



State of Rhode Island and Providence Plantations
Water Resources Board
100 North Main Street, 5th Floor
Providence, RI 02903
(401) 222-2217 ♦ FAX: (401) 222-4707

MINUTES OF BOARD MEETING # 444

November 8, 2005 12:13 PM

Members Present:

Daniel W. Varin, Chairman
Robert Griffith
Frank Perry
William Stamp, III
Clay Commons*
Alicia Good*
William Parsons
Jon Schock
Timothy Brown

Members Absent:

William Penn, V. Chairman

*Member designee

Staff Present:

Juan Mariscal
Kathleen Crawley
Brian Riggs
Beverly O'Keefe
Rob Christina
William Riveroso
Elaine Maguire
Tracy Shields

Guests:

Pasquale DeLise, BCWA

1. CALL TO ORDER

With a quorum present, Chairman Varin called the meeting to order at 12:05 PM.

2. APPROVAL OF MINUTES:

Mr. Schock made a motion to accept the minutes of the October meeting with a second by Ms. Good. The motion carried unanimously.

3. CHIEF BUSINESS OFFICER'S REPORT

Mr. Schock moved approval of the Chief Business Officer's Report. Mr. Brown seconded and the Board unanimously approved the Chief Business Officer's Report dated October 2005.

4. CHAIRMAN'S REMARKS

Chairman Varin reported that he and Ms. Crawley had attended the New England Water Works Association conference in Westford, Massachusetts on October 27. Chairman Varin was on a panel with all 5 states reporting, and he presented the Board's two highest priority activities: 1) the use and allocation system; and 2) the development of the Big River ground water. He also spent a little time in Venice and learned that they are going to proceed with a very controversial tide gate system. The lagoon has 3 or 4 entrances and they will install these tide gates on each one. They are the reverse of the one here in Providence in that they will be on the ocean floor and lift up rather than drop down. They will not deal with the few days each year in which they have the highest tides, but they will handle everything less than that. There are two major objections: 1) from the fishermen who believe it will interrupt their going out from time to time, and the other 2) the people worried about pollution of the canals and the lagoon. Venice has no sewer system; everything goes directly into the canals. Tidal flushing twice a day manages to keep the situation tolerable, but with tide gates closed for 3 or 4 days at a time that may no longer be the case. Otherwise, it was a great place to visit.

5. GENERAL MANAGER'S REPORT

Mr. Mariscal reported that staff had a very active month. He has been trying to meet the various people and organizations. There were two notable meetings. A meeting with the Environmental Council of RI (ECRI) was held last week. This was a mutually desired meeting to get a better understanding of what is going on in both organizations. There were about 30 persons in attendance at the meeting held at the Audubon Society, and Mr. Mariscal explained what the Water Resources Board was currently working on and what its priorities are. The meeting confirmed that there is a lot of interest in what the Water Resources Board is doing, and specifically with regard to new supplies. The issue of efficient use of existing supplies was a top priority by ECRI. There was interest expressed in regard to land use in the Big River Management Area and general support for our activities was expressed.

Mr. Mariscal also met with representatives of the Nature Conservancy—that discussion focused on ground water development in South County as well as within the Big River Management Area. There was agreement to exchange information with each other so work can proceed as efficiently as possible in pursuing preservation of properties and getting our projects moving.

Mr. Mariscal explained that there had been meetings with the Budget Office on the FY 06 and 07 budgets, as well as with the Department of Health to finalize the cooperative agreement on funding. A Drought Steering Committee meeting was held and the next meeting of this committee will be in the April time frame. At that time, an assessment will be made of the winter conditions and spring conditions.

There has been some press on the former Amgen parking lot situation. DEM has an ongoing criminal investigation regarding the cover material used by Amgen's subcontractor. At present, all this material has been collected and stockpiled as we await word from DEM on what to do next. The intent is to have the material replaced. There was an agreement with Amgen to put down top soil; there was also an agreement with the City of Warwick to use composted material from their yard waste composting operation, which was successful. In this other area, a subcontractor had used what was supposed to be composted material but apparently has a lot of alleged building materials or refuse.

Mr. Mariscal also met with the NE and RI Mountain Bikers Associations and took a 5-mile hike around the Carr's Pond area. Their interest is to formally use the property and they explained their issues and their ideas about how they could work with the Water Resources Board to protect the property. At some time in the future they may be submitting a formal proposal to the Water Resources Board. They have been involved in some of the clean ups of the property, so they are aware of some of the misuses of the property that occur.

