

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF THE CITY OF EVANSVILLE,)
INDIANA, FOR AUTHORITY TO ISSUE)
BONDS, NOTES, OR OTHER OBLIGATIONS,)
FOR AUTHORITY TO INCREASE ITS RATES) CAUSE NO. 45545 S1
AND CHARGES FOR WATER SERVICE, AND)
FOR APPROVAL OF NEW SCHEDULES OF)
WATER RATES AND CHARGES.)**

PUBLIC'S EXHIBIT NO. 3

TESTIMONY OF SHAWN DELLINGER

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

November 18, 2022

Respectfully submitted,



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CERTIFICATE OF SERVICE

This is to certify that a copy of the *Public's Exhibit No. 3- Testimony of Shawn Dellinger on behalf of the OUCC* has been served upon the following counsel of record in the captioned proceeding by electronic service on November 18, 2022.

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TESTIMONY OF OUCC WITNESS SHAWN DELLINGER
CAUSE NO. 45545-S1
CITY OF EVANSVILLE

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 Senior
6 Utility Analyst for the OUCC’s Water/Wastewater division. My focus is on financial
7 issues.

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

9 A: My educational background and experience are described in Appendix A.

10 **Q: Did you submit testimony in the previous Cause No. 45545?**

11 A: Yes.

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

13 A: The City of Evansville (“Petitioner” or “Evansville”) has requested a revised remaining
14 debt authority of \$241,215,000¹, an increase of \$68,703,000 from the \$225,062,000
15 authorized in Cause No. 45545, order dated March 2, 2022² less the amount already
16 borrowed. My testimony reviews and analyzes this request in light of the support provided
17 and ultimately leads to a recommendation of additional borrowing authority of
18 \$24,731,382. I discuss the various “buckets” of additional costs (Capitalized Interest, the

¹ Mr. Baldessari testimony, page 5, line 10.

² Cause No. 45545 Order dated March 2, 2022. Page 35.

1 Garage, the Residuals Facility, and then the Water Treatment Plant). I discuss the
2 appropriate treatment for debt authorization purposes of the reoffering premium. I discuss
3 the current status of financing approaches Petitioner said it may use to obtain funds for the
4 new Water Treatment Plant. Finally, I describe the potential rate impact of the additional
5 authority Petitioner has requested.

6 **Q: What did you do to form the opinions in your testimony?**

7 A: I reviewed the final order in Cause No. 45545. I reviewed Evansville's true-up report and
8 its response to the OUCC's objection. I consulted the Commission's docket entry
9 establishing this subdocket. I reviewed Mr. Baldessari's subdocket testimony and
10 attachments. I drafted discovery questions and reviewed Petitioner's responses to
11 discovery. For forecasts of inflation, I consulted projections published by the Federal
12 Reserve. For historical interest rates, I consulted Value Line.

13 **Q: Does your testimony include any attachments?**

14 A: Yes. My testimony includes the following attachments:

15 SD-1 Discovery Requests and Responses, with attachments where appropriate

16 SD-2 Interest Rate Reports from Value Line

17 SD-3 ENR Index

18 **II. DESCRIPTION OF PRESENT SUBDOCKET**

18 **Q: What has Petitioner requested in this subdocket?**

19 A: In response to the OUCC's Objection to Evansville True-up Report, in which the OUCC
20 asked the Commission to recognize the roughly \$4 million reoffering premium to establish
21 the remaining financing authority, Evansville asked for the creation of the subdocket to
22 resolve the dispute and address any other issues presented by the inflationary and supply

1 chain issues currently being experienced in the market. A subdocket was created and the
2 parties agreed to a procedural schedule. About one month after Evansville requested the
3 creation of the subdocket, it submitted the testimony of an accounting witness asking the
4 Commission to authorize approximately \$70,000,000 of additional financing authority.
5 Roughly half of the \$70,000,000 was based on recent inflation and prospective estimates
6 of inflation. The other half of this amount was due to new or revised construction costs
7 and higher soft costs. If the premium is recognized as borrowed funds, the total increase
8 in borrowing authority is \$72,699,772 (\$68,703,000, as indicated in its presentation plus
9 \$3,996,772).

10 **Q: What debt authority did the Commission grant in Cause No. 45545?**

11 A: The Commission granted Petitioner authority to issue up to \$225,062,000 of long-term debt
12 in one or more issuances. Of this amount, Petitioner has already borrowed \$56,546,772
13 leaving \$168,515,228 of remaining borrowing authority.³ Through Mr. Baldessari's
14 subdocket testimony, Evansville Municipal Water has requested \$72,699,772 of additional
15 borrowing authority. This would establish remaining borrowing authority of \$241,215,000.
16 Thus, Evansville has requested a 32% increase to the borrowing authority established in
17 the rate case and a 43% increase to the total remaining borrowing authority.

18 **Q: How did Petitioner arrive at this higher requested amount of debt authority?**

19 A: Petitioner's ask is driven by higher estimates for the water treatment plant (\$64,148,000),
20 higher estimates for the residuals management facility (\$8,151,000), a "reallocation" of

³ The OUCC maintains the total authorized authority for the Open Market Bond was \$53,447,000. Total Sources of funds (or "Total Estimated Project Funding") was \$56,546,772, which can be found on the true-up. The difference between the two numbers is \$3,099,772. However, the total amount of the reoffering premium is \$3,996,772, and the Petitioner is reflecting the \$897,000 of reduced par amount within its additional borrowing capacity, hence the reason for referring to different numbers.

1 \$3.5 million in costs not incurred for the City Garage, and previous borrowing reflective
2 of a par amount of \$52,550,000.^{4,5}

3 **Q: Do you agree with these costs?**

4 A: No. I explain why I disagree with these costs below. I also explain why the \$3.9 million
5 reoffering premium should be recognized for purposes of Evansville's requested borrowing
6 authority.

III. ITEMS AFFECTING THE DEBT AUTHORITY

A. Reoffering Premium

7 **Q: What is your recommendation with respect to the reoffering premium Petitioner**
8 **received?**

9 A: It is uncontested that Petitioner received a \$3.9 million reoffering premium on Petitioner's
10 recent open market bond issuance, which had a borrowed par amount of \$52.5 Million.
11 This premium was about 8% of the total issuance. The total borrowing is equal to the total
12 sources of funds, or in this case what was called the "Total Estimated Project Funding."
13 The OUCC maintains that any premium or discount, which materially affects debt service
14 expense, should not be considered an incidental occurrence that is outside the
15 Commission's jurisdiction. But regardless whether a municipal utility needs Commission
16 authority to secure a reoffering premium materially higher than its explicit borrowing
17 authority, the fact that Evansville secured an additional \$3.9 million should not be ignored.
18 The \$3.9 million should be recognized as bond proceeds for purposes of Evansville's

⁴ This is per the Petitioner's testimony. The OUCC does not agree with all of these amounts.

⁵ Imbedded in this is also a reduction in soft costs initially assigned to the water treatment plant of \$6,199,000.

1 request for additional financing authority. It should therefore be recognized when
2 determining the amount of borrowing authority Evansville should receive in this
3 subdocket.

4 **Q: Did the Petitioner raise any additional points that you wish to address in either its**
5 **response to the OUCC's objection to the true-up report or in Mr. Baldessari's**
6 **testimony in this subdocket?**

7 A: Yes. Mr. Baldessari said that the premium is driven by the investor preference for a higher
8 coupon rate in the tax-free municipal bond market.⁶ Mr. Baldessari also stated that
9 Evansville had no premium requirements, targets, or goals.⁷ He added that Evansville has
10 issued premium bonds in the past without objection and asserted that the OUCC was
11 confusing the coupon rate with the market yield.⁸ ⁹ He also suggested that the bonds were
12 sold "at or below competitive market rates."¹⁰ Finally, Mr. Baldessari disagreed with
13 reducing the authorized borrowing for the remaining bonds by the premium of \$3,099,772
14 received for the open market bonds.¹¹

15 **Q: Do you agree with Mr. Baldessari that the premium is incidental to the higher coupon**
16 **rate desired by the market.**

17 A: There is always going to be some level of a discount or a premium on any open market
18 transaction.¹² A premium will occur when the coupon rate is higher than the market interest

⁶ Mr. Baldessari Attachment DLB-1, Exhibit 1-R, pages 3-4 (pages 8-9 of 42 of DLB-1).

⁷ Mr. Baldessari Attachment DLB-1, Exhibit 1-R, page 4, line 15-16.

⁸ Mr. Baldessari Attachment DLB-1, Exhibit 1-R, page 5.

⁹ Mr. Baldessari Attachment DLB-1, Exhibit 1-R, page 4.

¹⁰ Mr. Baldessari Attachment DLB-1, Exhibit 1-R, pages 5-6.

¹¹ Mr. Baldessari Attachment DLB-1, Exhibit 1-R, page 6.

¹² In theory it is possible that the coupon rate will happen to align perfectly with the market interest rate, but the odds of that happening are extremely small, since even a 4.997% market rate will lead to a premium on a 5% coupon.

1 rate, basically because investors will bid up the price until they can no longer arbitrage
2 between the coupon yield and the market yield. The larger the differential between the
3 coupon interest rate and the market yield, the larger the premium/discount. This premium
4 reflects the higher price that investors pay, and this additional cash will flow to the issuer.
5 Coupon rates are generally set prior to close and at rounded numbers, but market interest
6 rates are not. Therefore, if the coupon is set at 4%, and the market interest rate is 3.965%,
7 that difference will result in a premium. Conversely if the market interest rate increases to
8 4.03%, that same bond will then have a discount. The existence of a premium means that
9 the coupon rate of interest is higher than the market yield.

10 When a bond is issued at a premium, it means that the purchaser is still paying a
11 market rate of interest (the market yield) but is making a higher investment (writing a
12 bigger check) than the par amount of the bond. Conversely, the existence of a premium
13 does not mean the issuer is not paying a market yield on the overall funds being received.
14 But fundamentally it means that the borrower gets more cash upfront than the par value of
15 the bond because it is paying a higher than market rate of interest on the par amount (the
16 coupon rate of interest).

17 **Q: If Petitioner had no targets for premiums, should that affect whether the cash**
18 **received should be recognized as borrowed funds?**

19 A: No. The premium provided an additional \$3.9 million to Petitioner, allowing Evansville
20 to absorb higher capitalized interest costs and fund all of its anticipated projects associated
21 with those bonds.

