



On August 27, 2012, 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, in November 2010 in Docket No. 4214 and in December 2011 in Docket No. 4305. He noted that rate relief is needed by NBC to show that its rates are sufficient prior to obtaining long-term financing needed to support its Capital Improvement Program.<sup>1</sup>

Mr. Edge explained that this request for additional funds was not made part of Docket No. 4305 as there was a difficulty in estimating capital cash flow needs because NBC was in the process of bidding several of the CSO Phase II Facilities contracts. He identified the test year as the rate year from Docket No. 4305. He noted that NBC needed additional capital funds because its capital improvement plan (“CIP”) includes projected expenditures of approximately \$327 million for fiscal years 2013, 2014, and 2015. He explained that the Rhode Island Clean Water Finance Agency (“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. However, because the RICWFA does not have sufficient capacity to meet NBC’s needs, NBC will also issue revenue bonds. For FY 2013, Mr. Edge stated that NBC will fund its capitalized needs through unspent proceeds from prior borrowings through the RICWFA, pay-as-you-go restricted capital funds and the issuance of new debt. He also noted the approximate 32% decrease in estimated construction costs over last year’s CIP. Mr. Edge indicated that NBC is requesting an additional \$5,877,586 of revenue which would

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<sup>1</sup> NBC Exhibit I, NBC Compliance Rate Filing, Direct Testimony of Walter E. Edge, Jr., August 27, 2012 at 1-2.

result in a 7.09% increase over test year revenues at current rates. This percentage increase results in a uniform across-the-board increase on sewer rates of 7.35%, because not all revenue accounts are impacted by the proposed increase.<sup>2</sup>

Mr. Edge identified the compliance debt service filing requirements required by the Commission in Docket No. 3905<sup>3</sup> 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 for the CIP program, the amount of 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.<sup>4</sup>

On October 24, 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

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<sup>2</sup> *Id.* at 2-4 Attachments WEE-1, WEE-2, WEE-5.

<sup>3</sup> The requirements for all compliance filings seeking a rate increase under the TECP/VRDO program are as follows: 1) be filed no later than sixty days prior to its effective date, 2) be limited for debt service and debt service coverage for CIP projects, 3) contain a revised limited cost of service schedule reflecting the changes to the revenue and expense accounts affected by the VRDO/RECP program, 4) contain testimony and schedules in support of the debt service and debt service coverage proposed as well as current and projected annual debt service payment schedule, 5) contain a summary of funds currently available for the CIP program and the projected funding needed for the rate year period, 6) contain a summary of funding received from Rhode Island Clean Water Finance Agency (RICWFA), including funds requested, received, the interest rate, and repayment schedules, 7) contain a summary of how prior years' debt service coverage funds were utilized, 8) contain a calculation of new rates based on a uniform percentage increase to rates, and 9) contain a showing of compliance with prior Commission orders and the requirements of Section 2.11 of the Commission's Rule of Practice and Procedure.

<sup>4</sup> NBC Exhibit 1, NBC Compliance Rate Filing, Direct Testimony of Walter E. Edge, Jr., August 27, 2012 at 4-9, Attachments WEE-1 through WEE-9.

recommendations regarding NBC's request. He noted that the request would result in a 7.09% increase in overall revenue at present rates and an increase in sewer use rates of 7.35%. He also noted that the purpose of the request was to enable NBC to collect sufficient revenues to meet additional debt service requirements associated with a \$12 million low interest rate loan from RICWFA and \$60,870,000 of 30 year open market bonds. Mr. Catlin concluded that NBC had complied with the requirements of the Commission's Order in Docket No. 3905.<sup>5</sup>

Mr. Catlin expressed concern with the 5.0% interest rate that NBC used for the open market bonds, which he described as high noting that Moody's bond ratings index indicates a 4.0% interest rate is more likely. He accepted NBC's justification that using the higher interest rate would allow the Company some flexibility to increase the amount borrowed if it was able to secure a rate that was lower than what it presented. He indicated that even though the increase is not requested to go into effect until January 1, 2013, it 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.<sup>6</sup>

Following published notice, an evidentiary hearing was conducted at the offices of the Public Utilities Commission at 89 Jefferson Boulevard, Warwick, Rhode Island on November 19, 2012. The following appearances were entered:

FOR NBC:

Joseph A. Keough, Jr., Esq.

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<sup>5</sup> Division Exhibit 1, Memorandum of Thomas S. Catlin, filed October 24, 2012 at 1-2.

<sup>6</sup> *Id.* at 2-3.

