

BIUD proffered two witnesses in support of its application. The witnesses were identified as Mr. David G. Bebyn, CPA, an expert in public utility accounting and rate matters; and Mr. Jeffery M Wright, BIUD's President.

Mr. Bebyn's testimony provided the relevant details on the proposed borrowing.² He also explained that the instant borrowing is part of the transition from the old investor owner, the Block Island Power Company ("BIPCo"), to the new non-profit, BIUD.

Mr. Bebyn testified that prior to 2016, all of the shares of BIPCo were held by three individual owners who each held one third of the outstanding shares. He related that on November 7, 2016, the Town of New Shoreham purchased all of the BIPCo shares from two of the owners, which provided the Town with a 2/3 majority ownership in BIPCo. Mr. Bebyn testified that after a new Board of Directors was formed, the new Board moved to convert BIPCo into a utility district, which became possible with the enactment of R.I.G.L. §45-67-1, *et seq.* in July 2017. Mr. Bebyn explained that under the new law, once the assets of BIPCo transferred to BIUD, BIPCo ceased functioning as an electric utility. Mr. Bebyn related that this transfer of assets occurred on March 25, 2019. Mr. Bebyn testified that BIUD purchased the assets with an unsecured \$5.8 million short-term loan from CFC.³

In his testimony, Mr. Bebyn explained that the initial unsecured loan was necessary because BIUD could not acquire BIPCo's assets until the assets were purchased from BIPCo; and long-term financing approval from the Division was

² Id., Bebyn Testimony.

³ Id., p. 2.

only possible after BIUD became a regulated utility. In short, he described the need for the unsecured loan as a matter of timing.⁴

Mr. Bebyn next testified that BIUD will use the proceeds from the borrowing to repay the \$5,800,000 unsecured loan from the CFC that was needed to purchase BIPCo's assets. He proffered the following breakdown of how the proceeds would be utilized:

Fixed Assets.....	\$5,532,757
Cash & Investments.....	251,062
Accounts Receivable (net) & unbilled revenue.....	290,691
Inventory.....	204,478
Prepaid Expenses.....	10,795
Deferred Regulatory Assets.....	393,238
Payables & Customer Deposits.....	(83,094)
Accrued Expenses.....	(188,389)
Deferred Regulatory Liabilities.....	(530,583)
Deferred Revenue.....	(80,955)
Total.....	\$5,800,000 ⁵

Mr. Bebyn related that the loan will be secured by all of BIUD's real and personal property. He also related that the loan's interest rates will be calculated using a revenue market rate not to exceed 4.58%, which he noted results in a projected subsidized rate of approximately 4.18%.⁶

⁴ Id., pp. 2-3.

⁵ Id., p. 3.

⁶ Id., p. 4.

Mr. Bebyn explained that there will be no drawdown period associated with this loan because the \$5,800,000 mortgage funds will be used to fully repay the \$5,800,000 unsecured note. He testified that the repayment period will be 30 years with an amortization which is different for each portion of the loan which CFC is financing; there will also be no balloon payment due at the end of the 30 years. Mr. Bebyn testified that the debt service on the loan will be designed to include level annual payments for the first seven years of less than \$575,500 and afterwards will range from a low of \$198,185 in the twenty-seventh year of the payment period (FY2046) to a high of \$269,133 in the tenth year of the payment period (FY2029).⁷ Mr. Bebyn explained that CFC required that the loan be structured this way as a condition of approving the borrowing. He referenced the “Term out all Balances” report attached to Mr. Wright’s testimony for the details of various components of the financing and the conditions imposed by CFC.⁸

Mr. Bebyn opined that BIUD has sufficient rates in place to pay the debt service for the instant loan. Mr. Bebyn added that this opinion is supported by CFC’s review of BIPCo’s financials and CFC’s calculation of BIUD’s proforma projections based upon CFC’s Compass financial modeling. Mr. Bebyn testified that based upon its review of these factors, CFC has agreed to offer this loan to BIUD.

Mr. Bebyn also related that the loan is subject to a prepayment administrative fee and any make-whole prepayment premium. He also testified that BIUD is required to maintain a Modified Debt Service Coverage (“MDSC”),

⁷ Id.

