BEFORE THE

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF CWA AUTHORITY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WASTEWATER UTILITY SERVICE IN THREE PHASES AND APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO; (2) APPROVAL OF A LOW-INCOME CUSTOMER ASSISTANCE PROGRAM; AND (3) APPROVAL OF CERTAIN CHANGES TO ITS GENERAL TERMS AND CONDITIONS FOR WASTEWATER SERVICE.	))))))))))	**CAUSE NO. 45151**

IURC
PETITIONER'S
EXHIBIT NO. 13
5-9-19 AT
DATE REPORTER

VERIFIED REBUTTAL TESTIMONY
of
ERIC P. ROTHSTEIN

On
Behalf of
Petitioner,
CWA AUTHORITY, INC.

Petitioner's Exhibit No. 13

<u>INTRODUCTION AND BACKGROUND</u>

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A1. My name is Eric P. Rothstein. My business address is 3300 N. Lake Shore Dr., Unit 6C, Chicago, IL 60657.

Q2. ARE YOU THE SAME ERIC P. ROTHSTEIN WHO PREVIOUSLY SUBMITTED CASE-IN-CHIEF TESTIMONY IN THIS PROCEEDING ON BEHALF OF CWA AUTHORITY, INC. ("CWA" OR PETITIONER")?

A2. Yes, I am.

Q3. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS CAUSE?

A3. The purpose of my rebuttal testimony is to address the direct testimony of selected intervenors with regard to CWA's capital program and financing strategy, and with regard to CWA's proposed Low Income Customer Assistance Program ("LICAP").

Q4. PLEASE DESCRIBE THE REVIEW AND ANALYSIS YOU CONDUCTED FOR YOUR REBUTTAL TESTIMONY.

A4. I have reviewed the pre-filed testimony and selected exhibits of witnesses James T. Parks, Edward R. Kaufman and Scott A. Bell on behalf of the Indiana Office of Utility Consumer Counselor ("OUCC"); the pre-filed testimony of Kerwin L. Olson on behalf of Citizens Action Coalition of Indiana, Inc. ("CAC") and Indiana Community Action Association ("INCAA"); the pre-filed testimony of Michael P. Gorman on behalf of CWA Authority Industrial Group ("Industrial

Group"); and the case-in-chief and rebuttal testimony of CWA witnesses Jeffrey A. Harrison, John R. Brehm, Mark C. Jacob and Korlon L. Kilpatrick II.

Q5. WHAT ARE YOUR GENERAL IMPRESSIONS OF THE OUCC'S TESTIMONY WITH REGARD TO CWA'S PROPOSED CAPITAL PROGRAM MANAGEMENT AND FINANCING STRATEGY?

A5. I find it remarkable that CWA judgments based on extensive professional experience and detailed technical information are presumed invalid by OUCC witnesses Parks and Kaufman, and by their contention, warrant disallowance of legitimate components of the utility's revenue requirement. In several instances, OUCC witnesses question the wisdom of CWA's assumptions or strategies based on little more than a difference of opinion, rather than substantiated evidence of imprudence or managerial shortcomings. In some instances, it seems arguments have centered on less fundamental issues, definitions of terms, and second-guessing CWA management decisions while losing sight of larger policy questions. In my professional opinion, judgments about expense recovery or exclusion should be swayed, in part, by CWA's demonstrated success to date, its highly qualified staff, and daily engagement in the complexities of capital program management and financing.

Q6. COULD YOU PROVIDE A SPECIFIC EXAMPLE OF THE OUCC'S ARGUMENTS AND RECOMMENDATIONS REGARDING CWA'S PROPOSED CAPITAL PROGRAM SPENDING LOSING SIGHT OF LARGER POLICY QUESTIONS?

A6. Yes. OUCC witness Parks goes to some lengths to challenge CWA witness Jacob's reference to a 2011 AWWA Benchmarking Survey in regard to annual capital spending levels after the three-year capital investment requirements period ("CIRP") ends in 2022 (Parks, pp. 7-10). Yet beyond critique of the study, which Mr. Jacob used in a passing reference, no cogent challenge is offered to the prospective need to fund investments for extensions and replacements ("E&R") in the range of $89 million per annum. Mr. Parks references a more recent 2018 AWWA Benchmarking Study and suggests (inaccurately) that "CWA would be over twice the median reinvestment level for its collection system and would be solidly in the top quartile" – as if this outcome would be a disservice to CWA ratepayers. From a higher public policy perspective, after completing a level of system reinvestment unprecedented in Indiana, CWA should be funding E&R at levels above industry medians, which continue a long tradition of under-investment in the water sector (as well documented by, for example, the United States Environmental Protection Agency ("EPA") and the American Society of Civil Engineers ("ASCE") in their respective infrastructure funding gap reports).