FOR THE DIVISION: Christy Hetherington, Esq.  
Special Assistant Attorney General

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

At the hearing, Mr. Keough briefly explained that the filing sought approximately \$5.8 million of additional revenue which would result in a rate increase of 7.35 percent. Mr. Edge adopted his prefiled testimony with no change. He explained that the approximate \$100 million decreased expense for Phase 2 is due primarily to lower than anticipated construction bids. When questioned about the recent referendum that was passed<sup>7</sup>, Stephen Maceroni, Senior Managing Consultant, provided that the additional money would allow for more funding for communities to borrow. He noted that borrowing from the Rhode Island Clean Water Finance Agency typically results in an interest rate that is one third off the market rate. Mr. Edge stated that if NBC had used a 4 percent interest rate in its filing, this would have provided approximately \$6 million more in additional borrowing capacity. He noted NBC's constant need for debt stating that what NBC can't get from the Clean Water Finance Agency, it has to obtain through the open market. Mr. Maceroni interjected that NBC anticipates borrowing in the open market in February 2013, and Karen Giebink, NBC's Director of Administration and Finance, offered that NBC anticipates issuing \$40 million in bond anticipation notes by the end of November 2012 to make up for the capital fund being down as a result of a very favorable construction climate. Finally, Mr. Edge identified an annual rate increase

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<sup>7</sup> Question 5, which was approved by voters on November 6, 2012, authorizes the State to issue general obligation bonds, refunding bonds, and temporary notes in an amount not to exceed \$12 million to be leveraged with federal and state capitalization grants to finance wastewater infrastructure projects and \$8 million to be leveraged with federal and state capitalization grants to finance drinking water infrastructure projects.

of \$32.55 that a 97.68 cf typical residential customer would experience should the Commission approve NBC's filing.<sup>8</sup>

At its open meeting on November 19, 2012, the Commission unanimously approved the rate increase as filed for effect January 1, 2013.<sup>9</sup> 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 reasonable, necessary and in the public's interest.

Accordingly, it is

(21006) ORDERED:

1. Narragansett Bay Commission's rate application of August 27, 2012 is hereby approved for effect January 1, 2013.
2. Tariffed rates, except for septage fees, permit fees, BOD/TSS surcharges and pre-treatment fees, will be increased by 7.09 percent, or \$5,877,586 for a total cost of service of \$88,766,913.
3. Narragansett Bay Commission shall comply with all other findings and instructions in this Report and Order.

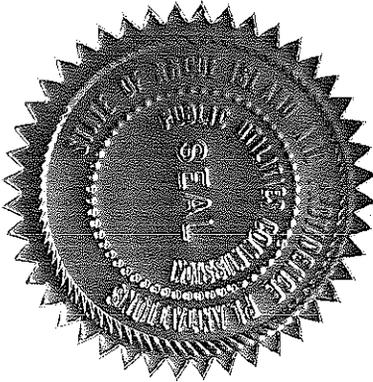
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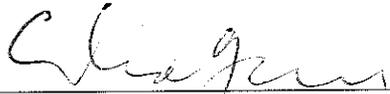
<sup>8</sup> Transcript of Hearing, November 19, 2012 at 4-13.

<sup>9</sup> The approved cost of service schedule is attached to this Report and Order as Appendix A.

EFFECTIVE AT WARWICK, RHODE ISLAND ON JANUARY 1, 2013,  
PURSUANT TO AN OPEN MEETING DECISION ON NOVEMBER 19, 2012.  
WRITTEN ORDER ISSUED APRIL 8, 2013.

PUBLIC UTILITIES COMMISSION



  
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Elia Germani, Chairman

  
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Mary E. Bray, Commissioner

  
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Paul J. Roberti, Commissioner

## Appendix A

	Docket 4305*		
	Test Year	Adjustment	Rate Year
<b>REVENUES</b>			
User Fee Revenues	\$ 79,985,505		\$ 79,985,505
Miscellaneous	2,903,822		2,903,822
Total Revenue	82,889,327		82,889,327
<b>EXPENSES</b>			
Personnel Services	18,968,508		18,968,508
Operating Supplies & Expenses	14,073,616		14,073,616
Special Services	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	4,702,069	42,018,183
Debt Coverage	9,329,029	1,175,517	10,504,546
Total Expense	82,718,281	5,877,586	88,595,867
OPERATING RESERVE	171,046		171,046
COST OF SERVICE	82,889,327	5,877,586	88,766,913
RATE YEAR REVENUES AT PRESENT RATES	82,889,327		82,889,327
<b>REVENUE INCREASE</b>	\$ -	5,877,586	5,877,586

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