

that NBC filed for debt service relief under the compliance requirements set forth by the Commission in March 2010 in Docket No. 4151. He noted that rate relief is needed by NBC to show that its rates are sufficient prior to obtaining a \$30 million loan from the Rhode Island Clean Water Finance Agency (“RICWFA”). He also pointed out that NBC filed for a rate increase on October 8, 2010 in Docket No. 4205 to address cost of service issues but does not include the debt service and debt service coverage expense that will result from the new FY 2011 debt issuances. He explained that NBC is filing for the debt relief for debt service and debt service coverage separately because it needs approval of its request prior to the expiration of the nine month period that will elapse between the filing and the decision in Docket No. 4205.¹

Mr. Edge identified the test year as the rate year from Docket No. 4151. He noted that NBC needed additional capital funds because its capital improvement plan (“CIP”) includes projected expenditures of more than \$100 million per year for fiscal years 2012, 2013, and 2014. He explained that the RICWFA loans are the lowest cost loans for NBC and that because of the low cost, it is advantageous for NBC to take advantage of the available loan capacity at this time. He indicated that NBC was requesting an additional \$2,521,655 of revenue which would result in an across-the-board increase on sewer user rates of 3.33%.²

Mr. Edge identified the compliance debt service filing requirements required by the Commission in Docket No. 3905 and stated that NBC has provided all of the information required and has complied with all of those requirements. Mr. Edge explained that the effect of the Commission’s decision in this Docket will result in NBC

¹ NBC Exhibit 1, NBC Compliance Rate Filing, Direct Testimony of Walter E. Edge, Jr., November 24, 2010 at pp. 1-2.

² *Id.* at 2-3.

modifying its debt service and debt service coverage in Docket No. 4205 to reflect the Commission's decision in this matter. While acknowledging the requirements set forth in Docket No. 3905 that mandates an across-the-board increase for any approved increase in this Docket, he suggested that since debt service is a fixed cost it be recovered through an increase in fixed fees only. He pointed out that this issue can be addressed differently if the Commission decides that the increase in this Docket be collected on an across-the-board basis by separating the revenue increase into two pieces, 1) a debt service and debt service coverage piece and 2) a piece for all other increases before calculating the percentage increase for each rate class could be calculated for each piece. Mr. Edge again noted NBC's preference that this revenue increase be recovered through fixed fees only and requested that the Commission consider allowing recovery in this manner.³

Maureen Gurghigian, Managing Director of First Southwest Company, also provided testimony regarding updated information about credit rating issues, the status of NBC's Variable Rate Demand Bonds ("VRDBs"), NBC's long-term borrowing plans and the current planned borrowing from RICWFA. She noted that NBC's current AA- credit rating was reaffirmed in June 2010 and that the report specifically cited the funding of the Operating Reserve for Revenue Stability Fund and the continuation of the multi-year debt service compliance filing mechanism. Ms. Gurghigian pointed out that NBC's AA- credit rating is valuable to NBC, and it should take diligent action to maintain that rating.⁴

Ms. Gurghigian also discussed the VRDBs and the Letter of Credit ("LOC") and noted that NBC's strong credit rating made it attractive to LOC providers. She pointed

³ *Id.* at 3-9.

⁴ *Id.*, Direct Testimony of Maureen Gurghigian, November 24, 2010 at pp. 1-4.

out that the trend of debt service coverage is important to rating agencies. Additionally, she noted that a high debt service coverage generally translates to a higher credit rating. Ms. Gurhigian indicated that debt service coverage is also a major consideration of bondholders and investors. She provided an update of NBC's long-term borrowing plan summarizing projected borrowings and debt service for the years 2011 through 2016.

On January 11, 2011, the Division of Public Utilities and Carriers ("Division") submitted the pre-filed testimony of its consultant, Thomas S. Catlin of Exeter Associates, Inc. In his pre-filed testimony, Mr. Catlin presented his findings and recommendations regarding NBC's request. He noted that the request would result in a 3.21% increase in overall revenue at present rates and that the purpose of the request was to enable NBC to collect sufficient revenues to meet additional debt service requirements. Mr. Catlin concluded that NBC had complied with the requirements of the Commission's Order in Docket No. 3905. 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. Mr. Catlin recommended that the Commission approve NBC's request for a uniform percentage increase in rates and that it consider Mr. Edge's rate design proposal that the increase be recovered through fixed fees be addressed in Docket No. 4205.⁵

Following published notice, an evidentiary hearing was conducted at the offices of the Public Utilities Commission at 89 Jefferson Boulevard, Warwick, Rhode Island on January 18, 2011. The following appearances were entered:

⁵ Division Exhibit 1 Memorandum of Thomas S. Catlin at pp. 1-3.