Q7. DO YOU HAVE ANY OTHER PERSPECTIVES ON MR. PARKS'S TESTIMONY THAT YOU WOULD LIKE TO OFFER HERE?

A7. Yes. I would like to offer some perspectives on the level of detailed information made available to support CWA's capital program proposal. In short, CWA's capital program reporting exceeds the level of reporting detail common among large utilities in the U.S. water and wastewater industry. Based on my experience with program financing for numerous utilities placed under wastewater consent decrees, CWA's command of project reporting and cost detail is on a par with benchmark capital programs in the industry. This should be the focus. Questions should center on whether CWA's overall program management approach – that incorporates such aspects as project scheduling and costing protocols and design and construction management practices – will help ensure cost effective, high quality project delivery. Yet for several **individual** projects, Mr. Parks contends that supporting information is insufficient, despite acknowledging that CWA has provided basic project information, and that therefore the project costs should be wholly excluded in determining system revenue requirements.

These contentions are problematic in at least three respects. First, the call for a level of detail beyond what CWA has already provided is a degree of micromanagement that is unnecessary and counterproductive. Unnecessary because it calls for detailed asset condition documentation when, in many cases like deteriorated valve replacements, problems are obvious on casual inspection. Counterproductive in that these demands may place strictures on field personnel who are most effective when given the freedom to effect judgments in the field. Second, and more fundamentally, the proposed exclusion of project expenses – and, by implication, the suggestion that the projects are not needed – is potentially dangerous. Indeed, Mr. Parks's testimony by no means establishes that the projects he suggests be excluded from revenue requirements are imprudent, only that his desire for more project detail has not been fully satisfied. Third, the level of detail in project reporting to build and sustain the case for CWA's system investment needs should not require CWA to meet the evidentiary burden Mr.

Parks is attempting to impose. He calls for a level of reporting that even exceeds that typically provided to prospective bondholders – parties who place their funds at risk. As a registered Municipal Advisor who has drafted multiple feasibility reports, CWA's reporting by project category (i.e., collection system, treatment plants, Consent Decree projects) is entirely consistent with the level of detail provided in bond offering documents.

Q8. DO YOU HAVE SIMILAR CONCERNS ABOUT MR. KAUFMAN'S PROPOSALS WITH REGARD TO CWA'S APPROACH TO CAPITAL PROGRAM FINANCING?

A8. Yes. My concerns are similar in that OUCC witness Kaufman challenges the capital financing plan on the basis of little more than differences of judgment with CWA's highly qualified professional staff. In this regard, I am somewhat reassured by the Commission's prior recognition that capital financing strategy is a business decision within the province of utility management:

> *We found in Daviess-Martin, and hereby reiterate, that the decision as to whether to pay expenses for extensions and replacements through rate revenues or from borrowed funds is a business decision to be made by Petitioner, and we will not substitute our decision — or the OUCC's judgment — for that of Petitioner's managers.* [Re Wabash County Rural Electric Membership Corporation, 1993 WL 160054 (Ind. U.R.C.), Cause No. 39551, Indiana Utility Regulatory Commission, March 31, 1993]

As with Mr. Parks's testimony, I think it is important to note that the differences of opinion in Mr. Kaufman's testimony arise due to his use of, at best, questionable assumptions and interpretations of industry guidance. In some cases, he has clearly ignored or misinterpreted the direct testimony and evidence offered in CWA's case-in-chief.

Q9. AS A CO-AUTHOR OF THE INDUSTRY STANDARD PRACTICE MANUALS CITED BY MR. KAUFMAN, COULD YOU OFFER RELEVANT PERSPECTIVES ON WATER AND WASTEWATER INDUSTRY GUIDANCE ON CAPITAL FINANCING?

