

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

**IN RE: NARRAGANSETT BAY** :  
**COMMISSION COMPLIANCE** : **DOCKET NO. 4602**  
**RATE FILING** :

**REPORT AND ORDER**

On February 16, 2016, the Narragansett Bay Commission (NBC) filed an application with the Rhode Island Public Utilities Commission (PUC or Commission) seeking a rate increase for debt service and debt service coverage costs under NBC's Variable Rate Debt Obligation in Tax Exempt Commercial Paper (TECP/VRDO) debt program.<sup>1</sup> The proposed rates were designed to generate additional revenues of \$1,457,511 to support a total revenue requirement of \$99,649,570. If approved as filed, NBC's present revenues would increase by 1.48% effective July 1, 2016.

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<sup>1</sup> In addition to applications to increase rates, the Commission in Docket No. 3483 allowed NBC expedited treatment when it files to increase rates solely for debt service and debt service coverage. NBC's primary source of funding for its capital program is in the form of borrowings from the State Revolving Loan Fund (SRF), administered by the Rhode Island Clean Water Finance Agency (RICWFA). Since loan capacity is limited, the Variable Rate Debt Obligation in Tax Exempt Commercial Paper (VRDO/TECP) program provides for short term financing with attractive variable rates that can be paid off as more SRF money comes available. VRDO/TECP is less costly than Open Market Bonds. The requirements for all compliance filings seeking a rate increase under the TECP/VRDO program are that they: 1) be filed no later than sixty days prior to its effective date; 2) be limited for debt service and debt service coverage for Capital Improvement Program (CIP) projects; 3) contain a revised limited cost of service schedule reflecting the changes to the revenue and expense accounts affected by the VRDO/TECP program; 4) contain testimony and schedules in support of the debt service and debt service coverage proposed as well as a current and projected annual debt service payment schedule; 5) contain a summary of funds currently available for the CIP and the projected funding needed for the rate year period; 6) contain a summary of funding received from RICWFA, including funds requested, received, the interest rate, and repayment schedules; 7) contain a summary of how prior years' debt service coverage funds were utilized; 8) contain a calculation of new rates based on a uniform percentage increase to rates; and 9) contain a showing of compliance with prior Commission orders and the requirements of Section 2.11 of the Commission's Rule of Practice and Procedure. The ability to file for expedited treatment has been extended two times. The current extension expires in 2017.

In support of its request, NBC submitted the prefiled testimony of its consultant, Walter Edge of B&E Consulting LLC, and its engineering manager, Thomas Brueckner, P.E.<sup>2</sup> Mr. Edge testified in support of a debt service and debt service coverage allowance rate increase needed for July 1, 2016. He noted that NBC has made five previous filings pursuant to the Commission's ruling allowing for expedited treatment of requests to increase rates solely for debt service and debt service coverage.<sup>3</sup>

Mr. Edge noted that since its last rate case, approving rates effective July 1, 2015, NBC has issued approximately \$42 million of new debt.<sup>4</sup> Mr. Edge expounded that the increase requested herein is necessary prior to NBC being issued additional long-term debt. The increase would allow NBC to demonstrate its rates are sufficient to generate revenues that are 125% of debt service. He used the fiscal year ending (FYE) June 30, 2016 as the test year. The rate year is FYE June 30, 2017.<sup>5</sup> He explained that NBC needed the additional capital funds primarily for its Combined Sewer Overflow (CSO) Abatement Program, as well as for other projects included on the Rhode Island Department of Environmental Management's (DEM) 2016 Project Priority List.<sup>6</sup>

In the instant matter, Mr. Edge represented that NBC is requesting \$1,457,511 of additional revenue, which will result in a 1.53% across-the-board rate increase on sewer user rates.<sup>7</sup> He listed the compliance debt service filing requirements set forth above<sup>8</sup> and asserted that each of the requirements is set forth and supported in NBC's application.<sup>9</sup>

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<sup>2</sup> Prefiled testimony generally is available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at [www.ripuc.org/eventsactions.html](http://www.ripuc.org/eventsactions.html), organized by docket number.

