



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

150 South Main Street • Providence, RI 02903

(401) 274-4400 - TDD (401) 453-0410

Peter F. Kilmartin, Attorney General

August 20, 2015

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

BY ELECTRONIC AND HAND DELIVERY

Re: Providence Water Supply Board's Abbreviated Rate Filing
Docket No. 4571

Dear Ms. Massaro:

Enclosed please find an original and nine (9) copies of the Division's Memorandum pertaining to the above reference docket.

An electronic copy of this document has been provided to the Service List.

Thank you for your assistance in this matter.

Very truly yours,

Christy Hetherington
Special Assistant Attorney General

Enclosure

cc: Service List *(via electronic mail)*



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DIVISION OF PUBLIC UTILITIES AND CARRIERS

89 Jefferson Boulevard
Warwick, R.I. 02888
(401) 941-4500

FAX (401) 941-9248
TDD (401) 941-4500

August 20, 2015

To: Luly Massaro
Commission Clerk

From: Alberico Mancini and John Bell *AM* *JB*
Division of Public Utilities and Carriers

Subject: Docket No. 4571 - Providence Water Supply Board's Abbreviated Rate Filing to Support a New Central Operations Facility

Purpose

The purpose of this memo is to provide a summary of the Division's review of Providence Water Supply Board's ("PWSB" or "Providence Water") proposal in this docket and provide our conclusions and recommendations.

To assess the Providence Water filing, the Division reviewed all documents filed in this case, including testimony, data responses, and exhibits. In addition, the Division toured the proposed new Central Operations Facility ("COF"). Subsequent to touring the facility, the Division also met with Providence Water officials to further enhance our understanding of the need for a new facility and the process that the PWSB has undertaken to review and assess potential properties. Additionally in the past, on several occasions, the Division has visited and/or toured Providence Water's current facilities.

Background

In Providence Water's last general rate filing (Docket No. 4406), the parties in the docket entered into a settlement agreement which allowed Providence Water to continue funding its Capital Improvement Fund ("CIP") in the amount of \$2,450,000. Providence Water proposed using the CIP fund to cover costs associated with a new COF. The parties agreed to this proposal with several restrictions. At its November 22, 2013 Open Meeting, the Commission disallowed the funding for a new COF on the grounds that it wasn't a known and measurable cost. The parties entered into a revised settlement agreement which removed the funding for a new COF and the Commission approved the revised settlement.

On June 17, 2015, Providence Water filed a motion to reopen Commission Docket 4406. Providence Water stated that it entered into an agreement to purchase a COF and, now that the costs are known and measurable, it was seeking the restoration of \$2.4 million of CIP funding to support the debt service needed for the purchase and restoration of the new COF.

At the prehearing conference held on June 30, 2015, it was agreed that Providence Water's Motion to Reopen Docket 4406 would be re-docketed as an abbreviated filing (Docket No. 4571). On July 14, 2015, Providence Water supplemented its filing to comply with the Commission's abbreviated filing requirements.

Need for a New Facility

Providence Water's current facilities include two buildings located in Providence and Cranston. The Providence Facility, located at 552 Academy Avenue, dates back to the early 1900's and consists of approximately 43,500 square feet which includes 11,600 square feet of office space and 31,900 square feet of garage and storage. The building sits on approximately 2.75 acres of land and houses approximately 130 employees.

The Cranston office, located at 430 Scituate Avenue, was built in 1997 as a temporary modular trailer-type facility which includes approximately 12,600 square feet of office space. Approximately 60 employees occupy this facility.

In 2007, Providence Water engaged Camp Dresser & McKee Inc. ("CDM") to conduct an assessment of the Providence and Cranston facilities and operations. In December 2008, CDM issued its Facility Assessment Report – Phase 1. The report noted several facility deficiencies, including but not limited to the following:

- Additional space is needed for both existing operations and future growth
- Additional space is needed at the Cranston facility for files, storage, meetings and a computer room.
- The Academy Avenue site is functionally obsolete, and presents numerous site and safety and access challenges.
- Current parking is inadequate at the Academy Avenue site.
- There is inadequate space for heavier operations such as material storage, truck and heavy equipment parking, tools, vehicle maintenance, and water meter service.
- Customer service facilities are limited.
- Safety and security of PWSB staff and the general public is a concern.