A9. Yes. First, and perhaps most importantly, I would note that these manuals are intended to provide guidance and are not prescriptive. AWWA and WEF committee members engaged in developing the manuals were acutely aware of the need to use judgments – informed by case-specific circumstances – in applying the principles outlined. CWA's circumstances, specifically, that it is already extremely highly leveraged, are critically important considerations for defining an equitable, long-term capital financing strategy (and resulting system revenue requirements).

Second, while there has been much distracting debate about the definition of E&R in the context of Indiana regulation, the industry standard practice manuals – as suggested by the very quotes offered in Mr. Kaufman's testimony – do not prescribe a specific mix of debt versus current revenue funding of capital. While "normal annual replacements, extensions, and improvements" are commonly financed by PAYGO, "utilities may use current revenue to finance a portion of major capital replacements and improvements" (Kaufman citing AWWA, p. 14). In this regard, a portion of the WEF manual text highlighted by Mr. Kaufman actually supports CWA's capital financing strategy, when placed in the context of CWA's exceptional circumstances.

The AWWA and WEF manuals of practice outline principles of a strategic approach to the use of debt versus current revenue financing. They call for a mix of debt and revenue funding, without prescribing specific shares, because that mix should reflect individual utilities' circumstances. Debt can be used to spread the costs of long-lived infrastructure assets to future users, and, as Mr. Kaufman notes, intergenerational equity is advanced by leveling the costs of major capital assets, like the Deep Rock Tunnel. Yet, costs are only **increased** if debt is used to fund CWA's **annual** capital expenditures required to renew, extend, and replace system assets. These annual needs are, by definition, already level, so the effect of debt financing annual needs is to inequitably push costs to future generations. Debt should be used strategically to fund major, intermittent (a.k.a. "lumpy") investments, not annual system needs (irrespective of the naming conventions employed in a particular jurisdiction).

Q10. CAN YOU EXPLAIN HOW CWA'S CAPITAL FINANCING STRATEGY IS CONSISTENT WITH INDUSTRY GUIDANCE DESPITE THE PROPOSED PAYGO FUNDING OF LONG-LIVED ASSETS?

A10. Yes. In CWA's specific case, where the lumpiest of investments is under way and has occasioned an extraordinary level of outstanding indebtedness, industry guidance would support CWA's conclusion that increasing current revenue funding and limiting further indebtedness is imperative. Proper interpretation of industry guidance would not prescribe further indebtedness simply because selected capital projects will deliver long-lived assets. Rather, the proper interpretation calls for a strategic mix of financing to best assure long-term financial integrity and stability.

Arguably, the fact that CWA's proposed current revenue funding will remain below annual capital spending needs, and that the majority of capital spending in the CIRP is to be debt-financed, suggests that CWA's pace of reduced reliance on debt may be too slow, not too fast. Yet as suggested by industry guidance, CWA has elected to pace its drive to current revenue funding of annual requirements to temper the resulting impacts on revenue requirements. Mr. Kaufman's suggestion that CWA's proposal calls for too much revenue funding is merely his preference and unsubstantiated opinion, not a prescription of industry guidance.

Q11. COULD YOU ELABORATE ON HOW THE CONTEXT OF CWA'S CIRCUMSTANCES – AS SUGGESTED BY INDUSTRY GUIDANCE AND CREDIT RATING AGENCY CRITERIA – IMPACT THESE ISSUES?

A11. Yes. Mr. Brehm's testimony goes to considerable lengths to articulate how CWA has attempted to balance debt and revenue financing of capital to mitigate rate increases while ensuring the long-term financial integrity of the system. As one among several factors considered, Mr. Brehm properly cites CWA's relatively low debt service coverage, a ratio of particular interest to credit rating agencies that influence CWA's cost of borrowing. Yet he also provides numerous graphs and statistics showing the atypically high levels of CWA debt – on a per-customer basis, or in relation to plant value – and discusses the need to work toward revenue funding of annual needs. This array of considerations, consistent with industry guidance, is what has culminated in CWA's proposal.

Q12. IN THIS REGARD, YOU NOTED THAT MR. KAUFMAN'S TESTIMONY MISINTERPRETED CWA TESTIMONY AND EVIDENCE. COULD YOU ELABORATE?