DEM Enforcement has been very active in the area. They have arrested an ATV biker in the area who was probably doing more than biking. Also, the State Police went with WRB staff to a dump site on Kitts Corner Road and an arrest was also made in that area. At long last, the Conte family has been evicted from the property they were occupying.

Rob Christina is now developing and maintaining a web site for the Rivers Council. Staff has been working with the Rivers Council to help them find some permanent financing for that organization. We have started internal discussions about our annual report.

Tom Walker retired from the Board early in the month of October. Paperwork has been submitted to State Personnel to have that position advertised.

Mr. Griffith commented that the situation with the Amgen parking lot presents the opportunity to educate the public on the level of effort required to remove illegal dumping from the Big River Area in general and also the level of cooperation and the arrests that have been made. He added that perhaps this sort of publicity will give people pause before they consider dumping in the Area in the future.

6. COMMITTEE REPORTS AND ACTION ITEMS RESULTING

A. Public Drinking Water Protection Committee—Chair Robert Griffith

(1) City of Pawtucket Water Supply Board—WSSMP 5-Year Update; Request for Extension Approval

Mr. Griffith explained that this was a request for an extension of time to file Pawtucket's 5-year update. The committee reviewed the request, Pawtucket explained their circumstances, and the committee recommended approval. Mr. Griffith moved approval and Mr. Stamp seconded. Chairman Varin clarified that the committee was recommending granting Pawtucket the maximum allowable extension to May 7, 2007 although Pawtucket had requested an extension only until December 31. The motion passed unanimously.

(2) North Tiverton Fire District—30-Month Interim Report; Request for First Notice of Deficiency Approval

Mr. Griffith explained that this was a request to approve a first notice of deficiency for the North Tiverton Fire District regarding their 30-month interim report. The interim report that was filed was inadequate; the staff reviewed the deficiencies and returned with a request for a letter of first notice of deficiency and per the committee's recommendation, Mr. Griffith moved approval with a second by Mr. Perry. Mr. Schock wanted to know if this were truly a deficiency or simply a response to regulatory comments. Mr. Griffith explained that the report that the District made to the Board was deficient, and consequently, this letter would put them on notice that they have 120 days to respond. Chairman Varin asked who was the manager for North Tiverton and Ms. O'Keefe explained that it was Mr. Morin. The motion carried unanimously.

(3) Smithfield Water Supply Board—30-Month Interim Report; Request for First Notice of Deficiency Approval

Mr. Griffith reported that this was the same circumstance as the prior item. The response to the "subject to's" regarding their 30-month interim report was inadequate. Staff has requested approval of first notice of deficiency after review of the report. The general manager of the Smithfield Water Supply Board did appear before the committee and indicated that he indeed be able to respond satisfactorily within the 120 day limit. Notwithstanding that, Mr. Griffith moved approval of issuance of the first notice of deficiency, and Mr. Perry seconded. Ms. Good noted that the Board had commented that this system's non-account water had substantially increased and Ms. Good wanted to know if that had been addressed and if not that the system be required to address that issue as well. Ms. O'Keefe clarified that this issue has not yet been addressed, but it was covered a letter which had been part of the Public Drinking Water Protection package. This item was approved unanimously.

B. Finance Committee—Chair William Penn

Mr. Schock explained that there was nothing under this item for the Board; however, there would be items under the Board Corporate.

C. Construction, Engineering and Operations Committee—Chair June Swallow

Mr. Commons explained that Ms. Swallow had informed him that this committee had not met.

D. Legislative Committee—Chair Daniel W. Varin

This committee did not meet.

E. Strategic Committee—Chair Daniel W. Varin

Chairman Varin explained there was an item under this committee which Mr. Griffith had requested be considered by the Board. Mr. Griffith explained that what he found interesting about the NY Times article October 30, 2005, *Investing, It Doesn't Mix With Oil, and the Market Is Drinking It Up*—By J. Alex Tarquinio (article attached). Mr. Griffith explained that what he'd found interesting about the article was the trend it identified as the consolidation of smaller public drinking water suppliers through acquisition by for-profit water suppliers. This trend is increasing around the country and one of the reasons for this is the new round of Safe Drinking Water Act requirements that are becoming increasingly burdensome on all water suppliers, but particularly on small public water suppliers, who cannot afford to make the infrastructure upgrades given the economies of scale with which they deal. On the other hand, this may prove to accomplish what we have been trying to accomplish for some time which is the development of regional water suppliers in state through consolidation of some of our smaller holdouts. However, it also started Mr. Griffith thinking about what the relationship of the Water Resources Board would be in the coming years with for-profit, out of state entities. We have one water supplier in the state now that is owned by a for-profit out of state, which has not affected our relationship to any degree in that regard. But, if this becomes a growing trend, he believes that we must look at what the relationship is and whether it is still appropriate for example for a state entity to be providing financial assistance to for-profit organizations and out of state for-profit organizations. For Mr. Griffith, it raises the whole question of what our relationship might be with these kinds of organizations in the future and what this might bode for some of

