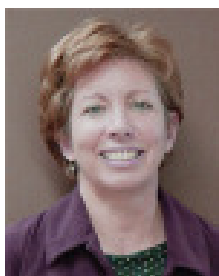




2009

PROVIDENCE WATER SUPPLY BOARD
ANNUAL REPORT

Visit our website at www.provwater.com



REPORT FROM CHIEF ENGINEER PAMELA M. MARCHAND

Overview

The economy and cool, damp weather were just two of the many challenges facing Providence Water during Fiscal year 2009.

The economy was the single greatest challenge of the year, for all Rhode Islanders. We all saw big cost increases in energy, health care, and other necessities. At the same time, a large increase in local unemployment caused hardship for many families and made it even harder to pay for life's necessities. Businesses went bust and demand for water suffered.

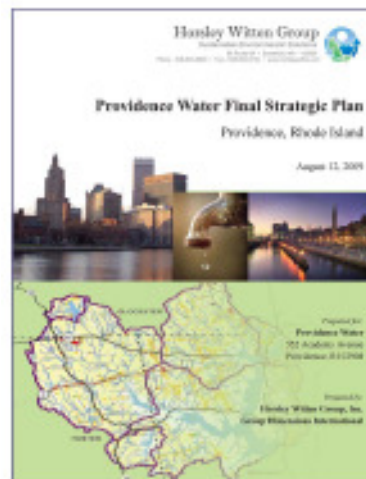


The soggy weather also significantly dampened consumer demand for water in May and June, and continued throughout the summer of 2009, which created a setback in such normally secure revenue sources as water sales.

Challenges will always exist in our world. That having been said, it's productive to look at challenges as a call for creativity and innovation, rather than as obstacles to progress. After all, the innovative thought process has been a long-standing tradition at Providence Water, from the earliest designs of today's water system, to the originality displayed in the development of our current Infrastructure Replacement Program.

Today, our mission as an organization is to provide reliable, high-quality, safe, clean drinking water for our customers at a reasonable cost, supported by excellent customer service, within the context of a positive, fair, efficient, effective, and healthy workplace environment. Despite the many challenges during the period July 1, 2008 through June 30, 2009, Providence Water continued to provide exceptional drinking water and service to our 600,000 customers throughout Rhode Island with creative solutions.

To tap into the innovative potential at Providence Water, a Strategic Plan / Organizational Assessment was conducted and involved virtually all levels of employees at Providence Water. The most challenging aspect of this project continues to be an effort to change the organizational culture of Providence Water and to develop a greater sense ownership throughout the staff. This will certainly be a long-term project and will be ongoing for some time. Four central issues



were clearly identified by a majority of the employees and work groups began to address potential improvements. Implementation has actually begun in some areas while other areas provide additional challenges to overcome before implementation can begin.

Providence Water Board of Directors

Chairman -- Andrew K. Moffit
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Ex-Officio -- Bruce Miller
Councilman Joseph DeLuca
Councilman Michael A. Solomon
John A. Fagnoli
Everett Bianco

Legal Advisor -- Fernando S. Cunha, Esq.

One such issue was an identified need to improve internal and external communications. To assist in this mission, Providence Water hired a web-based developer and systems analyst. He brings to us state-of-the-art development capabilities that will lend itself to help us further along some of the latest computer technologies for our applications and web sites, both external and internal. We have also devoted a full-time staff position to manage utility communications



programs, resurrected an internal utility newsletter, began to upgrade and redesign our public website and began work on an internal web-based communications center.

Another area of particular concern is the security of the water system and its assets. Our Special Projects Department has grown with the re-assignment of our contingent of Watershed Security Inspectors. This better aligns the responsibility for security functions within Providence Water under the umbrella which is most attuned to organizational security.

All Providence Water security personnel began attending standardized National Incident Command System training and will ultimately be certified through the advance ICS-400 level. In fact, every Providence Water employee will be trained through the Single Incident ICS Level 200 to better integrate with other agencies in the event of a major security incident or disaster.