A12. Yes. There are statements made regarding Mr. Brehm's testimony that seem, at best, taken out of context. For example, Mr. Kaufman states that:

> "Mr. Brehm proposes revenue requirements to provide Petitioner a desired debt service coverage ratio. But, in doing so, he is seeking revenues for a potentially phantom expenditure." (Kaufman, p. 15)

There is no phantom expenditure, just the need to enhance revenue funding of well-documented system needs. As discussed above, Mr. Brehm clearly is not proposing a revenue requirement merely to achieve a desired debt service coverage ratio. Indeed, if coverage were Mr. Brehm's singular driver, it begs the question why his proposed capital financing strategy in this case calls for CWA to achieve only a 1.50x coverage level rather than, at least, the median levels achieved by large systems (as provided in Mr. Brehm's direct testimony, Table 4, p 20).

Likewise, Mr. Kaufman does not consider the context of Mr. Brehm's statements regarding CWA communicating a date certain when it plans to stop adding debt (Kaufman, p. 15). Mr. Brehm's statements regarding conveying a date certain when CWA plans to stop issuing debt similarly reflect a nuanced understanding of an array of CWA-specific factors. Again, CWA is highly leveraged, is in the midst of an extraordinary investment program, and anticipates a more paced and levelized capital spending pattern in the latter years of its financial forecasts. In this light, it is important for CWA to convey to creditors that it understands its long-term financial sustainability rests on its ability to meet latter-year annual capital spending needs without further loading its debt burden. Mr. Brehm and the credit rating agencies understand that these plans may need to be altered if regulations or system conditions prompt the need for (currently unplanned) major capital expenditures. Yet I believe Mr. Brehm likewise understands the importance of being intentional in striving for equity and sustainability. Expressing a commitment to current revenue funding of annual needs reflects that intention.

Q13. YOU INDICATED THAT YOU HAD CONCERNS AS WELL ABOUT OUCC WITNESS BELL'S TESTIMONY. WHAT ARE YOUR CONCERNS?

A13. Ironically, in the name of denying CWA needed revenue recovery, Mr. Bell's testimony seems to argue against the very interests that the OUCC purports to represent, and that CWA's Low Income Customer Assistance Program is proposed to serve. Further, Mr. Bell seems to want to set aside the clear intent of recent Indiana legislation passed in light of water affordability challenges, particularly among the economically disadvantaged. I am concerned that Mr. Bell's position would retrench and institutionalize past practices that have failed to adequately address emerging water affordability issues, rather than advancing the development of effective policies and programs.

Q14. WHAT ARE THE MOST SIGNIFICANT OF MR. BELL'S SPECIFIC OBJECTIONS?

A14. Particularly troubling among Mr. Bell's stated concerns is his objection to CWA's revenue funding of the proposed LICAP. He misconstrues CWA's proposal "as having the appearance of a tax on its wastewater customers" and recommends instead that CWA procure funds for this program from one or more of CEG's business entities. This is alarming in that it perpetuates the notion that addressing water affordability is not a core business function of CWA, but rather a matter of charitable giving for which CWA may obtain (potentially intermittent) support from unregulated CEG entities and philanthropic institutions. This position lies in contrast to industry trends that reflect an increasing embrace of responsibility for ensuring access and affordability of service as a matter of public health protection. This is seen in such publications as the UNC Environmental Finance Center's "*Navigating Pathways to Revenue-Funded Customer Assistance Programs: A Guide for Water and Wastewater Utilities*" (funded by seven industry organizations) and the EPA's compendium *Drinking Water and Wastewater Customer Assistance Programs,* April 2016. It is also seen in the AWWA's recently adopted policy statement that includes the following:

> *"Low income customer assistance can take many different forms that should be designed and implemented to meet the unique challenges of individual communities and* ***may be considered as an appropriate component of system revenue requirements.****"* (AWWA Policy Statement, adopted October 24, 2018, emphasis added).

And perhaps most importantly for the OUCC, it is seen in the Indiana legislation (Ind. Code § 8-1-2-0.5) passed subsequent to the Commission's Order in Cause No. 44685, which addresses "State policy to promote utility investment in infrastructure while protecting affordability of utility service."

