

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

IN RE: Providence Water Supply Board :
Application for Authority to : Docket No. D-20-03
Issue Debt :

REPORT AND ORDER

On March 4, 2020, the Providence Water Supply Board (“Providence Water”) filed an application with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking authority to borrow from the Clean Water State Revolving Fund an amount not to exceed \$3,000,000. The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws and Rule 14 of the Division’s *Rules of Practice and Procedure*.

In its filing, the Providence Water states that it plans to borrow from the Rhode Island Infrastructure Bank (“RIIB”) in an amount not to exceed \$3,000,000 for the Providence Water Private Side Lead Service Replacement Loan Program at an interest rate not to exceed 0%. The filing states that the loan will be secured by repayments of loans made to Providence Water by customers participating in the Providence Water Private Side Lead Service Replacement Loan Program, deposited as revenue into the Providence Water Restricted Fund.¹ The filing also states that the borrowing may reimburse

¹ Providence Water Exhibit 1.

Providence Water for the project costs incurred from inception of the project until actual funding date.

In response to the application filing, the Division conducted a duly noticed public hearing on March 26, 2020. 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:	Michael R. McElroy, Esq.
For the Division's Advocacy Section:	Tiffany Parenteau, Esq. Spec. Assistant Attorney General

Providence Water proffered two witnesses in support of its filing. Both witnesses submitted pre-filed direct testimony.² The witnesses were identified as Ms. Nancy E. Parrillo, Providence Water's Senior Manager; and Mr. Gregg M. Giasson, PE, Providence Water's Deputy General Manager of Operations/Executive Engineer.

Ms. Nancy Parrillo testified in support of the proposed borrowing. She began her testimony by relating that the funds will be used to supplement Providence Water's Private Side Lead Service Replacement Loan Program, which she noted was endorsed by the Rhode Island Public Utilities Commission ("Commission") in its approval of new rates in Docket No. 4618 in February of 2017. She related that the Loan Program is being offered by Providence Water to its customers that are interested in replacing their private-side lead service. She also related that these loans to the customer

² Providence Water Exhibit 1.

will remain at zero interest and that Providence Water is proposing to move from its current 3-year repayment schedule to a 10-year repayment schedule.³

Ms. Parrillo testified that Providence Water has received approval from RIIB for a \$3 million loan at a 0% interest rate with a payback of 10 years.⁴ Ms. Parrillo also related that the \$1 million that was initially borrowed for funding this program in 2018 was disbursed between April 2018 and August 2019.⁵

Ms. Parrillo explained that Providence Water is requesting to increase its funding for this program to \$3 million due to increased demand for the program and in anticipation of revisions to the Lead and Copper Rule, *infra*. She also noted that the program is open to any Providence Water customer wishing to participate in the program.⁶

Ms. Parrillo testified that in Docket No. 4618, the Public Utilities Commission approved \$250,000 per year in rates to establish a loan program. She related that borrowing \$3 million “will allow us to accelerate the number of private side lead services replaced by providing additional capital to finance the work.”⁷

Ms. Parrillo also stressed that this loan “will be a 0% interest loan to Providence Water.” She related that debt service payments will be calculated

³ Id., Parrillo Testimony, pp., 1-2.

⁴ Id., p. 2.

⁵ Id.

⁶ Id.

⁷ Id., pp. 2-3.

based on requisitions to RIIB for work performed each time requisitions are submitted, which are submitted on a quarterly basis.⁸ Ms. Parrillo testified that the source of funds for the repayment of the loan will be the repayments by the customers to Providence Water.

Ms. Parrillo also related that these funds will be held separately from Providence Water's Operating Fund.⁹ She explained that each month, 1/12th of the \$250,000 allowed in rates is transferred to a separate account at Citizens Bank. The funds from this RIIB loan will reimburse Providence Water for the work performed by contractors on the private side lead services. Ms. Parrillo related that as the customers repay their loans, the monies will be deposited into this bank account and will be available for the repayment of the RIIB debt service.¹⁰

Ms. Parrillo next explained that there will be no impact to the ratepayers as the debt service on the RIIB loan will be repaid with the repayments from the customers in the loan program. Ms. Parrillo also explained that Providence Water "has the authority to place the [customer's] property into a lien sale to recover any unpaid balance."¹¹

Ms. Parrillo next proffered a number of exhibits to further support the instant filing. First, in satisfaction of the requirements of R.I.G.L. §39-3-17, Ms. Parrillo provided an executed copy of a resolution of the Providence

⁸ Id., p. 3.