22 **Q: Mr. Baldessari says that Evansville has issued premium bonds in the past, with no**
23 **objection by the OUCC. Does that affect your conclusion that the \$3.9 million in**
24 **proceeds should be recognized?**

25 A: No. First, factors differ from case to case. Mr. Baldessari pointed out that in Cause No.

1 45073, Evansville issued \$39,765,000 of bonds on the open market with a premium of
2 \$466,422.10, a premium of around 1.17%.¹³ That the OUCC did not object to a true-up
3 showing a 1.17% premium should not be construed as a waiver of its ability to object to a
4 7.61% premium in this case. In addition to the size of the premium in this case, an important
5 difference is that in this instance Evansville has come before the Commission to acquire
6 approximately \$70 million of additional borrowing authority. It does not make sense to
7 simply ignore the \$3.9 million premium it received.

8 **Q: Mr. Baldessari testified that in its objection the OUCC was confusing the coupon rate**
9 **with the market yield. Do you agree?**

10 A: No. I am aware of the difference between a coupon rate and a market yield interest rate
11 and was aware of this difference before Petitioner filed its true-up report. Our position is
12 not based on a misunderstanding of the difference between a coupon rate and a market
13 yield.

14 **Q: How should the Commission view the transaction at issue in this subdocket?**

15 A: In the final order in Cause No. 45545, Petitioner was authorized to borrow funds at or
16 below competitive market rates. But this was not what happened with respect to the par
17 value of the borrowings. Either Petitioner should be considered to have borrowed
18 \$52,550,000 (the par value) at a higher than market rate of interest, or Petitioner borrowed
19 a larger amount of money (\$56,546,772)¹⁴ at a market rate of interest. But Petitioner did
20 not borrow \$52,550,000 at a market rate of interest. For purposes of establishing the
21 amount of additional borrowing authority Petitioner requires, the Commission should find

¹³ Mr. Baldessari testimony, Attachment DLB-1, Exhibit 1-R, page 5, lines 4-6

¹⁴ "Total Estimated Project Funding," or the par amount plus the premium = \$56,546,772.

1 that Petitioner has already borrowed \$56,546,772 of its existing authority of \$225,062,000.

2 **Q: Did Mr. Baldessari accurately describe the premium in his testimonial response to**
3 **the OUCC's objection?**

4 A: No. In his testimonial response to the OUCC's objection, Mr. Baldessari indicated the
5 premium at issue is \$3,099,772. The premium at issue is \$3,996,772, which is \$897,000¹⁵
6 higher than the \$3,099,772 of borrowing in excess of the \$53,447,000 debt authority
7 contemplated for the open market bond. (Final Order, Cause No. 45545, p. 20.)¹⁶

8 The total funds that are available to Evansville from the open market bond issuance is
9 \$56,546,772. This is cash received by Evansville, and it is the amount that is available for
10 Evansville to use for projects and other costs. Irrespective of any other adjustments to its
11 borrowing authority going forward, this is clearly the amount already borrowed.

B. Additional Borrowing Authority Request

12 **Q: How did Evansville determine the amount of additional borrowing authority it is**
13 **seeking?**

14 A: Mr. Baldessari indicated Evansville seeks a finding that it has prospective borrowing
15 authority of \$241,215,000, which he characterized as an increase of \$68,703,000.
16 Baldessari testimony, p. 5. But if the reoffering premium is properly recognized, this
17 would be an increase of \$72,699,772.

18 **Q: Is this \$68,703,000 the additional amount Evansville expects to be its cost to construct**
19 **the Water Treatment Plant?**

20 A: No. Other costs are embedded in this amount, such as WIFIA fees of \$350,000, additional

¹⁵ The clarification is important. Later in testimony I discuss that Petitioner is applying that \$897,000 difference between the par amount and the authorized amount to add to its existing authority. Evansville was able to finance all the projects originally contemplated, at the same cost as originally contemplated and is attempting to use almost a million dollars as remaining authority, by using this premium.

¹⁶ The Petitioner is explicit about this in the response to Data Request 2-16, see OUCC Attachment SD-1.

1 amounts for the “garage” and items such as the remaining \$897,000 “par adjustment” from
2 the already issued open market bond. There is also additional authority for the residuals
3 facility, which is intertwined with the water treatment plant in some ways regarding the
4 financing but is a separate project.

5 **Q: How did Evansville arrive at this higher debt authorization?**

6 A: Evansville indicates three primary “buckets” for this additional request. Baldessari, p. 5.
7 The first is higher water treatment plant costs. The second is a higher cost for the residuals
8 facility. The third is the city garage. Evansville’s capitalized interest is not changed from
9 the amount in the order for Cause 45545.

10 **Q: Please explain how the rest of this section of your testimony will be organized.**

11 A: I will discuss (1) the capitalized interest, (2) the garage relocation funds, (3) the residuals
12 facility, and (4) the water treatment plant costs. I then incorporate the changes from these
13 various factors in the debt authority I believe is appropriate.

1. Capitalized Interest

14 **Q: What is the amount of authority requested for the Capitalized Interest?**

15 A: Petitioner requested \$8,977,000 for capitalized interest and costs of issuance, which is the
16 amount included in the financing authority in the final order in Cause No. 45545. Of this
17 amount, \$7,508,156 is for Capitalized Interest and \$1,468,844 is for costs of issuance.¹⁷
18 Capitalized interest is money borrowed to make upcoming interest payments for a period
19 of time. This allows a utility borrower to forgo a revenue requirement for debt for a period
20 of time after the bonds have closed and interest-only payments have begun. Capitalizing

¹⁷ Please see data request response 2-17, which may be found in OUCC Attachment SD-1.

1 interest results in higher overall borrowings and higher debt service costs once debt service
2 payments have begun.

3 **Q: Is \$7,508,156 the actual anticipated cost of Evansville's expected capitalized interest?**

4 A: No. Petitioner has not requested any additional capitalized interest costs that will be
5 incurred either due to the higher borrowing levels or any increase in interest rates since the
6 rate order. Petitioner has also not reduced the amount of capitalized interest that will be
7 incurred as a result of its delay in issuing the bonds. Neither has Petitioner reduced the
8 amount of capitalized interest that will result from splitting the bond issuance into a portion
9 for the water treatment plant and a portion for the residuals. Finally, Petitioner has not
10 reduced the amount of capitalized interest to reflect any alternative financing mechanisms,
11 which it may be considering.

12 **Q: Did Petitioner explain its capitalized interest request?**

13 A: No. However, OUCC Data Request 2-17 asked Evansville whether \$8,977,000 was
14 Evansville's best current estimate, and if not to state its best current estimate. Petitioner
15 responded that "Due to uncertainty around the date of the issuance, the size and method of
16 financing (SWIFIA or WIFIA with an SRF pooled bond or all SRF pooled bond) Petitioner
17 has left the capitalized interest at what it was for the IURC Order." It also stated the
18 capitalized interest will be trued-up once the proposed bonds have been issued. (OUCC
19 Attachment SD-1 includes all discovery responses in this case from a financing standpoint.)

20 **Q: Was this response helpful in assessing the relief Petitioner requests in this subdocket?**

21 A: No. Capitalized interest is potentially a material amount of adjustment to this line item.
22 The current estimate was based on a 100% SRF pooled issuance.

23 **Q: What is the current capitalized interest amount based upon??**

24 A: It is based on borrowings of \$171,615,000 and a capitalized interest period (i.e., the time

1 for which payments are borrowed rather than made from the Petitioners debt service
2 revenue requirement) of 21 months (October 1, 2022 through July 1, 2024).¹⁸ Presumably,
3 it assumed the 2.5% interest rate reflected in Mr. Baldessari's rebuttal testimony in that
4 case.

5 **Q: What factors will change?**

6 A: The anticipated interest rate and the total amount of borrowing will both change. The time
7 period for which the interest will be borrowed will ultimately be determined by the closing
8 date on the bond, which was given as October 1, 2022, as of the time of the true-up that
9 was the genesis of this subdocket, but in discovery was given as July 2023. Changing this
10 date to July 2023 will have a significant impact on the overall amount of capitalized interest
11 (reducing it from 21 months to approximately 12 months) and will counter to some extent
12 the adjustments from higher interest rates and higher borrowing levels. Further, this
13 amount will change based on the timing of the borrowing for the residuals project and the
14 method of financing.

15 **Q: What is the anticipated interest rate?**

16 A: Ideally, we could simply take the current anticipated interest rate and include a timing
17 allowance, but when asked in discovery, Petitioner did not provide this estimate as it said
18 it was irrelevant (See OUCC Attachment SD-1, DR 2-10.) Therefore, I will use the
19 baseline rates Petitioner assumed as of the date of Mr. Baldessari's rebuttal testimony for
20 Cause 45545, dated September 24, 2021 (2.5%), and compare the differences between that
21 date and the week of November 7, 2022 (sourced from Value Line) for a AAA GO Bond
22 (which should be appropriate for an SRF pooled financing). The addition of this

¹⁸ Please see Mr. Baldessari Attachment DLB-1, page 11 for original testimony in Cause 45545.

1 differential to the 2.5% will give a current estimate consistent with what the Commission
2 used in its order. The interest rate for a AAA GO Bond of 25/30 year maturity was 1.57%
3 on September 27, 2021 (Value Line reports are weekly) and 4.00% on November 7, 2022.
4 This is an increase of 2.43%. Adding this to the 2.5% proposed by Petitioner in rebuttal,
5 this would arrive at a current interest rate assumption of 4.93%. The relevant Value Line
6 Reports may be found as OUCC Attachment SD-2.

7 **Q: Will the balance of borrowings upon which the capitalized interest is calculated**
8 **change?**

9 A: Yes. The Petitioner's desire is to increase this by over 40%, from the originally
10 contemplated \$171,665,000 to \$241,215,000. While the OUCC does not agree with this
11 calculation, I use that number for illustrative purposes.

12 **Q: Will this have an impact on the total debt authority?**

13 A: No. Petitioner stated in Discovery (Response to Data Request 6-5, included in OUCC
14 Attachment SD-1) it does not believe additional capitalized interest would allow the
15 Petitioner to borrow in excess of the explicit debt authority granted by the order.

Information Requested:

Is it Evansville's position that the order in Cause 45545 permits increased capitalized interest costs to be borrowed in excess of the explicit debt authority granted by the order? Please explain.

Information Provided:

No, it is not Petitioner's position that additional capitalized interest would allow Petitioner to borrow in excess of the explicit debt authority granted by the Order. Evansville only plans to issue bonds up to the maximum financing authority granted by the Commission.

16 Based upon this response, Petitioner will have debt authority of \$8,977,000 to cover

1 Capitalized Interest and cost of issuance.

2 **Q: If the capitalized interest component is ultimately greater than that allowed by the**
3 **order, does Petitioner propose to borrow the higher amount of capitalized interest?**

4 A: Yes. However, it does not appear Petitioner intends to increase the overall borrowing to
5 accommodate this increase. Please see the response to Data Request 6-5 found in OUCC
6 Attachment SD-1. My assumption is that Petitioner intends to treat any lowering of this
7 capitalized interest expense as money available to allocate to other preferences as long as
8 it is under the debt authorization limit as determined in this subdocket.