Mr. Bell offers a convoluted parsing of the plain language of the statute to suggest it was not necessarily intended to enable utilities to fund customer assistance programs through revenues. He contends the legislation did not offer "***how*** utilities should protect the affordability of utility services other than saying 'to use all practicable means and measures'" – despite the fact that the subsequent phrase in that very same sentence says "including financial and technical assistance." With this parsing, and call for CEG and philanthropic funding of assistance, Mr. Bell seems to set aside the obvious. The new legislation would not be needed if all it sought to do was to give authority for charitable giving. The legislation was enacted to enhance the options for utilities to fund financial and technical assistance.

Q15. DOES INDIANA'S LEGISLATION (SEA 416) PROVIDE GUIDANCE FOR THE IURC ON A QUESTION FOR WHICH PRECEDENT IS LIMITED AND POLICY EVOLVING?

A15. Yes. As Mr. Brehm has noted, CWA is unusually positioned insofar as most large wastewater utilities are not subject to state public service commission regulation. While credit rating agencies have noted that this imposes a degree of uncertainty and risk, Indiana's recent legislation mitigates that uncertainty with respect to LICAP policies in full alignment with national trends. Among other provisions, SEA 416:

- Authorizes the IURC, upon request by a water or wastewater utility in a general rate case, to permit the utility to voluntarily establish a customer assistance program.
- Provides that an IURC-approved customer assistance program may not be deemed a discriminatory utility regulation.[1]

In doing so, it fully contemplates revenue funding by virtue of the immutable zero-sum math of cost-of-service analysis rate setting. Because an IURC-approved customer assistance program may not be deemed discriminatory, its funding – amplifying recent AWWA policy – is an appropriate component of revenue requirements.

Indiana's legislation, and the IURC's action in the event of its approval of CWA's proposal, is in alignment with numerous federal, state and local efforts to provide for stable, sustained funding for programs similar to CWA's proposed LICAP. Federal legislation has been proposed (though its ultimate fate remains uncertain) to effect a water equivalent of the Low-Income Home Energy Assistance Program ("LIHEAP").[2] Several states including Michigan and California have enacted, or are in the process of enacting, legislation to establish state-wide programs similar to CWA's proposed LICAP. More commonly,

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[1] SEA 416 Digest: http://iga.in.gov/legislative/2017/bills/senate/416#digest-heading, accessed on February 16, 2019.
[2] H.R.4542 - Low Income Sewer and Water Assistance Program Act, 114th Congress (2015-2016)

individual utilities have established such programs within their state's legal frameworks.

In this regard, as noted in the UNC EFC's "Navigating Pathways to Revenue-Funded Customer Assistance Programs", whether or not expressly stated, utilities have an obligation to serve the public interest through rates that are not discriminatory, arbitrary or capricious. Indiana's legislation offers clarity by noting that LICAP funding does not engender discriminatory rates. It mirrors interpretations of legal constraints that have supported Atlanta's revenue-funded Care and Conserve Program, Cleveland Water's low-income discount programs, and Tucson Water's Low-Income Rainwater Harvesting Program – just to name a few established examples.

Q16. WHAT ABOUT MR. BELL'S CONCERN OF THE POTENTIAL TO MAKE SERVICE MORE UNAFFORDABLE FOR "CAPTIVE CUSTOMERS" WHO WOULD BE SUBJECT TO THE LICAP RIDER?

A16. Again, this logic reflects the view, at variance with newly stated AWWA policy, that it is not appropriate to fund programs to address water affordability through system revenues. Oddly, it suggests that system ratepayers don't share a collective responsibility for these costs, while CWA costs for long-accepted utility functions like public education or watershed monitoring are recovered through similar charges as a matter of course. While the manner by which CWA recovers LICAP expenses, as well as program attributes, may evolve over time based on implementation experience, the LICAP rider is a sound and reasonable first step.

Q17. DO YOU HAVE OTHER CONCERNS WITH MR. BELL'S POSITION WITH RESPECT TO CWA'S PROPOSED LICAP?

A17. Yes. I would caution against pre-defining metrics and reporting requirements. Program implementation experience is far from predictable – even with CWA's commendable, non-revenue funded efforts to date – and all concerned will be well served by affording CWA the freedom to act in response to its prospective community partners and implementation experience. In my work with utilities implementing customer assistance programs – including systems in Atlanta, Cleveland, Detroit, and even Guam – there is an incredible amount to learn about ratepayer demographics, economic challenges, housing stock, poverty coping mechanisms and customer perspectives and values. These "known unknowns" will frustrate prescriptive oversight. Reality will creep in and necessitate flexibility in implementation.

