

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF ST. ANTHONY WATER)
UTILITIES INC FOR A NEW SCHEDULE OF) CAUSE NO. 45671-U
RATES AND CHARGES FOR WATER)
SERVICE)

PUBLIC'S EXHIBIT NO. 2

TESTIMONY OF SHAWN DELLINGER

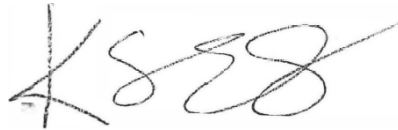
ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

April 25, 2022

Respectfully submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR



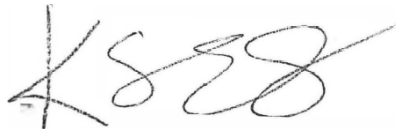
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CERTIFICATE OF SERVICE

This is to certify that a copy of the *Public's Exhibit No. 2 – Testimony of Shawn Dellinger on behalf of the OUCC* has been served upon the following in the captioned proceeding by electronic service on April 25, 2022.

ST. ANTHONY WATER UTILITIES INC.

William Hauser
4300 South Santine Road
St. Anthony, IN 47575
Email: stanthonywater@psci.net



Kelly Earls
Deputy Consumer Counselor

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TESTIMONY OF OUCC WITNESS SHAWN DELLINGER
CAUSE NO. 45671-U
ST. ANTHONY WATER UTILITIES INC.

I. INTRODUCTION

1 **Q: Please state your name and business address.**

2 A: My name is Shawn Dellinger, and my business address is 115 W. Washington St., Suite
3 1500 South, Indianapolis, IN 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor (“OUCC”) as a Utility
6 Analyst in the Water/Wastewater division. My focus is on financial issues.

7 **Q: Please describe your educational background and experience.**

8 A: My credentials are set forth in Appendix A.

9 **Q: What is the purpose of your testimony?**

10 A: St. Anthony Water Utilities Inc. (“Applicant” or “St. Anthony”) has requested approval of
11 its proposed debt service revenue requirement of \$36,650 per year. Based on my review,
12 I recommend the Commission approve \$33,490 for the Applicant’s proposed debt service
13 revenue requirement. Applicant also has requested approval of \$7,330 per year of debt
14 service reserve revenue requirement. I recommend the Commission not approve any debt
15 service reserve revenue requirement at this time. I further recommend the Commission
16 approve \$265,000 of debt authority. Finally, I also recommend various true-up processes
17 and reports related to the debt financing.

18 **Q: What did you do to prepare your testimony?**

19 A: I reviewed the Application. I prepared discovery questions and reviewed Applicant’s
20 responses to discovery. I participated in multiple calls with the Applicant and

1 representatives from Baker Tilly, Applicant's accounting firm.

2 **II. DEBT SERVICE REVENUE REQUIREMENT**

2 **Q: Please describe Applicant's proposed debt service revenue requirement.**

3 A: As seen in Schedule 9 of the Application, Applicant proposes to recover a debt service
4 revenue requirement of \$36,650 per year. This is based on a total of \$290,000 of
5 borrowings amortized over 10 years at an interest rate of 4.5%. The amortization schedules
6 on this proposed debt are set forth in OUCC Attachment SD-1. The Applicant's discovery
7 responses including these details, as well as the cost of issuance and the Schedule of
8 Estimated Project Costs and Funding, may be found in OUCC Attachment SD-3.

9 **Q: Is St. Anthony's proposed interest rate appropriate?**

10 A: Yes. From the ratepayers' perspective, 4.5% is certainly not an aggressive interest rate,
11 and I am accepting it for purposes of revenue calculations. I am uncertain if St. Anthony
12 will be able to borrow at a rate this low, as interest rates have increased significantly since
13 St. Anthony filed its case. At this time, a rate of 5.5-5.75% may be more appropriate to
14 consider. I accept St. Anthony's proposal for a 4.5% interest rate, with the understanding
15 that there is a likelihood of increased rates at the time of the true-up when actual interest
16 rates are known. For transparency, I include an amortization table for the debt assuming a
17 5.75% cost of debt in OUCC Attachment SD-4.

