

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

IN RE: Pawtucket Water Supply Board :
Application To Issue Bonds In An : Docket No. D-11-68
Amount Not To Exceed \$7,485,000 :

REPORT AND ORDER

On August 11, 2011, the Pawtucket Water Supply Board ("PWSB"), 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 \$7,485,000 as part of a Rhode Island Drinking Water State Revolving Fund ("DWSRF") loan from the Rhode Island Clean Water Finance Agency ("RICWFA"). The application was filed in accordance with the requirements contained in Rule 14 of the Division's Rules of Practice and Procedure and Section 39-3-15 of the Rhode Island General Laws.

The PWSB application indicates that it seeks to borrow approximately \$7,485,000 from the RICWFA to finance distribution and other miscellaneous improvements to the PWSB System.¹

¹ The Division notes that the instant filing was preceded by five similar filings made on December 4, 2003, February 6, 2004, January 7, 2005, December 19, 2006 and September 3, 2009. In the December 4, 2003 filing, the PWSB sought Division authority to borrow approximately \$30 million from the RICWFA to "defease" or "prepay" its then current debt obligations to the Pawtucket Public Buildings Authority. The Division approved this filing on December 16, 2003, through Report and Order No.17635. In the February 6, 2004 filing, the PWSB sought Division authority to borrow approximately \$43 million from the RICWFA to finance improvements to the PWSB's water system. The Division approved this filing on February 27, 2004, through Report and Order No.17764. In the January 7, 2005 filing, the PWSB sought Division authority to borrow approximately \$35 million from the RICWFA to finance treatment plant improvements, sedimentation facilities replacement, cleaning and relining of transmission lines, construction projects in accordance with the PWSB's Capital

In response to the application filing, the Division conducted a duly noticed public hearing on September 12, 2011. The hearing was conducted in the Division's hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For the PWSB:	Joseph A. Keough, Jr., Esq.
For the Division's Advocacy Section:	Jon G. Hagopian, Esq. Special Assistant Attorney General

The PWSB proffered three witnesses in support of its application. The witnesses were identified as Mr. James L. DeCelles, the PWSB's Chief Engineer; Ms. Maureen E. Gurghigian, Managing Director, First Southwest Company, 652 George Washington Highway, Lincoln, Rhode Island; and Mr. Christopher P.N. Woodcock, President of Woodcock & Associates, Inc., 18 Increase Ward Drive, Northborough, Massachusetts, a consulting firm specializing in water and wastewater rate and financial studies.

Chief Engineer, James DeCelles was proffered as a supporting witness to discuss why the PWSB has requested approval to borrow approximately \$7,485,000 from the RICWFA to finance distribution and other miscellaneous improvements to the PWSB System. Mr. DeCelles testified that the projects to

Improvement Plan, and all attendant expenses, including, but not limited to the design build contract for the treatment plant and engineering costs. The Division approved this previous filing on February 2, 2005, through Report and Order No.18134. In the December 19, 2006 filing, the PWSB sought Division authority to borrow approximately \$1.9 million from the RICWFA to finance improvements to the PWSB System, including, but not limited to, the purchase of approximately 23,000 meter interface units. Subsequently, however, the PWSB decided to withdraw this application, which was approved by the Division on January 17, 2007, through Report and Order No.18831. Lastly, in the September 3, 2009 filing, the PWSB sought Division authority to borrow approximately \$5.9 million from the RICWFA to finance distribution and other miscellaneous improvements to the PWSB System. The Division approved this previous filing on September 23, 2009, through Report and Order No.19770.

be funded through this borrowing consist of: (1) the replacement of approximately 30,000 feet of existing water main, at an estimated cost of \$4,600,000; (2) refurbishment to the well buildings for Wells 8 and 9, with an estimated cost of \$480,000; (3) and the redevelopment of Wells 2A, 3, 4, 5, 6, 7, 8 and 9, with an estimated cost of \$120,000. Mr. DeCelles also related that some the funds will be used to refinance a direct loan from the RICWFA in the amount of \$1,700,000. Mr. DeCelles testified that the PWSB identified these projects in its capital program, and that they are listed on the Rhode Island Department of Health's Project Priority List, which, Mr. DeCelles noted, qualifies the projects for a subsidized Drinking Water State Revolving Fund loan through RICWFA.²

As in previous related dockets, Ms. Maureen E. Gurghigian began her testimony by stating that First Southwest Company serves as financial advisor to many issuers of municipal debt in Rhode Island. She related 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 Pawtucket. She testified that the firm currently serves more than 2000 municipalities and agencies, including more than 400 in New England.³

Ms. Gurghigian related that she has served as financial advisor to the PWSB in previous bond approval cases before the Division. She related that she is currently providing assistance to the PWSB with respect to the planned loan

² PWSB Exhibit 1, DeCelles Testimony, pp. 1-3.