Q18. DO YOU HAVE SIMILAR CONCERNS ABOUT THE TESTIMONY OF KERWIN OLSON ON BEHALF OF THE CAC AND INCAA?

A18. No. Mr. Olson has expressed the perspectives that honestly I would have expected of the OUCC with regard to CWA's proposed LICAP. While I understand the penchant to challenge the Petitioner's position in an adversarial rate case context, CWA's voluntary proposal ascribes to a higher common purpose. Mr. Olson's testimony is noteworthy in its support in several important respects. Speaking with the authority of on-the-ground organizations, he highlights the importance of revenue funding CWA's LICAP:

> … an assistance program requires the permanency that accompanies a Commission-approved and rate-based tariff which does not rely on voluntary contributions from others, including shareholders. Affordability programs cannot be designed, implemented, and managed without reliable and predictable funding. (Olson, p. 5)

He also echoes evolving industry and political perspectives with the simple, straightforward statement: "we believe 79 cents is a small price to pay to help lift up a community…" (Olson, p. 5). In so doing, he does not raise the dubious specter that the LICAP rider will make bills unaffordable as Mr. Bell suggests. And lastly, Mr. Olson eloquently articulates how CWA's proposed program and approach is consistent with the policy direction of the State of Indiana and the Mayor of the City of Indianapolis, and supported by the region's human services community.

Q19. HOW DOES THE INDUSTRIAL GROUP'S WITNESS GORMAN'S TESTIMONY SQUARE WITH THE POINTS YOU HAVE MADE IN YOUR REBUTTAL TESTIMONY?

A19. Mr. Gorman's testimony presents many of the same problems as those of the OUCC's witnesses. Like Mr. Kaufman, he has suggested yet another mix of debt and current revenue funding CWA's capital program based on little more than an unsubstantiated difference of opinion. Like Mr. Bell, he contends that CWA's proposed LICAP should not be revenue funded - in this instance based on the inexplicable notion that "circumstances have not changed."

Q20. COULD YOU OUTLINE YOUR CONCERNS WITH MR. GORMAN'S TESTIMONY REGARDING CWA'S CAPITAL FINANCING STRATEGY?

A20. Yes. While Mr. Gorman's testimony suffers from many of the same issues as discussed with regard to Mr. Kaufman's testimony, several aspects warrant separate review. For example, where Mr. Kaufman inaccurately characterized CWA's proposal as myopically focused on a target debt service coverage ratio; Mr. Gorman suggests, with similar inaccuracy, that

> "Mr. Brehm's primary objective is to limit growth in CWA's debt. His perspective is limited and not balanced."

Yet, Mr. Brehm has clearly explained that he has considered a myriad of factors in developing his financing plan, including the debt service coverage ratio cited by Mr. Kaufman, the overall level of indebtedness cited by Mr. Gorman, the need to maintain market access on favorable terms, the importance of preserving debt capacity, and other factors.

Ironically, Mr. Gorman's expressed concerns about utility comparisons underscore why deference to the highly qualified staff of Petitioner is advisable. He states:

> *Mr. Brehm compares DSC ratios for CWA, in comparison to other utilities, but provided no evidence that there is comparability in the current capital program for CWA to any company included in the industry average, or the industry average itself. Specifically, absent CWA's Consent Decree program, its DSC ratio would be considerably higher than it is.* (Gorman, p.8).

What Mr. Gorman fails to acknowledge is that credit rating agencies use the very same statistics and medians cited by Mr. Brehm to assign credit ratings and do not adjust for a hypothetical world where CWA would not have had to incur Consent Decree program related debt obligations. Mr. Brehm's experience issuing debt is salient here. This experience is further reflected in CWA's proposal to increase revenue funding of E&R in light of projected, post-Consent Decree, **annual** spending needs of just under $90 million. CWA's proposal recognizes that intergenerational equity is not served by leveling an annual funding requirement; it is served by minimizing capital financing expenses by reducing reliance on debt.

Q21. WHAT IS YOUR RESPONSE TO MR. GORMAN'S SPECIFIC ADJUSTMENTS TO REVENUE REQUIREMENTS?

