

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

In Re: The City of Woonsocket, Water Division)
Application for Authority to Issue Debt) Docket No.: D-23-05

REPORT AND ORDER

On February 14, 2023, the City of Woonsocket, Water Division (“Woonsocket Water”) filed an application with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking authority to borrow from the Rhode Island Infrastructure Bank’s (RIIB) Safe Drinking Water State Revolving Fund an amount not to exceed \$5,000,000 for a meter replacement project and \$525,000 in the form of a forgivable loan for lead service line replacements. 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 response to the application filing, the Division conducted a duly noticed public hearing on April 27, 2023. The hearing was conducted in the Division’s hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances at the hearing:

For Woonsocket Water:	Alan M. Shoer, Esq.
For the Division’s Advocacy Section:	Margaret L. Hogan, Esq. Legal Counsel

Woonsocket Water's Direct Case

Woonsocket Water proffered pre-filed direct testimony from two witnesses in support of its application. The witnesses were identified as Mr. David G. Bebyn, CPA, President of B&E Consulting LLC, and Ms. Maureen E. Gurghigian, Managing Director at Hilltop Securities, Inc.

Mr. David G. Bebyn testified in support of the proposed borrowing. He began by explaining that the purpose of his testimony is to provide background information on Woonsocket Water's request for borrowing authority in the amount of \$525,000 from the RIIB's "Drinking Water Loan Active for the Replacement of Lead Service Lines" program and request to borrow an amount not to exceed \$5,000,000 from RIIB's "Drinking Water Special Revenue Fund Loan" to support its meter replacement program.¹ Mr. Bebyn testified that his testimony is also intended to address the financial impact of the proposed borrowing and the reasoning behind Woonsocket Water's selection of the financing terms of each loan.²

Mr. Bebyn went on to describe Woonsocket Water's lead service line replacement project. He testified that the project involves the removal and replacement of 60 existing private-side lead and galvanized steel water service lines. He testified the lines will be replaced with new "Type-K" copper service lines at residential properties identified by the Woonsocket Water Department as those in need of replacement. He went on to testify that lines in need of

¹ Woonsocket Water Ex. 1; Bebyn Testimony, pp. 1-2.

² Id. at 2.

replacement were identified using existing documentation available to Woonsocket Water and were then verified within the individual properties. Property owners were then given the opportunity to apply for lead service line replacement at no cost. A proposed project list was developed on a first come, first served basis, with priority given to homes with lead service lines that were known to have children in the residence.³

Mr. Bebyn testified that this loan differs from Woonsocket Water's past borrowings and provided a detailed explanation. He testified that this loan agreement contains a new provision that has not been included in past loan agreements that relates to private side lead services. He related the RIIB expects to receive \$150,000,000 in Bipartisan Infrastructure Law (BIL) Lead Service Line Replacement Funds (LSRF) over the next five years. Forty-nine percent of the funds will be provided to communities as grants or principal forgiveness loans and fifty-one percent of the funds will be available to communities for low-interest loans. To access these funds, water utilities must replace the private side of any lead service when it replaces the public side.⁴ Mr. Bebyn testified that this requirement will not be an issue for Woonsocket Water as they have already completed the relevant public side replacements and projects have already been approved by property owners.⁵

³ Id. at 2.

⁴ The United States Environmental Protection Agency has yet to issue final rules concerning BIL LSRF but has issued guidance suggesting that a water utility cannot replace a public side service if it cannot replace a private side service. Id. at 3.

⁵ Id. at 3-4.

Mr. Bebyn testified that the loan will be treated as a grant as the RIIB has informed Woonsocket Water that this borrowing will be eligible for 100% loan forgiveness. He related that this loan would have no impact on, and will be in the best interest of, Woonsocket Water's ratepayers.⁶

Mr. Bebyn next described Woonsocket Water's meter replacement project. He explained that the purpose of the meter replacement project is to upgrade 9,600 water meters ranging in size from 5/8-inch to 2-inch, complete with encoder and RF modules. He testified that Woonsocket Water's current meters were installed in 2004 and that meter failures are increasing as the meters continue to age. Mr. Bebyn related that current RF modules are outdated and at the end of their useful life. He testified the project is expected to be completed under two separate contracts: one for the purchase of equipment and one for installation. Woonsocket Water expects the project to be completed over a two-year period.⁷

Mr. Bebyn went on to testify as to how the loan proceeds will be used. He provided the following table:

Deposits in Construction Fund	\$4,550,682.64
Debt Service Reserve Fund Surety	349,317.36
Debt Service Reserve Fund Surety	50,000.00
Cost of Issuance – Local Level	<u>50,000.00</u>
Total	<u>\$5,000,000.00</u>

⁶ Id. at 4.

