

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-08-15

REPORT AND ORDER

On April 9, 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 \$6,650,000 for the purpose of financing repairs to the Easton Pond Dam in Newport, Rhode Island. Newport Water seeks to borrow the \$6,650,000 through a conduit loan from the Rhode Island Clean Water Finance Agency ("RICWFA"). 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*.<sup>1</sup>

In response to the application filing, the Division conducted a duly noticed public hearing on May 15, 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.

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<sup>1</sup> The application was entered on the record as Newport Water Exhibit 1.

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 Fogue, P.E., the Director of Utilities for the City of Newport. All three witnesses submitted pre-filed direct testimony in this docket.

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.<sup>2</sup>

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

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<sup>2</sup> Id., Gurghigian Testimony, p. 1.

is to provide information on Newport Water's debt service requirements for the proposed borrowing and to respond to related questions.<sup>3</sup>

Ms. Gurghigian provided additional information regarding the proposed borrowing and specifically addressed the anticipated interest rates. Ms. Gurghigian testified that Newport Water is planning to use the proceeds of the \$6,650,000 RICWFA borrowing to fund repairs to the Easton Pond Dam in Newport. She related that the planned borrowing, a conduit loan, is different than the typical "pooled bond issues" sold by the RICWFA. Ms. Gurghigian described the borrowing as "a standalone issue for Newport only." She testified that given the size of the borrowing, the plan is to seek commitments to purchase the loan from several banks and award it to the bank offering the lowest interest cost. Ms. Gurghigian related that a standalone issue of this size would not receive the full benefit of selling in the public market since the upfront costs for a small issue are similar to those for a large issue. She added that the RICWFA has provided conduit financing in the past on both a private placement and open market basis for borrowers such as Pawtucket Water, Providence Water and West Warwick.<sup>4</sup> Ms. Gurghigian testified that the term of the borrowing will be approximately twenty years; the expected interest rate range is between 5.0% and 6.0%, depending upon market conditions.<sup>5</sup>

Ms. Gurghigian also testified that approximately \$6 million of the funds from the borrowing will be available for the project. She noted that

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<sup>3</sup> *Id.*, p. 2.

<sup>4</sup> *Id.*, pp. 2-3.

<sup>5</sup> *Id.*, p. 3.

approximately \$550,000 will be set aside in the debt service reserve fund and approximately \$100,000 will be allocated for issuance costs, including bond counsel, financial advisor and trustee fees, and the costs incurred by the RICWFA in connection with the borrowing.<sup>6</sup> In support of her testimony, Ms. Gurghigian also provided a schedule displaying the projected debt service for the proposed borrowing,<sup>7</sup> and copies of “The Newport Water Revenue Bond Trust Indenture,” the “Draft Third Supplemental Indenture” and the “Draft of the Loan Agreement with the RICWFA.”<sup>8</sup>

Mr. Harold Smith testified that the proposed borrowing, totaling \$6,650,000, 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.<sup>9</sup>

Ms. Julia Forgue provided details on the Easton Pond Dam project that would be funded through the proposed borrowing. Ms. Forgue testified that Easton Pond has served as a raw water source dating back to 1877 and is a vital part of Newport Water’s infrastructure. She related that the last significant work completed on the dam was reconstruction of the spillway and south bank in 1939. Ms. Forgue explained that Easton Pond is divided into two sections (North Easton Pond and South Easton Pond) by an earthen embankment called Middle Dam. She stated that in October 2006 the City of Newport awarded a contract to Fuss & O’Neil to prepare a study of the Easton

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<sup>6</sup> Id.

<sup>7</sup> Id. and Schedule MG-1.

<sup>8</sup> Attached to Ms. Gurghigian’s pre-filed testimony.

<sup>9</sup> Id., Smith Testimony, p. 2.

Pond Dam and Moat, which was to include an assessment of the structural integrity of the dam, spillways and intake structures. According to the witness, the study identified short and long-term improvements to the dam and its structures along with estimated costs.<sup>10</sup>

Ms. Forgue testified that before the study was finalized and submitted, a severe storm, which hit Newport on April 15 and 16, 2007, caused significant damage to the northern and western embankments of Easton Pond. She related that approximately 900 linear feet of the north embankment and 1800 linear feet of the west embankment were damaged either on the upstream side of the embankment or crest. Ms. Forgue testified that Newport Water took emergency action by placing sandbags at the upstream face of the embankments where severe erosion occurred and where the crest width had been severely reduced.

Ms. Forgue noted that at the time of the storm damage, Fuss & O'Neil was preparing to present the results of the draft report at a City Council workshop. She related that after the storm Newport Water staff met with Fuss & O'Neil engineers to discuss the possibility of repairing the damage. However, it was determined at that time "that there were no viable, cost effective intermediate steps that could be taken to address the damage."<sup>11</sup> It was therefore decided that Newport Water "proceed as soon as possible with long

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<sup>10</sup> Id., Forgue Testimony, p. 2.

<sup>11</sup> Id.

term repairs as identified in the report for the damaged sections of the north and west embankments.”<sup>12</sup>

Ms. Forgue testified that the recommended improvements include increasing the crest height 12 inches and the crest width to a total width of 12 feet; installing riprap slope protection on the north embankment; driving sheet piling to reconstruct the west embankment; and reinforce the toe of slope and bench areas of both the north and west embankments. Ms. Forgue related that Newport Water has completed preliminary engineering work and included additional field investigations to advance the design and refine anticipated construction costs to repair the damaged sections. She estimated the cost for repairing the damaged sections of the dam at \$6,000,000.<sup>13</sup>

In her final comments, Ms. Forgue related that although the debt service for this project has been previously approved by the Public Utilities Commission (in Docket 3818), the project is not eligible for subsidized below market-rate financing through the RICWFA. She explained that according to the Rhode Island Department of Health “*Rules and Regulations Pertaining to the Drinking Water State Revolving Fund*,” projects associated with dams or rehabilitation of dams are not eligible for funding as part of the Rhode Island Drinking Water State Revolving Fund.<sup>14</sup>

The Division’s Advocacy Section did not present any witnesses in this case. It did, however, proffer a memorandum from a consultant that was

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<sup>12</sup> *Id.*, pp. 2-3.

<sup>13</sup> *Id.*, p. 3.

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

retained by the Advocacy Section to evaluate the proposed borrowings.<sup>15</sup> 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 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

(19292) ORDERED:

1. That the April 9, 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 \$6,650,000 for the purpose of

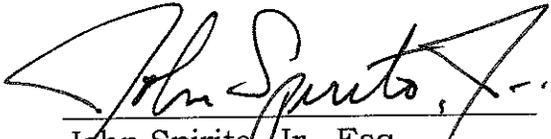
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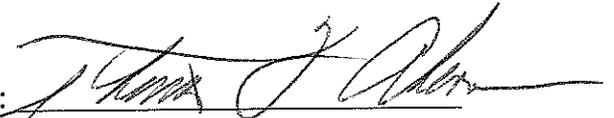
<sup>15</sup> Advocacy Section Exhibit 1.

financing repairs to the Easton Pond Dam, 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 May 19, 2008.

  
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John Spirito, Jr., Esq.  
Hearing Officer

APPROVED:   
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Thomas F. Ahern  
Administrator