³ PWSB Exhibit 1, Gurghigian Testimony, pp. 1-2.

from the RICWFA. She testified that the proposed \$7,485,000 borrowing from the RICWFA is needed to finance improvements to the PWSB's water supply system. Ms. Gurghigian explained that of the \$7,485,000 loan amount, approximately \$6,750,000 will be available for project funds, and approximately \$590,000 will fund the Debt Service Reserve Fund as required by the PWSB's Indenture of Trust. She stated that an additional \$145,000 is allocated for costs of issuance and the RICWFA origination fee.⁴

In describing how the financing works, Ms. Gurghigian explained that pursuant to the Safe Drinking Water Act Amendments of 1996, Rhode Island has created a Drinking Water State Revolving Fund ("DWSRF") administered by the RICWFA to provide financial assistance to water suppliers. She related that the fund 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. Ms. Gurghigian explained that the RICWFA sells bonds in the public market and loans the proceeds to its drinking water borrowers pursuant to loan agreements. Ms. Gurghigian emphasized that the DWSRF is providing a significant portion of the funding for the PWSB's capital program.⁵

Ms. Gurghigian testified that the term of the requested borrowing is 20 years. She explained that once the construction funds are fully drawn down, the PWSB will have 20 years to repay the loan. Ms. Gurghigian noted that the

⁴ *Id.*, pp. 2-3.

⁵ *Id.*, p. 3.

full term including the construction period is not expected to exceed 23 years.⁶ Ms. Gurghigian testified that based upon current market conditions, it is anticipated that the loan will not exceed a market rate of 6.02%, which, she related, would result in a projected blended subsidized rate of approximately 4.33%.⁷

Ms. Gurghigian testified that this borrowing will be done when the RICWFA sells its revenue bonds for the DWSRF, which is anticipated to take place in September 2011. Ms. Gurghigian related that the RICWFA requires that all borrower approvals be in place prior to pricing loans. She added that while the pricing date has not yet been established, approval during the month of September would put the PWSB in a position to meet the RICWFA schedule.⁸

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. She testified that for the \$7,485,000 debt, annual debt service is expected to increase by approximately \$591,000 per year. She noted that for purposes of her debt service analysis, a market rate of 6.02% and a subsidized rate of 4.33% have been used.⁹

Mr. Christopher P.N. Woodcock was primarily proffered to confirm that the PWSB currently has sufficient rates to pay the debt service associated with this borrowing. Mr. Woodcock based his opinion on the debt service schedule provided by Ms. Gurghigian, "and assuming the interest rates provided in her testimony, the combination of the PWSB's debt service funding, debt service

⁶ Id., p. 3.

⁷ Id.

⁸ Id., pp. 3-4.

⁹ Id., p. 4 and transcript; also Schedule MG-1.

stabilization and IFR funding will sufficiently cover the PWSB's existing debt service obligations and the proposed borrowing, as well as the coverage requirements."¹⁰

The Division's Advocacy Section did not present any witnesses in this docket. After a thorough cross-examination of the PWSB's witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that the PWSB 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 the PWSB's ratepayers.

Now, therefore, it is

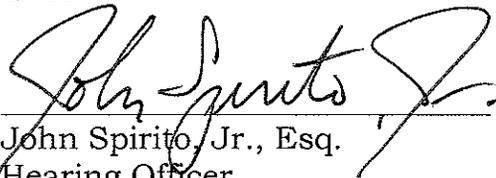
(20470) ORDERED:

1. That the August 11, 2009 application, filed by the Pawtucket Water Supply Board, 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 \$7,485,000 as part of a Rhode Island Drinking Water State Revolving Fund ("DWSRF") loan from the Rhode Island Clean Water Finance Agency, is hereby approved as filed.

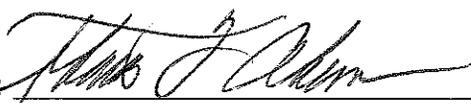
¹⁰ PWSB Exhibit 1, Woodcock Testimony, p. 3.

2. That the Division hereby makes this approval contingent upon the Pawtucket Water Supply Board'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 SEPTEMBER 13, 2011.



John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 

Thomas F. Ahern
Administrator

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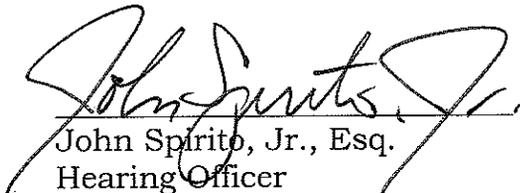
Notice of Erratum

The Rhode Island Division of Public Utilities and Carriers ("Division") issued Report and Order No. 20470 on September 13, 2011, in the above-referenced matter. On page 6 of the Report and Order, the Division incorrectly referenced the "August 11, 2009 application" in ordered paragraph "1." The Report and Order should have, instead, made reference to the "August 11, 2011 application." Accordingly, it is

(20476) ORDERED:

That Order No. 20470, issued by the Division on September 13, 2011, is hereby amended to reflect the correction described herein.

Dated and Effective at Warwick, Rhode Island on September 19, 2011.


John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 
Thomas F. Ahern
Administrator