<sup>3</sup> Edge Direct at 1-2 (Feb. 16, 2016).

<sup>4</sup> *Id.* at 2.

<sup>5</sup> *Id.* at 2-3.

<sup>6</sup> *Id.* at 3.

<sup>7</sup> *Id.* at 4. The annual impact of the proposed increase on an average residential customer is \$7.18.

<sup>8</sup> *See supra* note 1.

<sup>9</sup> Edge Direct at 5-10.

Mr. Brueckner offered testimony to update Phase III of the CSO Project. After providing a brief history of the CSO Project, he explained how NBC had initiated a reevaluation of the Phase III facilities, originally proposed, to determine whether there was a more cost effective approach to completing the project. Mr. Brueckner stated that NBC had contracted with an independent engineering firm to accomplish this analysis. As a result of the study, NBC's Board of Directors selected an alternative that will cost ratepayers \$815 million in 2018 dollars. Mr. Brueckner explained that the alternative project completion schedule was increased from nine years (2025) to twenty-two years (2038).<sup>10</sup>

Mr. Brueckner noted that NBC had submitted the final reevaluation report to DEM and was waiting for approval so it can renegotiate milestones for the project's completion.<sup>11</sup> He identified a total cost of approximately \$554 million for the first phase of Phase III that is expected to commence in 2020. Finally, he noted the other projects that NBC plans to fund with the proceeds from the anticipated loan, as well as the capital projects being funded through the use of pay-as-you-go capital.

The Division of Public Utilities and Carriers (Division) filed a Memorandum supporting of NBC's request for the additional \$1,457,511 of revenue. Alberico Mancini, Rate Analyst with the Division, reiterated that the purpose of the increase was to allow NBC to meet the debt service and coverage requirements associated with a new \$23 million loan from the Rhode Island Infrastructure Bank.<sup>12</sup> He stated that his review confirmed that the loan proceeds would be used to meet capital requirements in DEM's 2016 Project Priority List and that NBC had complied with the requirement that it

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<sup>10</sup> Brueckner Direct at 2-4 (Feb. 16, 2016).

<sup>11</sup> *Id.* at 5-6.

<sup>12</sup> Mancini Memorandum at 1 (Mar. 28, 2016).

develop rates to generate additional revenues through a uniform percentage increase of all sewer user rates.<sup>13</sup>

Mr. Mancini suggested that the average residential usage for customers with wells be adjusted.<sup>14</sup> He also discussed the proposed new Interceptor Maintenance (IM) Facility included in NBC's Capital Project Compliance Reporting which would be required if NBC were to assume responsibility for system-wide sewer laterals. The Division recommended that NBC inform both the Division and the Commission prior to any design and construction of a new IM Facility.<sup>15</sup>

Mr. Mancini said that the Division remains concerned about the cost of Phase III of the Combined Sewage Overflow Project. He noted that the published \$815 million estimate projected out to 2029 dollars will total more than \$1 billion. Moreover, that total does not take into account other projects, general operations and maintenance costs, and inflation.<sup>16</sup> Nevertheless, Mr. Mancini confirmed that the Division recommended approval of the increase revenues requested so that NBC can meet its increased debt service and debt service coverage requirements.<sup>17</sup>

On April 4, 2016, following public notice, the Commission conducted an evidentiary hearing. Two individuals made public comment. The first raised issues of affordability, unmetered sewers, and NBC employee salary increases. The second individual questioned whether the money requested was for a proposed sewer line to an undeveloped commercial area in Johnston.

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<sup>13</sup> *Id.* at 1-2.

<sup>14</sup> *Id.* at 2. At the hearing, the Division withdrew this suggestion.

<sup>15</sup> *Id.* at 2.

<sup>16</sup> *Id.* at 2-3.

<sup>17</sup> *Id.* at 3.