18 **Q: Is the term of the loan appropriate?**

19 A: It is acceptable. The term of the loan should always be as close as possible to the life of
20 the assets being financed. In this case, these assets should generally have an expected life
21 of greater than 10 years, so the borrowings should be longer if available. In some cases,
22 longer terms are not available with local lenders for these situations. We encourage the

1 Applicant to explore changing these terms to 15 year or 20-year amortization periods if
2 available.¹

3 **Q: Is the cost of issuance appropriate?**

4 A: No. This is a \$290,000 loan with a local bank. St. Anthony indicates that the cost of
5 issuance for the bank loan is \$45,000. Approximately 15.5% of the total borrowed amount
6 is for fees; \$35,000 for Baker Tilly advising fees for the bank loan (separate from the rate
7 case expense) and \$10,000 for counsel for the bank loan. This is excessive for a local bank
8 loan. Unless compelling reasons are provided for the fees being this high, I propose to
9 limit these fees to \$20,000 total, which is still nearly 7% of the proposed borrowing, subject
10 to true-up. This adjustment would change the total costs of issuance to \$90,000, or a
11 reduction of \$25,000. Please see the table below provided in response to OUCC discovery
12 (also included in OUCC Attachment SD-3):

¹ As an example, to show the magnitude of revenue requirement reductions on an annual basis, using a 5.75% interest rate and borrowing \$265,000 over 15 years rather than 10 years reduces the annual revenue requirement from \$35,580 to \$26,841.

ST. ANTHONY WATER UTILITIES, INC.

COSTS OF ISSUANCE

	<u>Amount</u>
Engineering - Rate Case	\$30,000
Baker Tilly Rate Case	34,500
Baker Tilly - Bank Loan	35,000
Local Counsel - Bank Loan	5,000
Bond Counsel- Bank Loan	5,000
Rounding	5,500
	<hr/>
Total	<u>\$115,000</u>

1 **Q: What is your proposal for debt service revenue requirement?**

2 A: I propose a \$33,490 annual debt service revenue requirement. This is based on reducing
3 the total borrowings by \$25,000 reflecting a reduction of bank loan fees but accepting the
4 ten-year amortization period as well as the 4.5% interest rate. My amortization tables are
5 included as OUCC Attachment SD-2.

6 **Q: Is this debt service revenue requirement appropriate?**

7 A: Yes. Based on my review, the proposed revenue requirement is appropriate for the debt
8 described in Applicant's Schedule 9.

III. DEBT SERVICE RESERVE

9 **Q: Does Applicant request a revenue requirement for debt service reserve?**

10 A: Yes. Applicant's Schedule 10 shows a debt service reserve revenue requirement of \$7,330
11 per year.

12 **Q: Is this an appropriate amount of debt service reserve?**

13 A: No. Based on the lower amount of borrowing that I recommend this debt service reserve
14 revenue requirement should be \$6,700 per year.

1 **Q: Is this debt service reserve revenue requirement appropriate?**

2 A: It is somewhat unusual for a local bank to require a debt service reserve fund to be
3 established.

4 **Q: Should this revenue requirement be included in the OUCC's proposed rates?**

5 A: No. I believe this should be removed, as it is unlikely that it will be required. If it is
6 required, I would be amenable to this being included in the true-up and rates reflecting that
7 cost at that time.

IV. TRUE-UP AND OTHER ISSUES

8 **Q: Should Applicant be required to true-up its proposed annual debt service once the**
9 **interest rates and borrowed balances on its proposed debt are known?**

10 A: Yes. The precise interest rates, borrowed amount, and annual debt service will not be
11 known until St. Anthony's debt is issued; therefore, St. Anthony's rates will need to be
12 true-d up to reflect the actual cost of the debt. I recommend the Commission require St.
13 Anthony to file a true-up report within thirty (30) days of closing on its long-term debt
14 issuance explaining the terms of the new loan, including interest rates and the amount
15 borrowed, the lender, the amount of debt service reserve (if any) and an itemized
16 account of all issuance costs, including issuance costs actually incurred to that date.
17 Bid tabulations for the financed projects should be provided at this time, or at a later
18 date as available, for the projects financed.

19 **Q: How should disputes regarding St. Anthony's true up report be identified?**

20 A: The OUCC should have no less than fourteen (14) days after service of the true-up to
21 challenge St. Anthony's proposed true-up. St. Anthony should similarly have fourteen
22 (14) days to file a response to the OUCC. Thereafter, the Commission should resolve

1 any issue raised through a process it deems appropriate. Any true-up report should state
2 the time frames for objections or responses.

3 **Q: Should there be any exceptions to the requirement for a true-up?**

4 A: Yes. If both parties state in writing that the increase or decrease indicated by the report
5 need not occur because the increase or decrease would be immaterial, the true-up need
6 not be implemented.

7 **Q: What other conditions should be placed on St. Anthony's proposed debt issuance?**

8 A: Financing authority should not continue indefinitely. Any financing authority not used
9 by St. Anthony should expire two years after a final order has been issued in this Cause.
10 We are recommending a longer than normal time period for this expiration to allow
11 Applicant to utilize their discretion if bids are higher than expected. This will enable
12 St. Anthony to pause to allow supply chain bottlenecks and contractor availability to
13 ease and possibly reduce the cost on these projects.

