

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

**IN RE: NARRAGANSETT BAY** :  
**COMMISSION COMPLIANCE** : **DOCKET NO. 4885**  
**RATE FILING** :

**REPORT AND ORDER**

On October 4, 2018, the Narragansett Bay Commission (NBC) filed an application with the Rhode Island Public Utilities Commission (PUC or Commission) seeking a rate increase for debt service and debt service coverage costs under NBC's Variable Rate Debt Obligation in Tax Exempt Commercial Paper (TECP/VRDO) debt program.<sup>1</sup> The proposed rates were designed to generate additional revenues of \$2,872,681 to finance a \$45 million loan from the Rhode Island Infrastructure Bank (Infrastructure Bank) and to support a total revenue requirement of \$102,522,251. The

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<sup>1</sup> The Commission in Docket No. 3483 allowed NBC expedited treatment for filings to increase rates solely for debt service and debt service coverage. NBC's primary source of funding for its capital program is in the form of borrowings from the State Revolving Loan Fund, administered by the Rhode Island Infrastructure Bank (Infrastructure Bank), formerly known as the Rhode Island Clean Water Finance Agency. Since loan capacity is limited, the Variable Rate Debt Obligation in Tax Exempt Commercial Paper (VRDO/TECP) program provides for short term financing with attractive variable rates that can be paid off as more money comes available. VRDO/TECP is less costly than Open Market Bonds. The requirements for all compliance filings seeking a rate increase under the TECP/VRDO program are that they: 1) be filed no later than sixty days prior to its effective date; 2) be limited to debt service and debt service coverage for Capital Improvement Program (CIP) projects; 3) contain a revised limited cost of service schedule reflecting the changes to the revenue and expense accounts affected by the VRDO/TECP program; 4) contain testimony and schedules in support of the debt service and debt service coverage proposed as well as a current and projected annual debt service payment schedule; 5) contain a summary of funds currently available for the CIP and the projected funding needed for the rate year period; 6) contain a summary of funding received from the Infrastructure Bank, 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 former Section 2.11 of the Commission's Rule of Practice and Procedure. *See* 810-RICR-00-00-5.11. The ability to file for expedited treatment has been extended three times. On April 3, 2018, the PUC approved NBC's Miscellaneous Petition for Relief to extend the debt service compliance filing mechanism until 2022. *See* Docket No. 4364, Order 23267.

impact of the proposal will be a 2.88% increase in overall revenues or an across-the-board 2.98% increase in sewer user rates effective January 1, 2019.

In support of its request, NBC submitted the prefiled testimony of its Chief Financial Officer, Karen Giebink; its Combined Sewer Overflow Program Manager, Kathryn Kelly, P.E.; and David Bowen, its Engineering Manager.<sup>2</sup> Ms. Giebink testified in support of a debt service and debt service coverage allowance rate increase needed for January 1, 2019, and described that NBC has made seven previous filings pursuant to the Commission's ruling allowing for expedited treatment of requests to increase rates solely for debt service and debt service coverage.<sup>3</sup>

Ms. Giebink explained that since its current rates became effective on July 1, 2016, NBC has issued approximately \$23 million of new debt.<sup>4</sup> Ms. Giebink testified that NBC submitted an application to the Infrastructure Bank for a \$45 million dollar loan for execution in February 2019, and that the requested rate increase is necessary prior to NBC being issued additional long-term debt.<sup>5</sup> Ms. Giebink explained the loan is required to finance NBC's ongoing Capital Improvement Program (CIP); the rate increase would allow NBC to demonstrate its rates are sufficient to generate revenues that are 125% of debt service.<sup>6</sup> She detailed that NBC needed the additional capital funds primarily for Phase III of its Combined Sewer Overflow (CSO) Abatement Program, as well as for other projects included on the Rhode Island Department of Environmental Management's (DEM) 2019 Project Priority List.<sup>7</sup>

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<sup>2</sup> Prefiled testimony generally is available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at [www.ripuc.org/eventsactions.html](http://www.ripuc.org/eventsactions.html), organized by docket number.