2. Garage relocation funds

9 **Q: Please explain Petitioner's request for additional debt authorization for the garage**
10 **relocation.**

11 A: Petitioner requests an additional \$3.5 million for the "Authorization originally for the city
12 garage relocation."¹⁹ Mr. Baldessari explained in his testimony that the garage is no longer
13 being purchased and relocated by the Utility. Mr. Baldessari explained that the city of
14 Evansville purchased the garage, and therefore the \$3.5 million authorized to be issued and
15 spent by Petitioner is not required for this project. Mr. Baldessari stated Evansville still
16 wants to borrow the \$3.5 million but will repurpose those funds to instead relocate the

¹⁹ Mr. Baldessari testimony, page 5.

1 Levee Authority.

2 **Q: Does it make sense for Petitioner to borrow additional funds for that purpose?**

3 A: No. These funds were already borrowed in the open market transaction. Moreover,
4 Petitioner is proposing to include an additional \$750,000 of funds for work on the Levee
5 Authority. So, Petitioner is actually proposing to borrow a total of \$7 million to purchase
6 the Levee Authority and \$750,000 for work involved with this, for a total of \$7.75 million.
7 This is not an expense that was disclosed in Petitioner's request for sub-docket. OUCC
8 witness Jim Parks will address the \$750,000 request that is being included in the Water
9 Treatment Plant additional costs, while I address the Petitioner's proposal to borrow \$7
10 million overall for the purpose of relocating the Levee Authority.

11 **Q: Did Evansville acknowledge that the \$3.5 million for the garage has already been**
12 **borrowed?**

13 A: Yes. Petitioner's responses to the OUCC's DR 2-12 and DR 2-13 confirmed that the \$3.5
14 million for the garage has already been borrowed. (See OUCC Attachment SD-1.)
15 Petitioner explained in the responses that the \$3.5 million of additional authority was
16 inadvertently included in the additional authorization request but indicated it did not intend
17 to remove the \$3.5 million portion of its request, which it described as minor in its
18 Response to DR 2-1:

Information Requested:

There is discussion in Mr. Baldessari's rebuttal testimony about repurposing the garage funding (page 5, lines 12-14) to purchase and relocate the Levee authority. It appears, however, that Evansville is proposing to borrow an additional \$3.5 million in the future, rather than utilizing the \$3.5 million already borrowed for the garage. Please describe and explain how Evansville intends to repurpose the funds borrowed for the garage to the Levee Authority purchase or advise if these are additional funds. Please state with specificity the total amount proposed to be borrowed under all borrowings for the garage and the Levee Authority.

Information Provided:

The \$3.5 million was inadvertently included in the additional borrowing authorization filed in this sub-docket. The total is \$3.5 million to be used to move the Levee Authority building. Petitioner proposes to leave the total amount of requested financing at the \$241,215,000 including the minor \$3.5 million amount (1.5% of estimated project costs) due to the uncertainty regarding future project costs, method of financing and interest rate market.

1 **Q: Do you agree that this amount is minor and that it should continue to be included in**
2 **the additional debt authority?**

3 A: No. I disagree that \$3.5 million is such a minor amount that it does not need to be justified
4 with evidence of a matching cost. I also don't believe a typical Evansville ratepayer would
5 agree a \$3.5 million error should not be corrected. Finally, debt authorizations must be
6 based on actual estimates and forecasts, not simply a belief that an amount of money
7 requested in error can simply be used on another project without any analysis or evidentiary
8 support. This doubling of the funds initially allocated for the garage should be denied and
9 the \$3.5 million should be eliminated from the additional debt authorization request.

3. Residuals handling facility

10 **Q: Petitioner is also requesting an additional \$8,151,000 in borrowing authority for the**
11 **Residuals Handling Facility. How did the Petitioner arrive at this amount?**

12 A: No meaningful backup or support was provided in Petitioner's case. Mr. Baldessari merely

1 testified that the requested amount of total remaining financing authority was \$241,215,000
2 and that this included \$38,151,000 for the Residuals Handling Facility.²⁰ Attachment
3 DLB-2 indicated that the total project cost is \$166,925,000, and with inclusion of the
4 residuals dewatering facility, that total would be \$228,738,000.²¹

5 **Q: Was the OUCC able to determine how this determined?**

6 A: No. We did establish that the amount was not simply arrived at by applying the "escalation
7 to current dollars" of 15.69% and the "current market escalation" of 8.5% to this amount.
8 As \$30,000,000 was the amount approved for financing in the rate order, applying
9 Petitioner's proposed facts would result in a cost of \$37,657,095. Based on a starting point
10 of \$28,480,000 given in response to DR 3-1, the cost would be \$35,749,135.50.

11 **Q: Did the OUCC ask Evansville to explain the estimate?**

12 A: Yes. The OUCC asked Petitioner how it determined the cost of the residuals facility was
13 \$38,151,000 (OUCC Attachment SD-1, response to Data Request 6-3). Petitioner did not
14 show how it made the calculation but merely said (albeit inaccurately) that it had applied
15 the same inflationary factors it had applied to the other projects:

Information Requested:

The current cost of the residuals facility is estimated at \$38,151,000 (Mr. Baldessari, page 5). How did Petitioner determine that estimate?

Information Provided:

This estimate was determined by applying the inflationary factor applied to other components of the WTP project to the residuals management facility.

16 As stated above, simply applying the inflationary factor applied to other components of the

²⁰ Mr. Baldessari, page 5, lines 10-12.

²¹ The difference in these two numbers is \$38,151,000.

1 WTP project does not seem to arrive at the same number.

2 **Q: What process do you propose for determining the correct authorization for the**
3 **residuals facility?**

4 A: I propose to follow Petitioner's process of considering the cost used in the rate order but
5 applying more appropriate inflationary factors, which I discuss below.

6 **Q: What is the original cost of the residuals facility?**

7 A: The Petitioner uses two different numbers in this cause, so we must standardize upon one
8 to avoid double counting or not granting enough authority. Specifically, the Petitioner used
9 an estimate of \$30,000,000, which is found throughout the rate case (Cause No. 45545).
10 But in response to discovery from the OUCC, Evansville said the original cost was
11 \$28,480,000 (OUCC Attachment SD-1, Response to OUCC DR 3-1). This \$28,480,000
12 amount was used to arrive at what I am referring to as the benchmark cost estimate for the
13 water treatment plant upon which the inflationary impacts are applied.

14 **Q: Did Petitioner's use two estimates for the cost of the residuals facility inflate the**
15 **amount ultimately requested?**

16 A: Yes. In this case, Petitioner used a lower number of \$28,480,000 as the cost to determine
17 the starting point for the cost of the water treatment facility. There was no separate
18 determination of the cost of the water treatment plant without this assumption. Therefore,
19 the starting estimate for the "benchmark cost" of the water treatment plant of \$126,439,000
20 was higher than it would have been if Evansville had used \$30 million as the starting point
21 for the residuals facility. (More specifically, the estimate would have been

1 \$124,919,000).²²

2 **Q: Which number do you propose to use to calculate the financing approval for the**
3 **residuals facility?**

4 A: I propose to use the \$30,000,000 estimate as the starting point. Achieving consistency will
5 require an adjustment to the “benchmark cost” starting point for the water treatment plant,
6 so that the same cost estimate is used throughout this subdocket.

7 **Q: What do you propose is the correct authorization for the residuals facility?**

8 A: I propose a total authorization of \$33,769,980. I arrived at this number by applying
9 appropriate inflationary factors to the starting point of \$30,000,000. I used different
10 estimates of those components as will be discussed in the next section, and the derivation
11 and support for these numbers may be found there. But the process is \$30,000,000 times
12 the Escalation to Current Dollars of 8.76% (mathematically, 1.0876), multiplied by the
13 Current Market Escalation of 3.50% (mathematically, 1.035). This aligns with the
14 methodology Petitioner used in DLB-2, which is the stated method Petitioner used to
15 calculate the updated cost estimate for the residuals facility.

4. Water Treatment Plant

16 **Q: What is the additional funding requested for the Water Treatment Plant?**

17 A: The amount of additional funding being requested for the Water Treatment Plant is
18 \$64,148,000. There is some confusion over this number and the reconciliation of the
19 variance between this number and the overall amount of additional financing request of

²² Specifically, it would be higher by \$1,907,959.48. The math behind this is \$1,520,000 (the difference between \$30,000,000 and \$28,480,000) multiplied by 1.1569 (the escalation to current dollars found in DLB-2) = \$1,758,488 times 1.085 (the Current Market Escalation found in DLB-2) = \$1,907,959.48.

1 \$68,703,000 provided in Petitioners response to data request 2-16.

2 **Q: What did this additional funding request consist of?**

3 A: A total of 10 additions were made to arrive at the higher number, and zero reductions.

4 These were enumerated in Mr. Baldessari's Attachment DLB-2. These additions were:

- 5 1. Escalation to current dollars (15.69%)
- 6 2. Additional Auger-Cast Pile Foundations Requirements
- 7 3. Levee Authority Building Demolition and Site Preparation
- 8 4. Contaminated Soil Testing and Hauling
- 9 5. River Intake: Replacement of All Piping
- 10 6. River Intake: Additional Needed Improvements
- 11 7. Pretreatment: Add cover for algae prevention
- 12 8. Filters: Deepen Beds for future PFAS treatment
- 13 9. Soft Project Costs
- 14 10. Current Market Escalation

15 Out of these items, I will address items 1 (Escalation to current dollars), 9 (Soft Project
16 Costs) and 10 (Current Market Escalation). OUCC Witness Jim Parks will address the
17 other items. I will also discuss the Original Construction Cost that Petitioner provided and
18 used as a starting point for the additional funding required.

19 **Q: What is the Original Construction Cost that Petitioner provided?**

20 A: Petitioner stated the Original Construction Cost (No Residuals Dewatering) was
21 \$126,439,000. I will refer to this cost as the Baseline cost.

22 **Q: What was this cost based upon?**

23 A: Petitioner stated in the note for Item 1 in Attachment DLB-2 that this was based on the
24 project cost presented in the original SRF application (cost estimate for plant alternatives

1 were developed in late 2020 through early 2021), which does not include the residuals
2 dewatering facility. Through discovery, the OUCC determined that this cost was based on
3 a cost of \$162,638,000 less \$30,000,000 for the residuals facility, less soft costs (to be
4 discussed later in my testimony).²³

5 **Q: Does this cost reflect any refined design of the Water Treatment Plant?**

6 A: This baseline cost does not. Mr. Baldessari stated in his testimony (page 6, lines 7-8) that
7 there was a further refined design of the WTP. However, this refinement of the design is
8 not applicable to this baseline cost, but only to the new projects that are being added.