our other programs in the future. Therefore, he asked Mr. Mariscal to distribute the article and put it on the agenda. Mr. Mariscal and staff have found additional articles that speak to other aspects of trends in the water supply community which the Board needs to be cognizant of in terms of how they may instruct us on directions to go with in regard to allocation, management trends, etc. Mr. Griffith continued that he believed this might be an issue the Strategic Committee would want to take on under its agenda. Chairman Varin agreed that this would be a good idea and suggested that a combined meeting of the Strategic and Legislative Committees be held and accordingly determine if anyone would like legislation submitted for the coming session. With no objection from the members, the Chairman requested that a joint meeting of both committees (each are committees of the whole Board) be established some time in the near future.

7. NEW BUSINESS

8. OTHER BUSINESS

(1) Shad Factory Briefing—Pasquale DeLise, Executive Direct, Bristol County Water Authority

Mr. DeLise explained that the project was on time. The engineers are Dewberry, and they have completed the ground water control and wetland delineation. They should have the 40 percent drawings completed some time in January. Everything is progressing according to plans. Mr. DeLise added that the Shad pipeline is in operation and water is flowing into the reservoir. The plant is not operational, but it soon will be.

Chairman Varin noted that as Mr. Mariscal had noted, the Board's Supervising Engineer had retired in mid-October, so the Board would be relying on Mr. DeLise to bring the replacement engineer up to speed on this project once that person is hired. Mr. DeLise agreed to do this.

9. RECESS OF BOARD FOR BOARD CORPORATE BUSINESS

With no objection, Chairman Varin recessed the Board for Board Corporate Business at 12:40 p.m.

10. RETURN FROM BOARD CORPORATE BUSINESS

At 1:25 p.m., the Board returned from Board Corporate business.

11. ADJOURNMENT

On a motion by Mr. Parsons, seconded by Mr. Stamp, the Board unanimously voted to adjourn at 1:26 p.m.

Respectfully Submitted,

Tracy Shields
Personnel Aide

\\Main\shared\Board\minutes\2005\nov bd mins 2005.doc

October 30, 2005

Investing

It Doesn't Mix With Oil, and the Market Is Drinking It Up

By J. ALEX TARQUINIO

OIL and gold have had a great run in the markets this year. So, too, has water. While most of what flows through the nation's water taps is supplied by publicly run municipal systems, a growing number of rural and suburban water systems are owned by a handful of publicly traded utilities, like Aqua America. The shares of these companies have skyrocketed this year, and despite a sell-off earlier this month, they are still at levels that might seem more appropriate for rarer commodities, like precious metals or petroleum. The prices have surprised some analysts because water utilities, after all, inhabit a pokey, highly regulated universe whose infrastructure is likely to require an expensive upgrade. But investors who are bullish on the industry say that it is about to undergo a historic change - moving oceans of municipal water into the hands of for-profit companies.

The catalyst for the transformation will be the final draft of new water quality regulations, which the Environmental Protection Agency is expected to issue later this year, said Michael Gaugler, a stock analyst at Boenning & Scattergood, a brokerage firm in West Conshohocken, Pa., near Philadelphia. The new rules will require water systems to further reduce levels of substances like arsenic and chlorine. Many small towns will discover that they cannot afford the pricey ultraviolet reactors they will need to meet these stricter limits, Mr. Gaugler said. But he added that the new requirements were not the only consideration. "Some of this infrastructure has been around since World War II, and the pumps and pipes are wearing out," Mr. Gaugler said. "But reality has not hit at the local level yet."

About 85 percent of the nation's nearly 55,000 municipal water systems serve fewer than 3,300 homes each, and Mr. Gaugler said that many small towns had too few customers to be able to afford the infrastructure improvements. But, he said, companies like Aqua America - which is based in Bryn Mawr, Pa., and has 2.5 million customers in 15 states - could cover the costs without sharply raising rates. While large cities have continued to operate their own water systems, publicly traded water utilities tend to buy small rural and suburban water systems. Mr. Gaugler predicted that more small towns would begin selling their water systems to the for-profit companies in 2006 and 2007, and that the pace might pick up as the deadlines for compliance - which range from 2011 to 2013 - drew near. He predicted that the big water companies "will pay less for acquisitions as time goes on, because municipalities are going to get desperate to sell."

