

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

IN RE: NARRAGANSETT BAY :
COMMISSION COMPLIANCE : **DOCKET NO. 4305**
RATE FILING :
REPORT AND ORDER

On December 20, 2011, 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 under NBC’s TECP/VRDO debt program in accordance with Order No. 19380 in Docket No. 3905 which continued the debt service compliance filing mechanism provided for in Order No. 17558 from Docket No. 3483. This rate increase would be effective July 1, 2012. The proposed rates were designed to generate additional revenues of \$1,763,306 and if approved as filed, would increase NBC’s present revenues by 2.17 percent.

The present filing represents the third rate filing in the last five years since the Commission’s order extending the debt service compliance filing mechanism approved in Docket No. 3483. The instant filing is the fifth application that NBC has made under a simplified process 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 |
|------------|-------------|--------------------|------------------|--------------------|
| 3905 | 12/3/07 | \$10,924,164 | \$7,236,917 | \$75,031,159 |
| 4026 | 12/22/08 | \$ 8,990,368 | \$7,176,197 | \$76,937,679 |
| 4151 | 3/2/10 | \$ 2,111,330 | \$1,667,687 | \$78,604,366 |
| 4214 | 11/24/10 | \$ 2,521,655 | \$2,521,655 | \$81,126,021 |
| 4305 | 12/20/11 | \$ 1,763,306 | | |

On December 20, 2011, NBC submitted the pre-filed testimony of its consultant, Walter Edge of B&E Consulting LLC. In his pre-filed testimony, Mr. Edge indicated

that NBC filed for debt service relief under the compliance requirements set forth by the Commission in March 2010 in Docket No. 4151 and in November 2010 in Docket No. 4214. He noted that rate relief is needed by NBC to show that its rates are sufficient prior to obtaining a \$25 million loan from the Rhode Island Clean Water Finance Agency (“RICWFA”).¹

Mr. Edge identified the test year as the rate year from Docket No. 4214. 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 2013, 2014, and 2015. He explained that the RICWFA loans are the lowest cost loans for NBC and that because of their 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 \$1,763,306 of revenue which would result in a 2.17% increase over test year revenues at current rates. This percentage increase results in a uniform across-the-board increase on sewer rates of 2.25% because not all revenue accounts are impacted by the proposed increase.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 provided a limited cost of service schedule to reflect the changes that will result in the rate year should the Commission approve NBC’s request. In addition to setting forth a detailed calculation schedule, Mr. Edge provided a projected annual debt service payment schedule. He also provided a summary of funds currently available, the amount of

¹ NBC Exhibit 1, NBC Compliance Rate Filing, Direct Testimony of Walter E. Edge, Jr., December 20, 2011 at pp. 1-2.

² *Id.* at 2-3.

funding needed for the rate year period, a summary of the activity of NBC's restricted accounts, a summary of funding received from the RICWFA, a detailed listing of the capital project expenditures using the prior year coverage funds and a calculation of new rates based upon a uniform percentage increase.³

On January 27, 2012, the Division of Public Utilities and Carriers ("Division") submitted a memorandum authored by its consultant, Thomas S. Catlin of Exeter Associates, Inc. In his memorandum, Mr. Catlin presented his findings and recommendations regarding NBC's request. He noted that the request would result in a 2.17% increase in overall revenue at present rates and an increase in sewer use rates of 2.25%. He noted that the purpose of the request was to enable NBC to collect sufficient revenues to meet additional debt service requirements associated with a \$25 million low interest rate loan from RICWFA. 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 Division not oppose NBC's request for a uniform percentage increase in rates.⁴

On February 2, 2012, NBC filed the testimony of Karen L Giebink, its Director of Administration and Finance. The purpose of Ms. Giebink's testimony was to adopt the testimony of Mr. Edge. She noted that due to scheduling conflicts and the imperativeness of a timely hearing, Mr. Edge was not available to testify on the date that the Commission

³ *Id.* at 3-7.

⁴ Division Exhibit 1 Memorandum of Thomas S. Catlin, filed January 27, 2012 at pp. 1-2.

scheduled for hearing. Ms. Giebink adopted Mr. Edge's testimony in order to respond to potential cross-examination of Mr. Edge's testimony.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 February 13, 2012. The following appearances were entered:

| | |
|---------------------|---|
| FOR NBC: | Joseph A. Keough, Jr., Esq. |
| FOR THE DIVISION: | Karen Lyons, Esq. Special Assistant Attorney General |
| FOR THE COMMISSION: | Patricia S. Lucarelli, Esq. Chief of Legal Services |