9 **Q: Are these updated costs?**

10 A: No. The only sense in which these are updated is from the manipulation of this starting
11 baseline cost through two inflationary increases. There are no revised cost estimates or
12 design work incorporated into this cost. At the time of the rebuttal in Cause 45545
13 (September 24, 2021), Mr. Breese stated these were **planning level** cost estimates (Mr.
14 Breese emphasis, pages 17-18 of Petitioner's Exhibit 2-R). He also stated that within the
15 body of the report, various alternatives were developed to a conceptual level (in the range
16 of 5-10% design). It is of significant concern that a year later the OUCC and the
17 Commission are being asked to approve an even higher financing cost still with only
18 planning level estimates.

19 **Q: Do you propose to make any adjustments to the Petitioner's "Original Construction**
20 **Cost"?**

21 A: Yes. Petitioner's response to OUCC Data Request 3-1 indicates Total Construction Costs

²³ The OUCC received two slightly different discovery responses on the topic. In addition to the response to OUCC DR 2-19, the response to OUCC DR data request 3-1 states that the original construction cost was \$154,919,000 in table 21 of the SRF application package. From this was deducted \$27,650,000 for the residuals facility, plus 3% extra contingency for the residuals for a total of \$28,480,000. \$154,919,000 less \$28,480,000 is \$126,439,000.

1 (soft costs not included) of \$154,919,000. Removing \$28,480,000 for the residuals facility
2 results in a cost of \$126,439,000 (emphasis by the OUCC).

3 **Q: What amount do you propose to remove for the dewatering facility?**

4 A: I propose removing \$30,000,000.

5 **Q: What effect does using \$30,000,000 for the cost of the residuals facility have on the**
6 **“Original Construction Cost (No Residuals Dewatering)”?**

7 A: Using \$30,000,000 for the cost of the residuals facility results in an original construction
8 cost of \$124,919,000.

9 **Q: What is the additional debt authority Petitioner requests for “Escalation to Current**
10 **Dollars”?**

11 A: Petitioner requests a 15.69% increase, or an additional \$19,838,000.

12 **Q: How was this amount determined?**

13 A: Petitioner indicated the amount was “Based on the current Engineering New [sic] Record
14 (ENR) construction market value of 20.2%, minus the originally included 4.51% escalation
15 reflecting conditions at the time of the original estimate.” Petitioner Attachment DLB-2.
16 In response to discovery Petitioner said this calculation was based on an ENR CCI index
17 of 11698 in February of 2021, and 13171 in August of 2022. This is a total increase of
18 12.59% over that 18-month period, which is an average increase of 0.69% per month.
19 Moving forward 29 months, the midpoint of construction, the overall increase would
20 amount to 20.2%. Since 4.51% was incorporated in an earlier update (per Petitioner), the

1 remaining amount is 15.69%. In summary, Petition's proposed 15.69% increase is to
2 account for unanticipated construction cost increases over a 29-month period.²⁴

3 **Q: What 29 months does this cover?**

4 A: Petitioner has not made it clear when that period would begin. This appears to be bringing
5 the original cost estimates for the WTP up to "current" numbers, to align with the new
6 projects. (In DLB-2, Petitioner uses the phrase "Escalation to Current Dollars" in DLB-2
7 to describe this increase.) Because "current" dollars would imply either August or
8 September of 2022, this 29-month timeframe should refer to the time from approximately
9 April 2020 until September of 2022.

10 **Q: Why do you believe it is that time period and not some other 29 months?**

11 A: For three reasons. One, this increase is applied to the "original construction cost." Two,
12 the description in line item 2 is "Cost with escalation to current dollars". So, if the goal is
13 to bring the estimate to current dollars, then it has to be the 29 months previous to "current",
14 which I assume is September 13, 2022, the date of Attachment DLB-2, the letter Petitioner
15 used for support for these increases. Although since it appears Petitioner used an index
16 value of August of 2022, that is probably the most recent index when the numbers in
17 September were completed. Third, after the "current" dollars are determined, there is an
18 additional inflationary increase to account for inflation in the future (the "Current Market

²⁴ Data Request 2-18, included in OUCC Attachment SD-1.

1 Escalation,” so this estimate cannot also be incorporating the same period the later inflation
2 adjustment is considering.

3 **Q: Do you agree with the method used to determine the increase over these 29 months?**

4 A: No. It makes little sense to use an index encompassing the time period of February of 2021
5 to August of 2022 and then extrapolate those numbers backward another 11 months. In
6 the alternative, one could simply start the process with the April of 2020 index number.
7 The index in April of 2020 was 11413, for a total increase of 15.41%.²⁵ This amount would
8 cover the full 29 months, requiring no further calculations.

9 **Q: Do you agree the correct time period to use for this escalation calculation is April**
10 **2020 to August 2022?**

11 A: No. The notes in Attachment DLB-2 show that the estimates for items 1 and 2 were
12 prepared in late 2020 and early 2021:

Item 1: Based project cost presented in the original SRF application (cost estimate for plant alternatives were developed in late 2020 through early 2021) which does not include the residuals dewatering facility.

13 **Item 2:** Based on the current Engineering New Record (ENR) construction market value of 20.2%, minus the originally included 4.51% escalation reflecting conditions at the time of the original estimate.

14 If the original cost was developed in late 2020 through early 2021, then using an April
15 2020 start date is too early. It should be more accurate to use an assumed date of January
16 of 2021, or 20 months until August of 2022.

17 **Q: Did Petitioner state what the 29 months covered in discovery?**

18 A: The Petitioner responded in discovery that “Therefore, moving forward 29 months or to
19 the midpoint of construction the overall increase would amount to 20.2%.” Petitioner did

²⁵ Please see OUCC Attachment SD-3 for a spreadsheet containing ENR index numbers for various months. Specifically for this calculation, August 2022 index is 13171, and April 2020 is 11413. $13171/11413-1=1541$.

1 not reveal how these values are to be brought to current dollars from construction values
2 developed in approximately January of 2021 while also forecasting to the midpoint of
3 construction, which is presumably around 30 months from today.²⁶ Either this calculation
4 is meant to get the previous estimates to present-day values, or it is meant to bridge the
5 current values for the next 29/30 months, but it cannot be both, as this would constitute
6 double counting. I address below the “Current Market Escalation,” which should be the
7 calculation to take the present-day numbers into the future.

8 **Q: What would the Index adjustment be for the period of January 2021 to August 2022.**

9 A: This total adjustment would be 13.27%²⁷. Following the same methodology Petitioner
10 used in DLB-2, I subtracted the 4.51% already incorporated in the cost estimate. This
11 results in an adjustment of 8.76% (rather than 15.69% the Petitioner is requesting).

12 **Q: What additional debt authority does Petitioner request for soft costs?**

13 A: Petitioner asks for an additional \$12,706,000 for this line item, which is based on 7.75%
14 of the overall “Revised Construction Subtotal” of \$163,946,000.²⁸

15 **Q: Do you agree with the Soft Project Cost percentage of 7.75%?**

16 A: No.

17 **Q: How did Petitioner calculate the 7.75%?**

18 A: Attachment DLB-2, item 10, indicates the Soft Cost Percentages are based on the same
19 percentage used in the original estimate and include construction administration,
20 inspection, materials testing, project financing, legal and permitting expenses. In response

²⁶ Construction will start approximately Fall of 2023, and take approximately 3 years, so 12 months to start of construction, and 18 months from start of construction to the midpoint of construction.

²⁷ The value for the ENR CCI is 11628 in January 2021 and 13171 in August of 2022. The complete index may be found in OUCC Attachment SD-3.

²⁸ Please see Mr. Baldessari, attachment DLB-2, item 10.

1 to discovery (DR 2-15, OUCC Attachment SD-1), Petitioner set forth the actual
2 breakdown:

The 7.75% soft costs were included in the original engineering cost estimate. Therefore, to preserve consistency Petitioner included those costs in the updated estimate to make sure it was covering all costs. The actual breakdown of the soft costs are:

- 1) Construction Administration and Bidding = 2.5%
- 2) Inspection and Material Testing = 2.0%
- 3) Interest Incurred through Financing = 2.25%
- 4) Permitting Fees and Legal Expenses = 1.0%

3 **Q: Why do you disagree with the Petitioner's use of 7.75%?**

4 A: It does not appear that 7.75% is what Petitioner incorporated in its prior estimate. In Data
5 Request Response 2-16 Evansville stated the soft costs included in the water plant estimate
6 were \$6,199,000. This is 4.67% of the total cost of the plant. In the response to Data
7 Request 2-19, Petitioner stated that the amount of soft costs (described as construction
8 inspection, bidding and permitting) was 5%. Both of those complete data responses may
9 be found in OUCC Attachment SD-1.

10 **Q: Did you ask the Petitioner if there are any "interest incurred through Financing
11 expenses" not already included in the bonds?**

12 A: Yes. In Data Request 6-6, the OUCC asked this question. Petitioner responded that the
13 2.25% interest line "may be duplicative of what is included for capitalized interest in the
14 proposed financing". However, Petitioner stated it still believed the estimate was sound
15 based on "current market conditions".

16 **Q: What percentage of construction costs representing soft costs do you recommend
17 including in the debt authority?**

18 A: Petitioner stated that it preserved consistency by using the soft costs including in the
19 original engineering cost estimates. Since the specific amount of soft costs included in the
20 original estimate was given by the Petitioner as \$6,199,000, and this percentage is 4.67%,

1 that seems like the correct number to use to preserve consistency. Using 7.75% as a factor
2 to reflect the soft costs would significantly increase the financing request without adequate
3 support.

4 **Q: What additional authority did Petitioner request for Current Market Escalation?**

5 A: Petitioner requested additional debt authority of \$13,935,000 for current market escalation,
6 which it based on “the current inflation rate of 8.5% carried through fall of 2023 to the start
7 of construction.”²⁹ (See Item 11 of Attachment DLB-2)

8 **Q: Do you agree with this calculation?**

9 A: No. While I agree an adjustment from the current dollars to the start of construction may
10 be appropriate, the 8.5% rate Petitioner proposes to use for this purpose is not.

11 **Q: Why is the 8.5% rate not appropriate?**

12 A: First, there is no clear justification for using 8.5%. The most recent inflation number
13 presented in Mr. Baldessari’s testimony on page 6 is 8.26%, not 8.5%. But more
14 importantly, there are readily available estimates from the Federal Reserve of inflation
15 estimates over the next 12 months.

