

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NARRAGANSETT BAY :
COMMISSION RATE FILING : DOCKET NO. 3775

REPORT AND ORDER

On October 4, 2006, the Narragansett Bay Commission (“NBC”) filed an application with the Rhode Island Public Utilities Commission (“Commission”) seeking a rate increase for debt service and debt service coverage costs for NBC’s Capital Improvements Program (“CIP”) projects including the Combined Sewer Overflow project in accordance with Order No. 17558 from Docket No. 3483. This rate increase would be effective July 1, 2007. The proposed rates were designed to generate additional revenues of \$6,010,883, and if approved as filed, would increase NBC’s present revenues by 9.50 percent.

The present filing represents the seventh rate filing in the last six years. Five of these seven rate filings were necessitated primarily by the Combined Sewer Overflow Abatement Program (“CSO”) Project. The instant filing is the second application filing that NBC has made under a simplified process, approved in Docket No. 3483, Commission Report and Order No. 17558, applicable to cover only debt service and debt service coverage costs. The following provides a history of recent rate increases:

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	\$6,551,225	\$60,931,773
3707	11/1/05	\$ 3,108,471	\$2,348,622	\$63,284,139
3775	10/4/06	\$ 6,010,883		

On October 4, 2006, NBC submitted the pre-filed testimony of Walter Edge and Maureen Gurghigian. In his pre-filed testimony, Mr. Edge discussed how NBC has complied with the filing 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 9.99 percent. He explained that this amount differs from the revenue increase of 9.50 percent because not all revenue accounts are impacted by the proposed rate increase. He maintained that NBC has taken steps to protect its ratepayers from unnecessary, excessive rate increases for debt service. Mr. Edge indicated that the rate increase is limited to debt service and debt service coverage for CIP projects.¹

Ms. Gurghigian, NBC's financial advisor for debt borrowing, provided testimony to update NBC's capital financing plan and the Tax Exempt Commercial Paper ("TECP") or Variable Rate Debt Obligation ("VRDO") program. She explained that Rhode Island Clean Water Finance Agency ("RICFWA") has loan capacity constraints which require NBC to utilize the TECP/VRDO approach. She reiterated her testimony that was part of Docket 3639 stating that RICWFA has reduced their estimate of funding available to NBC. Therefore, the preferred financing option was the VRDO, which gives NBC call flexibility without penalty, more flexibility and interest rate advantages over a fixed rate debt approach. Since issuing the bonds in April 2004, the Federal Reserve has increased interest rates, and municipal short term interest rates have also increased. During the past twelve (12) months, NBC's VRDO rate has averaged 3.206 percent which compares favorably with the average rate of 3.194 percent for the Bond Market Association

¹ NBC Exhibit 1 (Edge direct testimony), pp. 1-13.

("BMA") index. In contrast, the Revenue Bond Index for fixed debt rates has averaged 5.31 percent for this same period of time. Ms. Gurghigian indicated that VRDO interest cost has been projected at 3.88 percent. Lastly, Ms. Gurghigian explained that NBC's next loan is coordinated to access the next RICWFA funding and that although not collected at that time, the rate covenants require the rates be approved at the time that the loan is executed.²

On November 10, 2006, 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 he reviewed the requirements of the Commission's Order in Docket No. 3483 and concluded that NBC had complied with those requirements. Also, Mr. Catlin noted that this increase is necessary at this time in order for NBC to demonstrate that its revenues will be sufficient to meet debt service and coverage requirements so that it will have access to additional RICWFA debt and to allow RICWFA to issue that debt as soon as possible to take advantage of current favorable interest rates.³

Following published notice, an evidentiary hearing was conducted at the offices of the Commission at 89 Jefferson Boulevard, Warwick, Rhode Island on November 17, 2006. The following appearances were entered:

FOR NBC:	Peter J. McGinn, Esq.
FOR THE DIVISION:	William Lueker, Esq. Special Assistant Attorney General
FOR THE COMMISSION:	Patricia S. Lucarelli, Esq. Chief of Legal Services

² NBC Exhibit 2 (Gurghigian direct testimony), pp. 1-7

³ Division Exhibit 1 (Catlin's direct testimony), pp. 1-5.