FEMA

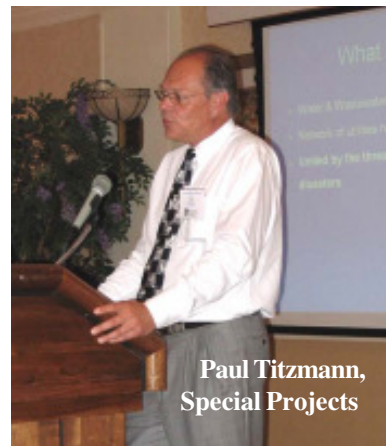
Another security measure undertaken includes the upgrading all of the existing Scituate security sites from telephone to high speed Ethernet LAN connections. This upgrade allows Providence Water to better manage the card access entry system at all of the remote Scituate locations. In addition to more efficient security, this move allows Providence Water to drop several of the dedicated security telephone lines in an effort to reduce costs for telephone services. This project will further compliment prior upgrades done to the video system and will provide a seamless solution for integrated video and security data.

At the Scituate treatment plant, the operations division created a “disaster recovery area” to be used in the event of an emergency. The room is equipped with electrical service and dedicated phone and computer lines which would enable Providence Water to function during outages at our two other facilities.

We also installed a second high speed internet connection. This not only speeds up day-to-day computerization operations throughout the utility, but is a necessary piece of the disaster recovery/enterprise backup scheme. In addition, we have replaced our main report engine with Jasper - a much more “programming-centric” tool. This affords us a better capacity to customize reports without conforming to Crystal’s methodology, yet still allows us to produce Crystal-like quality reports.

Water distribution system monitoring equipment has been installed at strategic locations within our distribution system. This equipment will monitor various parameters such as pH, residual chlorine, conductivity etc. It is designed to alert operators in the event that there is a system disturbance in water quality which could potentially be due to acts of vandalism or terrorism.

Providence Water continues to be a community leader in the development of a statewide water utility mutual assistance program. Our Director of Special Projects has chaired development of the Rhode Island Water And Wastewater Agency Response Network or RI-WARN program. In FY 2009, Providence Water hosted the first RI-WARN tabletop exercise at the Scituate Auditorium.



Paul Titzmann,
Special Projects

This provided an opportunity for all the Rhode Island WARN members to run through a mock disaster event and identify areas where assistance procedures need to be formulated and fine-tuned.

Dollars and Sense

During FY 2009, an agreement was reached with the Town of Scituate regarding our Property Tax Assessment. Providence Water owns more than 12,000 acres of land in our watershed communities to protect the quality of the water that collects in our reservoirs.

The largest majority of land owned is in the Town of Scituate. The Tax Agreement settled a long-term tax dispute with the Town and established a 10-year tax treaty with the Town. The treaty was a win-win for both parties -- it stabilized revenue for the Town and expenses for Providence Water. Instead of a refund of overpaid taxes, a restricted Scituate Watershed Fund was established, funded by the tax refund proceeds, to purchase additional land in Scituate that will benefit and protect the reservoir system. Providence Water had to seek formal approval from the RI Public Utilities Commission and the Providence City Council in order to finalize the Tax Agreement and establish the Watershed Fund. Both approvals were received during FY 2009.



Property tax negotiations began with the Town of Glocester, another watershed community in which Providence Water owns land. A tentative agreement was reached with the Town during FY 2009.

Rate Consultants were engaged to prepare a General Rate filing for Providence Water and a Conservation Rate filing that would provide various proposals for the RI Public Utilities Commission to consider in establishing water rates. The filings were prepared and filed during FY 2009.

Providence Water continues to be in the forefront of the "Go-Green" movement. As part of our Energy

Conservation initiative, we took part in a program sponsored by National Grid to remove all of our antiquated lighting in the Academy Ave garage and installed energy efficient ballast and bulbs. These fixtures are not only energy efficient, but they are controlled by motion sensors. This action significantly reduces the

amount of time the fixture will actually be on, saving energy and money.