16 **Q: What “Current Market Escalation” rate do you recommend?**

17 A: I recommend an annual rate of 3.50%. The Philadelphia Fed releases a survey of inflation
18 forecasts by quarter that gives the market estimate for the next year inflation. The current
19 estimate is 3.50% (updated on Nov. 14, 2022, One-Year-Ahead And 10-Year Ahead
20 Inflation Forecasts from the Survey of Professional Forecasters). I cross checked this with
21 other estimates available on the Philadelphia Fed website (the most recent Livingston
22 Survey is at 3.8%, last updated on June 17th, 2022 “CPI Inflation %, 2022 to 2023 Average

²⁹ I assume this means to carry the current inflation rate through the fall of 2023, which is the start of construction.

1 Annual data) and the ATSIX (Aruoba Term Structure of Inflation Expectations) curve
2 shows 3.42% (Historical Values, dated October 28, 2022, Avg. of Infexp3-Infexp12). My
3 preferred estimate would be 3.50% because it relies on a Fed Survey of Professional
4 Forecasters over a one-year time horizon that was updated in mid-November of 2022.³⁰

5 **Q: Are there any adjustments being made to any other costs used to determine the cost**
6 **of the water treatment plant?**

7 A: Yes. OUCC witness Jim Parks discusses projects identified as Items 3-9 on Attachment
8 DLB-2. His total additional cost for those line items is \$2,183,000.

9 **Q: What is your estimate for the adjusted cost of the water treatment plant?**

10 A: Incorporating Mr. Parks' recommendations with my own results in total remaining
11 financing authority of \$150,499,630 as shown in the table below:

Table SD-1

Item	Cost Description	Cost	Adjustment
1	Original Construction Cost (No Residuals Dewatering)	\$ 125,919,000	
2	Cost with Escalation to Current Dollars	\$ 136,949,504	8.76%
3	Additional Auger Cast Pile Foundations Requirements	\$ 1,217,000	
4	Levee Authority Building Demolition and Site Preparation	\$ -	
5	Contaminated Soil Testing and Hauling	\$ 786,000	
6	River Intake: Replacement of All Piping	\$ -	
7	River Intake: Additional Needed Improvements	\$ -	
8	Pretreatment: Add Cover for Algae Prevention	\$ -	
9	Filters: Deepen Beds for future PFAS treatment	\$ 180,000	
	Revised construction Subtotal	\$ 139,132,504	
10	Soft Project Costs	\$ 6,497,488	4.67%
11	Current Market Escalator	\$ 4,869,638	3.50%
	Total Project Cost Estimate	\$ 150,499,630	

³⁰The relevant links are <https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/inflation-forecasts>,
<https://www.philadelphiafed.org/-/media/frbp/assets/surveys-and-data/livingston-survey/2022/livjun22.pdf>, and
<https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/atsix>

1 **Q: What effect overall do your proposals have on the recommended debt authority?**

2 A: In addition to the \$150,499,630 estimate for the revised cost of the water treatment plant,
 3 I recommend a disallowance of the additional garage funding of \$3.5 million and an
 4 estimate of \$33,769,980 for the residuals. I recommend leaving the Capitalized Interest
 5 and cost of issuance amount of \$8,977,000 (the same as in the true-up). Using the same
 6 presentation Petitioner used (Mr. Baldessari, page 5), my final proposal is as follows:

Table SD-2

Breakdown of Additional Authorization:

Total Water Treatment Plant Costs	\$ 150,499,630
Total Costs for Residuals Handling Facility	\$ 33,769,980
Authorization originally for the city garage relocation	\$ -
Capitalized Interest and costs of issuance per the true-up report	\$ 8,977,000
Total	<u>\$ 193,246,610</u>
Less: Authorization Outstanding	\$ 168,515,228
 Additional Authorization	 \$ 24,731,382

IV. FINANCING ISSUES

7 **Q: Has Petitioner determined the means of financing it will pursue to borrow the funds?**

8 A: No. Mr. Baldessari testified that Petitioner is exploring alternatives:

9 While the additional authorization likely will impact rates, Petitioner is
 10 pursuing alternatives to mitigate the impact on user rates by seeking any
 11 available subsidization and/or low interest rate loans through the Indiana
 12 Finance Authority's State Revolving Fund Loan Program, the State Water
 13 Infrastructure Finance and Innovation Act ("SWIFIA") or the Water
 14 Infrastructure Finance and Innovation Act ("WIFIA"). Either program
 15 would allow bonds to be issued for the WTP Project at lower than market
 16 interest rates.

17 (Mr. Baldessari, page 12, lines 14-20)

18 **Q: Is the pursuit of a SWIFIA or WIFIA loan something recent?**

19 A: No. In the rate case (Cause No. 45545) Mr. Baldessari testified that Evansville intended
 20 to move forward with the SWIFIA loan to take advantage of the lower cost of borrowing

1 in support of an additional \$350,000 of borrowing authority. The OUCC asked for the
2 status of those application efforts in this subdocket. Petitioner responded that there are
3 ongoing discussions and that the outcome has not been determined. (Data Request 2-6,
4 OUCC Attachment SD-1.)

5 **Q: When will this determination on financing sources be made?**

6 A: The OUCC asked Evansville when it expects to know what kind of financing it will secure.
7 (Data Request 2-8, OUCC Attachment SD-1). Petitioner indicated it will make that
8 determination before July 2023.

Information Requested:

When generally does Evansville expect to know which method of financing it will choose to fund the water treatment plant?

Information Provided:

Petitioner generally expects to know the method of financing once discussions between representatives of SRF and EPA related to the SWIFIA loan have been completed and either funding through the SWIFIA or WIFIA program is feasible and/or granted or denied. Petitioner anticipates this would occur prior to July 2023.

9 **Q: Will the method of financing affect Petitioner's rates?**

10 A: Yes. The effect on rates will have to be addressed in the true-up and could be significant.

11 **Q: Are there any other issues related to the financing that should be addressed in the true-up?**

12 A: Yes. The \$350,000 of borrowing authority should not be used if a SWIFIA loan is not
13 pursued and those costs are not incurred.
14

15 **Q: Will the Petitioner necessarily use all of its borrowing authority?**

16 A: No. As discussed in Cause No. 45545, \$350,000 of borrowing authority should not be used
17 if a SWIFIA loan is not pursued and those costs are not incurred. Also, the borrowing
18 allocated for the residuals facility will only be used if the residuals facility is ultimately
19 required. If this is not determined at the time of the July closing of the bonds (current

1 estimate, which I understand may change), then this will require an additional bond
2 offering at a later date. Also, Petitioner should only borrow the amounts actually required
3 by actual costs, so as these costs are clarified, the actual borrowing should adjust. The debt
4 authority is meant to be a cap, and it would be unexpected if the actual costs incurred are
5 exactly at the maximum.

V. EFFECT ON RATES OF PETITIONER'S PROPOSED FINANCING AUTHORITY

6 **Q: Will this additional borrowing authority ultimately increase rates?**

7 A: Yes. To the extent the additional borrowing authority is used, rates will increase.

8 **Q: Did Petitioner quantify the effect on rates of the additional borrowing authority it**
9 **seeks?**

10 A: No. Mr. Baldessari testified that "While the additional authorization likely will impact
11 rates, petitioner is pursuing alternatives to mitigate the impact on user rates."

12 **Q: What will be the rate impact of Evansville's requested additional borrowing**
13 **authority?**

14 A: It is difficult to pinpoint because the method of financing has not been determined. In
15 rough numbers, the Petitioner is now asking for a total authority of \$294 million.³¹ At this
16 time, none of this borrowing is reflected in rates. Most of the impact will be felt by
17 ratepayers more than a decade in the future once substantial principal payments have
18 begun.³² For purposes of this section of my testimony, I will deal with round numbers to
19 get an overall sense of the magnitude of the increase. Using the Petitioner's proposal of an
20 additional \$68,703,000 in authorization at a current interest rate estimate of 4.93% (interest

³¹ \$52,550,000 par value for the open market bond and \$241,215,000 for the future debt authorization.

³² See my previous testimony in Cause 45545, pages 12-14.

1 rate discussed earlier in my testimony), this is an additional \$3,387,000 per year of interest
2 expense. The impact of the increase of interest rates on the existing borrowing will also be
3 material at approximately \$4,192,000 additional per year. (\$172,512,000 of remaining
4 authority, again using Petitioner's proposed numbers, multiplied by an additional 2.43%
5 interest than was anticipated in the original order.) Adding these two numbers provides a
6 total increase for the upcoming debt per Petitioners proposal of approximately \$7.5 million.

7 **Q: How much of a rate impact would \$7.5 million per year have in percentage terms?**

8 A: The current estimated revenue based on the recent true-up report that began this subdocket
9 shows \$57,260,621 in annual net revenue requirement once Phase V is implemented. An
10 additional \$7.5 million would increase this by 13.1%. By itself, an increase of this
11 magnitude will not lead to the immiseration of the ratepayers. But affordability is a guiding
12 principle of the OUCC that we pursue by reviewing utility proposals for prudence and
13 reasonableness. The Petitioner is providing us in its case-in-chief with what it claims are
14 planning level estimates, and it is difficult to assess the prudence of those estimates. The
15 OUCC's recommendations strike the best balance available between the requirements of
16 the Petitioner and the reasonableness of the rate demands upon the ratepayers.

VI. CONCLUSIONS AND RECOMMENDATIONS

17 **Q: Do you have any final thoughts on this case?**

18 A: I would like to state that the macroeconomic backdrop all of us are currently experiencing
19 is not something any of the parties involved with this case have any control over. It is
20 important to minimize the rate impact on the customers while ensuring that Evansville has
21 the resources needed to continue to serve those customers. I accepted Petitioner's
22 methodology in its approach to asking for increased debt authority (for instance, the use of

1 the ENR index to bring the original estimates to current dollars, the use of soft costs used
2 in the previous estimates and embedded in the order for Cause 45545, the use of the CPI
3 index for arriving at a future cost) and am simply taking issue with the specific numbers
4 used.

5 **Q: Please summarize your recommendations.**

6 A: Future debt authority should be set at \$193,474,022, which is an increase of \$24,958,794
7 over the current amount of debt authorization remaining. Of this authority, \$33,769,980
8 is reserved for the residuals facility, and I recommend that it will not be accessed if
9 Evansville secures a variance from the mercury requirements.

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

11 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. I received my MBA
6 from Indiana University with a concentration in finance. I am a member of Phi Beta Kappa
7 honor society for my undergraduate studies and Beta Gamma Sigma honor society for my
8 master's program. Although not specifically related to my educational background, I have
9 been a member of Mensa for a number of years.

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

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

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


19 A: I started at the OUCC in the Water/Wastewater Division in December of 2019 as a Utility
20 Analyst II, I was promoted to a Senior Utility Analyst in May of 2022. My focus is financial
21 issues, such as ROE's, Capital Structures, etc.