<sup>3</sup> Karen Giebink Direct at 2 (Oct. 4, 2018).

<sup>4</sup> *Id.* at 3.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Id.* at 4.

Ms. Giebink explained that the filing used fiscal year 2018 as the test year and calendar year 2019 as the rate year. She represented that NBC was requesting \$2,872,681 of additional revenue, which will result in a 2.88% increase over test year revenues.<sup>8</sup> She further averred that NBC's submission met the compliance debt service filing requirements.<sup>9</sup> Specifically, Ms. Giebink testified that the submission was filed more than sixty days prior to the effective date; that the filing is limited to debt service and debt service coverage for CIP projects; that NBC included a rate year cost of service schedule in the filing along with prefiled testimony and schedules in support of the debt service and debt service coverage; that the filing contained a summary of funds currently available for the CIP and the projected funding needed for the rate year period; that the filing contained a summary listing the loans requested, loans received, and the interest rates for funding received the Infrastructure Bank; that the filing contained a detailed listing of the capital project expenditures purchased using the prior year coverage funds; that the filing contained a calculation of the percentage increase in sewer user rates based on a uniform increase; and that NBC was in compliance with all Commission orders.<sup>10</sup>

Ms. Kelly provided a brief history of the CSO Project and an update on the status of the CSO Phase III reevaluation. She explained that NBC had initiated a reevaluation of the originally proposed Phase III facilities to determine whether there was a more cost effective approach to completing the project.<sup>11</sup> As a result of that study, NBC's Board of Directors selected an alternative that will cost ratepayers \$779.1 million in 2018 dollars,

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<sup>8</sup> *Id.* at 3-4. Ms. Giebink testified that not all revenue accounts are impacted by the proposed rate increase and that the across-the-board increase on sewer user rates is 2.98%. *Id.* at 5.

<sup>9</sup> *Id.* at 5-10.

<sup>10</sup> *Id.*

<sup>11</sup> Kathryn Kelly Direct at 3-5 (Oct. 4, 2018).

\$35.1 million less than the previous estimate.<sup>12</sup> Ms. Kelly explained that the alternative project completion schedule was also increased from nine years to twenty-three years, with an estimated completion date of 2041.<sup>13</sup>

Ms. Kelly testified that NBC had submitted an amended reevaluation report to DEM and that DEM had approved that report in December 2017.<sup>14</sup> She noted that NBC's Consent Agreement with DEM was renegotiated based on the final approved plan and explained that, as a result of the changes made as part of the reevaluation plan approved by DEM, the total pre-design estimate for CSO Phase III was reduced from \$815 million to \$779.1 in 2018 dollars.<sup>15</sup> Ms. Kelly testified that NBC plans to expend \$37.8 million of the \$45 million loan proceeds on the design of Phase III A and Phase III B of the CSO Program.<sup>16</sup>

Mr. Bowen testified about the other capital improvement projects that NBC plans to fund with the proceeds from the anticipated Infrastructure Bank loan, including improvements to the Bucklin Point Wastewater Treatment Facility, the Providence River Siphon, the Moshassuck Valley Interceptor, and the Louisquisset Pike Interceptor.<sup>17</sup> Those improvements have an estimated cost of approximately \$5.3 million and account for 12% of the anticipated \$45 million loan.<sup>18</sup> The remaining \$1.95 million, or 4%, of the anticipated loan, will be allocated to smaller miscellaneous projects.<sup>19</sup>

The Division of Public Utilities and Carriers (Division) filed a Memorandum supporting NBC's request for the additional \$1,457,511 of revenue. Patricia Smith, Rate

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<sup>12</sup> *Id.* at 3-5.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *Id.* at 2-3.

<sup>16</sup> *Id.* at 5.

<sup>17</sup> David Bowen Direct at 2 (Oct. 4, 2018).