Providence Water also signed an agreement with Demand Direct whereby Demand Direct agrees to pay Providence Water a monthly fee (approximately \$50,000 a year) to curtail our energy use during peak periods. We have identified four locations within our utility where we would switch to on-site back-up

generator power when the potential for electric grid failure exists in our region.

On the legislative front, Providence Water joined with the RI Water Works Association in getting new Dig Safe legislation passed into law during the 2009 Session of the RI General Assembly. This legislation, proposed by the water suppliers, modifies the long-standing Dig Safe law in order to increase efficiency and safety. We worked with all of the stakeholders, including other utilities, various contractor associations, Division of Public Utilities Commission, RI League of Cities and Towns, Dig Safe System and the Senate Policy Office to reach a compromise that was fair for everyone involved.



During FY 2009, legislation was also submitted in the Rhode Island General Assembly that would have prevented Providence Water from charging Hydrant fees to municipal fire districts. To offset that revenue loss, Providence Water submitted a rate proposal to the PUC to re-allocate the cost of service from Hydrant charges to other water rates charges.

Customer care

Providence Water introduced another customer friendly service in FY 2009. Through a contract with an independent insurance carrier, we are offering customers the opportunity to purchase service line insurance protection that might not otherwise be covered on a normal homeowner's policy. For less than \$60 a year, customers can receive coverage to pay for the repair or replacement of their water service line from the main to their home if they develop a leak.

Metering of customer water usage continues to improve. With 99.8% of our customer meter system converted to Automatic Meter Reading (AMR), Providence water began to implement the maintenance phase of our AMR program and commenced our 15-year meter replacement program. The older-style 40 Watt Encoder Receiver Transmitters (ERTs) are being replaced with new 60 Watt ERTs that have leak

detection capabilities and are equipped with a 20-year lithium battery. We have already reaped benefits from the leak detection notification on the 60 Watt ERT's. Reports can now be generated that identify customers who have leaks located beyond the water meter in



their homes. This new leak detection notification process gives us valuable information that we use to alert our customers who have leaks, saving them money and potential home damage.

Providence Water installed 1,419 meters from July 2008 through June 2009. Amazingly, 99.61% of our AMR accounts were based on actual meter readings and

not estimates. That's especially impressive when you take into account that we rendered 293,386 water bills in FY 2009.

The meter section continues to evaluate and research the possibility of a fixed network meter reading systems. Fixed network meter reading is done remotely without need to drive by customer homes to collect radio dispatched meter readings. Discussions are on going with our AMR vendor about the possibility of hosting pilot program pertaining to a hybrid fixed network. We are currently awaiting for the next generation ERT to become available which will provide us with fixed-network capabilities. The meter section will be preparing RFP's for a wireless work order system and leak detection system (MLOGS) that identifies leaks before the meter. Both projects are expected to commence in calendar year 2010. The leak detection system will be receiving federal stimulus funding.

The meter area has also been analyzing wireless work order systems in an effort to improve departmental efficiencies. The system will virtually eliminate the need to duplicate data entry and the information will be available to our staff in real time upon completion of all work in the field. It is our hope that a wireless work order system will be in place so that it can be utilized in conjunction with the implementation of a leak detection system that will commence in FY 2010.

The billing division is aggressively analyzing the billing frequency to determine if we should increase our billing output from quarterly to bi-monthly. We are anticipating the rendering of electronic billing statements or paperless bills at some point in calendar year 2010. An on-going assessment of water utility billing software is taking place in order to determine if changes need to be made.

Creatively doing more with less

Providence Water continues to monitor and make improvements to the many systems within our control. Providence Water also employed the old trick of making the most of what we have and making do with less. Some accomplishments of 2009 are:

We switched from an old and costly Oracle Financials System to an updated Lawson system, for processing requisitions and purchase orders. In doing so, Providence Water is now consistent with City Hall and the School Department who have been using Lawson for the past several years. This has increased efficiency and helped to expedite needed purchases.

LAWSON

We created a vehicle pool at both our Cranston and Providence locations, to better utilize Providence Water vehicles and allow more employees access to these same vehicles, thus increasing our mobility without incurring costs of additional vehicles.