⁷ Id. at 4, 6.

In addressing the terms and interest rates included in the RIIB's commitment document for the \$5,000,000 meter replacement loan, Mr. Bebyn stated that interest rates will be calculated using the revenue market rate not to exceed 3.5%, which would result in a projected subsidized rate of approximately 2.62%. He testified that Woonsocket Water's financial advisor, Ms. Maureen Gurghigian, recommends a not-to-exceed market rate of 4.25% to allow for market rate fluctuations and a not-to exceed subsidized rate of 3.2%. He related this rate is the cheapest available to Woonsocket Water.⁸

Mr. Bebyn testified that Woonsocket Water expects that 40% of the loan's principal will be subject to Principal Forgiveness by RIIB, resulting in a net cost of \$3,000,000 plus interest cost. Repayment periods will be over 10 years with a 10-year amortization and no balloon payment is due at the end of the term. Annual debt service is expected to be \$350,000 at the projected interest rate, which includes the RIIB annual fee.⁹

Mr. Bebyn testified that Woonsocket Water has sufficient rates in place under its multi-year rate plan to pay for debt service on the \$5,000,000 borrowing. He went on to explain that Woonsocket Water is in the middle of a five-step multi-year rate plan. Debt service overages built into its current multi-year rate plan will allow Woonsocket Water to cover the debt service requested by the borrowing without seeking additional rate coverage. Rate increases

⁸ Id. at 5.

⁹ Id. at 5-6.

included as part of its multi-year rate plan will also cover the proposed borrowing.¹⁰

In his closing remarks, Mr. Bebyn related that per its commitment letter, financial covenants require Woonsocket Water to maintain a Debt Service Coverage of 1.25 times the debt service amount. This coverage amount will be supported by existing rates, the debt service reserve, and, if necessary, some of Woonsocket Water's approved Infrastructure Replacement (IFR) funds. Mr. Bebyn testified that there will be no additional impact to ratepayers and that the borrowing is in their best interest.¹¹

Ms. Maureen Gurghigian related that she is providing assistance to Woonsocket Water with respect to the instant borrowing through the RIIB. She began by explaining how the financing for the two borrowings will work. Ms. Gurghigian confirmed that the meter replacement loan will be made under the Drinking Water State Revolving Fund (DWSRF) and qualifies for principal forgiveness in the amount of \$2,000,000 (or 40% of the total) and the lead service line replacement project qualifies for 100% principal forgiveness at no cost to Woonsocket Water.¹²

Ms. Gurghigian further testified that the term of the meter replacement loan is approximately 10 years from the project completion of construction and that the expected interest cost will reflect a below market rate of 25% off current market rates. Woonsocket Water anticipates the interest rate on the loan not to

¹⁰ Id. at 6.

¹¹ Id. at 7.

¹² Gurghigian Testimony, p. 3.

exceed a market rate of 3.50% which would result in a subsidized rate of approximately 2.62%. For purposes of Division approval, she recommended a not-to-exceed market rate of 4.25%, and a not-to-exceed subsidized rate of 3.20% to allow for market rate fluctuation.¹³

Ms. Gurghigian testified with respect to how the funds from the meter replacement borrowing would be disbursed. She explained that \$4,550,682 of the proposed borrowing would be available for project expenditures and approximately \$349,317 would be set aside in the debt service reserve fund. She stated that approximately \$100,000 would be allocated for costs of issuance, rating agency fees, bond counsel, financial advisor and trust fees, and the origination fee. She explained that the allocation is subject to change with interest rates as several items are calculated based on interest cost.¹⁴

Next, Ms. Gurghigian testified with respect to how the funds from the lead service line replacement borrowing would be disbursed. She explained that \$505,000 of the proposed borrowing would be available for project expenditures and approximately \$20,000 would be allocated for costs of issuance, rating agency fees, bond counsel, financial advisor and trust fees, and the origination fee.