14 **Q: Should there be any restrictions on St. Anthony's proposed debt service reserve?**

15 A: Yes. If a debt service reserve is ultimately necessary, it should be placed in a restricted
16 account, and Applicant should notify the Commission and the OUCC if it spends any funds
17 from its debt service reserves for any reason other than to make the last payment on its
18 current or proposed debt issuances. Applicant should be required to provide a report to the
19 Commission and the OUCC within five (5) business days of any such transaction. The
20 report should state how much St. Anthony spent from its debt service reserve, explain why
21 it spent funds from its debt service reserve, provide a cite to any applicable loan documents
22 that allow it to spend funds from its debt service reserve, describe its plans to replenish its

1 debt service reserve, and describe any cost-cutting it has implemented to forestall spending
2 funds from its debt service reserve.

V. SUMMARY OF RECOMMENDATIONS

3 **Q: Please summarize your recommendations to the Commission in this Cause.**

4 A: I recommend the Commission approve a debt authorization of \$265,000. I recommend
5 the Commission approve a debt service annual revenue requirement of \$33,490. I
6 recommend the Commission approve no revenue requirement for the debt service reserve
7 at this time but accept that if it is required it may be reflected in the true-up. I recommend
8 the Commission require true-up processes as indicated above.

9 **Q: Does this conclude your testimony?**

10 A: Yes.

Appendix A

1 **Q: Please describe your educational background.**

2 A: I graduated from Indiana University with a degree in Biology, a minor in Economics and
3 a certificate from the Liberal Arts and Management Program (LAMP) which is an honors
4 certificate program through the Kelley School of Business and the College of Arts and
5 Sciences, at the time restricted to twenty-five (25) students per year. After spending time
6 in the job market, I received my MBA from Indiana University with a concentration in
7 finance. I am a member of Phi Beta Kappa honor society for my undergraduate work and
8 Beta Gamma Sigma honor society for my master's program.

9 **Q: Please describe your work experience.**

10 A: My first jobs after graduating with my undergraduate degree were in New York in finance
11 at Grant's Interest Rate Observer, which is a financial newsletter and Lebenthal and Co.,
12 which was a municipal bond brokerage. I worked at RCI Sales in Indianapolis, which was
13 a manufacturers' representative/distributor in the commercial and institutional plumbing
14 space as the owner for a number of years, leaving when I sold the company and merged it
15 into a competitor. After receiving my MBA, I worked at Amazon as a financial analyst in
16 their fulfillment division.

17 **Q: How long have you been at the OUCC?**


18 A: I have been a Utility Analyst II in the water division at the OUCC since December of 2019.
19 My focus is financial issues, such as ROE's, Capital Structures, etc.

20 **Q: Have you previously testified before the Indiana Utility Regulatory Commission?**

21 A: Yes, I have testified before the commission regarding various aspects of finance.

AFFIRMATION

I affirm the representations I made in the foregoing testimony are true to the best of my knowledge, information, and belief.



By: Shawn Dellinger
Cause No. 45671-U
Office of Utility Consumer Counselor (OUCC)

Date: April 25, 2022

Total Borrowings \$ 290,000.00
Years 10
Interest Rate 4.50%
Annual Payments \$36,649.86

Initial Borrowing	\$ 290,000.00		
	<u>Payment</u>	<u>Interest</u>	<u>Balance</u>
Year 1	\$36,649.86	\$ 13,050.00	\$266,400.14
Year 2	\$36,649.86	\$ 11,988.01	\$241,738.29
Year 3	\$36,649.86	\$ 10,878.22	\$215,966.65
Year 4	\$36,649.86	\$ 9,718.50	\$189,035.30
Year 5	\$36,649.86	\$ 8,506.59	\$160,892.03
Year 6	\$36,649.86	\$ 7,240.14	\$131,482.31
Year 7	\$36,649.86	\$ 5,916.70	\$100,749.15
Year 8	\$36,649.86	\$ 4,533.71	\$68,633.01
Year 9	\$36,649.86	\$ 3,088.49	\$35,071.63
Year 10	\$36,649.86	\$ 1,578.22	\$0.00

Dellinger, Shawn

From: Eschweiler, Mitchell <Mitchell.Eschweiler@bakertilly.com>
Sent: Wednesday, March 23, 2022 10:03 AM
To: Dellinger, Shawn
Cc: Baldessari, Doug
Subject: St. Anthony Questions
Attachments: COI.pdf

**** This is an EXTERNAL email. Exercise caution. DO NOT open attachments or click links from unknown senders or unexpected email. ****

Shawn,

Doug sent me your request for St. Anthony. Below are the responses to the questions:

- 1) DR 2-1 Attachment - page 94
- 2) See attached for the costs of issuance
- 3) 4.5% interest rate
- 4) 10 years

Thanks,

Mitchell D. Eschweiler, CPA
Senior Manager



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ST. ANTHONY WATER UTILITIES, INC.

