

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

IN RE: Pascoag Utility District :
Application For Authority to Incur Debt : Docket No. D-20-11

REPORT AND ORDER

On September 11, 2020, the Pascoag Utility District (“PUD”), 253 Main Street, Pascoag, 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 of \$1,419,045. 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 October 29, 2020. The hearing was conducted in the Division’s hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For the PUD:	William L. Bernstein, Esq.
For the Division’s Advocacy Section:	Tiffany Parenteau, Esq. Special Assistant Attorney General

The PUD proffered pre-filed direct testimony from two witnesses in support of its application. The witnesses were identified as Mr. Michael R. Kirkwood, the PUD’s General Manager and Chief Executive Officer; and Mr. David G. Bebyn, President, B&E Consulting LLC.

At the request of the Division, the Advocacy Section proffered an opinion letter drafted by Gregory L. Booth, PLLC Engineering and Management Services, providing opinion testimony relating to a review and analysis of the proposed project.¹

Mr. Kirkwood testified that the PUD is requesting Division approval to enter into long-term debt and issue revenue bonds in a total amount of \$1,419,045 through the Rhode Island Infrastructure Bank (“RIIB”).² Mr. Kirkwood related that the issuance is intended to finance an eligible energy efficiency project (“Project”) as listed on the Efficient Buildings Fund Project Priority List (“Priority List”) as established by the Rhode Island Office of Energy Resources (“OER”).³

Mr. Kirkwood went on to describe the Project and testified that the PUD is looking to expand its substation facility as a non-wires alternative to rebuilding two feeder circuits from National Grid (“N’Grid”) that are currently servicing the PUD.⁴ He stated that the reason for the substation enhancement is that primary and back-up feeder circuits become overloaded at times when the PUD hits maximum peak loads.⁵ Mr. Kirkwood testified that, in 2019, the PUD commissioned N’Grid to perform a system impact study (“SIS”) which he described as a “very elaborate technically detailed study” that determines line capacity coming in to service the PUD, compares the line capacity to the PUD’s

¹ Advocacy Section Exhibit 1.

² PUD Exhibit 1; Kirkwood Testimony, p. 1.

³ *Id.*

⁴ *Id.* at 2.

⁵ *Id.*

peak load profile, and then determines if the PUD is “bumping into” facility limits.⁶ Mr. Kirkwood related that the SIS was essential to [assess] the PUD’s ability to serve its customer needs in the future and that N’Grid outlined things that could be done to reinforce the facilities and increase the capacity they use to serve their customers.⁷ Mr. Kirkwood went on to state that the PUD has very little internal power generation and relies on N’Grid and ISO New England to source the majority of their power supply.⁸

Mr. Kirkwood next went on to describe the options available to the PUD to address peak load concerns as presented by N’Grid in its SIS with the preferred method being a complete rebuilding of the two feeder circuits at a cost of approximately \$6,000,000.⁹ Mr. Kirkwood related further that this particular option carried with it a certain amount of risk as this estimate could be reduced by 50 percent or increased by 200 percent depending on the actual cost needed to increase circuit capacity.¹⁰

Mr. Kirkwood further testified that the most cost-effective solution would be to implement a non-wire alternative which was not considered in the original SIS. The expense for the non-wire alternative to N’Grid would be \$870,000 and the expenses to the PUD would be around \$1.4 million.¹¹ This substation expansion will allow the PUD to split its load between the two

⁶ Hearing Transcript p.7.

⁷ Transcript at 8.

⁸ Internal power generation provided to PUD customers, independent of N’Grid and Iso New England, is derived from limited net-metered solar generation and a one-megawatt gas-fired on-site generator which helps serve peak loads and reduce capacity and transmission expenses. Transcript at 7.

⁹ Transcript at 10.

¹⁰ *Id.*

¹¹ *Id.* at 11.

existing feeder lines under normal conditions and, under emergency conditions, reduce its load with a battery/storage facility currently being contracted for.¹²

Mr. Kirkwood next testified as to the terms of the RIIB loan.¹³ He related that the loan is to be secured by bonds approved by Pascoag's Board of Utility Commissioners and that the loan is to be paid over fifteen (15) years with a "True Interest Cost, All-in" of 2.522574%.¹⁴ He also testified that the Efficient Building Fund ("EBF") program sponsored by OER allows the PUD to finance its infrastructure improvement at rates not available in the commercial lending markets.¹⁵

In describing the rate impact in financing the costs associated with the Project, Mr. Kirkwood testified that the PUD will be engaging in a cost-of-service study and rate analysis this fall and will be filing a request for new rates with the Public Utilities Commission ("Commission") and the Division to be implemented in 2021.¹⁶ He related that the filing will propose an overall rate structure which will include "enough revenue" to support the RIIB loan obligation.¹⁷

Mr. Kirkwood went on to testify as to alternative financing options considered for the Project.¹⁸ He related that Pascoag qualified as a member of the National Rural Utilities Cooperative Finance Corporation ("CFC") which

¹² Kirkwood Testimony, at 1.