The report eventually concludes that given the age, condition, logistical and safety concerns of the Academy Avenue facility, it isn't meeting the needs of Providence Water or its customers and the long term efficient operations would best be served by relocating the Academy Avenue facility.

The Division was informed of Providence Water's need for a new facility at least as far back as 2010 when it was included in Providence Water's IFR/CIP reporting to the Commission. The March 2010 IFR/CIP report informed the Commission that the CDM study was completed and Providence Water began looking for a location suitable in size and location for a COF.

The Division is very familiar with Providence Water's current facilities and operations at both locations. The Division witnessed the deficiencies detailed in the CDM Report at both locations through many site visits over the past several years and agrees that a new facility would improve operational efficiencies and be a benefit to Providence Water and its ratepayers.

Search Process for New Facility

At the time of CDM's Phase-1 report, Providence Water began the search for a new facility. After completing Phase-1, CDM began a Phase-2 assessment to provide Providence Water with updated space recommendations, possible configurations for new space, a listing of possible properties and costs associated with obtaining properties and constructing facilities. CDM issued the Facility Assessment – Phase –II Report in August 2009. One of CDM's conclusions was that the combination of all operations at a single convenient location is an attractive possibility from a management standpoint.

Providence Water then began an extensive search for a suitable site that would meet various criteria such as consolidating both facilities on one site that would be centrally located within their distribution system with highway access, at a reasonable cost. Due to the limited options, Providence Water began exploring a combination of properties that would require split facilities. Exhibit GG-3 to Gregg Giasson's testimony provided a list of 29 different properties that were evaluated as part of Providence Water's search for a new COF which continued for several years. Providence Water also explained that of the 29 properties that were evaluated, many were investigated and quickly dismissed based on not meeting Providence Water's basic criteria such as, location, acreage, availability, environmental and security issues or were just prohibitively expensive. A few properties were subject to a lengthy evaluation and some went as far as preliminary plans. The 125 Dupont Drive property met all of Providence Water's needs at a reasonable cost and therefore was selected by Providence Water as a viable site for the new COF.

Review of Selected COF

On March 16, 2015, Providence Water began negotiating a purchase and sales agreement after reviewing three independent appraisals for the property ranging between \$9.2 million and \$15 million. The City assessment which was conducted in 2014, appraised the property at \$8.9 million but after a research of comparable properties, Providence Water made an offer of \$9.5 million. On March 26, 2015, Providence Water and the current owners settled on a purchased price of \$10.35 million.

The property located at 125 Dupont Drive consist of a single 175,000 square foot building which sits on 16.5 acres of land. This location has meets all of Providence Water's criteria for a new COF. The Division has toured the facility and reviewed preliminary plans for renovations to the building. The Division concluded that this facility would accomplish the following:

- Large enough to consolidate existing operations in one building.
- Provides additional needed space for record storage, conference rooms and a computer room.
- Addresses all safety and access challenges which currently exist at Academy Avenue.
- Provides adequate parking to accommodate all employee as well as customers.
- Allows adequate space for heavier operations such as material storage, truck and heavy equipment parking, tools, vehicle maintenance, and water meter service.
- Addresses the safety and security of PWSB staff and the general public by being situated in an industrial park away from residential neighborhoods and school districts.
- Provides easy highway access and is located near the center of Providence Water's retail operations.
- Additional garage space enables Providence Water to house all of its heavy equipment and tools.
- The \$27.9 million total estimate is a reasonable cost for this type of facility.

During the Division review of previous construction estimates provided in the CDM Phase II report as well as new construction cost estimates from Dimeo Construction, new construction costs for a facility significantly smaller than 125 Dupont Drive (approximately 120,000 sq. ft.) would be approximately \$40 million. Other estimates suggest that downsizing a new facility (60,000 to 80,000 sq. ft.) would reduce construction estimates to approximately \$25 and \$30 million but would not fit Providence Water's needs. All construction estimates do not include land which would have to be purchased by Providence Water which would increase new construction estimates. Construction estimates for several other locations which included rehabbing existing buildings were also in the \$30 to \$40 million dollar range.

