

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

IN RE:           City of Woonsocket Water Division           :  
                  Application for Authority to Issue           : Docket No. D-17-43  
                  Long-Term Debt                                    :

**REPORT AND ORDER**

On October 11, 2017, the City of Woonsocket Water Division (“WWD” or “City”) 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 \$12,500,000 as part of a Rhode Island Drinking Water State Revolving Fund (“DWSRF”) loan from the Rhode Island Infrastructure Bank (“RIIB”). The WWD application indicates that it seeks to borrow \$12,500,000 from the RIIB “for the purpose of providing engineering in support of procurement of a design, build, operate (DBO) company, to provide engineering services for design; and to provide for costs associated with initial phases of construction in connection with the design, construction and equipping of a new drinking water treatment plant and other improvements to the water system of the City.” The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws and Rule 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 November 20, 2017. The hearing was conducted in

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

For the WWD: Alan M. Shoer, Esq. and Nicole M. Verdi, Esq.

For the Division's  
Advocacy Section: Christy Hetherington, Esq.  
Special Assistant Attorney General

WWD's Direct Case

WWD proffered four witnesses in support of its application. The witnesses were identified as Jonathan R. Pratt, P.E., City Engineer (in Department of Public Works) for the City of Woonsocket (who has responsibility for managing WWD); Ms. Maureen E. Gurghigian, Managing Director, First Southwest Company, 652 George Washington Highway, Lincoln, Rhode Island; Mr. David G. Bebyn, CPA, President of B & E Consulting, LLC., 21 Dryden Lane, Providence, Rhode Island; and Mr. Robert M. Otoski, P.E., Associate, CDM Smith, 260 West Exchange Street, Suite 300, Providence, Rhode Island. All four witnesses submitted pre-filed direct testimony in this docket.

Mr. Pratt testified that the City needs to take action to develop and construct a new water treatment facility. He related that the existing facility is 55 years old and that WWD has been required by the Rhode Island Department of Environmental Management ("RIDEM") to construct a new treatment plant, at a different location, with new treatment technologies that will eliminate the need for filter backwash into the Blackstone River. He emphasized that WWD's existing treatment plant was constructed in 1962.<sup>1</sup>

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<sup>1</sup> WWD Exhibit 1, Pratt Testimony, p. 2.

Mr. Pratt testified that WWD's engineering consultants have documented the structural and regulatory compliance concerns with the existing treatment facility. He testified that the existing plant consists of 5 steel tanks, 3 that operate as filters, and 2 as clear wells. He related that the engineers have determined that "these tanks are seriously rusted... [and] have expressed concern about the structural viability due to the potential failure of the bottom plates."<sup>2</sup> Mr. Pratt also explained that the concrete foundations "exhibit serious spalling." He related that due to these conditions "the facility is becoming increasingly exposed to the failure of a major treatment component and the resulting inability to meet water quality and water volume requirements."<sup>3</sup> Mr. Pratt further explained that there are "physical constraints at our existing site that will not accommodate either the construction of a new plant or the construction of the facilities necessary to comply with the RIDEM requirements." Mr. Pratt related that all of these concerns have forced WWD to construct a new treatment plant.<sup>4</sup>

Mr. Pratt further testified that beyond bringing WWD's facility into compliance with RIDEM regulations, the planned new treatment plant will permit WWD to "sell more water to more customers in other communities" which has the potential to "provide rate relief to our existing customers..."<sup>5</sup>

In his closing testimony, Mr. Pratt provided the Division with an update on the selection of the company the City has contracted with to design, build

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<sup>2</sup> Id., p. 3.

<sup>3</sup> Id.

<sup>4</sup> Id.