At the hearing, Mr. Edge and Ms. Gurghigian testified as a panel. Mr. Catlin also testified. Mr. Edge testified to one correction in his pre-filed testimony. He stated that the table provided by him needed to be corrected and completed. He submitted NBC Exhibit No. 3 to correct and complete the receipts column of the table prepared by him.⁴ Ms. Gurghigian testified that because open market debt can be sold for 30 years and amortized for 30 years and Clean Water loans must be amortized over 20 years, NBC is able to structure principal payments on longer issues resulting in less of an impact on ratepayers.⁵

At the conclusion of the hearing, the Commission unanimously approved the rate increase as filed for effect July 1, 2007.⁶ 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

Accordingly, it is

(18782) ORDERED:

1. Narragansett Bay Commission’s rate application of October 4, 2006 is hereby approved for effect July 1, 2007.
2. Tariffed rates, except for septage fees, permit fees, BOD/TSS surcharges and pre-treatment fees, will be increased by 9.9 percent, or \$6,010,883 for a total cost of service of \$69,295,022.

⁴ NBC Exhibit 3.

⁵ Transcript of November 17, 2006 hearing (“Tr.”) at 23.

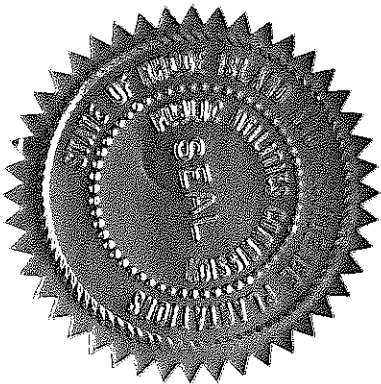
⁶ The approved cost of service schedule is attached to this Report and Order as Appendix A.

⁷ Order No. 17558, pp.25-26.

3. Narragansett Bay Commission shall comply with all other findings and instructions in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND ON JULY 1, 2007,
PURSUANT TO A BENCH DECISION ON NOVEMBER 17, 2006. WRITTEN
ORDER ISSUED DECEMBER 6, 2006.

PUBLIC UTILITIES COMMISSION



Elia Germani, Chairman

Robert B. Holbrook, Commissioner

Mary E. Bray, Commissioner

Appendix A

Narragansett Bay Commission
Docket 3775
Cost of Service

	Cost of Service Docket 3707	NBC Adjustments	Proforma
REVENUES			
User Fee Revenues	\$ 60,161,321	\$ - 0 -	\$ 60,161,321
Other Service Revenues	2,382,618		2,382,618
Miscellaneous	<u>740,200</u>	<u>-</u>	<u>740,200</u>
Total Revenues	\$ 63,284,139	\$ - 0 -	\$ 63,284,139
EXPENSES			
Personnel Services	\$ 15,881,251		\$ 15,881,251
Operating Supplies & Exp	12,307,595		12,307,595
Special Services	2,336,666		2,336,666
Capital Outlays	1,892,350		1,892,350
Prior Year Debt Coverage	(1,892,350)		(1,892,350)
Amortization	9,690		9,690
Debt Service	25,872,877	\$ 4,959,248	30,832,125
Debt Coverage	<u>6,656,397</u>	<u>1,051,634</u>	<u>7,708,031</u>
Total Expenses	\$ 63,064,476	\$ 6,010,883	\$ 69,075,359
OPERATING RESERVE	<u>219,663</u>	<u>-</u>	<u>219,663</u>
COST OF SERVICE	<u>\$ 63,284,139</u>	<u>\$ 6,010,883</u>	\$ 69,295,022
RATE YEAR REVENUES AT PRESENT RATES			<u>63,284,139</u>
REVENUE INCREASE		\$ 6,010,883	\$ 6,010,883