

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DIVISION OF PUBLIC UTILITIES AND CARRIERS
89 JEFFERSON BOULEVARD
WARWICK, RHODE ISLAND 02888

IN RE: City of Newport Water Division :
Application to Incur Long-Term Debt : Docket No. D-08-03

REPORT AND ORDER

On January 14, 2008, the City of Newport, acting by and through the Newport Water Division ("Newport Water") filed an application with the Rhode Island Division of Public Utilities and Carriers ("Division") seeking authority to enter into long-term debt and issue revenue bonds in an amount not to exceed \$4,337,000 for capital equipment, water treatment studies and engineering and consulting services.

Specifically, Newport Water seeks to borrow \$3,100,000 of the \$4,337,000 total through revenue bonds to be sold by the Rhode Island Clean Water Finance Agency ("RICWFA") as part of the Rhode Island Drinking Water State Revolving Fund ("DWSRF"). The funds from this borrowing will be used to fund Newport Water's purchase and installation of remote radio read equipment to measure water usage throughout its distribution system. Additionally, Newport Water seeks to borrow another \$1,237,000 through a Bond Anticipation Note purchased by the RICWFA. From these total proceeds, Newport Water will use \$292,000 to finance pilot testing and design for an additional pretreatment/clarification train at the Station 1 Water Treatment

Plant. The remaining \$945,000 will be used to engage the services of an engineer/consultant to assist Newport water in evaluation issues concerning a potential new water treatment plant at Lawton Valley. The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws and Section 14 of the Division's *Rules of Practice and Procedure*.¹

In response to the application filing, the Division conducted a duly noticed public hearing on March 3, 2008. The hearing was conducted in the Division's hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For Newport Water:	Joseph A. Keough, Jr., Esq.
For the Division's Advocacy Section:	Leo J. Wold, Esq. Special Assistant Attorney General

Newport Water proffered three witnesses in support of its application. The witnesses were identified as Ms. Maureen E. Gurghigian, Managing Director, First Southwest Company, 652 George Washington Highway, Lincoln, Rhode Island; Mr. Harold J. Smith, Vice President of Raftelis Financial Consultants, Inc., 511 East Boulevard, Charlotte, North Carolina (a consulting firm specializing in the areas of water and wastewater finance and pricing); and Ms. Julia Forgue, P.E., the Director of Utilities for the City of Newport. All three witnesses submitted pre-filed direct testimony in this docket.

¹ The application was entered on the record as Newport Water Exhibit 1.

Ms. Maureen Gurghigian related that First Southwest Company provides financial advisory services to issuers of municipal debt, primarily in the State of Rhode Island. She testified that she has supervisory responsibility for First Southwest's involvement with borrowings by the State of Rhode Island, numerous public agencies and 30 Rhode Island municipalities, including the City of Newport. She related that First Southwest Company serves approximately 2000 municipal issuers, including more than 400 in New England. She added that the Rhode Island office assists clients with the origination of more than \$800 million in public financing issues each year.²

Ms. Gurghigian related that she is providing assistance to the City of Newport and Newport Water and its financing team with respect to the issuance of debt through the RICWFA. She related that her role in this docket is "to provide information on the debt service requirements for two planned new borrowing as well as to respond to related questions".³

Ms. Gurghigian provided additional information regarding the proposed two borrowings and specifically addressed the anticipated interest rates. Ms. Gurghigian testified that Newport Water is planning to use the proceeds of the \$3,100,000 RICWFA borrowing for the purchase and installation of remote radio read equipment; and the \$1,237,000 borrowing to employ an engineer/consultant for work associated with a potential new Lawton Valley Water Treatment Plant and treatment capacity improvements at the Station 1 plant.

² Id., Gurghigian Testimony, p. 1.

³ Id., p. 2.

Ms. Gurghigian next described the financing structure of the proposed borrowing. She explained that in accordance with the Safe Drinking Water Act Amendments of 1996, the State of Rhode Island has created a DWSRF, which is administered by the RICWFA to provide assistance to water suppliers. She related that the DWSRF uses federal capitalization grants and state matching funds to provide subsidized (25% below market-rate) loans to water suppliers for qualifying projects listed on the Project Priority List maintained by the Rhode Island Department of Health (“RIDOH”). Ms. Gurghigian testified that the DWSRF is currently providing a significant portion of the funding for Newport Water’s capital program. She testified that the RICWFA sells bonds in the public market and loans the proceeds to its drinking water borrowers pursuant to loan agreements. Ms. Gurghigian related that the purchase and installation of the remote radio read equipment has been identified in Newport Water’s capital program, and it is listed on the RIDOH’s Project Priority List, and is therefore, eligible for the subsidized DWSRF loan through the RICWFA.⁴

