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*ADMITTED TO PRACTICE IN
RHODE ISLAND & MASSACHUSETTS

June 17, 2011

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

Re: *City of Newport, Utilities Department, Water Division*
Docket 4243

Dear Ms. Massaro:

Enclosed please find an original and nine copies of the following:

1. Newport Water's Response to the Portsmouth Water and Fire District's Second Set of Data Requests;

Please note that electronic copies of these documents have been provided to the service list.

Thank you for your attention to this matter.

Sincerely,



Joseph A. Keough Jr.

JAK/kf
Enclosures

**STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION
DOCKET NO. 4243
Response Of The City Of Newport,
Utilities Division, Water Department
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Set 2**

- PWFD 2-1: Regarding RFC Sch 6: please provide the basis for:
- a. The drop in miscellaneous revenues from \$77,593 in FY 2009 and \$44,092 in FY 2010 to only \$8600 in the rate year
 - b. The proposed rate year investment income of \$3,900 compared to prior years
 - c. The estimate for water quality protection fees revenues. Please reconcile this estimate with the changes in sales shown in RFC Sch A.

Response:

- a. Miscellaneous revenue of \$8,600 in the rate year is comprised of estimated scrap sales and is based on FY 2011 actual scrap sales to December 31 annualized. The \$44,092 of miscellaneous revenue in FY 2010 included \$31,872 in property tax rebates from the Town of Portsmouth for 2008 excess assessments. The balance was scrap sales. The \$77,593 of miscellaneous revenue in FY 2009 included \$44,829 of revenue mispostings (\$26,071 of private fire protection and \$18,758 in sundry charges). It also included \$22,429 of insurance refunds from prior years. The balance of \$10,335 was scrap sales.
- b. Rate year investment income was base on doubling actual interest earned from 7/1/10 to 12/31/10 of \$1,933 and rounding up to the nearest hundred dollars. No increase in interest rates is expected.
- c. See attached schedule.

Prepared by: J. Tracey

City of Newport - Utilities Department - Water Division
Docket 4243
PWFD 2-1 c
Reconciliation of Estimated Water Quality Protection Fee Revenue to
Sales Shown in RFC Sch A.

		Rate Year
Annual Consumption by class per Sch A :		
Residential		705,829,000
Commercial		469,265,000
Governmental		23,907,000
Navy		215,637,000
PWFD		443,480,000
		<u>1,858,118,000</u>
Less accounts not subject to WQP:		
Exempt residential accounts	11.50%	(81,170,335)
Navy		(215,637,000)
PWFD		<u>(443,480,000)</u>
Sales subject to WQP		1,117,830,665
WQP fee	per 100 gallons	\$ 0.0292
Gross WQP fee		326,407
Newport Water's Share		6.90%
Calculated		<u>\$ 22,522</u>
Rounded		<u>\$ 22,500</u>

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PWFD 2-2: As of March 30, 2011, Newport reported \$213,631 in its restricted revenue reserve account. With monthly additions of \$10,158.88, there should be over \$244,000 in this account. Please confirm these amounts. When available, please provide the amount in this account as of June 30, 2011.

Response: The calculation of \$244,000 would be at June 30, 2011 after 12 monthly deposits not at March 31, 2011 after 9 monthly deposits. The actual account balance at June 30, 2011 will be available by July 31, 2011 with the submission of the quarterly report.

	March 31, 2011 Actual	June 30, 2011 Estimated
Balance June 30, 2010	\$ 122,031.67	\$ 122,031.67
Monthly deposits:		
\$10,158.88 for 9 mo.	91,429.92	
\$10,158.88 for 12mo.		121,906.56
Interest	169.43	225.91
Balance Ending	\$ 213,631.02	\$ 244,164.14

Prepared by: J. Tracey

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PWFD 2-3: In Docket 4025, Ms. Forgue indicated that NWD would begin to capture and record the NWD pumping costs so they could be included in the agreed upon cost of service study. In response to PWFD 4-4 in Docket 4025, NWD stated it would track these costs separately. The settlement agreement in Docket 4128 (item 15(o)) calls for the separate identification and allocation of operating and capital costs related to pumping. Please provide this separate identification of pumping costs in this filing to demonstrate how Newport is complying with their representations to separately identify and track such costs.