NBC presented Messrs. Brueckner and Edge as a panel. Mr. Brueckner described the new interceptor maintenance facility project, noting that there was no legislative requirement that NBC take over any local sewers. If it were required to do so, it would have to construct a new building to maintain those sewer systems.<sup>18</sup> Mr. Brueckner represented that NBC did not object to the Division's recommendation that it inform the Division and the Commission prior to any design and construction of new interceptor maintenance facilities.<sup>19</sup>

Mr. Brueckner also spent a considerable period of time describing and responding to questions about Phase III of NBC's CSO project. He testified that NBC had recently received communication from DEM requiring that Phase A and Phase B of Phase III be combined into a single phase.<sup>20</sup> In addition to increasing the immediate cost by approximately \$50 million dollars, he explained combining the two phases could shorten the timeline from NBC's proposed 2038 completion date, which was intended to spread out the costs and thereby mitigate the impact on ratepayers.<sup>21</sup> Mr. Brueckner testified that DEM also required another environmental assessment and that NBC make other changes to Phase III.<sup>22</sup> He explained that NBC's next step is to meet with DEM to resolve these issues.<sup>23</sup>

Karen Giebink, NBC's Director of Administration and Finance, testified that none of the money requested was for salary increases or for the project in Johnston mentioned during public comment.<sup>24</sup> Mr. Brueckner discussed NBC's cost estimate and stated that

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<sup>18</sup> Hr'g Tr. at 13-14. Presently, this listed project is not an impending cost, but a placeholder.

<sup>19</sup> *Id.* at 39-40.

<sup>20</sup> *Id.* at 15-16.

<sup>21</sup> *Id.* at 16-18.

<sup>22</sup> *Id.* at 19-22.

<sup>23</sup> *Id.* at 27.

<sup>24</sup> *Id.* at 40-41.

NBC had selected an engineering firm, MWH, to do the reevaluation and design of Phase III.<sup>25</sup> He further described the ranking of the projects that NBC intends to fund with the proceeds of the loan. Ms. Giebink added that although NBC does not yet have certificates of approval for the bank for the projects that it wants to fund, everything will fall into place and coincide with completion of the plans.<sup>26</sup> Mr. Brueckner also discussed some of the projects' costs and anticipated completion dates and noted that all of the projects that the proceeds of the loan will fund are on DEM's priority list.<sup>27</sup>

When questioned about why if there is such a critical need for completion of the CSO Project, NBC was proposing a completion date of 2038, Mr. Brueckner responded that it was an issue of affordability.<sup>28</sup> James McCaughey, another engineer who works for NBC, also provided testimony for NBC on some of its specific projects. He testified that the Bucklin Point solar energy project was currently on hold because NBC will use the planned location of that project for a staging area for Phase III of the CSO Project.<sup>29</sup> With regard to other solar projects and a wind project, Mr. McCaughey testified that NBC was still reviewing proposals for those projects and had not yet decided whether to proceed.<sup>30</sup> If those projects proceed, Mr. McCaughey stated that NBC would use the electricity generated from them rather than purchase electricity off the grid.<sup>31</sup> He testified that NBC would only go forward with the projects if they were able to supply electricity

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<sup>25</sup> *Id.* at 47-48.

<sup>26</sup> *Id.* at 55-56.

<sup>27</sup> *Id.* at 57-65.

<sup>28</sup> *Id.* at 83-84.

<sup>29</sup> *Id.* at 86.

<sup>30</sup> *Id.* at 86-87.

<sup>31</sup> *Id.* at 87.

to NBC at a cost (including cost of capital and construction) that is less than their cost to purchase electricity.<sup>32</sup> That would result in a net savings of purchased power.<sup>33</sup>

Division rate analyst Alberico Mancini testified on behalf of the Division. Mr. Mancini withdrew the Division's recommendations regarding the residential well customer rate, noting that NBC can either address it in its next general rate case or through a tariff advice.<sup>34</sup> He expressed the Division's concern with DEM's likely shortening of NBC's time schedule for completion of Phase III by requiring the combination of Phases A and B.<sup>35</sup> He testified that previously DEM had imposed more stringent requirements on NBC immediately after NBC's completion of a project. He stated that change had cost NBC ratepayers an additional \$40 million within a year of the original project being completed.<sup>36</sup> He expressed concern that the standard upon which Phase III is approved may be changed in the near future.<sup>37</sup> Although there was no indication that he was present at the NBC Board of Director's meeting, Mr. Mancini characterized the minutes as showing that even though it approved the redesign of Phase III, the Board did so reluctantly because of the affordability issue.<sup>38</sup>

