

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF SOUTH)
BEND, INDIANA, FOR (1) AUTHORITY)
TO ISSUE BONDS, NOTES, OR OTHER)
OBLIGATIONS, (2) AUTHORITY TO) CAUSE NO. 45719
INCREASE ITS RATES AND CHARGES)
FOR WATER SERVICE, AND (3) FOR)
APPROVAL OF NEW SCHEDULES OF)
WATER RATES AND CHARGES.)

PUBLIC'S EXHIBIT NO. 1-S

SETTLEMENT TESTIMONY OF CARLA F. SULLIVAN

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

NOVEMBER 10, 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. 1-S – Settlement Testimony of Carla F. Sullivan on behalf of the OUCC* has been served upon the following counsel of record in the captioned proceeding by electronic service on November 10, 2022.

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**SETTLEMENT TESTIMONY OF OUCC WITNESS CARLA F. SULLIVAN
CAUSE NO. 45719
CITY OF SOUTH BEND**

I. INTRODUCTION

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

2 A: My name is Carla F. Sullivan, and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 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
6 a Utility Analyst in the Water/Wastewater Division. My qualifications are set forth
7 in Appendix "A."

8 **Q: Have you previously filed testimony in this proceeding?**

9 A: Yes. My direct testimony was submitted as Public's Exhibit No. 1.

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

11 A: The City of South Bend (hereinafter referred to as "South Bend" or "Petitioner")
12 and the OUCC (together the "Settling Parties") have entered into a Stipulation and
13 Settlement Agreement ("Settlement") that resolves all contested issues in this case.
14 The purpose of my testimony is to support the terms of the Settlement Agreement
15 and explain why the Settlement is in the public interest.

16 **Q: Is the Settlement a product of arms-length negotiations between the Settling
17 Parties?**

18 A: Yes. The Settlement represents a compromise reached in the settlement negotiation
19 process, with give and take by both Settling Parties. The Settling Parties devoted
20 considerable time and effort to evaluate the various settlement proposals ultimately

1 resulting in an agreement that affords South Bend the ratemaking it requires while
2 affording South Bend's customers the benefit of positions advocated by the OUCC.
3 I believe the Commission should view the agreement as resulting in a balance
4 settlement that is in the public interest.

II. RATE CASE OVERVIEW

5 **Q: Please explain South Bend's rate request.**

6 A: South Bend based its rate case on a historic test year ending June 30, 2021. The
7 proposal requested an overall across-the-board revenue increase of \$1,4192,904 or
8 a 7.72% rate increase to be implemented over two phases. South Bend also
9 requested authority to issue new waterworks revenue bonds in an amount not to
10 exceed \$46,785,000, of which \$35,000,000 would affect the debt service revenue
11 requirement, with the additional \$11,785,000 being available for potential lead
12 service line replacement programs at zero ratepayer cost.

13 South Bend proposed operating revenue adjustments aggregating to a
14 \$562,657 reduction to test year operating revenue of \$22,159,070 for *pro forma*
15 operating revenue of \$21,596,413, of which, \$18,479,737 is subject to increase.
16 South Bend proposed operating expense adjustments aggregating to a \$224,305
17 reduction to test year operating expenses of \$14,048,207 for *pro forma* operating
18 expenses of \$14,267,762.

19 South Bend proposed a \$19,820,445 revenue requirement, which includes
20 operating expenses, extensions and replacements, payment in lieu of taxes, debt
21 service and debt service reserve. Table CFS-1, which is included at the end of this

1 section, summarizes South Bend's required revenue increase and proposed
2 percentage increase.

3 **Q: What rate increase did the OUCC recommend?**

4 A: The OUCC recommended a *pro forma* net revenue requirement of \$18,771,780 and
5 an across-the-board revenue increase of \$292,042 or a 1.58% rate increase to be
6 implemented in one phase. The OUCC accepted South Bend's request to issue new
7 waterworks revenue bonds for revenue purposes of up to \$35,000,000, and in a total
8 amount not to exceed \$47,791,000.

9 The OUCC accepted South Bend's proposed operating revenue
10 adjustments. However, the OUCC rejected operating expense adjustments that
11 were outside the twelve (12) month adjustment period. The OUCC recommended
12 additional operating expense adjustments aggregating to a \$922,167 reduction to
13 test year operating expenses of \$14,048,207 for *pro forma* operating expenses of
14 \$13,267,762. The OUCC recommended a \$18,771,780 revenue requirement which
15 includes operating expenses, extensions and replacements, payment in lieu of taxes,
16 debt service and debt service reserve. Table CFS-1 summarizes the OUCC's
17 required revenue increase and recommended percentage increase.