⁸ Id., pp.4-5.

which is defined as Operating Margins + Interest Expense LTD + Depreciation, Amortization + Non-Operating Margins. He explained that the MDSC that CFC requires is 1.35 for two out of the past three years.⁹ Mr. Bebyn was confident that BIUD would be able to satisfy the MDSC test.¹⁰

In his final comments, Mr. Bebyn asserted that the terms of the proposed \$5,800,000 loan from the CFC is in the best interest of ratepayers.¹¹

Mr. Wright sponsored the BIUD's filing. He began his direct testimony by describing the debt that the company is seeking to refinance. He related that in the Purchase and Sale Agreement that BIUD signed with BIPCo in January of 2019, BIUD agreed to assume all of BIPCo's existing debt and contract obligations. Mr. Wright testified that the proposed loan is required to refinance a \$5,800,000 line of credit that BIUD received from CFC to fund the acquisition of BIPCo's assets before BIUD's transition to official public utility status.¹²

Mr. Wright next described the services that CFC offers its members. He testified that CFC is a \$25 billion member-owned cooperative association incorporated under the laws of the District of Columbia. He related that CFC's principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service (RUS) of the United States Department of Agriculture. Mr. Wright related that CFC provides loans to its rural electric members "so they can acquire, construct and operate electric distribution, generation and transmission systems and related facilities." He also explained

⁹ Id., p. 6.

¹⁰ Id.

¹¹ Id.

¹² Id., Wright Testimony, p. 2.

that CFC provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations.¹³ Mr. Wright noted that CFC's secured long-term debt is rated "A" by Standard and Poor's, "A1" by Moody's and "A+" by Finch.¹⁴

In describing the terms of the loan, Mr. Wright related that the interest rate on the loan will be 4.58% and have an effective rate of 4.18% after member discounts are applied. Mr. Wright added that additional discounts will be applied when BIUD reaches an equity level in excess of 40%. He also testified that CFC is willing to fund the acquisition costs over 30 years. Also, under the terms of the loan, BIUD's debt service payments will be paid quarterly.¹⁵

In closing, Mr. Wright asserted that the proposed loan is in the best interest of BIUD's ratepayers and that CFC has a proven record of lending their utility members funds at competitive rates.¹⁶

The Division's Advocacy Section did not proffer any witnesses in this docket. It did, however, examine the filing and related attachments and conduct cross-examination of BIUD's two witnesses. After completing its examination, the Advocacy Section stated for the record that it was satisfied from the evidence presented that BIUD had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq. and that the proposed refinancing was in the public interest.

¹³ Id., pp. 2-3.

¹⁴ Id., p. 3.

¹⁵ Id., pp. 3-4 and Attachment JW-1.

¹⁶ Id., pp. 4-5.

FINDINGS

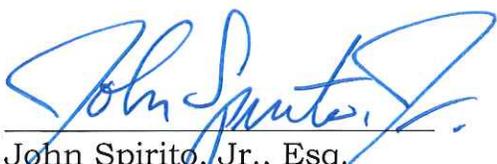
Predicated on a careful examination of the record in this matter, the Division finds that BIUD's application seeking authority to obtain a \$5,800,000 loan from the National Rural Utilities Cooperative Finance Corporation (CFC) for the purpose of refinancing existing short-term BIUD debt is reasonable and in the interest of BIUD and its ratepayers.

Now, therefore, it is

(23629) ORDERED:

1. That the Block Island Utility District's June 4, 2019 application, which seeks Division approval under R.I.G.L. §39-3-15, to obtain a \$5,800,000 loan from the National Rural Utilities Cooperative Finance Corporation (CFC) for the purpose of refinancing existing short-term BIUD debt, is hereby approved as filed.
2. 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 JULY 15, 2019.



John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 

Kevin Lynch*
Deputy Administrator

*Normally, the Administrator of the Rhode Island Division of Public Utilities and Carriers ("the Administrator") would approve and sign Orders such as this. In the Administrator's absence, and pursuant to the authority granted by R.I.G.L. §§ 42-20-3 and 42-20-5, Deputy Administrator Lynch has been designated and authorized by the Administrator to sign Orders such as this issued by the Division of Public Utilities and Carriers.