SCHEDULE OF ESTIMATED PROJECT COSTS AND FUNDING
(Per Consulting Engineers)

<u>ESTIMATED PROJECT COSTS</u>	<u>Bank Funding</u>
Estimated Construction and Contingencies	
- 200,000 Gallon Water Storage Tank (4-H Fairgrounds)	\$200,000
- 75,000 Gallon Water Storage Standpipe Improvements	145,000
- Fire Hydrant Replacement	71,000
- Valve Replacement Addition	31,000
- PRV Meter Pit Rehabilitation	31,000
- Booster Station Building Rehabilitation	12,000
- Asset Management Plan	-
- Other Projects	-
	<hr/>
Estimated Total Construction Costs	490,000
	<hr/>
Estimated Non-Construction Costs:	
Engineering Design and Inspection	116,000
Allowance for Costs of Issuance	115,000
	<hr/>
Estimated Total Non-Construction Costs	231,000
	<hr/>
Estimated Total Project Costs	\$721,000
	<hr/> <hr/>
<u>ESTIMATED PROJECT FUNDING</u>	
Proposed Waterworks SRF Loan	\$290,000
SRF Asset Management Grant	-
Assumed County ARP Investment*	181,000
Cash on hand*	250,000
	<hr/>
Total Project Funding	\$721,000
	<hr/> <hr/>

* Assumed to be used for tank painting.

ST. ANTHONY WATER UTILITIES, INC.

COSTS OF ISSUANCE

	<u>Amount</u>
Engineering - Rate Case	\$30,000
Baker Tilly Rate Case	34,500
Baker Tilly - Bank Loan	35,000
Local Counsel - Bank Loan	5,000
Bond Counsel- Bank Loan	5,000
Rounding	5,500
	<hr/>
Total	<u><u>\$115,000</u></u>

Proposed Borrowing	\$ 290,000.00
Reduction in Fees borrowed	\$ 25,000.00
OUCG proposed borrowing	\$ 265,000.00
Years	10
Interest Rate	4.50%
Annual Payments	\$33,490.39
Debt Service Reserve	\$ 6,698.08

Initial Borrowing \$ 265,000.00

	<u>Payment</u>	<u>Interest</u>	<u>Balance</u>
Year 1	\$33,490.39	\$ 11,925.00	\$243,434.61
Year 2	\$33,490.39	\$ 10,954.56	\$220,898.78
Year 3	\$33,490.39	\$ 9,940.45	\$197,348.84
Year 4	\$33,490.39	\$ 8,880.70	\$172,739.15
Year 5	\$33,490.39	\$ 7,773.26	\$147,022.02
Year 6	\$33,490.39	\$ 6,615.99	\$120,147.63
Year 7	\$33,490.39	\$ 5,406.64	\$92,063.88
Year 8	\$33,490.39	\$ 4,142.87	\$62,716.37
Year 9	\$33,490.39	\$ 2,822.24	\$32,048.22
Year 10	\$33,490.39	\$ 1,442.17	\$0.00

Proposed Borrowing	\$ 290,000.00
Reduction in Fees borrowed	\$ 25,000.00
OUCC proposed borrowing	\$ 265,000.00
Years	10
Interest Rate	5.75%
Annual Payments	\$35,579.77
Debt Service Reserve	\$ 7,115.95

Initial Borrowing	\$ 265,000.00		
	<u>Payment</u>	<u>Interest</u>	<u>Balance</u>
Year 1	\$35,579.77	\$ 15,237.50	\$244,657.73
Year 2	\$35,579.77	\$ 14,067.82	\$223,145.79
Year 3	\$35,579.77	\$ 12,830.88	\$200,396.91
Year 4	\$35,579.77	\$ 11,522.82	\$176,339.96
Year 5	\$35,579.77	\$ 10,139.55	\$150,899.74
Year 6	\$35,579.77	\$ 8,676.74	\$123,996.71
Year 7	\$35,579.77	\$ 7,129.81	\$95,546.76
Year 8	\$35,579.77	\$ 5,493.94	\$65,460.93
Year 9	\$35,579.77	\$ 3,764.00	\$33,645.17
Year 10	\$35,579.77	\$ 1,934.60	(\$0.00)