We redesigned and retro-fitted old style T&D crew trucks utilizing the existing chassis making the vehicles safer and more functional at approximately half the cost of a new truck.

We moved a day-shift auto mechanic to a second shift work schedule. This allowed us to keep up with our general maintenance and repairs to our fleet of cars, trucks and SUV's without taking essential vehicles off road during peak work shifts.

The Water Supply



A healthy forest land surrounding our reservoir system is critical to keeping our raw water pristine and inexpensive to treat. We keep a vigilant eye open to purchase strategically important parcels of land when they become available on the market. New land acquisition within the watershed included the purchase of one parcel outright and the purchase of

development rights to 3 others for a total of 70 acres in FY 09.

Every year, our foresters identify trees that have the potential to impact the health of our 12,000 acres of forest land. We solicit bids for logging companies to harvest this excess wood. Companies pay Providence Water to cut and remove these trees, keeping the wood for re-sale. In FY 2009, logging of forested land equaled 568,000 board feet or 2,595 cords of hard and softwood producing additional revenue for Providence Water of \$44,915. In addition, 1500 new tree seedlings were planted in order to replenish the harvested trees and maintain a healthy watershed.

The laboratory continues to address new and expanding regulatory requirements. Included this past year was the Initial Distribution System Evaluation (IDSE). This regulation required a sampling plan and the sampling and testing of 24 specific distribution system sites on a bimonthly basis for a period of one year. Results of the IDSE will be used to determine 12 compliance sites to be used routinely for quarterly monitoring of Total Trihalomethanes and Haloacetic Acids.

The laboratory also complied with a new Unregulated Contaminant Monitoring Regulation 2 (UCMR2). This rule required quarterly monitoring for contaminants such as flame retardant, explosive and pesticide chemicals. If found in significant concentrations, some new compounds could potentially be included in future monitoring regulations. None of these compounds were detected in Providence Water during all four quarters of sampling.

Water Treatment plant maintenance workers relocated the delivery station used for fluoride. Previously the control panel was outside and susceptible to the elements. The new location is enclosed and provides for a safer, more functional work environment.

Infrastructure re-investment



Since the inception in 1996 of our ongoing Capital Improvement Program (CIP) and Infrastructure Replacement (IFR) program, Providence Water has invested a total of \$184 million into needed improvements to the water system. Improvements have been made in virtually all areas, from the source water



reservoirs and dams, through the treatment plant, the major water transmission aqueducts and pipelines, pumping stations and storage reservoirs, down to the distribution mains bringing the water to customers.

There were also new and ongoing projects.

Upgrade of Treatment Plant Filters – The contract was signed for the construction of the project and the contractor began mobilization. The rehabilitative work will be performed in several phases and is expected to be in construction for approximately 5 to 6 years. The scope of work for the project includes reconstructing all 18 filters, raising the filter backwash troughs to provide greater filter media depth providing the option for future use of Granular Activated Carbon (GAC), completely removing the existing underground concrete roof slab structures covering the filters, and construction of above-ground building structures over the filters in place of the currently existing underground roof slabs in order to furnish full visibility and access to



the entire surface area of the filters. The project also includes replacement of all filter piping, control valves and meters, installation of filter-to-waste piping, and the relocation

and replacement of the 48" wastewater pipe from inside the pipe gallery to an enclosed area to be constructed outside the building. Pipe gallery improvements will also consist of new lighting, HVAC, and a new outside access point that will improve safety conditions and facilitate construction activity.

Replacement of Lead Services – In accordance with the EPA Lead and Copper rule, a water system is required to monitor drinking water at the customer tap and to replace annually 7% of the total amount of lead services under its ownership, if after corrosion control optimization is implemented, lead concentrations exceed an action level of 15 ppb in more than 10% of customer taps sampled. Because Providence Water exceeded the lead action level, we began construction, in August 2007, on a lead service replacement program as mandated by the EPA Rule. Approximately 6,130 lead services were replaced at the conclusion of the fiscal year since August 2007.



equipment to detect audio frequencies created by water leakage. When suspected water leakage is detected, a leak noise correlation is used to confirm and

precisely identify where the leak is located along the pipe. Approximately 650 miles of mains were surveyed and about 125 leaks were verified using a leak noise correlation.