At the hearing, Ms. Giebink testified that she had adopted Mr. Edge's pre-filed testimony and schedules through her pre-filed direct testimony. She clarified that the operating capital outlay line item of \$1,214,674 includes \$961,482 for capital projects. Ms. Giebink explained the \$43 million discrepancy between Mr. Edge's reference to \$72.2 million of capital funding with the projected funding needed of \$120,631,890 was because as the project progresses costs are updated. She pointed out that bids for the CSO Phase II program are approximately sixty-five percent of NBC's estimate. She explained that although NBC's loan application is complete it has not been filed with the Division, because NBC is waiting for finalized schedules from the RICWFA.⁶

Thomas Brueckner, NBC's Engineering Manager, testified about the conceptual design report amendment reaffirmations. He explained that Department of Environmental Management ("DEM") requires that the plan be either reaffirmed or

⁵ NBC Exhibit 2, Direct Testimony of Karen L. Giebink, filed February 2, 2012 at 1-2. Based on her intimate knowledge of NBC and its operations and her considerable experience in developing capital budgets and managing long-term debt, the Commission is confident her expertise will allow her to fully and completely respond to any questions regarding NBC's filing.

⁶ Transcript of Hearing ("T."), February 13, 2012 at 5-9.

updated to reflect any changes every five years. He noted that it was reaffirmed in 2010 and that at that time there were indications that the financial burden for certain service territories would be in the mid-range to high category. In response to cross examination, Ms. Giebink acknowledged that a residential annual sewer bill is projected to be \$1,071 in 2023 pointing out that that projection is based upon a number of assumptions. She discussed how NBC may pursue a waiver of the conceptual design for communities like Providence and Pawtucket. Mr. Brueckner explained that if water quality standards are being met or if analysis indicates a high rate impact in certain communities, a waiver may be sought in order to revise the CSO program to something less costly. He asserted that it was more likely a waiver could be acquired because of rate impact as opposed to water quality because of the impact from the CSOs in the Blackstone River, which is part of Phase 3. He also pointed out that NBC will be considering a less expensive alternative for at least one location but will not have to consider this for approximately a year because the design of the next Phase will not begin until Phase 2 is complete.⁷

At the conclusion of the hearing, the Commission unanimously approved the rate increase as filed for effect July 1, 2012.⁸ The Commission accepted the Division's recommendation that the increase be recovered through a uniform increase to rates. The Commission finds that this rate increase is necessary and in the public's interest.

Accordingly, it is

(20682) ORDERED:

1. Narragansett Bay Commission's rate application of December 20, 2011 is hereby approved for effect July 1, 2012.

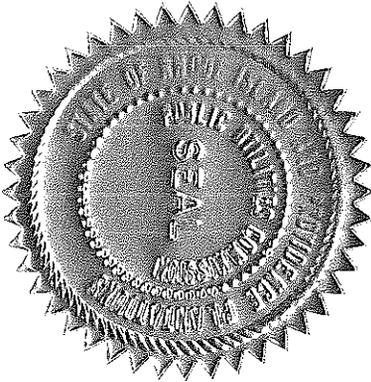
⁷ *Id.* at 10-17.

⁸ 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 2.25 percent, or \$1,763,306 for a total cost of service of \$82,889,327.
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, 2012,
PURSUANT TO A BENCH DECISION ON FEBRUARY 13, 2012. WRITTEN
ORDER ISSUED MARCH 27, 2012.

PUBLIC UTILITIES COMMISSION



Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner

Appendix A

| | Docket 4214* | | |
|--|---------------|---------------------|---------------------|
| | Test Year | Adjustment | Rate Year |
| REVENUES | | | |
| User Fee Revenues | \$ 78,222,199 | | \$ 78,222,199 |
| Miscellaneous | 2,903,822 | | 2,903,822 |
| Total Revenue | 81,126,021 | | 81,126,021 |
| EXPENSES | | | |
| Personnel Services | 18,968,508 | | 18,968,508 |
| Operating Supplies & Expenses | 14,073,616 | | 14,073,616 |
| Special Servies | 2,983,341 | | 2,983,341 |
| Capital Outlay | 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 | 35,905,469 | 1,410,645 | 37,316,114 |
| Debt Coverage | 8,976,367 | 352,661 | 9,329,029 |
| Total Expense | 80,954,975 | 1,763,306 | 82,718,281 |
| OPERATING RESERVE | 171,046 | | 171,046 |
| COST OF SERVICE | 81,126,021 | 1,763,306 | 82,889,327 |
| RATE YEAR REVENUES AT PRESENT RATES | 81,126,021 | | 81,126,021 |
| REVENUE INCREASE | \$ (0) | \$ 1,763,306 | \$ 1,763,306 |

* Docket 4214 Rate Year approved by PUC. Most current debt service approved and included in rates.