<sup>5</sup> Id., p. 4.

and operate the new treatment facility. He related that the contract was executed in July of 2017.<sup>6</sup> Mr. Pratt also opined that the current treatment plant will be able to meet prescribed water quality standards until the new treatment facility comes on line.<sup>7</sup>

Mr. David Bebyn addressed the financial impact of the proposed financing. After a preliminary discussion on how the proceeds of the loan will be used, and the relevant interest rate and debt service numbers, Mr. Bebyn addressed the question of how the proposed financing impacts WWD's ratepayers. He opined that the terms of the borrowing are "absolutely" in the best interest of the ratepayers.<sup>8</sup>

With respect to the Treatment Facility project, he concluded that "there will be no additional impact for the first five years of the loan on the ratepayers because the current debt service cost is already covered by the current rates in place." Mr. Bebyn testified that after five years, "this issue will impact the average ratepayer by approximately an 8% increase in rates based upon the approved rate year revenue requirement from Docket #4320." He opined that "at some point" WWD will need to seek additional debt service allowances from the Public Utilities Commission; he related that "WWD is planning to file for a multi-year rate filing..."<sup>9</sup> Mr. Bebyn additionally testified that this facet of the proposed borrowing will have no impact on WWD's debt/equity ratio.

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<sup>6</sup> Id.

<sup>7</sup> Id., p. 5.

<sup>8</sup> Id., p. 4.

<sup>9</sup> WWD Exhibit 1, Bebyn Testimony, pp. 4-5.

As in previous related dockets, Ms. Maureen E. Gurghigian began her testimony by stating that First Southwest Company serves as financial advisor to many issuers of municipal debt in Rhode Island. She related that she has supervisory responsibility for First Southwest's involvement with borrowings by the State of Rhode Island, numerous public agencies and approximately 20 Rhode Island municipalities. Ms. Gurghigian noted that her office assists clients with the origination of more than \$800 million in public financing issues each year.<sup>10</sup>

Ms. Gurghigian related that she has served as financial advisor to WWD in previous bond approval cases before the Division. She related that she is currently providing assistance to WWD with respect to the planned loan from the RIIB. She testified that the proposed \$12,500,000 borrowing from the RIIB will be used "for a portion of the design, construction and equipping of a new Drinking Water Treatment Plant and other related improvements to the Water System."

In describing how the financing works, Ms. Gurghigian explained that pursuant to the Safe Drinking Water Act Amendments of 1996, Rhode Island has created a Drinking Water State Revolving Fund administered by the RIIB to provide financial assistance to water suppliers. She related that the fund uses federal capitalization grants and state matching funds to provide subsidized (25% below market rate) loans to water suppliers for qualifying projects listed on the Project Priority List maintained by the Rhode Island Department of Health. Ms. Gurghigian explained that the RIIB sells bonds in the public

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<sup>10</sup> WWD Exhibit 1, Gurghigian Testimony, p. 1.

market and loans the proceeds to its drinking water borrowers pursuant to loan agreements. Ms. Gurghigian related that WWD has identified these projects in its capital program, and they are listed on the Rhode Island Department of Health's Project Priority List. Ms. Gurghigian consequently opined that the projects in issue qualify for a subsidized DWSRF loan through RIIB.<sup>11</sup>

Ms. Gurghigian testified that the term of the requested borrowing is 20 years. She explained that once the construction funds are fully drawn down, WWD will have 20 years to repay the loan.<sup>12</sup> Ms. Gurghigian testified that based upon current market conditions, it is anticipated that the loan will not exceed a market rate of 4.26%, which, she related, would result in a subsidized rate of approximately 3.0%. For the purpose of Division approval, however, Ms. Gurghigian recommended "a not-to-exceed market rate of 4.8% to allow for market fluctuation, and a not-to-exceed subsidized rate of 3.6%.<sup>13</sup>

Ms. Gurghigian also proffered a breakdown of how the funds will be disbursed. She presented the following details:

Deposit in Construction Fund	\$11,777,332
Bond Insurance	161,399
Debt Service Reserve	28,313
Capitalized Interest	342,954
Cost of Issuance	190,000 <sup>14</sup>

Ms. Gurghigian testified that this borrowing is expected to close this fall. She explained that the RIIB requires that all borrower approvals be in place

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<sup>11</sup> *Id.*, pp. 2-3.