⁹ Id.

¹⁰ Id.

¹¹ Id., pp. 3-4.

Water Supply Board stating that at the January 15, 2020 Board Meeting, the Board authorized the now proposed loan.¹²

Second, in her pre-filed testimony, Ms. Parrillo proffered a copy of the draft Ordinance approving the borrowing, which was before the City Council at the time the instant application was filed on February 18, 2020.¹³ During the hearing, Ms. Parrillo related that the Council had recently approved the Ordinance and that it was on the Mayor's desk awaiting signature. She related that a copy of the Ordinance will be forwarded to the Division once it is executed.¹⁴

Lastly, Ms. Parrillo presented a proforma capital structure showing the effect of the bond issuance as required under Rule 14 of the Division's Rules of Practice and Procedure. She testified that the debt to plant ratio with this issue would be 31.02%, which she noted is considered low or good in the opinion of rating agencies.¹⁵

Ms. Parrillo also provided a copy of the commitment letter from the RIIB, and explained that a Certificate of Approval from the Rhode Island Department of Health is expected shortly.¹⁶

Mr. Gregg Giasson reaffirmed that the funds for this borrowing will be used to provide zero percent interest loans to Providence Water's retail customers for the replacement of private-side lead services (from curb stop to

¹² Id., p. 4; Parrillo Exhibit I.

¹³ Id.; Parrillo Exhibit II.

¹⁴ Id., p. 4.

¹⁵ Id., p. 4; Parrillo Exhibit III.

¹⁶ Id., pp. 4-5; and Parrillo Exhibits IV.

the water meter).¹⁷ Mr. Giasson estimates that there are approximately 27,300 such private lead services in Providence Water's retail system.¹⁸

Mr. Giasson next discussed the Lead and Copper Rule ("Rule"), which was promulgated by the U.S. Environmental Protection Agency ("EPA") in 1991. He testified that the purpose of the Rule was to protect public health by minimizing lead and copper levels in drinking water. He explained that lead and copper enter drinking water mainly from corrosion of service line materials and home plumbing containing these elements. Mr. Giasson testified that the Rule establishes an Action Limit of 15 parts per billion for lead and 1.3 parts per million for copper based on the 90th percentile of samples taken at customers' homes. He noted that the homes must be single family and either have a lead service or a copper service installed between 1983 and 1986, which, he explained, were the last 4 years that lead solder was allowed to be used on copper piping.¹⁹

Mr. Giasson testified that Providence Water is currently "technically" in compliance with the Rule, but that "we exceeded the lead Action Limit of 15 parts per billion each year (with the exception of 2015) since 2006. He related that because Providence Water has exceeded the limit, it is required to test on a biannual semester basis; the first semester runs from January through June and the second semester runs July through December."²⁰

¹⁷ Providence Water Exhibit 1, Giasson Testimony, pp., 1-2.

¹⁸ Id., p. 2.

¹⁹ Id.

²⁰ Id., p. 3.

Mr. Giasson next discussed the consequences of exceeding the lead Action Level. He related that if a utility exceeds the limit, there are a variety of requirements such as increased monitoring frequency, evaluation of corrosion control practices, public education requirements, and annual replacement of 7% of the utility's lead service line inventory. However, according to Mr. Giasson, in 2011, the EPA's Science Advisory Board opined that "Partial (Lead Service) Replacements have not been shown to reliably reduce drinking water lead levels in the short term, ranging from days, to months and potentially longer." As a result, Mr. Giasson related that Providence Water and RIDOH "have entered into multiple Bilateral Compliance Agreements (BCA) granting Providence Water a stay on the annual replacement of 7% of our lead service lines."²¹ Speaking on the status of the latest BCA, Mr. Giasson sponsored an exhibit which indicates that the 2019/2020 BCA "mostly focuses on establishing a public and private side lead service line database and investigating ways to increase the amount of customers who replace the private side of their lead service line. He related that "the two requirements that have significant financial impacts are (1) annual flushing of 90 miles of water main, and (2) main rehabilitation in the amount of \$19,100,000 per year in state fiscal years 2020, 2021 and 2022."²²

²¹ Id.

