



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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Peter F. Kilmartin, Attorney General

March 28, 2016

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

BY ELECTRONIC AND HAND DELIVERY

Re: Narragansett Bay Commission's Compliance Rate Filing
Docket No. 4602

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*)

March 28, 2016

Memorandum

To: RI Public Utilities Commission

From: Alberico Mancini, Rate Analyst
Division of Public Utilities and Carriers

Subject: The Narragansett Bay Commission (NBC)
Compliance Rate Filing
RIPUC Docket No. 4602

The Division, along with its consultant, Thomas Catlin, has reviewed NBC's Compliance Rate Filing submitted on February 16, 2016. In its filing, NBC seeks approval for an increase in its revenues of \$1,457,211, which represents an increase in overall revenues at present rates of 1.48 percent and an increase in sewer user rates of 1.53 percent. The purpose of this revenue increase is to allow NBC to meet the additional debt service and coverage requirements associated with a new \$23 million low interest rate loan from the Rhode Island Infrastructure Bank (RIIB). The amount of the additional revenues sought is based on the debt service level in the Fiscal Year ending June 30, 2019 (FY19), inclusive of the debt service and coverage requirements associated with the new loan. The FY19 debt level was utilized in 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 for obtaining rate relief to cover the costs of new debt first established by the Commission in its Order No. 17558 in Docket No. 3483 and subsequently extended in Docket No. 3905 and, most recently, in Docket No. 4364. The Division has reviewed the requirements set forth in Commission Order No. 17558. 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, the Division believes NBC has complied with the Commission's requirements. In reviewing NBC's request, the Division has confirmed that the \$23

million of loan proceeds is expected to be used to meet capital requirements in the Rhode Island Department of Environmental Management's 2016 Project Priority List. The Division has 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.

The Division does have a concern regarding NBC's residential well customer rate. The current rate dates back to Docket 4230 - Tariff Advice Related to Residential Customers effective July 1, 2011 in which the Commission approved decreasing the average residential usage from 97.59 hcf/yr to 79.61 hcf/yr due to lower average annual residential water consumption. In Docket 4478, the Commission approved rates based on residential billing units of 118,202 and a measured residential total consumption of 8,420,893 hcf, which resulted in a further decrease in the average residential usage from 79.61 hcf/yr to 71.24 hcf/yr, but the average usage for residential well customers was not adjusted. The change, if applied to the proposed rate, would result in a \$29.55 decrease from the proposed \$499.90 flat rate to a \$470.35 flat rate charge for residential well customers. There are approximately 250 residential well customers within the NBC service area. The Division recommends that the average residential usage for well customers be adjusted to 71.24 hcf, which would comply with the Commission's approved rate base units as ordered in Docket 4478, and adjust the rate accordingly to \$470.35.

Included in NBC's Capital Project Compliance Reporting is a proposed new Interceptor Maintenance (IM) Facility with an estimated design and construction cost over \$6.6 million. NBC has stated that their current IM Facility is in very good condition and that the proposed new IM Facility would only be needed if NBC is required to assume responsibility for system-wide sewer laterals. To date, there is no legislation before the General Assembly that we are aware of that would require NBC to assume responsibility for any sewer laterals and NBC has stated that they do not plan on moving forward with this project. The Division recommends that NBC inform both the Commission and Division prior to any design or construction of a new IM Facility.

A portion of the \$23 million loan proceeds will also fund preliminary design for the CSO Phase III Project. Currently, NBC is awaiting RIDEM's approval for an alternative plan for Phase III, which would extend the construction schedule through 2038 with an estimated cost of \$815

million. The Division understands that NBC is under a consent agreement with RIDEM to complete all three phases of this project but the Division is concerned with customer rate impact associated with the project in the coming years. If approved by RIDEM, extending the construction schedule will help ease some of the rate impact but extending the \$815 million estimate out to 2029 dollars, midway through the scheduled construction and assuming a 3% per year inflation rate, Phase III costs will exceed \$1 billion. NBC estimates that the projected average annual residential bill at the completion of the CSO Phase III Project would increase to \$769 in 2014 dollars. These estimates do not take into consideration several factors such as additional capital and infrastructure funding for non-CSO projects, general O & M rate increases, and a 3% per year inflation rate, The Division remains concerned that including all these factors, future sewer rates may reach or exceed the limits of affordability in NBC's service area.

Although the proposed rate increase will not go into effect until July 1, 2016, 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 RIIB debt and to allow RIIB to issue that debt as soon as possible to take advantage of current favorable interest rates, the Division recommends that the Commission approve the increase in revenues requested by NBC in order to meet the increased debt service and the associated coverage requirements.