

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: CITY OF NEWPORT WATER :
DIVISION APPLICATION TO : DOCKET NO. 4243
CHANGE RATE SCHEDULES :

**ORDER
MULTI-YEAR RATE PLAN COMPLIANCE FILING
(STEP TWO)**

On November 29, 2011, the Public Utilities Commission (“Commission”) approved a the Settlement Agreement which included a multi-year rate plan which generally allows The City of Newport, Utilities Department, Water Division (“Newport Water”) to increase rates to support debt service payments without filing a full rate case after filing “updated information regarding its borrowings including but not limited to the anticipated interest rates, borrowing costs, draw schedules, project costs as well as the anticipated date and source of the borrowings.”¹

In its Order, The Commission stated that:

the multi-year rate plan, designed to address upcoming debt service requirements, is a balanced way to allow the utility to seek financing based on an anticipated rate schedule while providing protection to ratepayers against excessive rates in the event the debt service issuance schedule or costs change. In this docket, the Commission is approving the proposed multi-year rate plan, subject to Newport Water submitting compliance filings as required by R.I.G.L. § 39-15.1-4 (c) and the Settlement Agreement. Because Newport Water will be required to make compliance filings prior to implementing new rates, the Commission will have the opportunity to review the more precise debt service requirement, the updated estimated interest rates and updated estimated costs of issuance. This will allow Newport Water an expedited review of its debt service request to ensure adequate rates to fund its capital projects while also ensuring just and reasonable rates for ratepayers. The Commission notes that while the multi-year rate plan anticipates rate increases on July 1, 2012, July 1, 2013, and July 1, 2014, these dates and the amounts set forth in the plan may change. If there is a delay in the financing, Newport Water should notify the Commission as soon as it becomes aware of the delay and subsequently, should file a Motion to Amend the Rate Plan once it

¹Order No. 20636 (written Order issued 2/3/2012).

knows when the subsequent debt service issuances and related rates will be needed.²

On June 14, 2012, Newport Water filed a Petition to Amend Multi-Year Rate Plan with the Commission asserting that based on more accurate and recent data than was available during the pendency of the rate case such as the cost of the project, receipt of a draw down schedule from the vendor, and an imminent closing of the first borrowing to finance the Treatment Plant Projects, Newport Water proposed delaying the effective date of the first phase to April 1, 2013. On August 30, 2012, after allowing all parties the opportunity to comment and after receiving comments from the Division of Public Utilities and Carriers (“Division”) recommending approval, the Commission approved the Petition to Amend the Multi-Year Rate Plan, with the requirement that Newport Water make its Compliance Filing to change rates no later than three months prior to the proposed effective date.³

On December 28, 2012, Newport Water Filed its Multi-Year Rate Plan Compliance Filing seeking a revenue increase of \$2,145,647 to support its next debt service issuance of \$31,000,000. The requested effective date was April 1, 2013. Since that time, Newport has indicated that it can delay the effective date of the increase to May 1, 2013 in order to coincide with the anticipated effective date of the rate design case (currently pending in Docket No. 4355). However, Newport Water needs the Commission decision before April 1, 2013 in order to take part in the next Clean Water Finance borrowing.⁴

² *Id.* at 25.

³ *Order No. 20819* (issued 9/27/2012).

⁴ Pre-filed Testimony of Harold J. Smith at 5-7; E-mail from Newport’s Legal Counsel to Cynthia G. Wilson-Frias dated 3/18/2013.

In support of its filing, Newport Water filed the Testimony of Harold Smith, its consultant. According to Mr. Smith, “the requested increase in annual contributions to the Debt Service Restricted account is based on the monthly amounts that must be deposited into that account to ensure [Newport Water can] make sufficient debt service payments in September 2013 and March 2014.”⁵

Portsmouth Water and Fire District (“PWFD”) issued data requests. On February 1, 2013, Christopher Woodcock, PWFD’s consultant, submitted testimony noting that allowing the increase would result in a positive balance in the debt service account by the end of FY 2018 of almost \$6.5 million. His attached schedule shows that the balance in September 2015, after the debt service payment is made, will be \$17,644. He recommended that the issuance and borrowing costs should be reduced because the costs on Newport Water’s most recent borrowing were lower than those projected by Newport Water for the \$31,000,000. He also maintained that the requirement for the debt service reserve was overstated as a result of the overly conservative issuance and borrowing costs used by Mr. Smith. However, Mr. Woodcock did not recommend an amount that should be approved.⁶