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

23 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. 45545 S1
Office of Utility Consumer Counselor (OUCC)

Date: November 18, 2022

OUCS DR 2-1

DATA REQUEST

City of Evansville

Cause No. 45545 S1

Information Requested:

In Cause 45545, Evansville stated that the balance of the restricted construction funds was \$102.3 million as of September 30, 2020. It was also stated in cross examination by Mr. Labitzke that as of September 30, 2021 there was a balance of \$80 million, but that all projects are estimated to be completed by the second quarter of 2023. Please state the current balance of the restricted construction fund as of the most recent date available. Also, please state the anticipated date when this fund is scheduled to be depleted. If additional funds from the recent open market bond issuance are currently placed in this fund, please indicate and answer the question disregarding funds involved with the recent open market issuance.

Objection:

Petitioner objects to this request on the grounds and to the extent that the request seeks information which is irrelevant to this proceeding and not reasonably calculated to lead to the discovery of admissible evidence. The restricted construction funds will not be used for the Water Treatment Plant project and the current balance of the fund is irrelevant to the limited issues set forth in this subdocket proceeding.

Information Provided:

Subject to and without waiver of the foregoing objection, Petitioner responds as follows:

The money in the restricted construction fund account will not be used for the Water Treatment Plant project. The requested information is irrelevant to this proceeding.

OUCC DR 2-2

DATA REQUEST

City of Evansville

Cause No. 45545 S1

Information Requested:

Please reference p. 36 of the Commission's order for Cause 45545, ordering section 8, please provide the minutes, agenda and attendance list for any meetings that took place pursuant to this section of the order.

Objection:

Petitioner objects to this request on the grounds and to the extent that the request seeks information which is irrelevant to this proceeding and not reasonably calculated to lead to the discovery of admissible evidence. The Commission's directive to schedule a meeting in Cause No. 45545 is irrelevant to the limited issues set forth in this subdocket proceeding.

Information Provided:

Subject to and without waiver of the foregoing objection, Petitioner responds as follows:

Per the Commission's directive in Cause No. 45545, Petitioner contacted Curt Gassert, Director, Water and Wastewater Division, on April 4, 2022 to schedule a meeting to discuss possible improvements to Petitioner's future filing in an effort to allow for more efficient processing of Petitioner's relief. Petitioner and the Commission communicated back and forth regarding potential dates for the meeting and the parties identified dates in late July or early August 2022 for the meeting.

During this time Evansville, like most utilities in the state, began experiencing significantly higher construction costs for a number of its capital projects due to the unprecedented inflationary and supply chain pressures currently present in the market. As a result, Evansville and its consultants grew concerned that the level of financing authority approved in Cause No. 45545 may not be sufficient to build its new Water Treatment Plant.

(Continued on next page)

OUCG DR 2-2
(Continued from previous page)

As a result of these new developments and before the parties agreed to a final date for the Commission meeting, Evansville contacted Mr. Gassert on May 12, 2022 to indicate that there were new developments related to Petitioner's requested relief in Cause No. 45545 and requested a call with Mr. Gassert to discuss these new developments. Petitioner and Mr. Gassert attended a Zoom call on Monday, May 16, to discuss the additional developments. On that call, Petitioner informed Mr. Gassert that Petitioner would likely need to file a request for additional financing authority due to the increased construction costs. Mr. Gassert indicated that other utilities were experiencing the same cost increases and suggested that Petitioner consider requesting a subdocket, as this is the process other utilities in the State had used to address this issue.

Petitioner also informed Mr. Gassert on the call that due to the need to file an additional financing request, Evansville had concerns with scheduling the Commission meeting when there was a potential that Petitioner could have a pending case before the Commission. Mr. Gassert indicated there was no immediate rush to hold the meeting and that Evansville could wait to schedule the meeting until Evansville's request for additional financing was concluded.

Please see attached communications between Petitioner's legal counsel and Mr. Curt Gassert summarizing the May 16, 2022 call between the parties and confirming the parties' determination to hold off on scheduling the meeting until a later date.

Attachment:

OUCG DR 2-2.pdf

Cloud, Judy

From: Gassert, Curt <cgassert@urc.IN.gov>
Sent: Wednesday, May 18, 2022 3:04 PM
To: Box, Lauren
Cc: Kile, Nicholas; Baldessari, Doug
Subject: [EXTERNAL]RE: City of Evansville - Cause No. 45545

Lauren, thanks for your email. I agree with narrative you provided. I would add that if we review the evidence filed in the subdocket and determine there is no overlap with the evidence we plan to discuss from Cause No. 45545, perhaps we will reach out to schedule the meeting before the subdocket is complete. Before doing so, we will consult with our General Counsel and ALJ. Thanks, Curt.

From: Box, Lauren <Lauren.Box@btlaw.com>
Sent: Wednesday, May 18, 2022 2:18 PM
To: Gassert, Curt <cgassert@urc.IN.gov>
Cc: Kile, Nicholas <Nicholas.Kile@btlaw.com>; Baldessari, Doug <Doug.Baldessari@bakertilly.com>
Subject: City of Evansville - Cause No. 45545

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

Curt,

Thanks again for the time Monday afternoon (5/16) to discuss the City of Evansville's most recent rate case. As we discussed, due to the increased construction costs Evansville is experiencing, Evansville is concerned that the level of financing authority approved in Cause No. 45545 may not be sufficient to build its new Water Treatment Plant. Thus, the City is planning to file a request for additional financing authority with the Commission, so as not to delay closing on the bonds later this year. You indicated other utilities are experiencing these same cost increases and we may want to consider requesting a subdocket, as this is the process other utilities have used to address this issue.

Further, the Commission's Order in Cause No. 45545 directed the City to contact the Commission's Water/Wastewater Division to schedule a meeting to discuss possible improvements to Petitioner's future filing in an effort to allow for more efficient processing of Petitioner's requested relief. Order, at p. 35. As we also discussed Monday afternoon, the City has concerns with scheduling this meeting when it has a pending case before the Commission. You indicated there is no immediate rush to hold the meeting, and we can wait to schedule the meeting until Evansville's request for additional financing is concluded.

If you have any questions or clarifications to this e-mail, please let me know. Thanks!

Lauren

Lauren M. Box | Associate
Barnes & Thornburg LLP
11 South Meridian Street, Indianapolis, IN 46204-3535
Direct: (317) 231-7289 | Mobile: (317) 590-2455 | Fax: (317) 231-7433



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OUCR DR 2-3

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

Please advise if the workpaper marked as DLB-1 (Excel Document) is supposed to be marked as DLB-2?

Information Provided:

No. The workpaper is properly marked as Workpaper DLB-1. Mr. Baldessari had two attachments to his testimony, Attachment DLB-1 and Attachment DLB-2. Mr. Baldessari had one workpaper included with his testimony marked as Workpaper DLB-1.

OUCS DR 2-4

DATA REQUEST

City of Evansville

Cause No. 45545 S1

Information Requested:

There was a \$3,996,772 reoffering premium involved with the open market bond issuance. Please state where this cash is currently located (what fund/account), and what Evansville proposes to use this cash account for. If the purpose is restricted to debt payments, please cite the relevant bond documents and/or statute requiring this restriction.

Information Provided:

The \$3,996,772 reoffering premium from the issuance of the open market bond issue is currently located in a restricted construction account to be used for the Water Treatment Plant project and will be used to pay the increase in capitalized interest resulting from the sale of the Waterworks District Revenue Bonds, Series 2022A.

The Petitioner's Bond Resolution No. 2021-06 states:

“On the date of delivery of the Bonds, a sufficient amount of the proceeds from the sale of the Bonds, together with other moneys legally available therefor, if any, as directed by the Fiscal Officer, shall be deposited into a bank or banks which are legally qualified depositories for the funds of the City, in a special account or accounts to be designated as "City of Evansville Waterworks District Construction Account" and used to pay the costs of the Project (including any capitalized interest) (hereinafter called the "Construction Account").”

OUCG DR 2-5

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

For table 6 and table 7 in Mr. Baldessari's testimony, please confirm that this is meant to be an annual inflation rate reported monthly and not a monthly inflation rate.

Information Provided:

Yes, this is an annual inflation rate reported monthly.

OUCC DR 2-6

DATA REQUEST

City of Evansville

Cause No. 45545 S1

Information Requested:

In the rebuttal testimony for Cause 45545 over one year ago, Mr. Baldessari stated that Evansville intends to move forward on the SWIFIA loan to take advantage of the lower cost of borrowing (page 12, Baldessari rebuttal) in support of an additional \$350,000 of borrowing authority. In his testimony in this subdocket, Mr. Baldessari states that Evansville is pursuing alternatives including WIFIA and SWIFIA, but it appears that that decision on the method of financing has not yet been made (page 12, Mr. Baldessari's testimony). Please clarify the status of any applications on funding sources with WIFIA and SWIFIA.

Information Provided:

SRF representatives are in discussions with representatives of the Environmental Protection Agency (EPA) on behalf of the Petitioner for a SWIFIA financing. At this time, the outcome for funding 49% of the project with SWIFIA has not been determined.

OUCS DR 2-7

DATA REQUEST

City of Evansville

Cause No. 45545 S1

Information Requested:

If WIFIA or SWIFIA funding is secured, what effect will that have on rates? Please provide an amortization table with Petitioner's best estimate of the current interest rate, expected costs if any, and method of funding the debt service reserve involved with this method of funding.

Objection:

Petitioner objects to the request on the grounds and to the extent the request seeks a compilation, study or analysis Petitioner has not performed and which it objects to performing.

Information Provided:

Subject to and without waiver of the foregoing objection, Petitioner responds as follows:

Based on the current interest rate market a SWIFIA or WIFIA loan would be more financially advantageous for Evansville than an SRF pooled program bond issue. Petitioner does not plan on financing this project until July 2023 and the interest rate market is constantly changing. Depending on the market at the time, this analysis and the result could very likely change. Due to uncertainty around the financing being driven by evolving variables such as the need for the residuals building, the current interest rate environment, inflation and supply chains and the funding source (WIFIA/SWIFIA or SRF) Petitioner does not believe it to be prudent to calculate updated rates at this time.

OUCR DR 2-8

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

When generally does Evansville expect to know which method of financing it will choose to fund the water treatment plant?

Information Provided:

Petitioner generally expects to know the method of financing once discussions between representatives of SRF and EPA related to the SWIFIA loan have been completed and either funding through the SWIFIA or WIFIA program is feasible and/or granted or denied. Petitioner anticipates this would occur prior to July 2023.

OUCG DR 2-9

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

Please state an expected date of closing for SRF and/or WIFIA or SWIFIA borrowings for the water treatment plant.

Information Provided:

Petitioner does not have an exact date for the closing on the water treatment plant financing at this time. It is currently anticipated the financing would occur in July 2023.