Ms. Gurghigian related that the term on the \$3,100,000 borrowing is approximately 20 years. She explained that once construction funds are fully drawn down, Newport Water will have 20 years to repay the loan. Under this financing structure, Ms. Gurghigian related that the “full term including the construction period is not expected to exceed 23 years. She testified that the anticipated interest rate is 4.5% on a subsidized basis, which reflects a market

⁴ *Id.*, pp. 2-3.

rate of 6.0% and the 25% interest cost subsidy from the RICWFA.⁵ Ms. Gurghigian testified that approximately \$2.8 million of the \$3,100,000 borrowing will be available for project funds, \$200,000 will be set aside in the debt service reserve fund and approximately \$100,000 is allocated for costs of issuance, including rating agency fees, bond counsel, financial advisor and trustee fees, and the RICWFA origination fee. Ms. Gurghigian added that the Newport Water expects that the revenue bonds will be sold in early 2008.⁶

Regarding the planned Bond Anticipation Note (“BAN”), Ms. Gurghigian explained that Newport Water’s engagement of an engineer/consultant for preliminary work associated with the potential new Lawton Valley Water Treatment Plant and the pilot testing and design for an additional pretreatment/clarification train at Station 1 “do not yet qualify for a subsidized loan through the DWSRF.”⁷ She noted that these projects “need additional approvals before they will qualify for the subsidy.”⁸ Ms. Gurghigian testified that Newport Water unfortunately cannot obtain these approvals before the RICWFA sells its revenue bonds in early 2008. Ms. Gurghigian explained that because Newport Water needs to proceed with these projects immediately, these funds must be borrowed on a short-term basis through the BAN. She related that Newport Water expects to finance these projects on a long-term basis when the RICWFA sells its revenue bonds in 2009.⁹ Ms. Gurghigian

⁵ Id., p. 3 and Transcript.

⁶ Id., pp. 3-4.

⁷ Id., p. 4.

⁸ Id.

⁹ Id.

added that the interest rate on the \$1,237,000 BAN will depend upon prevailing interest rates at the time of closing but is not expected to exceed 5.0%.¹⁰ Ms. Gurghigian testified that approximately \$1.2 million of the \$1,237,000 BAN would be available for project funds. She related that the balance of these funds is allocated for costs of issuance, including bond counsel, financial advisor and trustee fees.¹¹

In closing, and in support of her testimony, Ms. Gurghigian also proffered copies of the following three documents: (1) The Newport Water Revenue Bond Trust Indenture; (2) A draft of the Second Supplemental Indenture; and (3) A draft of the Loan Agreement with RICWFA.¹²

Mr. Harold Smith testified that the proposed two borrowings, totaling \$4,337,000, would not have any impact on Newport Water's rates. He related that Newport Water's current rates, approved in PUC Docket No 3818, were set to support the debt service resulting from the proposed borrowings.¹³

Ms. Julia Forgue provided details on the Newport Water capital projects that would be funded through the proposed borrowings. According the witness, Newport Water plans to purchase and install remote radio read equipment to enable the utility "to read the entire system in approximately four days or less."¹⁴ Ms. Forgue testified that in Newport Water's most recent rate case with the PUC, Newport Water was ordered to begin billing its residential

¹⁰ Id. and Transcript.

¹¹ Id.

¹² Id., p. 5, and attachments.

¹³ Id., Smith Testimony, p. 2.

¹⁴ Id., Forgue Testimony, p. 2.

customers on a quarterly basis. She related that the proposed radio read equipment “will assist us in doing so.”¹⁵ Ms. Forgue added that the new equipment would also allow Newport Water to “improve leak detection throughout our system, and will shorten the potential duration of unknown leaks in residential homes” and “collect better data regarding usage throughout [the] system.”¹⁶

Ms. Forgue next discussed Newport Water’s decision to request financing to hire an engineer/consultant to assist it with issues related to a potential new water treatment plant at Lawton Valley. She testified that in 2004 Newport Water conducted a comprehensive regulatory compliance evaluation and facility condition evaluation for the two water treatment plants, Station 1 and Lawton Valley. She related that based on the evaluations, both short and long-term recommendations were made for each facility. Ms. Forgue testified that the long-term recommendation for Lawton Valley was to replace, rather than rehabilitate, the 1943 facility. She explained that the recommendation was based on findings that significant work was needed to achieve treatment reliability to maintain regulatory compliance; and that structural, mechanical, and electrical improvements are required to comply with current building codes to ensure that adequate health and safety provisions are in place.¹⁷ Ms. Forgue thereupon explained that before any decisions can be made on the construction of a new plant, Newport Water needs to retain the services of an

¹⁵ Id.

