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October 15, 2012

Ms. Luly Massaro, Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: *Narragansett Bay Commission*
Docket 4352

Dear Ms. Massaro:

Enclosed please find an original and nine copies of the following documents:

1. The Narragansett Bay Commission's response to the Division of Public Utilities and Carriers' Second Set of Data Requests.

Please note that an electronic copy of these documents have been sent to the service list.

Sincerely,


Joseph A. Keough Jr.

JAK/kf
Enclosures

cc: Service List (via electronic mail)

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

NARRAGANSETT BAY COMMISSION:

DOCKET NO. 4352

SECOND SET OF DATA REQUESTS
DIRECTED TO THE NARRAGANSETT BAY COMMISSION
BY THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

DIV. 2-1. Please provide modified versions of Schedules WEE-1, WEE-2 and WEE-9 based on the assumption that the market interest rate on the new FY 2013 debt is 4.0% instead of 5.0% with the SRF loan interest rate adjusted accordingly.

Answer: Attached please find revised schedules WEE-1, WEE-2 and WEE- 9 based upon the 4.0% assumption. As set forth in this schedule, the debt service and debt service coverage is reduced from \$5,877,586 to \$5,329,014 when the interest rate is lowered from 5% to 4%. However, NBC does not believe that its request for increased revenues in this Docket should be decreased based on this lower interest rate assumption. If NBC can borrow at a lower rate than projected, the savings can be applied to other borrowings required for NBC to meet its contracted commitments.

NBC has over \$220 million in existing contract commitments with approximately \$33 million in capital funds available leaving a funding gap of \$190 million for existing contracts alone. NBC will need rate relief for the foreseeable future to finance the debt associated with its mandated capital improvements. NBC based this filing on figures from the FY 2013 Operating Budget that was, in turn, based upon projected funding needs and availability at that time. This is consistent with the way that NBC has prepared rate filings and provides NBC with the flexibility to structure and time debt issuance in the optimal manner as there are many moving parts to the long-term financing strategy. NBC needs this continued flexibility for several reasons:

First, with respect to the flexibility provided by using a 20 year average interest rate, NBC's ratepayers have benefitted from this approach. As set forth in my testimony from prior Dockets, NBC has been able to issue more debt at a lower cost as a result of the flexibility. Specifically, NBC was in a position to take advantage of \$57 million in ARRA funds in FY 2010 and issued \$46.1 million more than planned in Docket 4026 **with no rate increase**. These ARRA loans included a principal forgiveness component of 15%.

Second, during the past few years, NBC's debt issuance has been limited to borrowings through the RICWFA. NBC waited to request rate relief until it knew the loan amount and had projected debt service schedules based upon projected market rates plus 50 basis points (see Dockets 4151, 4214, and 4305). In this application, however, NBC's capital needs clearly exceed the RICWFA's capacity, so some flexibility is needed to ensure that NBC can meet its contracted commitments.

Third, NBC does not know how much the RICWFA will have available this year or when it will be available. NBC was recently told that the RICWFA may be able to loan NBC more than \$12 million this fiscal year. Clearly it would be in the interest of NBC's ratepayers to have the rates in place that are needed to take advantage of the additional subsidized loan capacity. It is also important to keep in mind that a larger borrowing through the RICWFA this fiscal year would not necessarily decrease the size of NBC's open market issue due to timing considerations. Last fiscal year the loan closing did not take place until June 28, 2012 when the fiscal year was nearly over. In other words, even if NBC can borrow more through the RICWFA, if NBC can't access the funds until the end of the fiscal year, it must issue enough open market revenue bonds so that it can meet its contracted commitments until those funds become available.

Fourth, another moving piece in NBC's financing strategy is the possible need for NBC to fund a debt service reserve fund. NBC has not accessed the capital markets on its

own for some time and the market has changed. From a marketability standpoint, NBC's Financial Advisor has indicated that funding a debt service reserve may be needed to successfully market NBC's open market issues. Typically a debt service reserve fund is 10% of the par amount of the bond issue. If NBC must fund a debt service reserve, it will need to increase the par amount of the issue so that there are sufficient proceeds available to fund its projects.