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*

would allow it to receive many types of financial services, including long term loans.¹⁹ He further testified that because EBF financing was slightly lower and that Pascoag had other loans with the RIIB and is familiar with its requirements, EBF financing through the RIIB became its first choice.²⁰

Mr. David G. Bebyn began his testimony by stating that he is the President of B&E Consulting LLC which is a firm specializing in utility regulation, expert rate and accounting testimony, and tax and accounting services.²¹

With respect to the instant matter, Mr. Bebyn indicated that he has been asked to provide testimony in support of PUD's application and to provide background information on the new debt for the PUD through the RIIB and the financial impact of the proposed filing.²² At the outset, Mr. Bebyn related that the PUD has other loans through the RIIB and that this borrowing, also through the RIIB, is intended to provide financial assistance for eligible efficiency projects.²³ He went on to state that the fund uses federal capitalization grants and state matching funds to provide subsidized loans to finance eligible energy efficiency projects listed on OER's Priority List.²⁴ He testified that, in addition to capitalization grants and state matching funds,

¹⁹ *Id.*

²⁰ *Id.*

²¹ PUD Exhibit 1, Bebyn Testimony, p. 1.

²² *Id.* at 2.

²³ *Id.*

²⁴ *Id.*

the RIIB also sells bonds in the public market to obtain capital to support loans through the EFB and that the Project qualifies for the EFB loan.²⁵

Mr. Bebyn next addressed the issue as to how the proceeds of the borrowing will be used by providing a table that indicated the following:

Deposit in Loan Construction Fund	\$1,254,696.25
Loan Origination Fee	14,190.45
Debt Service Reserve Fund	109,803.54
Cost of Insurance-Local Level	<u>40,354.76</u>
Total	<u>\$1,419,045.00</u> ²⁶

In his pre-filed direct testimony, Mr. Bebyn testified as to what terms are included in the RIIB commitment document for the loan.²⁷ He related that in the RIIB analysis of the loan terms as shown in Attachment DGB-1 (“Attachment”), the interest rate is based on a date of 6/30/2020 and reflects a “True Interest Cost, All-In” of 2.5336%.²⁸ He testified that the repayment period of the loan will be over fifteen (15) years with a fifteen (15) year amortization with no balloon payment due at the end of the term.²⁹ He stated that debt service will be designed to include level annual payments for the first year of the loan of less than \$75,000.³⁰ He indicated that payments in subsequent years will range from a low of \$110,439.68 in the fourteenth year of the loan to

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.* at 3.

²⁸ The interest rate of 2.5336% is the applicable rate for the term of the loan provided the PUD receives Division approval on or before December 31, 2020. *Id.* at 3.

²⁹ *Id.*

³⁰ *Id.*

a high of \$113,598.08 in the second year of the loan with the Debt Service Reserve Fund being used to make the final payment ³¹

Mr. Bebyn next testified that the PUD does not have enough debt service money adequate to cover payments on the loan from its debt service reserve, that the PUD will allocate part of its capital funding to cover the debt service requirements, and that the PUD had planned to file for a rate increase in September of 2020³² to adjust rates to account for additional debt service.³³

Mr. Bebyn further testified that there are no prepayment penalties associated with the loan as long as the costs to process the RIIB loan are covered.³⁴ He related that financial covenants require the PUD to maintain a Debt Service Coverage of 125% and that the PUD will be able to make this coverage allowance using rates approved from the upcoming rate filing which include debt service reserve and, if necessary, limited capital funds.³⁵

In his closing statements, Mr. Bebyn testified that the loan will impact the average ratepayer by an approximate 4.5% increase in rates. He stated that the estimated increase is based upon the approved rate year revenue requirement from Commission Docket 4320.³⁶

Finally, the letter from Gregory L. Booth, President of Gregory L. Booth, PLLC Engineering and Management Services (“opinion letter”), proffered by the Advocacy Section went on to provide an overview and assessment of the

³¹ *Id.*

³² As of the date of this decision, the PUD had delayed filing for a rate increase with the Public Utilities Commission and is expected to file in January 2021.

³³ *Id.*

³⁴ *Id.* at 4.

³⁵ *Id.*

³⁶ *Id.*

proposed Project.³⁷ The description of the proposed Project concurred with the descriptions as provided for in both the prefilled direct and direct testimony of the PUD. Mr. Booth stated in the opinion letter that, after completion of his engineering analysis, the PUD has selected the best and most cost-effective alternative for continuing to provide redundant delivery point service to its consumers and that the PUD developed a very low risk option that leverages competitive loan rates.³⁸

After a brief cross-examination of the PUD's witnesses, the Advocacy Section stated for the record that it was satisfied from the evidence presented, that the PUD had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq. and that the proposed borrowing is in the public interest.

FINDINGS

Predicated on a thorough examination of the record in this matter, the Division finds that the PUD's application seeking authority to enter into long-term debt and issue revenue bonds in an amount of \$1,419,045, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

(23908) ORDERED:

1. That the Pascoag Utility District's September 11, 2020 application seeking authority to enter into long-term debt and issue revenue bonds in an amount of \$1,419,045, is hereby approved as filed.

³⁷ Advocacy Section Exhibit 1.


³⁸ *Id* at 2.

2. That the Division hereby makes this approval contingent upon the PUD'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.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON NOVEMBER 23, 2020.



Mark Allen Simpkins, Esq.
Hearing Officer

APPROVED: 

Linda George, Esq.
Administrator