Only a handful of water utilities trade on stock exchanges - and many of the companies are tiny, with market capitalizations of only a few hundred million dollars. This means that sudden changes in investor sentiment can cause big moves in the stocks. Aqua America, the only publicly traded water company with a market capitalization of more than \$1 billion, started trading this year at less than \$25. The stock peaked at around \$39 on Oct. 4. Then, on Oct. 12, more than four times the usual number of shares traded hands, and the stock fell to \$32. It now trades at \$32.92.

Trading in the [California Water Service Group](#), the second-largest water utility stock, and [American States Water](#), the third largest, has followed similar patterns. Such volatility is attributable in part to hedge funds and other pools of private money that have focused on water-related investments, said Ivan Feinseth, director of research at Matrix USA, a research and brokerage firm in New York. "It's not as crazy as it was when all the Internet funds were launched," he said. "But if you want an allocation to water, there are only so many stocks you can buy." Dividends were once a bigger incentive for investors in water utilities, said James Lykins, a stock analyst at Hilliard Lyons, a brokerage firm in Louisville, Ky. But he said that he no longer found the yield attractive after the sharp rise in share prices. Both the California Water Service Group, based in San Jose, and American States Water, based in San Dimas, Calif., now yield more than 2.9 percent, according to Bloomberg. Aqua America yields 1.7 percent. The average yield for the Standard & Poor's 500-stock index is 2.1 percent.

Both Mr. Gaugler and Mr. Lykins stopped recommending new purchases of Aqua America in early August, a week after the stock first hit \$32. Mr. Lykins said he thought that the stock would be more attractive in the high \$20's. Mr. Gaugler declined to say what he thought would be a fair price, but he did say he found it expensive at \$32, which gave it a trailing price-to-earnings ratio of around 35. In most years, he said, the stock has had a P/E ratio of 20 to 30.

In the past, some industry analysts have argued that Aqua America had an advantage over West Coast companies, because the regulatory environment was more favorable in its core market of Pennsylvania than it was in California. But Mr. Lykins said he expected the California Public Utilities Commission to make faster decisions and to grant bigger rate increases after two recent appointments by Gov. [Arnold Schwarzenegger](#), a Republican. So Mr. Lykins is recommending that long-term investors consider buying shares of the California Water Service Group, which serves more than two million people in California, Washington, New Mexico and Hawaii.

Last month, the California Water Service Group announced that it had put its chief financial officer, Richard D. Nye, on administrative leave, pending an investigation by the Securities and Exchange Commission into his work with a former employer, CornerStone Propane Partners L.P., based in Watsonville, Calif. On Sept. 23, the S.E.C. filed civil charges against Mr. Nye and four other former CornerStone executives, accusing them of reporting false financial results in S.E.C. filings and press releases from June 2000 through September 2001. Because the investigation relates to Mr. Nye's work with another company - and not with the California Water Service Group - Mr. Lykins said he thought the impact on the stock would be "minimal, if any."

There is money to be made from the growing demand for clean water - but the best opportunities are not in the water utilities, said Neil Berlant, a consultant to the water industry, who also runs a private water investment portfolio at the Seidler Companies, an investment firm in Los Angeles. He said the biggest opportunities would come from selling water filtration systems to industry. Home water use accounts for only about 1 percent of water consumption in the United States, he said. The vast majority is used by industry and agriculture, with most of the rest used for commercial purposes or parks.

Many industries already filter water for production, Mr. Berlant said, and some will need even purer water in coming years. For example, he said that manufacturing a new wave of semiconductors would require water that is 15 times purer than what was needed just a few years ago. HE likes two companies that are now primarily manufacturers of water treatment systems - [Pentair](#), in Golden Valley, Minn., and [Watts Water Technologies](#), in North Andover, Mass. Both companies' stocks have fallen this year. Pentair trades at \$31.33 and is off 28 percent for the year, and Watts is at \$26.62, down 17.4 percent. Mr. Berlant, who said that he consulted for both companies in the past but does not do so now, holds both stocks in the separate accounts that he manages for institutional and wealthy individual investors.

Mr. Feinseth also said that stocks like Pentair and Watts Water Technologies were more promising than the publicly traded water utilities. In his view, revenue of the water utilities will be constrained by state regulators who will keep a lid on rate increases. To add to revenue, he said, the water utilities will have to continue making acquisitions. But ultimately, he said, it is unlikely that such water holdings will prove very profitable. "There has not been a huge growth in water consumption," Mr. Feinseth said. "But there's a doomsday scenario. Some people say that clean water will become a more valuable commodity than oil. Personally, I don't see how that happens."