<sup>12</sup> *Id.*, p. 3.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*, p. 3.

prior to pricing loans. Ms. Gurghigian related that a Division approval by early November would put the City in a position to meet the RIIB schedule.<sup>15</sup>

Ms. Gurghigian also proffered a debt service schedule with her pre-filed testimony. She testified that for the \$12,500,000 debt, annual debt service is expected to increase by approximately \$813,666 per year. Ms. Gurghigian noted that while the schedule attached to her testimony projects the impact of the new borrowing, “it is subject to change based on the actual construction costs, draw schedule and prevailing interest rates at the time of borrowing.”<sup>16</sup>

Ms. Gurghigian next testified that first phase borrowing will fund WWD’s needs for the next six to nine months. She related that WWD is preparing a rate case to obtain revenues sufficient to fund the balance of the program. Ms. Gurghigian explained that the phase two borrowing to fund the balance of the Water Treatment Plant is expected to total approximately \$35 to \$40 million. She related that WWD will be requesting an additional loan from the RIIB to fund the phase two borrowing after the completion of the rate case.<sup>17</sup>

Mr. Robert Otoski was not able to attend the hearing on November 20, 2017 and was replaced by Mr. Charles Adelsberger, PE, BCEE, who is also employed as an Associate at CDM Smith. Mr. Adelsberger, who is familiar with the WWD’s current and planned new treatment plants, adopted Mr. Otoski’s pre-filed direct testimony as his own. Mr. Adelsberger was also proffered by WWD to respond to questions that would have been posed to Mr. Otoski.

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<sup>15</sup> *Id.*, p. 4.

<sup>16</sup> *Id.*, p. 4 and Schedule MG-1.

<sup>17</sup> *Id.*, p. 4.

However, as the pre-filed testimony in this case was submitted originally by Mr. Otoski, the Division will cite to Mr. Otoski's direct testimony below.

Mr. Otoski explained that his pre-filed direct testimony in this docket is intended to provide the Division with an overview of the City's Water Treatment Plant that is need of replacement. Mr. Otoski related that replacing a water treatment plant "is a very expensive undertaking, and my testimony is intended to assist the Division in understanding the structural and regulatory compliance issues facing the City." Mr. Otoski also stated that he fully supported WWD's filing in this matter.<sup>18</sup>

Mr. Otoski testified that the City owns and operates the Charles G. Hammann Memorial Water Treatment Plant ("WTP"). He related that the WTP was built in 1962 and is located on Manville Road, in Woonsocket. Mr. Otoski explained that due to the WTP's age and current condition WWD has been required by the RIDEM, through its "Modified Consent Agreement," and the RIDOH, to build a new treatment facility. Mr. Otoski proffered the following factors as contributing to the need to replace the WTP:

Raw Water Quality - Woonsocket is continuously challenged by fluctuations in raw water quality entering the WTP and the treatment limitations of the current plant. These treatment challenges are especially evident during rain events when the turbidity of the raw water spikes. While the existing blending chamber has mitigated this concern somewhat, the City is cognizant of elevated raw water turbidity levels and must react to these increased levels to ensure compliance with all drinking water quality regulations and standards.

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<sup>18</sup> WWD Exhibit 1, Otoski Testimony, p. 1.



Concerns about Cross Contamination of Raw and Finished Water – There are concerns for potential internal leakage within the existing WTP filters where corrosion may allow raw, untreated water to short-circuit the treatment process. Should leakage occur in the internal walls of the filters, raw water will not be adequately filtered and treated prior to entering the clear well tanks.

Potential Turbidity Violations – The City is challenged to deliver acceptable water quality if one of the three existing filters is down for backwashing, inspection or repairs. With only two filters operating, flow into the operating filters must be reduced to prevent the sludge blanket from overflowing from the sedimentation basin into the media in the operating filters; thereby reducing plant capacity.