²² Id., pp. 3-4.

Mr. Giasson testified that the Rule is the only drinking water regulation that encompasses customer owned infrastructure as part of compliance. He also testified that the EPA issued a draft of revised Rules on November 13, 2019 and plans to make final changes to the Rule sometime in mid-2020. Mr. Giasson related that Providence Water already complies with the majority of the requirements in the revised Rules. He explained that these requirements are primarily focused on (1) public education on lead in drinking water (2) developing a lead service line inventory, (3) full lead service line replacements (from the main to the building) and (4) optimizing corrosion control. Mr. Giasson related that the two major changes in the Rules that affect Providence Water are the addition of a Trigger Level (TL) and requiring full lead service replacements as part of compliance.²³

Mr. Giasson testified that Providence Water has a four-pronged approach to reducing lead at our customer's tap, including: (1) Alternative treatment methods that will include the implementation of orthophosphate in April 2020, (2) continued rehabilitation of our unlined cast iron mains along with the removal of lead services, (3) continued implementation of our unidirectional flushing program, and (4) continued public lead education. Mr. Giasson added that Providence Water is looking to enhance its corrosion control strategy by the addition of orthophosphate and bolstering our lead

²³ Id., pp. 4-5.

service replacement program by increasing funding for private side lead service replacements.²⁴

Mr. Giasson next discussed the cost for these replacements ranges between \$15,000 and \$2,300, with 95% of the costs below \$5,000. He noted that the average is \$3,785, which translates to a cost of \$100/month for a customer who utilizes the three year interest free loan program.²⁵

Mr. Giasson also spoke about the success of this program. He related that since the 0% Interest Loan Program began, Providence Water has sent direct mailings to approximately 40,000 customers who were suspected of having a private side lead service. He also indicated that an additional 3,000 letters were mailed to customers in neighborhoods where Providence Water was performing main replacement work. Mr. Giasson testified that in 2018 and 2019, 429 private side lead services were replaced, with 285 of those being part of the three year, no interest program. He related that out of 330 customers who chose not to participate, 120 responded that they thought the cost was too high.²⁶ Based on these survey results, Mr. Giasson explained that under the proposed loan program, customers will have ten years, instead of three, to make payments. He testified that this change would reduce the average replacement cost to \$30/month, which he opined ought to make the program more attractive to customers.²⁷

²⁴ Id., pp. 5-6.

²⁵ Id., p. 6.

²⁶ Id., p. 7.

²⁷ Id.

The Division's Advocacy Section did not present any witnesses in this case. After a brief cross-examination of Providence Water's witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that Providence 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 Providence Water's application seeking authority to borrow from the Clean Water State Revolving Fund an amount not to exceed \$3,000,000, is reasonable and in the best interest of ratepayers.

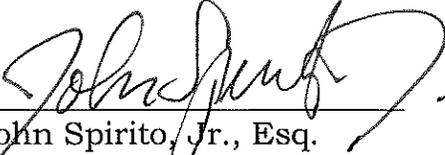
Now, therefore, it is

(23801) ORDERED:

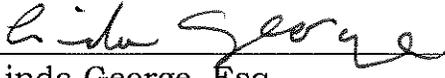
1. That the Providence Water Supply Board's March 4, 2020 application, which seeks Division approval under R.I.G.L. §39-3-15, to borrow from the Clean Water State Revolving Fund an amount not to exceed \$3,000,000, is hereby approved as filed.
2. That the Division hereby limits approval of the instant application to the terms and details identified in the record.
3. That the Division hereby makes this approval contingent upon the Providence Water Supply Board's use of the debt service allowance previously approved by the Public Utilities Commission, or if

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

Dated and Effective at Warwick, Rhode Island on March 27, 2020.



John Spirito, Jr., Esq.
Hearing Officer

Approved: 

Linda George, Esq.
Acting Administrator