



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

150 South Main Street • Providence, RI 02903
(401) 274-4400 - TDD (401) 453-0410

Peter F. Kilmartin, Attorney General

January 10, 2010

Ms. Luly Massaro
Commission Clerk
Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02889

**Re: NBC COMPLIANCE RATE FILING
RIPUC DOCKET NO. 4214**

Dear Luly,

Enclosed for filing on behalf of the Division please find a Memorandum submitted to Stephen Scialabba from Thomas S. Catlin of Exeter Associates regarding the NBC Compliance Rate Filing for RIPUC Docket No. 4214. Mr. Catlin has reviewed the filing on behalf of the Division and the Division submits this Memorandum and recommendation to the Commission for its consideration.

Thank you for your attention to this matter. If you have any questions, please contact me.

Sincerely,

Karen Lyons
Special Assistant Attorney General
Regulatory Unit

Enclosures

cc: Service List

EXETER

ASSOCIATES, INC.

CONSULTING ECONOMISTS
10480 Little Patuxent Parkway
Suite 300
Columbia, Maryland 21044
(410) 992-7500
(410) 992-3445 FAX
topcat@exeterassociates.com

Thomas S. Catlin
Steven L. Estomin
Jerome D. Mierzwa
Kevin L. Porter
Dale E. Swan
Dwight D. Etheridge

REF: 3392

January 6, 2011

Memorandum

To: Stephen Scialabba

From: Thomas S. Catlin

Subject: The Narragansett Bay Commission (NBC)
Compliance Rate Filing
RIPUC Docket No. 4214

Pursuant to your request, I have reviewed NBC's Compliance Rate Filing submitted on November 24, 2010. In its filing, NBC seeks approval for an increase in its revenues of \$2,521,655, which represents an increase in overall revenues at present rates of 3.21 percent. The purpose of this revenue increase is to allow NBC to meet the additional debt service and coverage requirements associated with a new \$30 million low interest rate loan from the Rhode Island Clean Water Finance Agency (RICWFA). The amount of the additional revenues sought is based on debt service in FY 2013, inclusive of the debt service associated with the new loan. FY 2013 was utilized because that is the year in which NBC's debt service will be the highest and NBC is required to have rates in place that will generate sufficient revenues to meet debt service coverage requirements in all years, inclusive of the debt service associated with the new loan.

NBC has this sought this increase pursuant to the provisions established by the Commission in its Order in Docket No. 3905 for obtaining rate relief to cover the costs of new debt. I have reviewed the requirements set forth in the Commission's Order in Docket No. 3905. Based on the information provided in the testimony submitted by Mr. Walter C. Edge and Ms. Gurghigian in support of NBC's filing along with the responses to the Division's data requests, I believe NBC has complied with the Commission's requirements.

In order to allow NBC to have access to additional RICWFA debt and to allow RICWFA to issue that debt as soon as possible to take advantage of current favorable interest rates, it is necessary for NBC to be able to demonstrate that it will have sufficient revenues to meet the associated debt service and coverage requirements. Accordingly, I recommend that the Division not oppose the increase in revenues requested by NBC in order to meet the increased debt service coverage requirements. In reviewing NBC's request, I have confirmed that the \$30 million of loan proceeds is expected to be used to meet capital requirements in the FY 2012 time frame.

I would note that in its filing, NBC has complied with the requirement that NBC develop rates to generate the additional revenues through a uniform percentage increase in all sewer user rates. However, NBC has also requested that the Commission consider recovering the additional revenues entirely through an increase in fixed fees consistent with NBC's proposed rate design in its ongoing General Rate Filing in Docket No. 4205. The Division's analysis of that filing is

ongoing and its position on rate design has not been finalized. Accordingly, it is my recommendation that the Division recommend that the Commission approve a uniform percentage increase in rates in this docket at this time. Because these rates and the rates in Docket No. 4205 are expected to take effect at the same time, the allocation of this increase can be further evaluated as part of the overall increase approved in the General Rate Filing.