

**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-21-11  
Issue Debt :

**REPORT AND ORDER**

On May 14, 2021, 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 \$21,000,000. The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws and Rule 1.14 of the Division’s *Rules of Practice and Procedure*.

In its filing, Providence Water states that it plans to borrow from the Drinking Water State Revolving Fund, through the Rhode Island Infrastructure Bank (“RIIB”), in an amount not to exceed \$21,000,000 primarily for the rehabilitation of water mains and appurtenances at an interest rate not to exceed 3.5%. The filing states that the loan will be secured by the Providence Water Enterprise Fund Revenues under the Providence Water Bond Indenture.<sup>1</sup> The filing also states that the borrowing may reimburse Providence Water for the project costs incurred from inception of the project until actual funding date.

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<sup>1</sup> Providence Water Exhibit 1.

In response to the application filing, the Division conducted a duly noticed public hearing on June 8, 2021. The hearing was conducted in the Division's hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances at both hearings:

For the PWSB: Michael R. McElroy, Esq.

For the Division's  
Advocacy Section: Leo Wold, Esq.  
Deputy Chief of Legal Services

### **Providence Water's Direct Case**

Providence Water proffered three witnesses in support of its borrowing request. All three witnesses submitted pre-filed direct testimony.<sup>2</sup> The witnesses were identified as Ms. Nancy E. Parrillo, Providence Water's Senior Manager; Mr. Gregg M. Giasson, PE, Providence Water's Deputy General Manager of Operations/Executive Engineer; and Maureen E. Gurghigian, Managing Director at Hilltop Securities, Inc.

Ms. Nancy Parrillo testified in support of the proposed borrowing. She began her testimony by relating that the funds will be used to continue Providence Water's work on improvements to its distribution system and appurtenances, "focusing on rehabilitation of water mains, transmission lines, service lines and valves, and related expenses throughout the Providence Water system in accordance with our agreement with the RI Department of Health (RIDOH)"<sup>3</sup>

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<sup>2</sup> Providence Water Exhibit 1.

<sup>3</sup> Id., Parrillo Testimony, pp., 1-2.

Ms. Parrillo testified that the proposed \$21 million borrowing from the RIIB is estimated to be sufficient to cover the construction costs for this portion of the project as well as the cost of issuance, origination fee to the RIIB, and required debt service reserve fund. Ms. Parrillo also testified that if there is any shortfall in the amount of funds available for construction due to issuance costs, Providence Water will use cash from its Infrastructure Replacement (IFR) Fund to make up the difference.<sup>4</sup>

Ms. Parrillo related that in order to pay the debt service, Providence Water will use rate revenue as approved by the Public Utilities Commission ("Commission"). She testified that because of the structure of the repayment schedules by the RIIB, Providence Water does not need to ask for a rate increase to cover the initial repayments "as the transfer of rate revenue to the Restricted Infrastructure Replacement Fund is sufficient."<sup>5</sup> Ms. Parrillo added that Providence Water had anticipated this borrowing and had included an estimate for the debt service in its most recent, three step rate filing that was approved by the Commission on August 27, 2020; Ms. Parrillo testified that this borrowing will not impact customers at this time.

Ms. Parrillo next proffered several exhibits to further support the May 14, 2021 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 Water

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<sup>4</sup> Id., p. 2.

<sup>5</sup> Id., p. 2.

Supply Board stating that at the January 20, 2021 Board Meeting, the Board authorized the now proposed loan.<sup>6</sup>

Ms. Parrillo also proffered a copy of the Ordinance approving the borrowing, which the City Council approved on April 19, 2021.<sup>7</sup>

Ms. Parrillo next presented a proforma capital structure showing the effect of the bond issuance as required under Rule 1.14 of the Division's Rules of Practice and Procedure. She testified that the debt to plant ratio with this issue would be 33.53%, which she noted is considered low or good in the opinion of rating agencies.<sup>8</sup>

Ms. Parrillo also provided a breakdown of how the \$21 million of available bond proceeds will be used. She related that \$1,383,452 will be deposited with the Trustee for a debt reserve fund, which represents one year's debt service. Next, she related that \$290,000 will be paid for costs of issuance incurred by Providence Water, which includes rating agency fees, bond counsel, financial consulting and trustee fees, and the origination fee. She testified that the remaining funds, approximately \$19,326,547, will be used to fund the planned work projects.<sup>9</sup>

Regarding the terms of the financing, Ms. Parrillo testified that the bonds will be issued under the Trust Indenture, dated March 5, 2008. She noted that there will be a Supplemental Indenture issued that relates to these bonds. She identified the general terms of the borrowing as follows:

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<sup>6</sup> Id., pp. 2-3; Parrillo Exhibit I.

<sup>7</sup> Id., p. 3; Parrillo Exhibit II;

<sup>8</sup> Id., p. 3; Parrillo Exhibit III.

<sup>9</sup> Id., p. 3.