On January 31, 2013, the Division submitted Comments which also opined that the assumed 4.5% interest rate used by Newport Water is likely excessive, but, the Division stated that any excess revenues will go into the debt service account and will be available to meet future debt service requirements. Additionally, according to Newport Water, the utility will be required to seek an additional increase to cover increases in the debt service on this and previous loans in 2014 and thus, a reconciliation of interest and

⁵ Pre-Filed Testimony of Harold Smith at 7.

⁶ Pre-Filed Testimony of Christopher Woodcock at 2.

issuance costs can happen at that time. Therefore, the Division did not oppose Newport Water's request.⁷

On February 7, 2013, Newport Water filed reply testimony in which Mr. Smith clarified that Newport will need to implement the final step in the multi-year rate plan in July 2014, with the proposed rates filed on or before March 1, 2014. Responding to Mr. Woodcock's testimony, Mr. Smith noted that Mr. Woodcock did not make any counter-proposal regarding the revenue increase to be approved. He also stated that in this case, there is a greater downside to reducing the request than to granting it because the debt service balance will not immediately build up and according to Mr. Smith, "Newport will barely build up enough funds to make the September 2014 payment under current assumptions." Mr. Smith's schedule shows a balance after the September 2014 debt service payments of \$87,104.⁸

On March 28, 2013, at an Open Meeting, the Commission considered the filings and found Newport Water's filing to be in compliance with Commission Order Nos. 20636 and 20819. The Commission unanimously approved Newport Water's requested revenue increase. The Commission finds that while Newport Water's assumptions may be somewhat too conservative, a review of the cash flow schedules submitted by Mr. Smith and Mr. Woodcock, seems to support Mr. Smith's concerns that any excess funds will be limited at the times when debt service payments are due. These funds are all in a restricted debt service account and will therefore be available to offset future debt service needs. Furthermore, the Commission is persuaded by the Division's argument that because Newport Water will be back before the Commission in approximately one year

⁷ Division of Public Utilities and Carriers Comments at 2.

⁸ Reply Testimony of Harold Smith at 3, Exhibit 1 to Reply Testimony.

to again readjust rates due to debt service payments, the Commission can reconcile these costs in a reasonable amount of time. Therefore, the interests of the utility and its ratepayers are balanced by this decision.

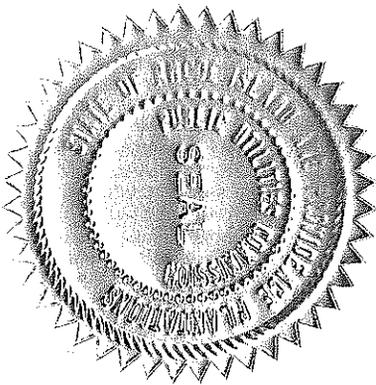
According, it is hereby

(21024) ORDERED

1. The City of Newport, Utilities Department, Water Division's Multi-Year Rate Plan Compliance Filing is hereby approved.
2. The City of Newport, Utilities Department, Water Division is allowed a total cost of service of \$14,980,847, which equates to a revenue increase of \$2,145,647, effective for usage on and after May 1, 2013.
3. City of Newport, Utilities Department, Water Division shall comply with all other findings and instructions as contained in this Report and Order and with all terms of the Settlement Agreement incorporated herein.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON MARCH 28, 2013. WRITTEN ORDER ISSUED MAY 1, 2013.

PUBLIC UTILITIES COMMISSION




Elia Germani, Chairman


Mary E. Bray, Commissioner


Paul J. Roberti, Commissioner

NOTICE OF RIGHT OF APPEAL PURSUANT TO R.I.G.L. SECTION 39-5-1, ANY PERSON AGGRIEVED BY A DECISION OR ORDER OF THE COMMISSION MAY, WITHIN SEVEN DAYS (7) DAYS FROM THE DATE OF THE ORDER, PETITION THE SUPREME COURT FOR A WRIT OF CERTIORARI TO REVIEW THE LEGALITY AND REASONABLENESS OF THE DECISION OR ORDER.