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

IN RE:	Narragansett Bay Commission Application For Authority To Enter Into Long-Term Debt In An Amount Not To Exceed $43,000,000	: : : :	Docket No. D-06-69

REPORT AND ORDER

On December 4, 2006, the Narragansett Bay Commission ("NBC"), One Service Road, Providence, Rhode Island, filed an application with the Rhode Island Division of Public Utilities and Carriers ("Division") seeking authority to enter into long-term debt and issue revenue bonds in an amount not to exceed $43,000,000. The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws.

In response to the application filing, the Division conducted a duly noticed public hearing on December 20, 2006. The hearing was conducted in the Division's hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For the NBC:	Peter J. McGinn, Esq.
For the Division's Advocacy Section:	Leo J. Wold, Esq. Special Assistant Attorney General

The NBC proffered pre-filed direct testimony from two witnesses in support of its application. The witnesses were identified as Ms. Karen L. Giebink, the NBC's Director of Administration and Finance; and Ms. Maureen Gurghigian, Senior Vice President, First Southwest Company.

Ms. Giebink testified that the NBC is requesting Division approval to enter into long-term debt and issue revenue bonds for an amount not to exceed $43,000,000 at an interest rate not to exceed 5.25%. She related that the proposed long term financing is a fixed rate open market revenue bond in a par amount of $42.520 million that is to be amortized over 30 years.

Ms. Giebink testified that in accordance with the authorizing resolution passed by the NBC's Board of Commissioners at its October 18, 2006 meeting the bond issue proceeds may be used for financing:

> *"... the acquisition, design, evaluation, inspection, construction, improvement, cleaning, installation, rehabilitation, furnishing and equipping of: (i) Phase I Combined Sewer Overflow (CSO) Facilities, (ii) the Phase II CSO Facilities (iii) the Demolition of Field's Point Incinerating Facility, (iv) the Field's Point Wastewater Treatment Facility Nitrogen Removal Facilities, (v) Bucklin Point Biogas Microturbines (vi) Field's Point Wind Turbines (vii) a Site Specific Study for the Metals Compliance Plan, (viii) Water Quality Monitoring, (ix) the River Model Development, (x) the Asset Management System, (xi) the Improvements to Air Piping and Splitter Box D, (xii) the Upgrade of the Field's Point Operations Building and other miscellaneous improvements at various locations, (xiii) the Bucklin Point Wastewater Treatment Facility Nitrogen Removal (xiv) the Bucklin Point Wastewater Treatment Facilities Improvements (xv) the Capital Management Operations and Management (CMOM) Plan Development, (xvi) a System-Wide Facilities Plan, (xvii) the Washington Highway, Omega and Central Ave. Pump Stations, (xviii) the Geographic Information System (GIS) Implementation, (xix) the Lab Building Heating, Ventilating and Air Conditioning Repairs, (xx) the Floatables Control Facilities, and (xxi) Commission Interceptors..."*[1]

[1] NBC Exhibit 1, Giebink Testimony, p. 2.

Ms. Giebink additionally related that some of the loan proceeds would also be used to pay related bond issuance fees and costs.[2]

Ms. Giebink noted that the Division approved a similar revenue bond issue for the NBC in 2005. Specifically, she testified that a similarly structured revenue bond issue for a par amount of $45 million was approved in Docket No. D-05-22. She related that the NBC closed on that bond issue on August 4, 2005.

Ms. Giebink next testified that the NBC has completed all of the steps necessary to issue the revenue bonds. She related that NBC's Board of Commissioners authorized the revenue bond issuance by resolution passed at its October 18, 2006 meeting. Ms. Giebink thereupon proffered a copy of the Board's resolution.[3] She also testified that the Public Utilities Commission recently authorized the rate relief required to support the debt on November 17, 2006. Ms. Giebink also related that NBC staff is in the process of updating its official statement prior to the issuance, and that a credit review with Standard and Poor's will be scheduled shortly.[4]

Ms. Giebink testified that the NBC's current rates generate sufficient revenue to meet the debt service payments associated with the instant bond issue.[5] She also included debt service coverage schedules with her pre-filed testimony that reflect the proposed structure of the issue with principal

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[2] Id., p. 2.
[3] Id., p. 3 and "Exhibit KG-1".
[4] Id., p. 3.
[5] Id.

retirement beginning in the fiscal year ending June 30, 2028.[6] Ms. Giebink related that the exhibit "clearly shows that there is sufficient capacity to finance the additional debt service and maintain the coverage requirements."[7]

As in previous related dockets, Ms. Maureen E. Gurghigian began her testimony by stating that First Southwest Company serves as financial advisor to many bond issuers such as schools, cities, airports, hospitals, sports complexes, water and wastewater authorities and districts and toll roads. She related that the firm currently serves more than 2000 municipalities and agencies, including more than 400 in New England.[8]