18 **Q: Please summarize South Bend's rebuttal position.**

19 A: In its rebuttal case, South Bend proposed a *pro forma* net revenue requirement of
20 \$19,899,642 and an overall across-the-board revenue increase of \$1,419,904 or a
21 7.68% rate increase to be implemented in multiple phases. South Bend rejected the
22 OUCC's recommended extension and replacements and debt service revenue

1 requirement. Although South Bend accepted all of the OUCC recommended
 2 operating expense adjustments, its rebuttal included additional adjustments which
 3 were outside the twelve (12) month adjustment period. Table CFS-1 summarizes
 4 South Bend's rebuttal position.

Table CFS-1: Comparison of Case-in-Chief, OUCC's Position, and Rebuttal

	Per Petitioner	Per OUCC	Per Rebuttal
Operating Expenses	\$ 14,267,762	\$ 13,611,484	\$ 13,931,688
Extensions and Replacements	2,880,581	3,881,400	3,508,147
Payment in Lieu of Taxes	2,649,239	1,448,073	2,420,155
Debt Service			
Current	1,638,230	1,321,339	1,638,230
Proposed	1,211,228	1,319,290	1,211,228
Debt Service Reserve	562,278	499,870	499,870
Total Revenue Requirements	23,209,318	22,081,456	23,209,318
Less Revenue Requirement Offsets:			
Leak Protection	(1,085,018)	(1,085,018)	(1,085,018)
Interest Income	(193,000)	(193,000)	(193,000)
Other Income Not Subject To Increase	(2,031,658)	(2,031,658)	(2,031,658)
Net Revenue Requirement	19,899,642	18,771,780	19,899,642
Less: Water Revenues and Fire Protection	(18,400,541)	(18,400,541)	(18,400,541)
Late Fees	(79,197)	(79,197)	(79,197)
Net Revenue Increase Required	\$ 1,419,904	\$ 292,042	\$ 1,419,904
Recommended Percentage Increase	7.72%	1.58%	7.68%

III. STIPULATION AND SETTLEMENT AGREEMENT

A. Revenue Requirement Issues

5 **Q: Were concessions made by both parties to achieve an agreement?**

6 **A:** Yes. The Petitioner and the OUCC both made concessions to achieve a settlement
 7 agreement. Petitioner agreed to \$13,611,484 in operating expenses and \$1,448,073
 8 for payment in lieu of taxes as proposed by the OUCC. The Settling Parties
 9 negotiated a \$1,337,879 debt service revenue requirement and a \$683,049 debt

1 service reserve revenue requirement. The OUCC agreed to Petitioner's total
 2 revenue requirement of \$23,209,318 recognizing that there was substantial need for
 3 extensions and replacements equal to or in excess of the regulatory adjustments the
 4 OUCC made to other expenses. Table CFS-2 details the revenue requirement as
 5 agreed upon by the Settling Parties.

Table CFS-2: Revenue Requirement

	Settlement Phase I	Settlement Phase II
Operating Expenses	\$ 13,611,484	\$ 13,611,484
Extensions and Replacements	3,825,776	4,598,776
Payment in Lieu of Taxes	1,448,073	1,448,073
Debt Service		
Current	1,337,879	1,337,879
Proposed	1,596,057	1,596,057
Debt Service Reserve	<u>617,049</u>	<u>617,049</u>
Total Revenue Requirements	22,436,318	23,209,318
Less Revenue Requirement Offsets:		
Leak Protection	(1,085,018)	(1,085,018)
Interest Income	(193,000)	(193,000)
Other Income Not Subject To Increase	<u>(2,031,658)</u>	<u>(2,031,658)</u>
Net Revenue Requirement	19,126,642	19,899,642
Less: Water Revenues and Fire Protection	(18,400,541)	(18,400,541)
Late Fees	(79,197)	(79,197)
Phase I Increase	<u>-</u>	<u>(646,904)</u>
Net Revenue Increase Required	<u>\$ 646,904</u>	<u>\$ 773,000</u>
Recommended Percentage Increase	<u>3.50%</u>	<u>4.18%</u>

B. Other Issues

6 **Q: To what other matters did the Settling Parties agree?**

7 A: The Settlement addresses also 1) the funding of Petitioner's debt service reserve;
 8 2) the use of any reoffering premium; 3) the use of revenue collected prior to the
 9 issuance of debt; and 4) issues related to debt true-up and tariff revision.

