



State of Rhode Island
Division of Public
Utilities & Carriers

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November 20, 2018

To: Luly Massaro, Commission Clerk

From: Patricia Smith, Rate Analyst *P.S.*
John Bell, Chief Accountant *J.B.*

Subject: Narragansett Bay Commission (NBC)
Compliance Rate Filing
RIPUC Docket No. 4885

On October 4, 2018, Narragansett Bay Commission (NBC) submitted a Compliance Rate Filing seeking approval for an increase in revenues of \$2,872,681 effective January 1, 2019. This request represents an increase in overall revenues at present rates of 2.88 percent and an increase in sewer user rates of 2.98 percent. Since the increase is applied to sewer rates only and not miscellaneous revenues, the percentage increase in sewer rates is slightly higher than the overall increase. The annual impact on the typical residential customer is an increase of \$14.21 from \$477.27 to \$491.48. The request is supported by the testimony of Karen Giebink, Chief Financial Officer, Kathryn Kelly, Combined Sewer Overflow (CSO) Program Manager, and David Bowen, Engineering Manager.

NBC's filing in this docket was made pursuant to the Commission authorized debt service mechanism. The debt service mechanism was originally approved by the Commission in Docket 3483 and most recently extended through 2022 by Commission Decision in Docket 4364. The Debt Service mechanism allows NBC to make limited rate filings for increases in debt service and the related coverage requirements to allow for the issuance of additional debt. The testimony of Karen Giebink lists the debt service filing requirements set forth by the Commission and how NBC complied with each of the requirements in this filing. Based on our review, we verified that NBC met each of the required filing requirements.

The rate increase NBC is seeking is to cover the additional revenue requirements associated with a new \$45 million subsidized loan from the Rhode Island Infrastructure Bank (RIIB). In its filing, NBC uses the rate year from Docket 4602 as the test year and calendar year 2019 as the rate year. According to the testimony of Karen Giebink, in order to issue additional long-term debt, NBC must demonstrate that it has approved rates that generate revenues that are 125% of annual debt service. The only proposed changes between the test year and rate year is a \$2,298,145 increase in debt service costs and an increase of \$574,536 in debt coverage for a total requested increase of \$2,872,681, which brings the rate year cost of service to \$102,522,251. The proposed increase in debt

service represents the difference between the current debt service allowance and the FY 2021 debt service requirements inclusive of the proposed loan. The FY 2021 debt service level was utilized 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.

The testimonies of Kathryn Kelly and David Bowen discuss the capital projects to be financed with the loan proceeds. According to their testimony, \$37.8 million of the loan proceeds will be spent on the design of Phase III A and Phase III B of the CSO Abatement program which accounts for approximately 84% of the loan proceeds. Other projects that NBC plans to fund from the loan proceeds include: Bucklin Point Wastewater Treatment Facility UV Disinfection Improvement, Providence River Siphon, Moshassuck Valley Interceptor, Louisquisset Pike Interceptor Improvements. These additional projects are estimated to be approximately \$5.3 million which accounts for 12% of the loan proceeds. The remaining 4% is going to be allocated to smaller miscellaneous projects. NBC anticipates utilizing these funds over a fourteen-month period.

We have reviewed the filing in detail and found that the proposed increase was accurately calculated and that the request was supported by the filing. The Division supports the use of Rhode Island Infrastructure Bank (RIIB) debt because the interest rate is subsidized and use of such loans results in a cost savings to rate payers when compared to other borrowing alternatives. In conclusion, the Division finds the proposal to be in the best interest of rate payers. As such, it recommends that the Commission approve the increase in revenues requested by NBC to meet the increased debt service and the associated coverage requirements.