Geographic Information System (GIS) – The implementation of a full-scale system wide enterprise GIS remains in progress. The project consists of the conversion



of the existing distribution system asset records that currently reside in various software programs and paper records into one centralized database and mapping system. The initial phase of the data conversion is complete. Scanning and linking older distribution system as-built records into the system is being evaluated. The project also includes business process modeling to optimize and customize the design of the system, as well as the purchase and development of all computer hardware, software applications, and data needed to support a fully functional, customized GIS program. Future development of a mobile application is being planned to provide for field access to records and maps, and to record and update field data.

All of us, some 265 strong at Providence Water, recognize the enormous responsibility we share in preserving the health and safety of our 600,000 consumers. Our jobs are to ensure that we deliver the highest quality water day in and day out at the lowest possible cost to our customers.

Our people work often times in difficult conditions, to preserve and protect this vital resource to our City and State. Where we can save money and preserve quality, we do what is necessary. It's a responsibility we do not take lightly.

Thank you for your trust and confidence.

Pamela M Marchand

Providence Water Senior Management

Chief Engineer /General Manager --
Pamela Marchand, P.E.

Deputy General Manager / Operations --
Michael Russo

Deputy General Manager / Administration --
Boyce Spinelli

Director/Water Supply -- **Michael Covellone**

Director/Commercial Services -- **Ricky Caruolo**

Director/Engineering -- **Paul Gadoury**

Director/Support Services -- **Joseph Spremulli**

Director/Finance -- **Jeanne Bondarevskis**

Director/Special Projects -- **Paul Titzmann**

Acting Director/Transmission & Distribution --
Ronald DelGallo

**Providence Water Supply Board
Balance Sheets Summary
for the Years Ended June 30, 2007, and 2008**

	Audited 2008	Audited 2009
ASSETS		
Property, Plant and Equipment	\$315,481,254	\$347,951,684
Less Accumulated Depreciation and Amortization	124,959,307	135,605,412
Net Property, Plant and Equipment	190,521,947	212,346,271
Total Operating Current Assets	15,613,411	15,368,177
Total Restricted Current Assets	59,445,457	53,276,389
Total Current Assets	<u>75,058,867</u>	<u>68,644,566</u>
Total Assets	\$265,580,814	\$280,990,838
CAPITALIZATION AND LIABILITIES		
Capitalization		
Total Capitalization	\$199,553,381	\$209,293,850
Total Long-term Debt	44,562,194	42,048,689
Total Operating Current Liabilities	17,859,518	22,073,864
Total Restricted Current Liabilities	3,605,721	7,574,434
Total Current Liabilities	<u>21,465,239</u>	<u>29,648,299</u>
Total Liabilities and Capitalization	\$265,580,814	\$280,990,838

**Providence Water Supply Board
Summary Statement of Revenue and Expenses
for the Years Ended June 30, 2007, and 2008**

	Audited 2008	Audited 2009
Total Operating Revenues	\$54,069,228	\$59,574,449
Total Operating Expenses	46,857,075	48,795,835
Operating Income (Loss)	7,212,153	10,778,614
Net Non-Operating Revenues (Expenses)	1,859,355	-1,812,881
Capital Grant & Contribution	898,034	774,733
Net Income	9,969,542	9,740,466
Increase in Retained Earnings	9,969,542	9,740,466
Retained Earnings - beginning of year	131,481,083	141,450,625
Retained Earnings - end of year	\$141,450,625	\$151,191,092

**Summary Statement of Contributed Capital and Retained Earnings
for the Years Ended June 30, 2007, and 2008**

	Contributed Capital	Reserved Retained Earnings	Unreserved Retained Earnings	Total Retained Earnings
<i>Balance at June 30, 2008</i>	\$58,102,756	\$126,702,606	\$14,748,019	\$199,553,381
<i>Balance at June 30, 2009</i>	\$58,102,756	\$135,427,505	\$15,763,586	\$209,293,848