

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NARRAGANSETT BAY :
COMMISSION RATE FILING : DOCKET NO. 3639

REPORT AND ORDER

On October 4, 2004, the Narragansett Bay Commission (“NBC”) filed an application with the Rhode Island Public Utilities Commission (“Commission”) seeking a rate increase, in conformance with Order No. 17558, in order to provide debt service funding exclusively for NBC’s Capital Improvement Program (“CIP”). This rate increase would be effective July 1, 2005. The proposed rates were designed to generate total revenues of \$60,931,773, and if approved as filed, would increase NBC’s present revenue by \$6,551,225 or 12.05 percent.

The present filing represents the fifth rate filing in the last five years. Four of these five rate filings were necessitated primarily by the Combined Sewer Overflow Abatement Program (“CSO”) Project. The following provides a brief history:

DOCKET NO.	FILING DATE	INCREASE REQUESTED	INCREASE ALLOWED	AUTHORIZED REVENUE
3162	6/29/00	\$10,089,441	\$6,669,489	\$36,632,209
3409	12/21/01	\$ 8,834,420	\$8,834,420	\$45,467,359
3483	11/29/02	\$13,826,248	\$7,047,965	\$51,499,178
3592	3/1/04	\$ 4,967,683	\$2,883,974	\$54,380,549
3639	10/4/04	\$ 6,551,225		

On October 4, 2004, NBC submitted the pre-filed testimony of Walter Edge, Maureen Gurghigian and Karen Grande. In his pre-filed testimony, Mr. Edge discussed how NBC has complied with the requirements of Order No. 17558 for obtaining a rate increase for debt service and debt service coverage for the CIP. He explained that the increase will result in an across-the-board rate increase on tariff rates of 12.76 percent.

He maintained that NBC is making every effort to reduce future debt service costs. Lastly, he indicated that NBC is requesting approval for a new CIP project relating to repairs and improvements to the chlorine building and digester complex at Bucklin Point, estimated at \$550,000.¹

Ms. Gurghigian, NBC's financial advisor for debt borrowing, provided testimony to update NBC's capital financing plan. She explained that Rhode Island Clean Water Finance Agency ("RICFWA") has loan capacity constraints which requires NBC to utilize the Tax Exempt Commercial Paper ("TECP") or Variable Rate Debt Obligation ("VRDO") approach. She explained that since Docket No. 3483, filed on November 29, 2002, RICWFA has reduced their estimate of funding available to NBC. Therefore, NBC utilized the VRDO approach, which gives NBC both call flexibility without penalty and interest rate advantages over a fixed rate debt approach. Since issuing the bonds in April 2004, the NBC's interest rate has averaged 1.13 percent, which compares favorably with the average rate of 1.14 percent for the Bond Market Association index. In contrast, during the same time period, the Revenue Bond Index for fixed debt rates has averaged 5.26 percent. Ms. Gurghigian indicated that VRDO interest costs are projected to increase from 1.75 percent in 2004 to 3.25 percent by 2010. Lastly, Ms. Gurghigian explained that RICWFA usually borrows in the fall and is anxious to capitalize on current favorable interest rates. Thus, NBC's rate filing needs to be approved now because NBC's present rates are insufficient for debt service coverage requirements.² In her pre-

¹ NBC Ex. 1 (Edge's direct testimony), pp. 1-9.

² NBC Ex. 2 (Gurghigian's direct testimony), pp. 1-9.

filed testimony, Ms. Grande explained the Trust Indenture and First Supplemental Trust Indenture utilized by NBC for its VRDO program.³

On November 5, 2004, the Division of Public Utilities and Carriers (“Division”) submitted the pre-filed testimony of Thomas Catlin. In his pre-filed testimony, Mr. Catlin stated that NBC complied with the requirements of Order No. 17558 in order to receive a rate increase for additional debt service requirements related to NBC’s CIP program. Also, Mr. Catlin noted that this increase is necessary at this time in order for NBC to demonstrate that it has sufficient revenues for purposes of accessing additional RICWFA debt and allowing RICWFA to issue that debt as soon as possible.⁴

Following published notice, an evidentiary hearing was conducted at the offices of the Commission at 89 Jefferson Boulevard, Warwick, Rhode Island on November 12, 2004. The following appearances were entered:

FOR NBC:	Peter McGinn, Esq.
FOR THE DIVISION:	William Lueker, Esq. Special Assistant Attorney General
FOR THE COMMISSION:	Steven Frias, Esq. Executive Counsel

At the hearing, Mr. Edge, Ms. Gurghigian and Mr. Catlin testified as a panel. Ms. Gurghigian testified that the availability of RICWFA funds for NBC is declining because federal capitalization grants set by the Clean Water Act have declined, and because of the increased demands of other borrowers. Ms. Giebink, on behalf of NBC, indicated that NBC has received approximately \$7.2 million in federal grants for the CSO project. Ms. Gurghigian explained that NBC utilizes a mix of variable and long-term debt. She also

³ NBC Ex. 3 (Grande’s direct testimony), pp. 1-21.

⁴ Div. Ex. 1 (Catlin’s direct testimony), pp. 1-5.

admitted that ratepayers are likely to see rate increases for the CSO project through 2015.⁵

At the conclusion of the hearing, the Commission approved the rate increase as filed for effect July 1, 2005 and the CIP project for repairs and improvements to the chlorine building and digester complex.⁶ The Commission finds that this rate increase is necessary and in the public interest. Of course, future NBC rate increases due to debt service “could be mitigated if the Commission were to determine that other areas in NBC’s cost of service could be reduced” or as a result of “any prudence review it may want to undertake at this time.”⁷ For purposes of clarification, NBC rate increases due to the VRDO/TECP approach were not pre-approved in Order No. 17558. Instead, only the VRDO/TECP program was found “to be a prudent method of financing debt.”⁸

Accordingly, it is

(18125) ORDERED:

1. Narragansett Bay Commission’s rate application of October 4, 2004 is hereby approved for effect July 1, 2005.
2. Tariffed rates, except for septage revenue and pre-treatment fees, will be increased by 12.76%, or \$6,551,225, for a total cost of service of \$60,931,773.
3. Narragansett Bay Commission shall comply with all other findings and instructions in this Report and Order.

⁵ Tr. 11/12/04, pp. 10-11, 13, 17, 23.

⁶ The approved cost of service is incorporated as Appendix A to this Report and Order.

⁷ Order No. 17558, pp. 25-26.

⁸ Id.

EFFECTIVE AT WARWICK, RHODE ISLAND ON JULY 1, 2005,
PURSUANT TO A BENCH DECISION ON NOVEMBER 12, 2004. WRITTEN
ORDER ISSUED JANUARY 25, 2005.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

*Kate F. Racine, Commissioner

Robert B. Holbrook, Commissioner

*Commissioner Racine concurs but is unavailable for signature.