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. She testified that for the \$5,000,000 loan, annual debt service is expected to be approximately \$350,000 per year at the projected interest rates.

¹³ Id.

¹⁴ Id.

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. During the construction period, Woonsocket Water will pay interest on the construction draw schedule.¹⁵

In her final remarks, Ms. Gurghigian testified that Woonsocket Water's current rates appear to be sufficient to provide payment and coverage on the \$5,000,000 borrowing.¹⁶

The Advocacy Section's Position

After a brief cross-examination of Woonsocket Water's witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented that Woonsocket Water had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq., that the proposed borrowing was in the public interest and that it recommends approval of the instant application.

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 Woonsocket Water's ratepayers.

Now, therefore, it is

(24598) ORDERED:

1. That Woonsocket Water's February 14, 2023 application, which seeks Division approval under R.I.G.L. §39-3-15, to borrow an amount not to exceed

¹⁵ Id. at 4; Schedule MG-1.

¹⁶ Id.

\$5,000,000 for a meter replacement project and \$525,000 in the form of a forgivable loan for lead service line replacements from the Rhode Island Infrastructure Bank's Safe Drinking Water Revolving Fund, is hereby approved as filed.

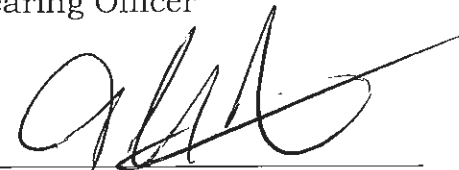
2. That the Division hereby limits approval of the instant application to the terms and details identified in the record.
3. That the Division hereby makes this approval contingent upon Woonsocket Water's use of the debt service allowance previously approved by the Public Utilities Commission, or if subsequently required, by additional debt service allowances approved by the Public Utilities Commission.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND, MAY 23, 2023.



Mark Allen Simpkins, Esq.
Deputy Chief of Legal Services
Hearing Officer

APPROVED:



Anthony Manni¹⁷
Deputy Administrator

¹⁷ Normally, the Administrator of the Rhode Island Division of Public Utilities and Carriers ("the Administrator") would approve and sign Orders such as this. In her absence, and pursuant to the authority granted by R.I.G.L. §§ 42-20-3 and 42-20-5, Deputy Administrator Manni has been designated and authorized by the Administrator to sign Orders such as this issued by the Division of Public Utilities and Carriers.



STATE OF RHODE ISLAND

DIVISION OF PUBLIC UTILITIES & CARRIERS
89 Jefferson Boulevard
Warwick, Rhode Island 02888
(401) 941-4500

FAX: (401) 941-9161
TDD: (401) 941-4500

NOTICE OF AVAILABILITY OF JUDICIAL REVIEW
(PROVIDED PURSUANT TO R.I.G.L. § 42-35-12)

Please be advised that if you are aggrieved by this final decision (report and order) of the Rhode Island Division of Public Utilities and Carriers (“Division”) you may seek judicial review of the Division’s final decision by filing an appeal with the Rhode Island Superior Court. You have thirty (30) days from the mailing date (or hand delivery date) of the Division’s final decision to file your appeal. The procedures for filing the appeal are set forth in Rhode Island General Laws, Section 42-35-15.

Proceedings for review may be instituted by filing a complaint in the Superior Court of Providence or Kent Counties. Copies of the complaint must be served upon the Division and all other parties of record in your case. You must serve copies of the complaint within ten (10) days after your complaint is filed with the Superior Court.

Please be advised that the filing of a complaint (appeal) with the Superior Court does not itself stay enforcement of the Division’s final decision. You may however, seek a stay from the Division and/or from the Court.

The judicial review shall be conducted by the Superior Court without a jury and shall be confined to the record. The Court, upon request, shall hear oral argument and receive written briefs.