Finally, if interest rates remain at historic lows and NBC is able to structure the loans such that it can issue more than \$60 million in open market debt, it is certainly in the ratepayer's best interest to take advantage of the interest rate environment and reduce the number of issues and consequently the cost of issuance.

Prepared by: WEE

Narragansett Bay Commission
Adjusted Rate Year Cost of Service

DIV DR 2-1
REVISED WEE- 1

	Docket 4305*		
	Test Year	Adjustment	Rate Year
<u>REVENUES</u>			
User Fee Revenues	\$ 79,985,505		\$ 79,985,505
Miscellaneous	2,903,822		2,903,822
Total Revenue	82,889,327	-	82,889,327
<u>EXPENSES</u>			
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	37,316,114	4,263,211	41,579,325
Debt Coverage	9,329,029	1,065,802	10,394,831
Total Expense	82,718,281	5,329,014	88,047,295
OPERATING RESERVE	171,046	-	171,046
COST OF SERVICE	82,889,327	5,329,014	88,218,341
RATE YEAR REVENUES AT PRESENT RATES	82,889,327		82,889,327
REVENUE INCREASE	\$ -	\$ 5,329,014	\$ 5,329,014

* Docket 4305 Rate Year approved by PUC. Most current debt service approved and included in rates.

Narragansett Bay Commission
Debt Service Coverage

DIV DR 2-1
REVISED WEE-2

Fiscal Year	Net Revenue Available for Debt Service	Current Debt Service	Debt Service Coverage	Debt Service FY 13 Issuance	Total Debt Service	Debt Service Coverage
2013	51,974,157	35,865,171	1.31	4,348,926	40,214,097	1.29
2014	51,974,157	37,228,800	1.31	4,350,526	41,579,325	1.25
2015	51,974,157	37,188,144	1.31	4,350,326	41,538,470	1.25
2016	51,974,157	37,075,894	1.31	4,348,326	41,424,220	1.25
2017	51,974,157	37,050,493	1.31	4,349,526	41,400,019	1.26
2018	51,974,157	37,305,629	1.31	4,348,726	41,654,355	1.25
2019	51,974,157	36,862,972	1.32	4,350,926	41,213,898	1.26
2020	51,974,157	36,389,109	1.34	4,350,926	40,740,034	1.28
2021	51,974,157	35,919,384	1.36	4,348,726	40,268,109	1.29
2022	51,974,157	34,585,654	1.41	4,349,326	38,934,980	1.33
2023	51,974,157	30,509,234	1.61	4,347,526	34,856,759	1.49
2024	51,974,157	26,840,924	1.85	4,348,326	31,189,250	1.67
2025	51,974,157	25,723,014	1.93	4,346,526	30,069,540	1.73
2026	51,974,157	22,011,673	2.29	4,347,126	26,358,799	1.97
2027	51,974,157	23,683,450	2.11	4,349,926	28,033,375	1.85
2028	51,974,157	25,270,243	1.97	4,349,726	29,619,969	1.75
2029	51,974,157	25,257,154	1.97	4,346,526	29,603,680	1.76
2030	51,974,157	23,596,039	2.12	4,350,326	27,946,365	1.86
2031	51,974,157	23,506,914	2.13	4,350,726	27,857,639	1.87
2032	51,974,157	18,486,064	2.77	4,347,726	22,833,789	2.28
2033	51,974,157	16,544,778	3.13	3,522,200	20,066,978	2.59
2034	51,974,157	14,892,281	3.13	3,522,000	18,414,281	2.82
2035	51,974,157	14,880,700	3.14	3,518,000	18,398,700	2.82
2036	51,974,157	11,142,063	4.19	3,520,200	14,662,263	3.54
2037	51,974,157	5,452,238	8.56	3,518,200	8,970,438	5.79