Ms. Gurghigian related that she has served as financial advisor to the NBC for the past 17 years. She stated that in her capacity as the NBC's financial advisor she has assisted the NBC with a number of long-term borrowings from the Rhode Island Clean Water Finance Agency (RICWFA), several short-term borrowings, the $70 million Variable Rate Demand Bonds issued in April 2004 and the $45 million Open Market Revenue Bond Issue in August 2005. She related that her services have also included the facilitation of the credit rating process, loan structuring and other functions.[9]

Ms. Gurghigian provided additional information regarding the proposed $43,000,000 revenue bond issue and specifically addressed interest rates, principal repayment and why she believes this type of capital financing is the best alternative for the NBC. She also discussed a long-term financing model

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[6] Id., and "Exhibit KG-3.
[7] Id.
[8] Id., Gurghigian Testimony, pp. 1-2.
[9] Id., p. 2.

that First Southwest Company developed in concert with the NBC to address the NBC's capital needs and the financing gap resulting from the difference between the NBC's capital needs and the annual lending capacity of the RICWFA.

Ms. Gurghigian related that First Southwest Company recently updated the NBC's long-term financial model to reflect current information such as the new capital cash flows, the beginning balance of capital funds and RICWFA loan capacity. She related that based upon the updated model, projected needs in fiscal years 2007 and 2008 total approximately $84.52 million. Ms. Gurghigian stated that RICWFA has indicated that it has the capacity to loan the NBC $30 million in fiscal year 2007 and $12 million in fiscal year 2008. Based on this limited RICWFA lending capacity, she related that the NBC must finance the $42.520 million 'gap' through the issuance of open market revenue bonds. Ms. Gurghigian explained that although the gap actually occurs over two fiscal years, "NBC can achieve considerable cost savings through a single issue as well as take advantage of a favorable interest environment."[10]

Ms. Gurghigian next testified that based upon the model, an assessment of market conditions and a review of NBC's debt policy, it was determined that it would be in NBC's interest to issue the total projected open market revenue bond needs for fiscal years 2007 and 2008 in a par amount of $42.520 million, and that the bonds be issued at a fixed rate and amortized over 30 years. She offered the following rationale for the decision:

[10] Id., pp. 3-4. Ms. Gurghigian also noted that the NBC closed on the $30 million RICWFA loan, recently approved by the Division in Docket No. D-06-63, on December 13, 2006.

1) *Long-term debt is preferred over short-term note borrowings in anticipation of future RICWFA loan[s] since it is unlikely that the RICWFA's capacity will increase to 'take-out' the temporary financing.*

2) *The bond yield curve is relatively flat, which means that an issuer is likely to achieve favorable pricing on a long-term issue. Recent experience with other Rhode Island issuers shows a spread between long-term and short-term note rates of less than 100 basis points. We project that NBC's issue will have an average interest rate below 4.75%. Further, the interest rate spread between a 20-year bond and a 30-year bond is minimal, yet it gives NBC the flexibility to structure or 'wrap' the debt around loans from the RICWFA that have a maximum term of 20 years.*

3) *In order to limit rate exposure and be consistent with the recommendation of credit rating agencies, NBC's debt policy limits the amount of outstanding long-term maturity variable rate bonds to 25% of the total long-term fixed rate debt. As of October 30, 2006, NBC's outstanding debt is $363.7 million of which $68.6 million, or 19%, is variable. Although NBC could potentially issue this debt in variable rate mode, we are more comfortable keeping NBC's variable rate exposure at current levels while taking advantage of favorable long-term rates.*

4) *A single revenue bond issue will enable NBC to take advantage of economies of scale and result in savings associated with the cost of issuance since NBC will incur costs for one issue instead of two.*[11]

In her closing remarks, Ms. Gurghigian testified that the debt service schedules used for the coverage calculation are based upon an interest rate of

[11] Id., pp. 4-5.

5.25%.[12] She opined that this is a conservative rate that reflects current market conditions plus 50 basis points.

The Division's Advocacy Section did not present any witnesses in this docket. After a brief cross-examination of the NBC's witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that the NBC had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq. and that the proposed bond issue was in the public interest.

FINDINGS

Predicated on a thorough examination of the record in this matter, the Division finds that the NBC's application seeking approval to enter into long-term debt and issue revenue bonds in an amount not to exceed $43,000,000, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

(18790) ORDERED:

1. That the Narragansett Bay Commission's December 4, 2006 application, seeking authority to enter into long-term debt and issue revenue bonds in an amount not to exceed $43,000,000, is hereby approved as filed.
2. That the Division hereby makes this approval contingent upon the NBC'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.
3. That the Division hereby limits approval of the instant application to the

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[12] Ms. Gurghigian prepared a related 1-page debt service schedule and proffered it as an attachment to her pre-filed direct testimony.

terms and details identified in the record.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON DECEMBER 21, 2006.

John Spirito, Jr., Esq.
Hearing Officer

Approved: Thomas F. Ahern
Administrator