Response: Newport Water has been recording separate costs for the operation of the 6MG finished water pumps at Lawton Valley and the booster pump at Station 1 in accordance with the settlement agreement in Docket 4128. Cost for this pumping was broken down into electricity, labor, and repair/maintenance. Costs expended for FY 2010 were determined for these attributes as follows:

- Electricity – Electrical costs were determined for each pump by determining the number of hours each pump was operated over the course of the year, determining the actual motor horsepower, motor efficiency, and cost of energy (\$.KWh).

For Station 1, the booster pump was operated for 2,980 hours, the pump is rated at 60 horsepower, with an efficiency rating of 95%, and the average cost of energy for the fiscal year was \$0.129/KWh. Total electrical cost to operate this pump station was \$17,747 for FY10.

For the 6MG pump station at Lawton Valley, the pump was operated for 1,583 hours, the pump is rated at 125 horsepower, with an efficiency of 95%, and the average cost of energy for the fiscal year was \$0.129/KWh. Total electrical cost to operate this pump station was \$19,873 for FY10.

- Labor – Costs for labor include daily inspection and maintenance for the pumps at Lawton valley and Station 1. Inspections include checking pressures, bearing temperatures, couplings, and observing the pump for unusual noises or vibrations. Yearly labor costs for these inspections are

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based upon the number of hours expended at each plant multiplied by the hourly wage with benefits. Yearly costs for this activity total \$6,552 for Station 1 and \$2,196 for Lawton Valley.

- Repair/Maintenance – Activities included in repairs and maintenance to the booster pumps at Station 1 and the 6MG pumps at Lawton Valley include yearly maintenance contracts for the pumps and switchgear and repairs to the pumps. Repairs and maintenance to the booster pumps at Station 1 totaled \$2,622 for FY10. Repairs and maintenance to the 6MG pumps at Lawton Valley totaled \$2,378 for FY10. Details of the expenditures are listed on the attached spreadsheet.

Prepared by: K. Mason

City of Newport - Utilities Department Water Division Docket No. 4243
PWFD 2-3
Finished Water Pumping Expenses
Repairs & Supplies
FY 2010

Station One

50275 Repair & Maintenance - Equipment
None

50311 Operating Supplies

Vendor	amount
National Electric Testing	\$300.00
ABB Inc.	\$1,122.00
RE Erickson	\$1,140.00
Ralco	\$60.00

Total Station One - Operating Supplies - Pumping \$2,622.00

Lawton Valley

50275 Repair & Maintenance - Equipment
Vendor

Vendor	amount
NAPA Auto Partd	\$254.67

Total Lawton Valley Repair & Maintenance Pumping \$254.67

50311 Operating Supplies

Vendor	amount
National Electric Testing	\$300.00
Ralco Electric	\$1,078.40
Harbor Controls	\$1,000.00

Total Lawton Valley Operating Supplies Pumping \$2,378.40

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PWFD 2-4: The calculation of debt service costs related to meters in RFC Sch 6 refers to the 2009 SRF loan. The compliance filing in Docket 4025 referred to the 2008 Series B loan as related to meters. Please explain why a different bond issue was used in this filing or if it is simply an error to be corrected.

Response: The loan used to fund the radio read project was the 2008 Series A loan for \$5.9 million, but only \$2.8 million was used for the radio read project so only 47% of the annual debt service costs should be assigned to Customer Service. The model will be revised to reflect this change.

Prepared by: Harold J. Smith

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PWFD 2-5: Please explain why the cost of the remote meter reading laptop (RFC Sch 4) is not included in the customer service expenses assigned to Middletown and WPC in RFC 6.

Response: The cost of the remote meter reading laptop should have been included in the customer service costs that are shared by Middletown and the WPC.

Prepared by: Harold J. Smith

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PWFD 2-6: If Newport proposes a multi-year average of rate funded expenses for revenues, is it not appropriate that the multiyear average of meter replacement costs also be used as the basis for charges to Middletown and WPC? If not, please explain.

Response: Newport is not proposing a multi-year average of rate funded expenses. In Docket 4025, the charges for Middletown and the WPC were based in part on the Rate Year meter replacement costs and that is the way they were determined in this filing.