Narragansett Bay Commission
Projected New Debt FY 13

DIV DR 2-1
REVISED WEE-9

2013 Open Market Bond			
Required Principal:	60,870,000		
Annual Payment:	3,522,425		
Date	Principal	Interest	Debt Service
2013	\$ 1,085,000	\$ 2,434,800	\$ 3,519,800
2014	1,130,000	2,391,400	3,521,400
2015	1,175,000	2,346,200	3,521,200
2016	1,220,000	2,299,200	3,519,200
2017	1,270,000	2,250,400	3,520,400
2018	1,320,000	2,199,600	3,519,600
2019	1,375,000	2,146,800	3,521,800
2020	1,430,000	2,091,800	3,521,800
2021	1,485,000	2,034,600	3,519,600
2022	1,545,000	1,975,200	3,520,200
2023	1,605,000	1,913,400	3,518,400
2024	1,670,000	1,849,200	3,519,200
2025	1,735,000	1,782,400	3,517,400
2026	1,805,000	1,713,000	3,518,000
2027	1,880,000	1,640,800	3,520,800
2028	1,955,000	1,565,600	3,520,600
2029	2,030,000	1,487,400	3,517,400
2030	2,115,000	1,406,200	3,521,200
2031	2,200,000	1,321,600	3,521,600
2032	2,285,000	1,233,600	3,518,600
2033	2,380,000	1,142,200	3,522,200
2034	2,475,000	1,047,000	3,522,000
2035	2,570,000	948,000	3,518,000
2036	2,675,000	845,200	3,520,200
2037	2,780,000	738,200	3,518,200
2038	2,895,000	627,000	3,522,000
2039	3,010,000	511,200	3,521,200
2040	3,130,000	390,800	3,520,800
2041	3,255,000	265,600	3,520,600
2042	3,385,000	135,400	3,520,400
2043	-	-	-
2044	-	-	-
2045	-	-	-
2046	-	-	-
2047	-	-	-
2048	-	-	-
2049	-	-	-
2050	-	-	-
2051	-	-	-
Total	60,870,000	44,733,800	105,603,800

2013 SRF Bond			
Required Principal:	12,000,000		
Annual Payment:	1,727,345		
Date	Principal	Interest	Debt Service
2013	\$ 433,126	\$ 396,000	\$ 829,126
2014	447,419	381,707	829,126
2015	462,184	366,942	829,126
2016	477,436	351,690	829,126
2017	493,191	335,935	829,126
2018	509,466	319,659	829,126
2019	526,279	302,847	829,126
2020	543,646	285,480	829,126
2021	561,586	267,539	829,126
2022	580,119	249,007	829,126
2023	599,263	229,863	829,126
2024	619,038	210,087	829,126
2025	639,466	189,659	829,126
2026	660,569	168,557	829,126
2027	682,368	146,758	829,126
2028	704,886	124,240	829,126
2029	728,147	100,979	829,126
2030	752,176	76,950	829,126
2031	776,998	52,128	829,126
2032	802,639	26,487	829,126
2033	-	-	-
2034	-	-	-
2035	-	-	-
2036	-	-	-
2037	-	-	-
2038	-	-	-
2039	-	-	-
2040	-	-	-
2041	-	-	-
2042	-	-	-
2043	-	-	-
2044	-	-	-
2045	-	-	-
2046	-	-	-
2047	-	-	-
2048	-	-	-
2049	-	-	-
2050	-	-	-
2051	-	-	-
Total	12,000,000	4,582,514	16,582,514

Total

2013	\$ 4,348,926
2014	4,350,526
2015	4,350,326
2016	4,348,326
2017	4,349,526
2018	4,348,726
2019	4,350,926
2020	4,350,926
2021	4,348,726
2022	4,349,326
2023	4,347,526
2024	4,348,326
2025	4,346,526
2026	4,347,126
2027	4,349,926
2028	4,349,726
2029	4,346,526
2030	4,350,326
2031	4,350,726
2032	4,347,726
2033	3,522,200
2034	3,522,000
2035	3,518,000
2036	3,520,200
2037	3,518,200
2038	3,522,000
2039	3,521,200
2040	3,520,800
2041	3,520,600
2042	3,520,400

CERTIFICATION

I hereby certify that on October 15, 2012, I sent a copy of the within to all parties set forth on the attached Service List by electronic mail and copies to Luly Massaro, Commission Clerk, by electronic mail and regular mail.

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