OUCG DR 2-10

DATA REQUEST

City of Evansville

Cause No. 45545 S1

Information Requested:

Please state a current best estimate of the interest rate for an SRF Pooled financing if this financing occurs at this time (the November 2022 issuance).

Objection:

Petitioner objects to this request on the grounds and to the extent that the request seeks information which is irrelevant to this proceeding and not reasonably calculated to lead to the discovery of admissible evidence. Petitioner does not intend to pursue an SRF Pooled financing at this time and therefore the requested information is irrelevant to the limited issues set forth in this subdocket proceeding.

Information Provided:

Subject to and without waiver of the foregoing objection, Petitioner responds as follows:

It is not anticipated that the Petitioner's financing would occur at this time (November 2022) and therefore the SRF Pooled financing in November is not relevant to this subdocket. See responses to OUCG DR 2-8 and 2-9

OUCG DR 2-11

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

How does Evansville propose to recover the additional cost associated with the proposed borrowing? If Evansville proposes to implement higher rates, in what phases would the accompanying higher rates go into effect?

Information Provided:

To the extent there are additional costs associated with the proposed borrowing, the Petitioner would need to increase rates through a true-up filing. Due to the proposed capitalized interest on the financing, the majority of any necessary increase in rates would not occur until Phase III.

OUCG DR 2-12

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

Please confirm that \$3.5 million for the garage has already been borrowed as part of the open market financing.

Information Provided:

The \$3.5 million originally anticipated to be used to fund the garage has already been borrowed as part of the open market financing.

OUCG DR 2-13

DATA REQUEST

City of Evansville

Cause No. 45545 S1

Information Requested:

There is discussion in Mr. Baldessari's rebuttal testimony about repurposing the garage funding (page 5, lines 12-14) to purchase and relocate the Levee authority. It appears, however, that Evansville is proposing to borrow an additional \$3.5 million in the future, rather than utilizing the \$3.5 million already borrowed for the garage. Please describe and explain how Evansville intends to repurpose the funds borrowed for the garage to the Levee Authority purchase or advise if these are additional funds. Please state with specificity the total amount proposed to be borrowed under all borrowings for the garage and the Levee Authority.

Information Provided:

The \$3.5 million was inadvertently included in the additional borrowing authorization filed in this sub-docket. The total is \$3.5 million to be used to move the Levee Authority building. Petitioner proposes to leave the total amount of requested financing at the \$241,215,000 including the minor \$3.5 million amount (1.5% of estimated project costs) due to the uncertainty regarding future project costs, method of financing and interest rate market.

OUCC DR 2-14

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

Referring to Attachment DLB-2, please indicate whether the \$126,439,000 “Original Construction Cost (No Residuals Dewatering)” includes “Soft Project Costs”? If so, what portion (amount) of the \$126,439,000 is estimated “Soft Project Costs”? Please confirm that Petitioner’s requested additional borrowing includes \$12,706,000 in soft project costs.

Information Provided:

No, the \$126,439,000 does not include soft costs. Yes, \$12,706,000 is the additional borrowing included for soft costs.

OUCS DR 2-15

DATA REQUEST

City of Evansville

Cause No. 45545 S1

Information Requested:

Please reference Item 10 in Attachment DLB-2. Please state the basis and any analysis for using a 7.75% estimate of soft costs for the proposed borrowings.

Information Provided:

The 7.75% soft costs were included in the original engineering cost estimate. Therefore, to preserve consistency Petitioner included those costs in the updated estimate to make sure it was covering all costs. The actual breakdown of the soft costs are:

- 1) Construction Administration and Bidding = 2.5%
- 2) Inspection and Material Testing = 2.0%
- 3) Interest Incurred through Financing = 2.25%
- 4) Permitting Fees and Legal Expenses = 1.0%

OUCS DR 2-16

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

Please reconcile the \$4,555,000 difference between the requested authority and the existing authority in DLB-2 and page 5 of Mr. Baldessari's testimony. Specifically, it appears Mr. Baldessari has a total of \$68,703,000 in additional requested debt authority (page 5 of Mr. Baldessari's testimony), but the total increase in DLB-2 is \$64,148,000 (See DLB-2, or Mr. Baldessari testimony, page 9).

Information Provided:

The \$64,148,000 only refers to additional costs from the estimated construction and non-construction costs associated with the water treatment plant. Petitioner's \$68,703,000 included all project costs. Below is the reconciliation of the variance.

Increase per DLB-2	\$64,148,000
Plus increase in residuals facility	8,151,000
Plus amount originally for garage	3,500,000
Less soft cost included in water plant estimate	(6,199,000)
Less par adjustment	<u>(897,000)</u>
Total per Sub-Docket filing	<u>\$68,703,000</u>

OUCS DR 2-17

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

Reference the table on page 5 of Mr. Baldessari's testimony. Please advise if \$8,977,000 is currently the best estimate of capitalized interest and costs of issuance for the revised borrowing. If not, please state the best current estimate.

Information Provided:

The table on page 5 of Mr. Baldessari's testimony lists \$8,977,000 as capitalized interest (\$7,508,156) and costs of issuance (\$1,468,844). \$7,508,156 of capitalized interest is the same amount listed from the IURC Order. Due to the uncertainty around date of issuance, the size and method of financing (SWIFIA or WIFIA with an SRF pooled bond or all SRF pooled bond) Petitioner has left the capitalized interest at what it was for the IURC Order. The capitalized interest will be trued-up once the proposed bonds are issued.

OUCS DR 2-18

DATA REQUEST

City of Evansville

Cause No. 45545 S1

Information Requested:

Regarding item #2 Cost Escalation to Current Dollars found on Attachment DLB-2. Please state the ENR CCI starting and ending date and the index amounts for the relevant times that were used for calculating the 20.2% increase.

Information Provided:

The time period that was utilized for the ENG CCI is from February 2021 (11698) to August 2022 (13171) for an increase of 12.59% over that 18-month time period, this equates to an increase of 0.69% per month. Therefore, moving forward 29 months or to the midpoint of construction the overall increase would amount to 20.2%. The reason for only using 15.69% was because we had completed an earlier update which incorporated 4.51% of the 20.2% in that project. Therefore, we adjusted the percentage to account for the correct time period.

OUCC DR 2-19

DATA REQUEST

City of Evansville

Cause No. 45545 S1

Information Requested:

Regarding item #1 Original Construction Cost (No Residuals Dewatering) found on Attachment DLB-2. Please confirm that this was the cost estimate incorporated into the initial case. Please refer to page 3 of Attachment DLB-1 in Cause 45545, the estimated cost of the water treatment plant appears to be \$162,638,000, which less the \$30,000,000 adjustment for the dewatering facility would be \$132,638,000. Please reconcile these two numbers.

Information Provided:

The difference between the \$126M and \$132M is that the \$132M has 5% of construction inspection, bidding and permitting in that amount.

OUCG DR 2-20

DATA REQUEST

City of Evansville

Cause No. 45545 S1

Information Requested:

In a docket entry request from the Commission in Cause 45545 dated October 6, 2021, Evansville provided a document from the Evansville Regional Economic Partnership (dated October 11, 2021) which lists 13 different projects that were potentially looking a locating in the Evansville area. For each specific project identified, please state the name and annual water usage of any new water utility customer that initiated service since October 11, 2021. Have any other customers of significant size (over .1 MGD) been added since the date of this docket entry?

Objection:

Petitioner objects to the request on the grounds and to the extent that the request seeks information which is irrelevant to this proceeding and not reasonably calculated to lead to the discovery of admissible evidence. The requested information is irrelevant to the limited issues set forth in this subdocket proceeding.

Information Provided:

Subject to and without waiver of the foregoing objection, Petitioner responds as follows:

See objection. The information is not relevant to the limited issues set forth in this subdocket proceeding.

OUCC DR 3-1

**DATA REQUEST
City of Evansville**

Cause No. 45545 S1

Information Requested:

Reference Mr. Baldessari's Sub-Docket Testimony on page 9 which reads in part: "The original construction cost included in the Preliminary Engineering Report (excluding the residuals building) was \$126,439,000." Please identify the specific Preliminary Engineering Report, when it was submitted in Cause No. 45545 (e.g., Direct Testimony, Rebuttal, data request, etc.), and the page number(s) where this cost is listed. Please also provide copies of the cost support used to establish the \$126,439,000 cost, if not previously provided in Cause No. 45545. If this cost support was provided in Cause No. 45545, please identify the specific source (e.g., Direct Testimony, Rebuttal, data request, etc.).

Information Provided:

Petitioner prefaces its answer by reminding why Petitioner has sought an increase in financing authority at this time. As explained in Petitioner's Exhibit No. 1, the United States economy has experienced sustained inflation at levels not seen in over two generations. This historic inflation was not anticipated at the time of the evidentiary hearing in the main docket and thus was not reflected in the earlier cost estimates. Any reasonable engineer or economist would know that the earlier estimates will be insufficient. In addition, we are currently in an environment of rapidly rising interest rates. The worst possible outcome for Evansville customers would be to wait until after the project has been completely designed before seeking additional financing authority. This would delay the closing the bond issue, which, in this environment of rising interest rates, would be imprudent if not reckless. Evansville is doing everything in its power to avoid that outcome. If Evansville must wait for additional financing authority to close, it will not be because Evansville made that choice but because it was forced to do so. Evansville would under such circumstances compute the effect on customer rates from any increase in interest rates resulting from such a delay and would inform Evansville customers who caused that increase.

(Continued on next page)

OUCC DR 3-1
(Continued from previous page)

The only components of Evansville's request for additional financing authority that are driven by further engineering of the project are the deeper auger cast piles; environmental investigation identifying heavy metals in the soil; the river intake carbon steel piping and associated river intake costs; undercover basins; and depth of filter beds allowing for future PFAS treatment. No further changes in the estimate are proposed based upon further engineering. For any questions related to engineering components beyond these identified categories, please see the extensive evidence and discovery shared in Cause No. 45545. As indicated, before Petitioner closes on its bond issuance, engineering will have been completed. Hopefully the additional authority requested herein will allow a prompt closing on the bonds at that point.

In the SRF application package, dated June 2021, there is a Total Construction cost (no soft costs) of \$154,919,000 in Table 21. If dewatering is taken out of that (\$27,650,000 x 3% extra contingency = \$28,480,000) you get **\$126,439,000**.

OUCR DR 6-1

DATA REQUEST

City of Evansville

Cause No. 45545 S1

Information Requested:

Please confirm that Evansville still plans to capitalize interest for 21 months for the upcoming financing. If not, please explain what the current term for the capitalized interest is intended to be.