1 **Q: What did the Settling Parties agree to concerning debt service reserve?**

2 A: The Settling Parties agreed Petitioner will devote \$51,421 a month for sixty (60)
3 months so that debt service reserve is fully funded within the life of rates. For
4 purposes of this term, the "life of rates" means sixty (60) months after the date of
5 the Final Order in this Cause.

6 **Q: What did the Settling Parties agree to concerning a reoffering premium?**

7 A: The Settling Parties agreed that, if Petitioner issues debt on the open market, and
8 there is a net reoffering premium of more than one percent (1%) of the borrowed
9 amount, the amount of the reoffering net premium shall be amortized over the
10 remaining life of the rates and used to reduce the debt service revenue requirement.
11 In this Cause, the resulting rate reduction will be subject to the true-up process such
12 as that outlined in OUCC's witness Mr. Dellinger's testimony. In such case, at the
13 end of the 60-month period, South Bend's rates shall then revert to the higher
14 amount.

15 **Q: What did the Settling Parties agree to concerning the timing of debt issuance?**

16 A: The Settling Parties agree Petitioner will issue the first tranche of debt within six
17 (6) months of the Final Order in this Cause. However, if Petitioner does not issue
18 the first tranche of debt within six (6) months of the Final Order in this Cause, then
19 all amounts collected for the debt service revenue requirement, approximately
20 \$62,000 a month, will be placed into a restricted account and used to reduce the
21 amount borrowed. If Petitioner does not issue the second tranche of debt by
22 December 31, 2024, the amounts collected for the second tranche of debt,

1 approximately \$70,000 per month, will be placed into a restricted account and used
2 to reduce the amount of the second tranche borrowing.

3 **Q: What did the Settling Parties agree to concerning true-up and tariff revision?**

4 A: The Settling Parties agreed that, within thirty (30) days after closing on a debt
5 issuance agreed to in this Cause, South Bend will file a true-up report describing
6 the final amount of the debt acquired, the revenue requirement for debt service
7 (based on the average payment), the amount of the debt service reserve required,
8 and the amortization schedule for the debt issuance. South Bend will also provide
9 the precise terms of the debt issuance.

10 The Settling Parties agreed the OUCC has twenty-one (21) calendar days
11 after the service of the true-up report to object or disagree with the true-up report.
12 If there is no objection or disagreement, South Bend will file with the Commission
13 a revised tariff adjusting the rates to include the final amount of annual interest
14 payments on the debt. However, if both parties state in writing to the Commission
15 that the rate increase or decrease indicated by the true-up report need not occur
16 because the rate increase or decrease is immaterial, then no true-up is required.

IV. CONCLUSION

17 **Q: Is the Settlement in the public interest?**

18 A: Yes. The rates and charges resulting from the Settlement provide South Bend the
19 funds required to construct much-needed improvements and to provide safe and
20 reliable service. The Settlement is consistent with the General Assembly's
21 affordability policy in Indiana Code § 8-1-2-0.5. The Settlement is a reasonable

1 compromise between the positions of the Settling Parties, is in the public interest,
2 and should be approved. The terms of the Settlement demonstrates the give and
3 take of settlement negotiations in resolving contested issues in a manner acceptable
4 to the Settling Parties. The Settlement also reduces the risk and expense of
5 litigation. Therefore, taken as a whole, the OUCC considers the Settlement to be in
6 the public interest.

7 **Q: Do you recommend the Commission approve the terms of the Settlement?**

8 A: Yes. I recommend the Commission find the Settlement is in the public interest and
9 approve and adopt the terms of the Settlement Agreement without change.

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

11 A: Yes

APPENDIX A - QUALIFICATIONS

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

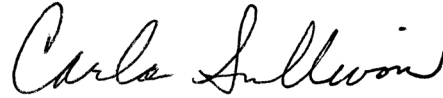
2 A: I graduated from Lipscomb University in June 1989 and received a Bachelor of
3 Science degree in business management. I earned a Master's degree in Business
4 Administration from Phoenix University in 2011 and a Master's degree in
5 Accounting and Financial Management from the Keller Graduate School in 2014.
6 Beginning in 2014, I worked as a balance sheet and payroll accountant for the State
7 of Wisconsin's Department of Health Services. In April of 2019, I joined the staff
8 of the Indiana Office of Utility Consumer Counselor as a Utility Analyst II.

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

11 A: Yes.

AFFIRMATION

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

A handwritten signature in cursive script that reads "Carla F. Sullivan". The signature is written in black ink and is positioned above a horizontal line.

By: Carla F. Sullivan
Cause No. 45719
Office of Utility Consumer Counselor (OUCC)

Date: November 10, 2022