

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

In Re: The Pawtucket Water Supply Board)
Application for Authority to) Docket No.: D-22-15
Issue Debt)
)

REPORT AND ORDER

On November 10, 2022, the Pawtucket Water Supply Board (“Pawtucket Water” or “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 Safe Drinking Water State Revolving Fund an amount not to exceed \$15,000,000. 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, Pawtucket Water states that it plans to borrow from Safe Drinking Water Revolving Fund, through the Rhode Island Infrastructure Bank (“RIIB”), revenue bonds in an amount not to exceed \$15,000,000, the proceeds of which will be used to fund a meter replacement project, lead services inventory and improvements to its distribution system.¹

In response to the application filing, the Division conducted a duly noticed public hearing on December 7, 2022. The hearing was conducted in the

¹ Pawtucket Water Exhibit 1.

Division's hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances at the hearing:

For Pawtucket Water:	Joseph A. Keough, Esq.
For the Division's Advocacy Section:	Gregory Schultz, Esq. Special Assistant Attorney General

Pawtucket Water's Direct Case

Pawtucket Water proffered pre-filed direct testimony from four witnesses in support of its application. The witnesses were identified as Mr. James L. DeCelles, P.E., Pawtucket Water's Chief Engineer; Ms. Maureen E. Gurghigian, Managing Director at Hilltop Securities, Inc., David M. Fox, Senior Manager at Raftelis Financial Consultants, Inc., and Ms. Karen S.D. Grande, Esq., Bond Counsel to Pawtucket Water.

Mr. James L. DeCelles testified in support of the proposed borrowing. He began his testimony by explaining that the funds will be used to support a meter replacement project, lead services inventory and improvements to its distribution system.² Mr. DeCelles explained that the purpose of the meter replacement project is to upgrade 23,000 PWSB water meters and meter reading systems which will allow Pawtucket Water to provide customers with real time data on their water consumption.³ He related that the upgraded meter system will also provide the PWSB with information concerning suspected leaks and frozen

² Pawtucket Water Exhibit 1; DeCelles Testimony, p. 2.

³ *Id.*

meters so customers can be notified and leaks addressed before they become a financial burden to the customer.⁴

In addressing the lead service inventory portion of the proposed borrowing, Mr. DeCelles stated that the inventory will be part of Pawtucket Water's response to lead and copper rule revisions. The rule revisions require the PWSB to compile an inventory of water service material types of all customer side service connections. He explained that the inventory list will be published in Pawtucket Water's GIS system and be made available to customers.⁵

Mr. DeCelles next described the distribution main improvements to Pawtucket Water's system. He related that the project would include main replacements in various locations throughout the system, focusing on the replacement of mains with break histories or with other water quality issues.⁶

In closing, he stated that the projects referenced in his testimony have been identified by Pawtucket Water in its capital program and are listed on the Rhode Island Department of Health's Project Priority List. The projects qualify for a subsidized Drinking Water State Revolving Fund loan through the Rhode Island Infrastructure Bank (RIIB) and the borrowing contains no unusual features that have a significant impact on the Division's ability to regulate the PWSB.⁷

⁴ Id.

⁵ Id. at 2-3.

⁶ Id. at 3.

⁷ Id.

Ms. Maureen Gurghigian related that she is providing assistance to Pawtucket Water with respect to the instant borrowing through the RIIB.

In explaining the type of financing Pawtucket Water is seeking in its application, Ms. Gurghigian confirmed that the loan will be made under the Drinking Water State Revolving Fund (DWSRF) which was created to provide financial assistance to water suppliers.⁸ She went on to state that the fund uses federal capitalization grants and state matching funds to provide subsidized loans, 25% below market rate, to water suppliers for qualifying projects listed on the Project Priority List maintained by the Department of Health.⁹ She related that the DWSRF provides a significant portion of the funding for Pawtucket Water's ongoing capital program.¹⁰

Ms. Gurghigian next described the terms of the borrowing and the applicable interest rates. She testified that once Pawtucket Water draws down on the construction funds it would have 20 years to repay the loan.¹¹ Pawtucket Water anticipates the interest rate on the loan not to exceed a market rate of 5.127% which would result in a subsidized rate of approximately 3.761%. For purposes of Division approval, she recommended a not-to-exceed market rate of 5.50% to allow for market rate fluctuation, and a not-to-exceed subsidized rate of 4.15%.¹²

⁸ Pawtucket Water Exhibit 1, Gurghigian Testimony, p. 3.

⁹ Id.

¹⁰ Id.

¹¹ Id.

¹² Id.