Prepared by: Harold J. Smith

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PWFD 2-7: Regarding RFC Sch 5. Please reconcile the payments in this schedule with the "transfer to Checking for Vendor Payments" from NWD's quarterly reports to the Commission for the Restricted Debt Service Account for FY 2010 and FY 2011. (Note that there are no transfer for debt payments shown for the months of May or June, so all payments for FY 2011 should have been made by now.) Please indicate how much of each transfer from the debt service restricted account reported since July 2009 went to each bond issue.

Response: See Attached schedule. Note that the transfer for the May 1, 2011 Revenue bond payment was made on May 2, 2011 since both April 30, 2011 & May 1, 2011 fell on a weekend.

Prepared by: J. Tracey

City of Newport - Utilities Department - Water Division

Docket 4243

PWFD 2-7

Reconciliation of RFC Schedule 5 Debt Service to Payments made from Restricted Debt Service Account

FY 2010 & FY 2011

	Month of transfer	Revenue Bonds	2007 SRF A \$3M	2008 SRF B \$5.9M	2009 SRF A \$3.3M	\$4.037 BAN Part SRF	Total
Debt Service Payments from Restricted Debt Service Account:							
	Aug-09		\$ 161,760	\$ 69,551			\$ 231,311
	Nov-09	\$ 617,396					617,396
	Feb-10		49,961	80,132	\$ 2,388		132,481
	Apr-10	293,156					293,156
	FY 2010	910,552	211,721	149,683	2,388	-	1,274,344
RFC Schedule 5	2010	910,552	211,749	157,915	2,388		1,282,604
Variance		\$ (0)	\$ (28)	\$ (8,232)	\$ 0	\$ -	\$ (8,260)
			a	a			
Debt Service Payments from Restricted Debt Service Account:							
	Sep-10		\$ 163,960	\$ 304,140	\$ 18,324		\$ 486,424
	Oct-10					\$ 95,415	95,415
	Nov-10	\$ 587,360					587,360
	Mar-11		47,906	100,376	42,784		191,065
	May-11	55,236					55,236
	FY 2011	642,596	211,867	404,515	61,108	95,415	1,415,501
RFC Schedule 5	2011	642,596	211,990	411,824	61,108		1,327,518
Variance		\$ 0	\$ (123)	\$ (7,309)	\$ (0)	\$ 95,415	\$ 87,983
			a	a		b	

a RICWFA billings may differ from loan amortization schedules due to timing of actual loan drawdowns

b RFC Schedule 5 Debt service excluded Interest on the BAN

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- PWFD 2-8: Based on the quarterly reports provided by Newport it appears that interest earnings on the restricted debt service account averaged about \$9.80 from June 2009 through March 2011 (about \$120 per year). This is less than 0.01% (1/100 of a percent) on an annual basis.
- a. Please explain how the funds for each restricted account are invested.
 - b. Please provide the average annual rate for interest earnings over the past year on each restricted account.
 - c. Why were the interest earnings on the debt service account so much less than the earnings reported for a similar size capital fund?
 - d. Why are there no interest earnings reported for December 2009 with an average balance in excess of \$700,000?
 - e. What is the basis for the 1.4% interest rate assumed on RFC 11 for this fund?

Response:

- a. All of the restricted cash accounts except the debt service account are on deposit at Citizens Bank in Municipal Checking accounts with interest. The debt service restricted cash is held in the Wells Fargo advantage 100% Treasury Money Market Fund as required by the bond indenture. These accounts meet the deposit objectives and the insurance and collateralization requirements of the State of Rhode Island and the City of Newport.
- b. See attached Schedule
- c. The interest earnings on the debt service account were less than the earnings reported for the capital fund because the debt service restricted cash is held in the Wells Fargo advantage 100% Treasury Money Market Fund as required by the bond indenture. US Treasury rates have been just above zero all of the last year.

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- d. There no interest earnings reported for the debt service account in the December 2009 Quarterly report because the Wells Fargo Statement was late. Interest of \$117.10 for December 2009 was recorded when the statement arrived and was properly recorded in the accounting system and reflected in the March year to date trial balance used in the preparation of the March 2010 quarterly report.

- e. The 1.4% interest rate assumed on RFC 11 was the rate used in prior filings. It should have been reduced to 0.1%. This error had no effect on the rate filing. It just slightly reduces the funds available in the restricted accounts. The correct estimated interest revenue was used in the revenue offset schedule.