According to Providence Water, the cost estimate of renovating the proposed COF is \$17.5 million which would result in an all in cost of \$27.85 million. The renovations would be completed approximately one-year after the closing on the facility and would allow Providence Water to consolidate operation in the new facility in the spring of 2017. This will allow Providence Water to avoid further repair and upgrade costs at the Academy Ave. site. Providence's General Manager, Ricky Caruolo, explained in his pre-filed testimony that the current facilities are in need of immediate repair and require additional upgrades in the near future of over \$1.7 million.

After a thorough review, the Division concluded that the \$27.9 million estimate which includes \$10.35 million for the initial purchase of 125 Dupont Drive and \$17.5 million for additional renovations to the property is a reasonable cost for Providence Water's new COF.

Property Taxes

Currently, Providence Water doesn't pay any taxes to the City of Providence nor does it have any funding in rates for such payments. In this docket, Providence Water didn't seek any funding for property taxes on the proposed COF. However in response to BCWA 2-4, 2-6, Providence Water stated that it will begin paying property taxes on the proposed COF as soon as it closes.

The Division believes that the payment and funding of property taxes should be fully addressed and vetted in Providence Water's next general rate filing. Since there is no funding in current rates and no proposed funding for property taxes in this docket, Providence Water should not be making tax payments to the City of Providence. Should the Commission approve Providence Water's proposal in this docket, it should make it a condition that Providence Water not pay any taxes to the City of Providence until the issue is fully vetted in a general rate filing.

Review of Rate Impacts

The proposed revenue increase in this docket is \$2,448,000 or 3.62%. The impact on a residential customer would be an annual increase of \$19 (\$1.58/month) or 5%, and the impact on commercial and industrial customers would be approximately 6%. There would be no increase in wholesale rates at this time. When the \$2,450,000 of CIP funding was removed in the last rate case, the entire benefit went to retail customers so the proposal to restore that funding in this case only impacts retail rates.

The requested increase includes \$2.4 million for CIP funding, \$12,000 (0.5%) for the Revenue Reserve Fund and \$36,000 (1.5%) for the Operating Reserve Allowance. The \$2.4 million of CIP funding would be used to support the debt service on a \$30 million bond issue with the proceeds used for the purchase, renovation and furnishing of the proposed COF.

On August 7, 2015, Providence Water made a Debt Filing with the Division for approval to borrow \$30 million from the Rhode Island Clean Water Finance Agency for the acquisition and rehabilitation of the proposed COF. It is estimated that after the cost of issuance and the funding of the required debt reserve fund the balance of the bond proceeds would be approximately \$27.5 million which would cover the estimated costs to purchase, renovate and furnish the proposed COF. The estimated effective interest rate on the bond is 2.84% and the annual debt service is estimated at approximately \$2,077,000.

Providence Water proposes that any amount of the requested \$2.4 million of CIP funding that isn't needed for debt service remain in the CIP fund for use on ongoing capital projects.

The Division discussed with Providence Water their plans for filing their next rate case. According to Thomas Massaro, Senior Manager – Finance, Providence Water intends to file its next rate case by the end of calendar year 2015.

The Division does not oppose Providence Water's rate proposal in this docket. As noted by Providence Water, now that they have identified a COF, the proposal is to simply restore the CIP funding level to the level that the parties agreed to in the prior general rate case. The proposal to finance the entire cost of the purchase and renovations will spread out the capital costs between current and future ratepayers who will also be benefiting from the COF. In addition, since Providence Water plans to make a rate filing within the year, the parties will have the opportunity to review the CIP funding level to ensure that it is reasonable.

Summary and Conclusions

Based on our review to date, the Division finds that Providence Water is in need of a new COF. In addition, we believe Providence Water has performed their due diligence in their search for a new COF and the selection of the facility at 125 Dupont Drive. The Division recommends that the Commission approve Providence Water's request as filed on the condition that Providence Water not be allowed to pay any taxes to the City of Providence until the issue is fully vetted in a general rate filing. The Division reserves its rights to modify its position should any additional evidence come forth prior to the conclusion of the case that would warrant a modification to our position.