016	\$ 140,016	
WPC cost share on customer service	\$ 270,808	\$ 270,808	see below
Middletown cost share on customer service	\$ 135,301	\$ 135,301	see below
Refund Group Health		\$ 15,881	see PWFD 4-10
Rental of Property	\$ 81,000	\$ 81,000	
Water Penalty	\$ 42,320	\$ 42,320	
Miscellaneous	\$ 7,515	\$ 7,515	
Investment Interest Income	\$ 39,191	\$ 39,191	
Water Quality Protection Fees	\$ 25,676	\$ 25,676	
Total Offsets to Revenue Requirements	\$ 741,827	\$ 757,709	
Difference		<b>\$ 15,882</b>	

**Determination of Charges to Water Pollution Control and Middletown Sewer**

			FY 2010
Customer Service Expenses			
O&M			\$ 719,939
Rate Funded Meters			\$ 64,247
Debt Service on Loan for Radio Read			\$ 61,894
Subtotal			\$ 846,080
Customer Service expenses 50%			\$ 423,040
Charge to WPC	9,245	64%	\$ 270,808
Charge to Middletown Sewer	4,619	32%	\$ 135,301
Water Customers	14,442		



**Comparison of City Service Recommendations**

	<u>Newport</u>		<u>Woodcock</u>	<u>Woodcock</u>		<u>Catlin</u>		<u>Harwig Direct</u>
	<u>Newport Initial</u>	<u>Rebuttal</u>	<u>Direct</u>	<u>Surrebuttal</u>	<u>Catlin Direct</u>	<u>Surrebuttal</u>		
Audit Fees	\$ 5,245	\$ 5,245	5,245	\$ 5,245	\$ 5,245	\$ 5,245	\$ 5,245	\$ 5,245
City Council	\$ 8,739	\$ 4,408	800	\$ 912	\$ 3,838	\$ 4,408	\$ 4,408	\$ 3,833
Citizen Survey	\$ 1,328	\$ -	800	\$ 800	\$ 1,328	\$ -	\$ -	\$ 1,328
City Clerk	\$ 36,446	\$ 18,383	2,750	\$ 2,750	\$ 3,197	\$ 3,197	\$ 3,197	\$ 15,985
City Manager	\$ 94,282	\$ 59,885	14,121	\$ 14,134	\$ 46,723	\$ 45,044	\$ 45,044	\$ 57,364
Human Resources	\$ 39,137	\$ 39,137	27,548	\$ 30,517	\$ 39,131	\$ 39,137	\$ 39,137	\$ 39,137
City Solicitor	\$ 65,209	\$ 41,419	15,322	\$ 15,336	\$ 32,315	\$ 31,154	\$ 31,154	\$ 39,675
Finance Admin (half of 80%)	\$ 69,988	\$ 42,850	20,556	\$ 20,575	\$ 21,677	\$ 32,231	\$ 32,231	\$ 42,583
Finance Admin 10%	\$ 12,027	\$ 6,918	6,285	\$ 6,918	\$ -	\$ 6,918	\$ 6,918	\$ 12,027
Purchasing	\$ 16,132	\$ 16,763	16,763	\$ 16,763	\$ 13,626	\$ 16,763	\$ 16,763	\$ 16,132
Assessment	\$ 11,346	\$ 5,673	3,600	\$ 4,198	\$ 5,673	\$ 5,673	\$ 5,673	\$ 11,346
Collections	\$ 64,301	\$ 47,865	50,721	\$ 47,865	\$ 53,636	\$ 47,865	\$ 47,865	\$ 64,301
Accounting - 5%	\$ 9,749	\$ 9,749	9,749	\$ 9,749	\$ 43,996	\$ 9,749	\$ 9,749	\$ 9,749
Accounting	\$ 64,888	\$ 64,888	19,814	\$ 19,832	\$ -	\$ 64,888	\$ 64,888	\$ 64,888
Public Safety	\$ 28,532	\$ 28,532	-	\$ -	\$ 28,532	\$ 28,532	\$ 28,532	\$ 28,532
Facilities Maintenance	\$ 12,106	\$ 12,106	32,941	\$ 12,106	\$ 32,705	\$ 12,106	\$ 12,106	\$ 32,941
Subtotal	\$ 539,455	\$ 403,821	\$ 227,016	\$ 207,701	\$ 331,622	\$ 352,910	\$ 445,066	\$ 445,066
MIS - Communications Cost	\$ 25,988	\$ 25,988	25,988	\$ 25,988	\$ 25,988	\$ 25,988	\$ 25,988	\$ 25,988
MIS - Other Costs	\$ 199,832	\$ 120,481	93,909	\$ 89,223	\$ 126,643	\$ 118,414	\$ 121,583	\$ 121,583
Subtotal	\$ 225,820	\$ 146,469	\$ 119,897	\$ 115,211	\$ 152,631	\$ 144,402	\$ 147,571	\$ 147,571
Grand Total	\$ 765,275	\$ 550,290	\$ 346,913	\$ 322,912	\$ 484,253	\$ 497,312	\$ 592,637	\$ 592,637
% of NWD Rev Requ.	9.0%	6.5%	4.1%	3.8%	5.7%	7.0%	7.0%	7.0%
% of Div Rev Requ	9.4%	6.8%	4.3%	4.0%	5.9%	7.3%	7.3%	7.3%

**Docket No. 4025 - City of Newport Water Division – General Rate Filing  
Updated 4/27/09**

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