<sup>18</sup> *Id.*

<sup>19</sup> *Id.*

Analyst with the Division, and John Bell, Chief Accountant for the Division, reiterated that the purpose of the rate increase was to allow NBC to meet the debt service and coverage requirements associated with a new \$45 million loan from the Infrastructure Bank.<sup>20</sup> After reviewing the filing in detail, the Division found that the proposed rate increase was accurately calculated and that the request was supported by the filing.<sup>21</sup> The Division recommended approval of the increased revenues requested so that NBC can meet its increased debt service and debt service coverage requirements.<sup>22</sup>

On December 4, 2018, following public notice, the Commission conducted an evidentiary hearing. NBC presented Ms. Giebink, Ms. Kelly, and Mr. Bowen as a panel. They all adopted their prefiled written testimony as their testimony under oath.<sup>23</sup> In addition, Ms. Giebink testified that NBC would amortize the new debt over a 20-year period rather than 30, saving \$10.4 million over the life of the loan, benefiting ratepayers.<sup>24</sup> Ms. Giebink explained that NBC sized the anticipated loan based on its cash flow needs and the funds that NBC anticipated would be available from the Infrastructure Bank.<sup>25</sup> In explaining the bill impact on ratepayers, Ms. Giebink testified that a residential customer would see an average annual increase of \$14.12 on their bill.<sup>26</sup> Mr. Bowen also made clear that all of the miscellaneous projects that would be funded with the proceeds of the loan were included on DEM's 2019 priority list.<sup>27</sup> John Bell

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<sup>20</sup> Division Memorandum at 1 (Nov. 20, 2018).

<sup>21</sup> *Id.* at 2.

<sup>22</sup> *Id.* at 2.

<sup>23</sup> Hr'g Tr. at 7-9. Ms. Kelly made minor changes to her prefiled testimony.

<sup>24</sup> *Id.* at 33-35.

<sup>25</sup> *Id.* at 18.

<sup>26</sup> *Id.* at 28.

<sup>27</sup> *Id.* at 27-28.

testified on behalf of the Division, confirming that it believed NBC's proposal was in the best interest of ratepayers.<sup>28</sup>

At the conclusion of the hearing, the Commission found the requested rate increase necessary and in the public interest and unanimously approved it as filed for effect January 1, 2019.<sup>29</sup>

Accordingly, it is hereby

(23463) ORDERED:

1. The Narragansett Bay Commission's rate application of October 4, 2018, is hereby approved as filed for effect January 1, 2019.
2. Tariff rates will be increased by 2.98%, to generate additional revenues of \$2,872,681, for a total revenue requirement of \$102,522,251.
3. The Narragansett Bay Commission shall comply with all other findings and instructions in this Report and Order.

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<sup>28</sup> *Id.* at 51.

<sup>29</sup> *Id.* at 52-53.

EFFECTIVE AT WARWICK, RHODE ISLAND ON DECEMBER 4, 2018,  
PURSUANT TO AN OPEN MEETING DECISION AFTER HEARING. WRITTEN  
ORDER ISSUED MARCH 20, 2019.

PUBLIC UTILITIES COMMISSION



Margaret E. Curran, Chairperson

Marion S. Gold, Commissioner

Abigail Anthony, Commissioner

**NOTICE OF RIGHT OF APPEAL:** Pursuant to R.I. Gen. Laws §39-5-1, any person aggrieved by a decision or order of the PUC may, within seven (7) days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.

**Appendix A**

	Docket 4885 Test Year	Adjustment	Rate Year
<b>REVENUES</b>			
User Fee Revenues	\$ 96,425,456		\$ 96,425,456
Miscellaneous	3,224,114		3,224,114
Total Revenue	99,649,570		99,649,570
<b>EXPENSES</b>			
Personnel Services	21,739,796		21,739,796
Operating Supplies & Expenses	14,933,901		14,933,901
Special Services	2,938,084		2,938,084
Debt Service	47,815,767	2,298,145	50,113,912
Debt Coverage	11,953,942	574,536	12,528,478
Total Expense	99,381,490	2,872,681	102,254,171
OPERATING RESERVE	268,080		268,080
COST OF SERVICE	99,649,570	2,872,681	102,522,251
RATE YEAR REVENUES AT PRESENT RATES	99,649,570		99,649,570
<b>REVENUE INCREASE</b>	\$ -	2,872,681	2,872,681