¹⁶ Id., pp. 2-3.

¹⁷ Id., pp. 3-4.

engineer/consultant who will be tasked with the following duties: investigate the best procurement process; assist with site selection and acquisition; identify funding sources; perform preliminary engineering for determining the recommended treatment processes; conduct pilot testing for treatment processes; and to do preliminary design work and establish design criteria.¹⁸ Ms. Forgue also testified that the engineer/consultant would also assist the City of Newport throughout the bidding and construction process “and will not be eligible to bid on the project itself.” She related that the engineer/consultant’s work is anticipated to take place over three to four years and cost \$945,000.¹⁹

Ms. Forgue next addressed the reason for funding this project through a BAN. She explained that in order to finance the project through a subsidized RICWFA loan through the DWSRF, Newport Water would need to obtain a certificate of approval (“COA”) from the RIDOH. She explained, however, that the RIDOH will not issue the COA until an environmental assessment is completed. Ms. Forgue testified that for this reason Newport Water plans to temporarily finance this project through a BAN until Newport Water changes the description of the project on the RIDOH’s project priority list from a “construction” project to a “design” project. Ms. Forgue testified that this change “will enable Newport Water to obtain a COA for the design work without

¹⁸ Id., p. 4.

¹⁹ Id.

performing an environmental assessment” and eventually permit the project to be financed through a subsidized DWSRF loan.²⁰

Ms. Forgue offered a similar explanation for Newport Water’s proposal to finance the funding of the pilot testing and design at the Station 1 plant through the proposed BAN. Ms. Forgue testified that in order to achieve the reliable treatment and capacity goal at the Station 1 plant, an additional pretreatment/clarification unit (train) is recommended to be installed. She explained, however, that before that unit can be installed, Newport Water needs to conduct pilot testing and design work for this project, which she noted will cost \$292,000. However, like the Lawton Valley project, she explained that the RIDOH will not issue the requisite COA until an environmental assessment is completed. Ms. Forgue testified that Newport Water anticipates that this project will be ‘rolled over’ into a subsidized DWSRF loan after an environmental assessment is completed.²¹

The Division’s Advocacy Section did not present any witnesses in this case. It did, however, proffer a memorandum from a consultant that was retained by the Advocacy Section to evaluate the proposed borrowings.²² The consultant, Mr. Thomas S. Catlin, a principal in the consulting firm of Exeter – Consulting Economists, stated in the memorandum that after reviewing the application filing, he concurred with Newport Water’s statement that the

²⁰ Id., p. 5.

²¹ Id., p. 6.

²² Advocacy Section Exhibit 1.

allowance for debt service included in Newport Water's rate is sufficient to cover the projected debt service associated with this borrowing.

The Advocacy Section subsequently stated for the record that it was satisfied from the evidence presented, that Newport Water had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq. and that the proposed borrowing was in the public interest.

Findings

Predicated on a careful examination of the record in this matter, the Division finds that the instant application request is reasonable and in the best interest of ratepayers.

Now accordingly, it is

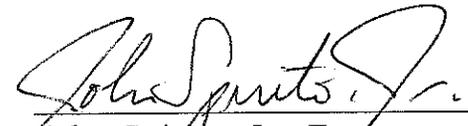
(19219) ORDERED:

1. That the January 14, 2008 application, filed by the City of Newport, acting by and through the Newport Water Division, which seeks Division approval, under R.I.G.L. §39-3-15, to enter into long-term debt and issue revenue bonds in an amount not to exceed \$4,337,000 for capital equipment, water treatment studies and engineering and consulting services, is hereby approved as filed.
2. That the Division hereby makes this approval contingent upon the Newport Water Division's use of the debt service allowance previously approved by the Commission, or if

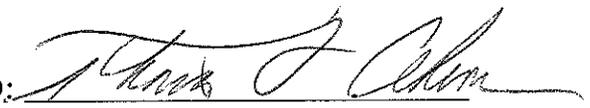
subsequently required, by additional debt service allowances approved by the Commission.

3. That the Division hereby limits approval of the instant application to the terms and details identified in the record.

Dated and Effective at Warwick, Rhode Island on March 4, 2008.



John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 

Thomas F. Ahern
Administrator