

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

In Re: The Providence Water Supply Board's)
Application for Authority to Issue Debt) Docket No.: D-23-17

REPORT AND ORDER

On August 11, 2023, the Providence Water Supply Board ("PWSB") 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 \$26,300,000 to fund the rehabilitation of water mains and appurtenances and the replacement of public and private side lead services. 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 September 26, 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 the PWSB:	Leah J. Donaldson, Esq.
For the Division's Advocacy Section:	Margaret L. Hogan, Esq. Legal Counsel

PWSB's Direct Case

The PWSB proffered pre-filed direct testimony from three witnesses in support of its application. The witnesses were identified as Ms. Cheryl A. McCreight, Finance Director for the PWSB, Mr. Gregg M. Giasson, PE, Deputy General Manager of Operations and Executive Engineer of the PWSB and Ms. Maureen E. Gurghigian, Managing Director at Hilltop Securities, Inc.

Ms. Cheryl A. McCreight testified in support of the proposed borrowing. After providing a brief description of her education and experience, she related that the purpose of her testimony is to provide support of the PWSB's request for borrowing authority in the amount of \$26.3 million from the RIIB. Ms. McCreight testified that the proceeds of the borrowing will be used to primarily fund improvements to the PWSB's distribution system and related appurtenances and to fund the replacement of public and private side lead services. She explained that it is the PWSB's intent to utilize the loan portion of the proposed borrowing to fund public side lead service replacements and the principal forgiveness portion to fund the private side replacements.¹

Ms. McCreight went on to describe the source of funds used to support payment of the debt service. She testified that the PWSB will use rate revenues as approved by the Rhode Island Public Utilities Commission ("PUC"). She explained that due to the structure of RIIB's repayment schedules, the PWSB does not need a rate increase to cover the initial repayments as the transfer of rate revenues to the Restricted Infrastructure Replacement Funds is currently

¹ PWSB Exhibit 1, McCreight Testimony p. 1.

sufficient. She testified that the PWSB anticipated additional borrowings in its most recent, three-step rate filing approved by the PUC on August 27, 2020 in Docket No. 4994.²

With respect to the instant matter, Ms. McCreight testified that the proposed borrowing does not have an impact on the PWSB's customers as impacts to its customer base had been anticipated in the three-step rate increase approved by the PUC. She went on to explain that at PWSB's January 18, 2023 Board Meeting, the Board authorized its General Manager to seek approval of the Providence City Council for financing from the Rhode Island Infrastructure Bank ("RIIB") for an amount not to exceed \$27.5 million. The Ordinance authorizing this borrowing was approved on April 20, 2023.³

In addressing proforma capital structure requirements, Ms. McCreight testified that a present and proforma capital structure showing the effects of the bond issue is included in PWSB's Exhibit CM-3. PWSB's projected debt to net property, plant and equipment ("debt to plant") with the proposed issuance would be 33.18%. She explained that the PWSB's financial consultant has indicated that rating agencies consider a ratio of debt to plant of less than 40% to be low and of 40% to 60% to be moderate.⁴

Ms. McCreight's testimony next turned to a discussion of the financing terms of the proposed borrowing. She testified that the bonds will be issued under the Trust Indenture dated March 5, 2008 and that there will be a

² Id. at 2.

³ Id.

⁴ Id. at 3.

Supplemental Indenture issued which relates to these bonds and described the general terms of the debt issuance. She testified that the bonds will be funded through the Safe Drinking Water State Revolving Fund (SDWSRF) and will have an interest rate subsidy of 25% which is based on PWSB's AA rating. The estimated effective interest rate is approximately 3.149% and will be secured with a revenue pledge by the PWSB's Enterprise Fund Revenues under the Providence Water Bond Indenture.⁵

In her closing remarks, Ms. McCreight testified that the PWSB has received a commitment letter from the RIIB but was still waiting to receive a Certificate of Approval from the RI Department of Health which would be forwarded to the undersigned Hearing Officer upon receipt.⁶

Before discussing the instant proposal, Mr. Gregg M. Giasson provided a brief discussion of his education, background, and tenure with the PWSB. Mr. Giasson testified that the primary use of the funds from this borrowing is to fund public and private side lead service replacements. He explained that in November of 2021, the Infrastructure Investment and Jobs Act ("IIJA") was signed into law. Mr. Giasson testified that the IIJA will make significant funds available through the Drinking Water State Revolving Fund (DWSRF) to water utilities for infrastructure improvements. Mr. Giasson related that the IIJA includes funding for public and private side lead service replacements. For Rhode Island,

⁵ Id.