Next Ms. Gurghigian testified with respect to how the funds from the borrowing would be disbursed. She explained that \$13,818,000 of the proposed borrowing would be available for project funds, including an estimated \$2,250,000 of Principal Forgiveness funds, and approximately \$982,000 would be set aside in the debt service reserve fund. She stated that approximately \$200,000 would be allocated for costs of issuance, rating agency fees, bond counsel, financial advisor and trust fees, and the RIIB origination fee.¹³

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. She testified that for the \$15,000,000 loan, annual debt service is expected to increase by approximately \$983,000 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.¹⁴

In her final remarks, Ms. Gurghigian testified that Pawtucket Water's current rates appear to be sufficient to provide payment and coverage on the proposed borrowing and that there are, to the best of her knowledge, no unusual features that would have a significant impact on the Division's ability to regulate PWSB.¹⁵

Mr. Fox began his testimony by addressing the potential of any adverse ratepayer impact of the proposed loan. Mr. Fox testified that, based on the debt service schedule set forth in MG-1 and assuming interest rates provided in Ms. Gurghigian's testimony, the combination of Pawtucket Water's current debt

¹³ Id. at 4.

¹⁴ Id. at 4; Schedule MG-1.

¹⁵ Id. at 5.

service funding, debt service stabilization, and IFR funding, the rates approved by the Rhode Island Public Utilities Commission would sufficiently cover Pawtucket Water's existing debt obligations, the proposed borrowing, as well as coverage requirements.¹⁶ Mr. Fox explained that the Commission recently authorized Pawtucket Water to collect an additional \$940,004 in revenue for contributions to Pawtucket Water's Debt Service Restricted account to fund the debt service on the proposed borrowing and to ensure that Pawtucket Water meets its debt service coverage requirements.¹⁷

Ms. Grande provided testimony concerning lead service line replacement program funding. She testified that the loan agreement in the instant docket contains a new provision related to the replacement of private side lead services that has not been included in past loan agreements.¹⁸ She testified that the Bipartisan Infrastructure Law (BIL) recently passed by the United States Congress provides approximately \$15,000,000,000 for Lead Service Line Replacement (LSLR) to Drinking Water State Revolving Funds throughout the country.¹⁹ The RIIB expects to receive approximately \$150,000,000 in BIL LSLR funds over the next five years. 49% of these funds will be provided to communities as grants or principal forgiveness loans and 51% will be available as low interest loans.²⁰ Ms. Grande testified that in order to access these funds, a water utility using these funds must replace the private side of any lead service

¹⁶ Pawtucket Water Exhibit 1; Fox Testimony, p. 3.

¹⁷ Id.

¹⁸ Pawtucket Water Exhibit 1; Grande Testimony, p. 2.

¹⁹ Id. at 3.

²⁰ Id.

when it replaces the public side. She went on to explain that, although the United States Environmental Protection Agency (EPA) has not issued final rules for the BIL LSLR, the EPA has issued a guidance document which suggests that water utilities using the DWSRF funds cannot replace a public side service if it cannot replace the private side.²¹

Ms. Grande next testified that, although the RIIB is not loaning Pawtucket Water money from BIL LSLR funds, the RIIB has insisted that the loan agreement contain a provision whereby the PWSB must use best efforts to replace the private side of any public lead service. Ms. Grande testified that the RIIB has indicated to Pawtucket Water that, given the EPA policy to require the replacement of private side lead service lines, which will be a requirement in future DWSRF loan agreements, that requiring Pawtucket Water to use best efforts to identify and replace private side lead service line replacements in this loan is consistent with EPA and DWSRF program policy. In her final remarks, Ms. Grande related that the RIIB has advised Pawtucket Water that loan proceeds from the DWSRF can be used to replace identified private lead service connections in this particular loan but will not be permitted in future DWSRF loans.²²

²¹ Id.

²² Id. at 4-5.

The Advocacy Section's Position

The Division's Advocacy Section did not present any witnesses in this case but did proffer one exhibit containing Pawtucket Water's responses to preliminary questions.²³ After a brief cross-examination of Pawtucket Water's witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that Pawtucket 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 Pawtucket Water's ratepayers.

Now, therefore, it is

(24547) ORDERED:

1. That Pawtucket Water's November 10, 2022 application, which seeks Division approval under R.I.G.L. §39-3-15, to borrow an amount not to exceed \$15,000,000 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 Pawtucket Water's use of the debt service allowance previously approved by the Public


²³ Pawtucket Water Exhibit 2.

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 December 19, 2022.



Mark Allen Simpkins, Esq.
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.