Sanitary Survey Concerns – In the October 2011 Sanitary Survey Report, RIDOH expressed concerns about rehabilitating the clear well tanks and meeting State-mandated chlorine contact times. RIDOH's report encourages the City to build a new treatment facility to address the current chlorine contact time requirement.<sup>19</sup>

Mr. Otoski testified that the City has worked closely with RIDEM to keep regulators informed of the City's progress. He related that after a contractor was selected, RIDEM agreed to amend its Consent Agreement with the City to reflect the projected completion dates.

Mr. Otoski next testified that the City issued a Request for Proposals ("RFP") for a Design-Build-Operate project on August 5, 2015. Ultimately, the successful contractor was Woonsocket Water Services, LLC, whose members are AECOM Technical Services, Inc. and Suez Water, Inc. Mr. Otoski related

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<sup>19</sup> Id., pp. 2-3.

that the contract was executed on July 31, 2017. He also described the four separate “volumes” that comprised the RFP.<sup>20</sup>

Mr. Otoski additionally described the “Design/Build/Work and Management services” that the City is seeking in its RFP. He offered the following summary of the details:

Design/Build/Work, which generally consists of the permitting, design, construction, start-up and acceptance testing of a new Raw Water Pump Station (“RWPS”), a new raw water transmission main, a new redundant raw water transmission main, and a New Water Treatment Plant (“New WTP”) with associated utility connections and pavement and drainage improvements on Jillson Avenue. Following start-up, acceptance testing and final regulatory approvals, the Design/Build/Work shall include the decommissioning and partial demolition of the existing... WTP.

Management Services, which generally consists of operations, maintenance, repair, replacement, and asset management services for the Existing WTP (short term) and the New WTP (long term).<sup>21</sup>

Mr. Otoski also explained that the existing WTP is capable of producing water to meet existing water quality standards while the City completes the RFP and construction of the New WTP.<sup>22</sup> However, he added that Division approval of this financing application “for continuation of efforts to support the design and construction of a new... WTP... is very important for the health and well-being of customers...”<sup>23</sup>

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<sup>20</sup> Id., pp. 3-4.

<sup>21</sup> Id., pp. 5-6.

<sup>22</sup> Id., p. 6.

<sup>23</sup> Id.

### Advocacy Section Position

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

### FINDINGS

Predicated on a careful examination of the record in this matter, the Division finds that WWD's application seeking authority to enter into long-term debt and issue revenue bonds in an amount not to exceed \$12,500,000 as part of a DWSRF loan from the RIIB for the purpose of providing engineering in support of procurement of a design, build, operate (DBO) company, to provide engineering services for design; and to provide for costs associated with initial phases of construction in connection with the design, construction and equipping of a new drinking water treatment plant and other improvements to the water system of the City to be reasonable and in the best interest of ratepayers.

Now, therefore, it is

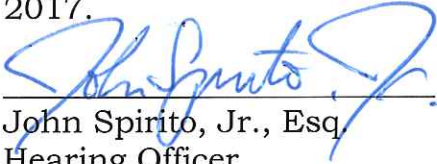
(22964) ORDERED:

1. That the City of Woonsocket Water Division's October 11, 2017 application seeking Division approval under R.I.G.L. §39-3-15 to borrow an amount not to exceed \$12,500,000 through revenue bonds sold by the RIIB for the State's DWSRF, is hereby approved.

2. That the Division hereby makes this approval contingent upon the WWD's use of the debt service allowance previously approved by the Commission, or if subsequently required, by additional debt service allowances approved by the Commission.
3. That the Division hereby limits approval of the instant application to the terms and details identified in the record.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON NOVEMBER 27,

2017.

  
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John Spirito, Jr., Esq.  
Hearing Officer

APPROVED:   
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Macky McCleary  
Administrator