FOR NBC: Joseph A. Keough, Jr., Esq.

FOR THE DIVISION: Leo Wold, Esq.
Assistant Attorney General

FOR THE COMMISSION: Patricia S. Lucarelli, Esq.
Chief of Legal Services

At the hearing, Ms. Gurgighian and Mr. Edge adopted their prefiled testimony. Ms. Gurgighian discussed the current market conditions and NBC's fixed and variable rates. She also addressed NBC's current AA- rating and noted that it is an extremely good rating. Mr. Keough represented that NBC had no objection to Mr. Catlin's recommendation that the request be approved to be recovered through a uniform increase to rates deferring NBC's request that the increase be recovered through fixed fees until the same can be examined in Docket No. 4205.

At the conclusion of the hearing, the Commission unanimously approved the rate increase as filed for effect July 1, 2011.⁶ The Commission accepted the Division's recommendation that the increase be recovered through a uniform increase to rates and deferred decision on NBC's request that the increase be recovered through fixed fees until the same can be evaluated in Docket No. 4205. The Commission finds that this rate increase is necessary and in the public interest.

Accordingly, it is

(20268) ORDERED:

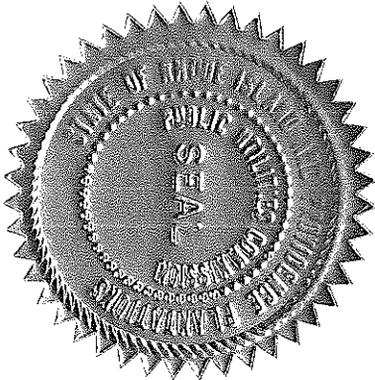
1. Narragansett Bay Commission's rate application of November 24, 2010 is hereby approved for effect July 1, 2011.

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

2. Tariffed rates, except for septage fees, permit fees, BOD/TSS surcharges and pre-treatment fees, will be increased by 3.21 percent, or \$2,521,655 for a total cost of service of \$81,126,021.
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, 2011,
PURSUANT TO A BENCH DECISION ON JANUARY 18, 2011. WRITTEN ORDER
ISSUED JANUARY 28, 2011.

PUBLIC UTILITIES COMMISSION



Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner

Appendix A

Narragansett Bay Commission Docket 4214 Cost of Service

| | Cost of Service Docket 4151 | NBC Adjustments | Pro forma |
|--|--------------------------------|---------------------|----------------------|
| REVENUES | | | |
| User Fee Revenues | \$ 75,700,544 | | \$ 75,700,544 |
| Miscellaneous | <u>2,903,822</u> | | <u>2,903,822</u> |
| Total Revenues | \$ 78,604,366 | | \$ 78,604,366 |
| EXPENSES | | | |
| Personnel Services | \$ 18,968,508 | | \$ 18,968,508 |
| Operating Supplies & Exp | 14,073,616 | | 14,073,616 |
| Special Services | 2,983,341 | | 2,983,341 |
| Capital Outlays | 1,871,466 | | 1,871,466 |
| Prior Year Debt Coverage | (1,871,466) | | (1,871,466) |
| Amortization | 9,690 | | 9,690 |
| Debt Related Costs | 37,983 | | 37,983 |
| Debt Service | 33,888,145 | \$ 2,017,324 | 35,905,469 |
| Debt Coverage | <u>8,472,036</u> | <u>504,331</u> | <u>8,976,367</u> |
| Total Expenses | \$ 78,433,320 | \$ 2,521,655 | \$ 80,954,975 |
| OPERATING RESERVE | <u>171,046</u> | | <u>171,046</u> |
| COST OF SERVICE | <u>\$ 78,604,366</u> | <u>\$ 2,521,655</u> | <u>\$ 81,126,021</u> |
| RATE YEAR REVENUES AT PRESENT RATES | | | |
| | \$78,604,366 | | \$78,604,366 |
| REVENUE INCREASE | | <u>\$ 2,521,655</u> | <u>2,521,655</u> |