Prepared by: J. Tracey

City of Newport - Utilities Department - Water Division

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PWFD 2-8b

Average Annual Interest Rate on Restricted Accounts May 2010 through April 2011

	Capital	Debt Service	Chemicals	Electricity	Retire Insurance	Accrued Benefits	Revenue Reserve	Payroll
Interest 5/2010-4/2011	2,676.73	156.65	32.50	189.06	8.84	128.27	214.57	160.56
Average Balance	1,896,888.01	1,413,590.90	38,794.25	133,770.09	11,692.43	101,657.28	162,744.863	121,790.17
Average Rate	0.14%	0.01%	0.08%	0.14%	0.08%	0.13%	0.13%	0.13%

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PWFD 2-9: Please explain footnote (3) of RFC 1 regarding debt service and capital spending based on FY 2010.

Response: The referenced footnote should read as follows:

“Funding of Debt Service account based on projected spending on debt service for FY 2012. Funding of Capital Spending account based on projected cash capital needs for FY 2010 through FY 2017 and the need to meet debt service coverage requirements.”

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PWFD 2-10: Please explain the transfers from the debt service restricted account to the capital restricted account shown on RFC 11 in 2011 (\$1,500,000) and 2013 (\$500,000). When were these types of transfers within restricted accounts approved or authorized?

Response: When RFC 11 was developed, certain scenarios were examined to evaluate whether there would be excess funds in either the debt service account or the capital account that could help modify rates. For instance, if there were excess funds in the capital account, they could potentially be transferred to modify increases needed for debt service, and vice versa. Newport does not plan to make the transfers shown in RFC 11, and the rebuttal schedules will reflect this fact. Furthermore, if Newport sought to make such a transfer, it would seek Commission approval.

Prepared by: Harold J. Smith

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PWFD 2-11: Regarding consultant costs (RFC 3), do the rate year costs reflect any amortization of rate case costs or are they proposed to be expensed in total in the rate year? Do the rate year costs reflect any amortization of the costs related to the demand study or are they proposed to be expensed in total in the rate year? Please explain.

Response: The rate year costs do not reflect any amortization of rate case costs. They are proposed to be expensed in total as incurred since the rate filing will span two fiscal years. The rate year costs related to the demand study are proposed to be expensed in the year incurred since demand studies have been or will be performed in FY 2012, 2011, 2010 and 2009.

Prepared by: J. Tracey

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PWFD2- 12: Regarding Division data request 1-13, please indicate if the Newport City Council has approved the estimated FY 2012 (July 1, 2011 – June 30, 2012) sewer rate of \$0.01175/gallon discussed in Ms. Forgue's prefiled testimony. If it has not been adopted, is it on the Council agenda for adoption? If so, for what meeting? What is the basis for the estimated FY 2012 sewer rate?

Response: At the June 8, 2011 meeting the City Council passed on the second reading to the amendment to the ordinance (Section 13.12.010) for the change in the sewer rate effective July1, 2011. The new sewer rate for FY 2012 is \$11.27 per 1000 gallons of metered water consumption. The basis for the sewer rate is to support the operations of the Water Pollution Control Division which is an enterprise account within the City.

Prepared by: J. Forgue

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PWFD 2-13: On page 21 of Ms. Forgue's testimony regarding the collection of demand data this summer, she states that "all the parties did not agree to waive this requirement." Did any party, including Newport, agree or ask to waive the requirement or did all parties agree that the threshold limits set out in the stipulation were not met? Does Newport contend that the threshold conditions for acceptance of the results as set forth in the settlement agreement were met?

Response: The financial experts for Newport, the Division, PWFD and the Navy spoke about the demand data collected in 2010 and there was a consensus that demand data would have to be collected in 2011. As a result, all the parties did not deem the demand data "unnecessary" as set forth in the Settlement Agreement. Thus, all the parties did not agree to waive the requirement to collect demand data in 2011. Newport contends that the demand data for 2010 alone was not sufficient under the terms of the settlement for the demand study.

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CERTIFICATION

I hereby certify that on June 17, 2011, I sent by electronic mail a copy of the within to Service List herein below, and mailed one original and nine copies to Luly Massaro, Clerk, Rhode Island Public Utilities Commission.

Parties/Address	E-mail Distribution	Phone/Fax
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