A21. Here again, I find it remarkable that adjustments to revenue requirements are proposed on the basis of the most tenuous conclusions and unsubstantiated opinions. For example, without offering insight into why actual expenditures were below prior period projections, or evaluating CWA's project cost estimation protocols, or acknowledging the uncertainties of future expenditure projections, Mr. Gorman asserts that

> "if CWA's projected capital expenditures continue to be overestimated, the resulting DSC ratio may be unnecessarily too high and in excess of that needed to maintain CWA's financial metrics and maintain its financial integrity." (Gorman, p. 10)

And again, where Mr. Kaufman critiques Mr. Brehm for what he inaccurately characterizes as a financing strategy focused solely on improving debt service coverage, Mr. Gorman's proposed funding strategy ironically is built on preserving a 1.4x coverage ratio, markedly below industry medians. In each of these cases, proposed adjustments are not anchored by anything more than a difference of perspective.

Q22. MR. GORMAN REFERS TO RATING AGENCY REPORTS AND THE SETTLEMENT AGREEMENT IN CAUSE NO. 44305 TO SUPPORT HIS VIEW. ARE THESE REFERENCES COMPELLING?

A22. No. Mr. Gorman does not consider the rating agency reports in their entirety and in context. The very rating agency reports that Mr. Gorman suggests are supportive of a 1.4x times coverage ratio speak, on further reading, to the merits of CWA's approach. While Moody's recognized that CWA Authority's debt service coverage ratio ("DSCR") improved to 1.4x in 2017 after being in the 1.2 - 1.3x range in 2014, it goes further to note that factors leading to a ratings upgrade would include completion of the capital improvement plan and "financials that produce a debt service coverage ratio of **1.75x** or stronger". (emphasis added) Moody's asserts factors leading to a downgrade would include lower than anticipated financial metrics and, perhaps most succinctly, applauds CWA by noting:

> "Citizen's management has been adept at planning the next required rate changes to complete the plan." (Gorman, p. 12)

Likewise, the Settlement Agreement in Cause No. 44305 must not be considered prescriptive but recognized as a point in time. CWA has consistently outlined a long-term, paced strategy to reduce reliance on debt and build revenue financing to align with continuing annual expenditure requirements.

Q23. DO YOU HAVE ANY OTHER CONCERNS ABOUT MR. GORMAN'S TESTIMONY WITH RESPECT TO CWA'S CAPITAL FINANCING STRATEGY?

A23. Yes. I was surprised to read that an Industrial Group witness would advocate for an atypical (and costly) form of debt structuring as a matter of course. Mr. Gorman suggests that the long-lived (40 year or longer) life of improvements and current debt service schedule:

> "…will allow CWA to issue additional debt after the Consent Decree and structure its remaining DSC schedule to mitigate the increase in the current debt service schedule, extend the term, and place principal payments for new bond issues after year 2041, a year where CWA's current annual debt service costs start to decline significantly."

To be clear, this involves even more expensive financing than greater use of revenue bond debt to fund annual system improvement needs. Wall St. does not allow issuers to back-load debt repayment obligations for free. CWA would be required to pay interest on principal balances that would remain relatively high throughout the bulk of the debt service period. Not cheap. And offered with apparent disregard for the possibility that future regulatory requirements and other system obligations may evolve over the course of a generation and effectively consume CWA's back-end debt capacity.

Q24. DO YOU HAVE CONCERNS ABOUT MR. GORMAN'S TESTIMONY REGARDING CWA'S PROPOSED LICAP?

A24. Yes. Beyond it being discouraging that the Industrial Group does not see justification for CWA's proposed LICAP as a matter of shared social responsibility, Mr. Gorman's testimony reflects surprising insularity. He dismisses the uncertainties of the LICAP implementation, calls for voluntary contributions to address systemic issues, and perhaps most pointedly, simply ignores the adoption of enabling legislation in 2017. He says:

> "The Commission has already considered and rejected a public mandatory rate funding surcharge of such a program in CWA's last rate case, **and circumstances have not changed here**." (Gorman, p. 28)

In light of the enactment of enabling legislation in 2017, one is forced to wonder what change would garner a change of heart.

Q25. DOES THIS CONCLUDE YOUR TESTIMONY?

A25. Yes

VERIFICATION

The undersigned affirms under the penalties for perjury that the foregoing testimony is true to the best of his knowledge, information and belief.

Eric P. Rothstein