⁶ Id. at 4.; On October 3, 2023, the undersigned Hearing Officer did receive a copy of a Certificate of Approval from the RI Department of Health as stated by Ms. McCreight. The Certificate of Approval has been included as Hearing Officer's Exhibit 1.

approximately \$28 million per year will be available for lead service replacements, which includes approximately \$14 million for grants and principal forgiveness. Over the next five years, approximately \$150 million will be available for lead service replacements.⁷

He went on to testify that the funds will be used to support PWSB's Accelerated Lead Service Line Replacement Program ("LSLR Program"). He explained that the goal of the LSLR Program is to replace all of the PWSB's public and private lead services over the next five years, subject to the availability of sufficient IIJA and other funding sources such as Water Infrastructure Improvements for the Nation ("WIIN") and Congressionally Directed Spending ("CDS") grants. He stated that the PWSB will utilize the loan portion of the funding to replace the public side of the lead service and the principal forgiveness portion of the funding to replace the private side of the lead service.⁸

Mr. Giasson next went on to explain the differences between the public and private lead service lines. He testified that a water service line carries water from the water main in the street into the customer's home. The public side of the service is from the main in the street to the curb stop. This portion of the water service line is owned by the PWSB, and the private side of the water service is from the curb stop to the building/residence and is owned by the customer. The PWSB has approximately 9,000 public side lead services and approximately 23,700 private side lead services.⁹

⁷ PWSB Exhibit 1, Giasson Testimony p. 1.

⁸ Id. at 2.

⁹ Id. at 3.

Mr. Giasson's testimony next turned to the amount of funding the PWSB needs to replace all public and private lead services. He stated that, utilizing data from projects that were most recently bid, the cost for a public side lead service is approximately \$4,500 and the cost for a private side lead service is approximately \$5,600. He testified that the estimated cost to replace all of PWSB's public side lead services is \$40,500,000 and the estimated cost to replace all of the private side lead services is \$132,720,000. He related that the costs are only estimated costs, and the replacement costs may fluctuate due to factors such as rising cost of labor and material, ability to access customer's homes, and contractor availability.¹⁰

In addressing how the PWSB will manage the LSLR Program, Mr. Giasson testified that the PWSB has engaged the engineering firm CDM Smith to utilize their experience and expertise managing large, accelerated lead service line replacement programs in Newark, New Jersey, Trenton, New Jersey and Washington DC. CDM Smith will manage most aspects of the LSLR Program including customer engagement, project design, project bidding and construction inspection.¹¹

In his closing comments, Mr. Giasson related that the PWSB is currently in compliance with the Lead and Copper Rule. He testified that PWSB has been below the Action Limit (AL) for the last five semesters (from January 2021 through July 2023) thanks to a multi-pronged approach to reducing lead at their

¹⁰ Id.

¹¹ Id. at 3-4.

customer's tap. He explained that the most recent results (first semester of 2023) are the best results PWSB has had since they began testing under the Lead and Copper (LCR) in 1996. The approach includes: (1) lead service line replacement, (2) water main rehabilitation, (3) corrosion control treatment, (4) public education and outreach, and (5) unidirectional flushing. He opined that the LSLR Program will be a continuation of PWSB's efforts to minimize lead at our customer's tap and to remain in compliance with the recently promulgated Lead and Copper Rule revisions.¹²

Ms. Maureen Gurghigian related that she is providing assistance to the PWSB with respect to the instant borrowing through the RIIB and began by discussing the PWSB's financing plans. She testified that the PWSB is seeking to obtain a loan in the amount of up to twenty-six million three hundred thousand dollars (\$26,300,000). It is expected that the loan will be funded by RIIB's Drinking Water State Revolving Fund (DWSRF) at below market rates equal to 25% off Providence Water's market rate at the time of pricing. She testified that the funds will be used for lead service replacement.¹³

Ms. Gurghigian's testimony went on to address how the financing will work for the proposed \$26,300,000 borrowing. She related that the PWSB has borrowed from RIIB through the Drinking Water State Revolving Fund (DWSRF) in the past. She testified that this loan will be similar to those previously approved by the Division. This project has been identified in Providence Water's

¹² Id. at 4.