- A \$21 million, 20-year term borrowing through the RIIB;
- Bonds will be funded through the Safe Drinking Water State Revolving Fund and will have an interest rate subsidy of 25%;
- The interest rate of the loan will be based on Providence Water's AA-rating, less a 25% discount. An annual administrative fee of 0.3% of the outstanding loan balance will be paid to the RIIB. The estimated effective interest rate is approximately 2.084%.
- The bonds will be secured with a revenue pledge by the Providence Water Enterprise Fund Revenues under the Providence Water Bond Indenture.<sup>10</sup>

Ms. Parrillo also provided a copy of the commitment letter from the RIIB, and a Certificate of Approval from the Rhode Island Department of Health.<sup>11</sup>

Mr. Gregg Giasson reaffirmed that the funds for this borrowing will be used for distribution water main rehabilitation, which he described as "several large... projects in the Hope/Blackstone, Washington Park and Upper South Providence areas of Providence [and] smaller watermain rehabilitation projects."<sup>12</sup>

In closing, Mr. Giasson testified that Providence Water is still under a Bilateral Compliance Agreement ("BCA") with the Rhode Island Department of Health, which resulted from a finding that Providence Water had exceeded the lead Action Limit, under the EPA's Lead and Copper Rule. He related that the

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<sup>10</sup> Id., p. 4; Parrillo Exhibit IV; and Transcript.

<sup>11</sup> Id., pp. 4-5; Parrillo Exhibits V and VI, respectively.

<sup>12</sup> Providence Water Exhibit 1, Giasson Testimony, pp. 1-2.

current 2019/2020 BCA requires Providence Water to annually flush 90 miles of water mains and spend \$19,100,000 per year in fiscal years 2020, 2021 and 2022 on water main rehabilitation.<sup>13</sup> Mr. Giasson related that "we need this borrowing in order to remain compliant with the BCA with RIDOH."<sup>14</sup>

Ms. Maureen Gurghigian related that she is providing assistance to Providence Water and its financing team with respect to the instant borrowing through RIIB. She testified that the proposed \$21,000,000 borrowing from the RIIB is needed for financing continued improvements to the distribution system including but not limited to the cleaning, relining, repair and replacement of water mains, transmission lines, service lines, and valves, and all attendant expenses.<sup>15</sup>

Ms. Gurghigian confirmed that of the \$21,000,000 loan amount, approximately \$19,326,000 will be available for project expenditures, and approximately \$1,383,452 will fund the debt service reserve fund. She stated that an additional \$290,000 is allocated for costs of issuance, including rating agency fees, bond counsel, financial advisor and trustee fees, and the RIIB origination fee.<sup>16</sup>

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 RIIB to provide financial assistance to water suppliers. She related that the

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

<sup>14</sup> Id.

<sup>15</sup> Id., Gurghigian Testimony, p. 2.

<sup>16</sup> Id., p. 3.

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 RIIB sells bonds in the public market and loans the proceeds to its drinking water borrowers pursuant to loan agreements. Ms. Gurghigian related that Providence Water identified these projects in its capital program and they are listed on the Rhode Island Department of Health's Project Priority List. She testified that these projects, therefore, qualify for a subsidized DWSRF loan through the RIIB.<sup>17</sup>

Ms. Gurghigian testified that the term of the requested borrowing is 20 years. She explained that the expected interest cost will reflect a subsidized rate of 25% off the current market rates. Ms. Gurghigian testified that based upon market conditions as of May 12, 2021, it is anticipated that the loan will not exceed a market rate of 2.78%, which, she related, would result in a projected subsidized rate of approximately 2.08%.<sup>18</sup> For purposes of Division approval, Ms. Gurghigian recommended "a not to exceed market rate of 3.25% and a subsidized rate of 2.50% to allow for market movement."<sup>19</sup>

Ms. Gurghigian testified that this borrowing will be done when the RIIB sells its revenue bonds for the DWSRF, which is anticipated to take place in

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<sup>17</sup> Id., pp. 2-3.

<sup>18</sup> Id., p. 3.

<sup>19</sup> Id.

May of 2021. Ms. Gurghigian related that RIIB requires that all borrower approvals be in place prior to mailing the RIIB Preliminary Official Statement.<sup>20</sup>

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. She testified that for the \$21,000,000 loan, annual debt service is expected to increase by approximately \$1,388,000 per year. She noted that this amount is subject to change based upon the actual project costs, draw schedule and prevailing interest rates at the time of borrowing.<sup>21</sup>

### **The Advocacy Section's Position**

The Division's Advocacy Section did not present any witnesses in this case but did proffer one exhibit containing Providence Water's responses to preliminary questions posed by the Division.<sup>22</sup> 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 the instant application request is reasonable and in the best interest of Providence Water's ratepayers.

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<sup>20</sup> Id., p. 3.

<sup>21</sup> Id., p. 4; Schedule MG-1.

<sup>22</sup> Advocacy Section Exhibit 1.





Now, therefore, it is

(24063) ORDERED:

1. That Providence Water's May 14, 2021 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 \$21,000,000, 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'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 June 21, 2021.

  
Mark Allen Simpkins, Esq.  
Hearing Officer

Approved:   
Linda George, Esq.  
Administrator