Mr. Mancini testified that although the Division had concerns, it was offering no recommendations or position on what should occur.<sup>39</sup> Commissioner DeSimone suggested that the Division meet with DEM and NBC to discuss its affordability concerns and to see if a consensus could be reached as to how to proceed. Mr. Mancini opined that it might be helpful to conduct a review of the project after the completion of Phase A, in

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<sup>32</sup> *Id.* at 88.

<sup>33</sup> *Id.*

<sup>34</sup> *Id.* at 95-96.

<sup>35</sup> *Id.* at 97-98.

<sup>36</sup> *Id.* at 99-100.

<sup>37</sup> *Id.* at 100.

<sup>38</sup> *Id.*

<sup>39</sup> *Id.* at 104.

approximately five years.<sup>40</sup> Mr. Mancini again confirmed that the Division supported NBC's request for additional revenue.<sup>41</sup>

Immediately following the hearing, the Commission deliberated on NBC's request for a rate increase.<sup>42</sup> The Commission accepted the Division's recommendation that the increase be recovered through a uniform increase to rates. The Commission understood that NBC has to continue the CSO project as mandated by its Consent Agreement with DEM as well as other projects necessary for its continued operation and must comply with water quality standards mandated by EPA. The Commission recognizes NBC's efforts to secure low interest loans for the benefit of its ratepayers to satisfy some of its mandates. The Commission found that the rate increase is reasonable, necessary, and in the public's interest.

Accordingly, it is

(22387) ORDERED:

1. Narragansett Bay Commission's rate application of February 16, 2016 is hereby approved for effect July 1, 2016.
2. Tariffed rates, except for septage fees, permit fees, biochemical oxygen demand/total suspended solids surcharges and pre-treatment fees, will be increased by 1.53%, or \$1,457,511, for a total revenue requirement of \$99,649,570.
3. Narragansett Bay Commission shall comply with all other findings and instructions in this Report and Order.

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<sup>40</sup> *Id.* at 103-104.

<sup>41</sup> *Id.* at 101-102.

<sup>42</sup> The approved cost of service schedule is attached to this Report and Order as Appendix A.



EFFECTIVE AT WARWICK, RHODE ISLAND ON JULY 1, 2016, PURSUANT TO A  
BENCH DECISION ON APRIL 4, 2016. WRITTEN ORDER ISSUED APRIL 18,  
2016.

PUBLIC UTILITIES COMMISSION



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Margaret E. Curran, Chairperson

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Paul J. Roberti, Commissioner\*



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Herbert F. DeSimone, Jr., Commissioner



\*Commissioner Roberti voted to approve the requested increase but was not available to sign the order.

## Appendix A

	Docket 4562*		
	Test Year	Adjustment	Rate Year
<b>REVENUES</b>			
User Fee Revenues	\$ 94,967,945		\$ 94,967,945
Miscellaneous	3,224,114		3,224,114
Total Revenue	98,192,059		98,192,059
<b>EXPENSES</b>			
Personnel Services	21,739,796		21,739,796
Operating Supplies & Expenses	14,933,901		14,933,901
Special Services	2,938,084		2,938,084
Debt Service	46,649,758	1,166,009	47,815,767
Debt Coverage	11,662,440	291,502	11,953,942
Total Expense	97,923,979	1,457,511	99,381,490
OPERATING RESERVE	268,080		268,080
COST OF SERVICE	98,192,059	1,457,511	99,649,570
RATE YEAR REVENUES AT PRESENT RATES	98,192,059		98,192,059
<b>REVENUE INCREASE</b>	\$ -	1,457,511	1,457,511

\* Docket 4562 Rate Year approved by PUC. Most current debt service approved and included in rates.