



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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*Peter F. Kilmartin, Attorney General*

October 23, 2012

Ms. Luly Massaro  
Commission Clerk  
Public Utilities Commission  
89 Jefferson Blvd.  
Warwick, RI 02889

Re: The Narragansett Bay Commission (NBC)  
Compliance Rate Filing  
RIPUC Docket No. 4352

Dear Luly,

Enclosed for filing on behalf of the Division please find a Memorandum submitted to Stephen Scialabba from Thomas S. Catlin of Exeter Associates regarding the NBC Compliance Rate Filing for RIPUC Docket No. 4352. Mr. Catlin has reviewed the filing on behalf of the Division and the Division submits this Memorandum and recommendation to the Commission for its consideration. Please note that an electronic copy of this document has been sent to the service list.

Thank you for your attention to this matter. If you have any questions, please feel free to contact me.

Sincerely,

Christy Hetherington, Esq.  
Special Assistant Attorney General  
Regulatory Unit  
Extension 2425

Enclosure

cc: Service List (via electronic mail)

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# EXETER

## ASSOCIATES, INC.

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REF: 3427

October 23, 2012

### Memorandum

To: The Rhode Island Division of Public Utilities and Carriers

From: Thomas S. Catlin  
Exeter Associates, Inc.

Subject: The Narragansett Bay Commission (NBC)  
Compliance Rate Filing  
RIPUC Docket No. 4352

In this memo, I summarize the results of my review of NBC's Compliance Rate Filing submitted on August 27, 2012. In its filing, NBC seeks approval for an increase in its revenues of \$5,877,586, which represents an increase in overall revenues at present rates of 7.09 percent and an increase in sewer user rates of 7.35 percent. The purpose of this revenue increase is to allow NBC to meet the additional debt service and coverage requirements associated with a new \$12 million low interest rate loan from the Rhode Island Clean Water Finance Agency (RICWFA) and \$60,870,000 of 30 year open market bonds. The amount of the additional revenues sought is based on debt service in the fiscal year ending June 30, 2014 (FY 2014), inclusive of the debt service and coverage requirements associated with the new loan. FY 2014 was utilized as the rate year because that is the year in which NBC's debt service will be the

highest during the three year certificate period required by the Trust Indenture. NBC is required to have rates in place that will generate sufficient revenues to meet debt service coverage requirements in the rate year and the three subsequent years, inclusive of the debt service associated with the new loan.

NBC has sought this increase pursuant to the provisions established in by the Commission in its Order in Docket No. 3905 for obtaining rate relief to cover the costs of new debt. I have reviewed the requirements set forth in the Commission's Order in Docket No. 3905. Based on the information provided in the testimony submitted by Mr. Walter E. Edge in support of NBC's filing along with the supporting schedules, as well as NBCs' responses to discovery requests, I believe NBC has complied with the Commission's requirements. In reviewing NBC's request, I have confirmed that the \$72.87 million of total loan proceeds is expected to be used to meet capital requirements in the FY 2013 time frame. I have also confirmed that NBC has complied with the requirement that NBC develop rates to generate the additional revenues through a uniform percentage increase in all sewer user rates.

I did identify one concern with regard to NBC's request. That is, NBC has used an interest rate of 5.0 percent for the \$60.87 million of open market bonds (and, in turn, a subsidized interest rate equal to two-thirds of this amount or 3.33 percent on the RICWFA loan). This interest rate was based on the 20 year average of interest rates on highly rated municipal bonds. Based on my review, I believe this rate overstates the interest rate that NBC can expect to

pay on its open market bonds. (Moody's bond ratings index indicates the interest rate is likely to be in the range of 4.0 percent.) As discussed in more detail in its response to DIV. 2-1, NBC indicates that the rationale for using the higher interest rate was to allow NBC some flexibility if interest rates were lower to increase the amount borrowed to meet the substantial additional capital funding requirements facing it in the near future for projects already under contract. Based on this response and recognizing that NBC recently filed a General Rate Filing in which debt service cost can be trued up to reflect any change in the required payments, I am recommending that the Division accept NBC's debt service requirements incorporated in NBC's filing.

Although the proposed rate increase will not go into effect until January 1, 2013, it is necessary for NBC to be able to demonstrate that it will have sufficient revenues to meet the associated debt service and coverage requirements. Accordingly, in order to allow NBC to have access to additional RICWFA debt and to allow NBC to issue that debt as soon as possible to take advantage of current favorable interest rates, I recommend that the Division not oppose the increase in revenues requested by NBC in order to meet the increased debt service and the associated coverage requirements.