¹³ PWSB Exhibit 1, Gurghigian Testimony p. 1.

capital program and reviewed by the Department of Health, RIIB's regulatory partner for the DWSRF program, and qualifies for a subsidized DWSRF loan from RIIB.¹⁴

With respect to how the proposed borrowing differs from the PWSB's past borrowings through RIIB, Ms. Gurghigian explained that it is expected that the loan agreement will include a new provision that has not been included in past loan agreements related to the replacement of private side lead services. She related that this new provision was included in loan agreements recently reviewed by the Division in Newport Water Division's Application For Borrowing Authority (Docket D-22-14), Pawtucket Water Supply Board's Application for Borrowing Authority (Docket D-22-15) and Woonsocket Water Division's Application for Borrowing Authority (Docket D-23-05).¹⁵

Ms. Gurghigian testified that the "IIJA", passed by the United States Congress in November 2021, provides approximately fifteen billion dollars (\$15,000,000,000) for LSLR to Drinking Water State Revolving Funds nationally. She stated that RIIB expects approximately \$150 million in IIJA LSLR funds over the next five years. Forty-nine percent (49%) of these funds will be provided to communities as grants or principal forgiveness loans, and 51% of the funds will be available to communities for low-interest loans. To access the IIJA funds, a water utility must replace the private side of any lead service when it replaces the public side. Although the United States Environmental Protection Agency

¹⁴ Id. at 2.

¹⁵ Id at 2-3.

("EPA") has not issued final rules for the IIJA LSLR, the EPA has issued a guidance document suggesting that a water utility using these DWSRF funds cannot replace a public side service if it cannot replace the private side. She testified that the RIIB has advised that loan proceeds from the DWSRF can be used to replace identified private side lead service connections.¹⁶

Next, Ms. Gurghigian testified with respect whether the funds will be provided as grants or principal forgiveness loans. She related that the RIIB has informed the PWSB that this loan will be eligible for 50% principal forgiveness. The PWSB expects to utilize the loan portion of the funding to replace the public side of the lead service and the principal forgiveness portion of the funding to replace the private side of the lead service.¹⁷

Ms. Gurghigian's testimony turned to borrowing terms and applicable interest rates of the proposed loan. She testified that the term is approximately 20 years from the projected date of borrowing and the expected interest cost will reflect a below market rate of 25% off the current market rates. She related that based upon market conditions as of July 28, 2023, it is anticipated that the interest rate on the loan will not exceed a market rate of 4.19%, which would result in a projected subsidized rate of approximately 3.15%. For purposes of Division approval, she recommends a not to exceed market rate of 5.00% and a subsidized rate of 4.00% to allow for market movement.¹⁸

¹⁶ Id at 3.

¹⁷ Id.

¹⁸ Id. at 3-4.

Ms. Gurghigian next explained how the funds from the proposed borrowing would be disbursed. She related that approximately \$25,000,000 will be available for project expenditures, approximately \$920,000 will be set aside in the debt service reserve fund, and approximately \$350,000 is allocated for costs of issuance, including rating agency fees, bond counsel, financial advisor and trustee fees, and the origination fee.¹⁹

Ms. Gurghigian testified that the borrowing is anticipated to take place in late September. RIIB generally requires that all borrower approvals be in place and that all appeal periods expire prior to mailing the RIIB Preliminary Official Statement and pricing borrower loans.²⁰

In her closing remarks, she testified that projected debt service for the new borrowings is displayed in Schedule MG-1. For the \$26,300,000 loan, average annual debt service is expected to be approximately \$920,000 per year at the projected interest rates, including the RIIB annual fee. She testified 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, the PWSB will pay interest based on the construction draw schedule.²¹

The Advocacy Section's Position

The Division's Advocacy Section proffered one witness, Mr. Alberico Mancini, Chief Regulatory Analyst with the Division. Mr. Mancini testified that based on his review of the PWSB's application for borrowing authority, the

¹⁹ Id. at 4.

²⁰ Id.

²¹ Id.

Advocacy Section recommends approval of the instant filing. Mr. Mancini testified that he has no reservations regarding his recommendation.²²

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

(24857) ORDERED:

1. That the PWSB's August 11, 2023 application, which seeks Division approval under R.I.G.L. §39-3-15, an amount not to exceed \$26,300,000 from the Rhode Island Infrastructure Bank's Safe Drinking Water State Revolving Fund to fund the rehabilitation of water mains and appurtenances and for the replacement of public and private side lead services, 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 PWSB'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.

²² Tr. at 33.

**DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND, NOVEMBER 1,
2023.**



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

APPROVED:



Linda George, Esq.
Administrator



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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.