Information Provided:

The current term for the capitalized interest is not known at this time. Until Petitioner determines the closing date for the proposed financing, an exact term for capitalized interest will not be known. The amount of capitalized interest even with a shorter capitalized interest period may be higher or lower than the current estimate included in this sub docket filing due to the significantly higher interest rates experienced in the market recently. Petitioner has left the current capitalized interest amount the same as the Cause No. 45545 Order and will adjust it accordingly based on the final interest rates and capitalization period.

OUCC DR 6-2

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

Please refer to Data Request 2-4. Petitioner states that the funds resulting from the reoffering premium are currently located in a restricted fund to be used for the Water Treatment Plant project. But the uses of the funds appear to be for making payments on the recent open market bond, which is not for the Water Treatment Plant, but is instead for road relocations and for the City Garage (stated use, although not actual use). Please clarify if the restricted funds are able to be used for funding on the open market issuance for additional costs incurred on that bond. If they are to be used for capitalized interest on the water treatment plant, please so state.

Information Provided:

The reoffering premium will be used to pay the increase in capitalized interest resulting from the final interest rates from the sale of the Waterworks District Revenue Bonds, Series 2022A (open market bonds). These funds can be used for this purpose.

OUCC DR 6-3

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

The current cost of the residuals facility is estimated at \$38,151,000 (Mr. Baldessari, page 5). How did Petitioner determine that estimate?

Information Provided:

This estimate was determined by applying the inflationary factor applied to other components of the WTP project to the residuals management facility.

OUCC DR 6-4

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

The AECOM progress report dated May 17, 2022 supplied in response to DR 1-4 (page 17 of 81), lists “Develop responses to SRF comment letter.” Please provide the SRF comment letter and any communication between SRF and Evansville or its representatives that concerns the SRF comment letter.

Information Provided:

See SRF comment letter attached.

Attachment:

OUCC DR 6-4.pdf

LLOYD WINNECKE
MAYOR



LANE T. YOUNG
EXECUTIVE DIRECTOR

EVANSVILLE WATER & SEWER UTILITY

1 N.W. MARTIN LUTHER KING JR. BLVD, ROOM 104, EVANSVILLE, INDIANA 47708

PO Box 19, Evansville, IN 47740-0001

(812) 436-7846 FAX (812) 436-7863

May 17, 2022

Mr. Brent Roberts
Drinking Water Program Manager
State Revolving Fund Loan Program
100 North Senate Avenue Room 1275
Indianapolis, IN 46204

Re: Evansville Water and Sewer Utility
Water Treatment Plant
PER Review Comments
SRF Project No. DW 22 04 82 03

Dear Mr. Roberts:

I have reviewed your letter concerning the Preliminary Engineering Report (PER) for the New Water Treatment Facility. I hope that my responses will help you and your office better understand our project and ensure that it complies with all state and federal requirements of the SRF program. Should you require more information or want to discuss any of the response please feel free to contact me at any time at (812) 421-2120 extension 2228.

Cordially,

A handwritten signature in black ink that reads "Shawn R. Wright".

Shawn R. Wright
Director – PMO
Evansville Water & Sewer Utilities

cc: Matthew Montgomery, EWSU (electronic)
John Krinks, PE, AECOM (electronic)

Evansville Water and Sewer Utility
Water Treatment Plant
Preliminary Engineering Report Review Comments
DW 22 04 82 03

1. Please be aware that pursuant to SEA 4 (2019), the IFA is required to conduct regional meetings throughout the state to enable drinking water and wastewater utilities to work together to address long term needs. The legislation also requires utilities to report their participation in the meetings to the IFA. The schedule for IFA-hosted regional meetings can be found on the IFA website at <https://www.in.gov/ifa/3035.htm>. Borrowers must participate in a regional meeting prior to loan closing and continue to do so annually. Please provide information on whether Evansville has participated in a regional meeting. Please contact Sarah Hudson at (317) 232-2812 or sahudson@ifa.in.gov for more information.

I am unaware of anyone attending a regional meeting at this time. However, the next Southwest meeting is June 16th in Huntingburg and the utility is planning on attending that workshop at this time. The utility will also plan on attending a yearly meeting to comply with the program.

2. In accordance with SEA 4 (2019), a validated water loss audit is required to be submitted to IFA by August 1, 2022. Please provide the status of Evansville's progress toward its validated water loss audit. More information is available at <https://www.in.gov/ifa/water-loss-audits/> or by contacting Sarah Hudson at (317) 232-2812 or sahudson@ifa.in.gov.

The operational staff of EWSU is currently working on completing its 2022 water loss audit. The audit will be validated in-house by a member of the engineering department, Validator #022020034, and as soon as the audit is validated a copy will be forward over for review.

3. Section 2.1 states wholesale customers include Gibson Water, German Township, and Town of Elberfeld.
 - a. Please note SRF will request signed wholesale user agreements that reflect a timeframe through the year 2042.

All wholesale contracts are attached.

- b. Section 3.2 states that a recent wholesale agreement allows for an increased supply of 600,000 gallons per day. Please discuss 1) which agreement this pertains to, and 2) whether Evansville has seen actual increases since the PER was written.

The wholesale agreement referenced that will have increased capacity is the Gibson Water agreement. Currently, the utility has not seen an increase in production. However, the new amendment to this agreement shows increased demand starting in late 2022.

4. Section 3.3 uses various flow increase rates for each customer category. The population growth rate of 1.5% per year is explained; please also explain the rates used for wholesale, industrial, commercial, and public authority demands.

Water demand forecasting relies on professional opinions of consultants and owners. They are performed for the planning of infrastructure and there is no exact scientific method of determining rates of future growth or decline. Rather, values are established using an agglomeration of available factors including historical population trends, availability and zoning designation of undeveloped land, and known infrastructure projects which would impact growth or decline. It is also important

to not significantly underestimate these values which can leave a utility in a situation where it is unable to meet future demand. That being said, the logic behind the other categories are as follows:

- A. **Wholesale:** This is effectively like population growth in the City's service area. However, the wholesale areas have a lower population density and therefore assumed a lower growth rate (0.75% or half of the City rate) through the planning period.
- B. **Industrial:** This 2.5% growth rate was assumed to exceed that used for population and reflects land currently zoned and available for industrial growth in the water service area. Economic and industrial downturn surrounding the 2008 recession resulted in a loss of industry, with the goal now being to encourage development of the available industrial parks within the City. EWSU has received inquiries for large industrial water users in recent history and the I-69 corridor improvements are approaching completion which will provide uninterrupted travel between Indianapolis and Evansville. AECOM and EWSU felt it was important to not underestimate industrial demand because of these reasons.
- C. **Commercial:** This growth is complimented by the assumed industrial growth rate. Both industrial and commercial demand relate to overall economic growth of the area, for which Evansville has experienced an uptick in recent years. It is assumed to be slightly lower than industrial (at 2.0%) as the current commercial water demand is higher than industrial.
- D. **Public Authority:** As the population grows, growth in the public authority water demand will be observed. However, given the size of the City, much of the public authority bodies are well established and water demand and is not expected to experience considerable growth through the planning period. Therefore, this rate was reduced well below the population growth estimate at 0.25%.

5. Please clarify how the peak day factor of 1.4 times the average demand was determined.

A further explanation of this is provided in the AFP and the approach includes utilizing the average flow and the 98th percentile of flow in recent years. The peak factor is calculated by dividing the 98th percentile flow by the average flow for each year. In 2014, 2015, and 2016 the peaking factor was calculated as 1.34, 1.27, and 1.45 respectively, and 1.4 was selected as the basis for the projections.

6. Section 2.6 discusses the intake structure is in operational condition, but much of the equipment is aging and requires frequent rebuilds, including screens, vertical turbine pumps, and electrical equipment. The Advanced Facilities Plan also describes river dredging around the intake structure screens is a critical need. Please clarify whether dredging is included in the project costs.

A \$260,000 allowance line item was included in the river intake rehabilitation cost estimate for dredging.

7. Section 4.7.3 describes the residuals management effluent will be sent to Outfall 005, which will be extended further into the river to conceal the plume. Please provide a figure showing this location and describe any potential environmental impacts during construction.

Residual disposal remains undefined at this time and the Utility is in ongoing discussions with IDEM and regulatory agencies and the final outcome may not even require extension of any outfalls. An IDEM meeting is scheduled for May 25, 2022 which may begin to identify the final path for residual disposal and management. As such, a figure indicating these specific improvements is not available at this time. If this alternative is implemented, a mussel survey and subsequent relocation of mussels may be required. No other environmental impacts are of concern, as the quantity and quality of residuals would either remain the same as they are now or would improve with a decrease in solids and flow.

8. The dewatering facility appears to include a front-end loader. Please clarify whether this will be included in the construction contract.

This has been included as part of the overall facility cost (likely to be included as a cost allowance in the construction contract). The equipment is necessary for the processing of solids and would be dedicated to sole use at the residual facility. This is a lower-cost alternative compared to permanently installed conveyors or other solids transport equipment.

9. Section 4.6.3 and the preliminary design summary list a clearwell effective volume of 5 MG (two parallel 2.5 MG clearwells), however Table 21 indicates 4 MG. Please resolve this discrepancy. Please also clarify whether the existing 6.5 MG clearwell will be rehabilitated as part of the project.

This appears to be an inconsistency in the report as the clearwell volume underwent iterations based on the site layout and available space, with the target volume being between 4 and 5 MG. Since submitting the report, AECOM has advanced the site layout and available space in the area has resulted in a total current clearwell volume of 4.4 MG. As the design continues to progress there may be opportunities to provide some additional volume with a goal of 5 MGD. The existing 6.5 MG clearwell will not be rehabilitated as part of these improvements. Not only is this clearwell in very poor condition yielding costly rehabilitation, but the new site is 10' or lower in elevation which would render most of the existing clearwell volume unusable unless intermediate pumping were employed.

10. Section 4.6.3 describes the new high service pump station to feature four new vertical turbine pumps, while existing pump stations #2 and #3 would not be re-used. However, Section 6.6 describes six low service pumps and six high service pumps. The preliminary design summary lists six vertical turbine high service pumps, each rated at 10 MGD. Please clarify what is included in the selected plan.

The proposed system consists of six (6) vertical turbine pumps, each rated at 10 MGD to achieve a firm capacity of 50 MGD. The four-pump option described in the report (16.7 MGD each) resulted in a need for medium voltage (4,160V) motors, which is not being utilized at the new plant.

11. For the GPR discussion, please provide a summary table of estimated construction and non-construction costs associated with each green component.

In general, the 'green' aspects of this project relate to energy efficiency and water savings rather than construction materials or other building features that may be associated with an approach like LEED certification. The construction delivery method is through a Guaranteed Energy Savings Contract which is setup to promote an efficient and sustainable use of energy through the lifespan of the project. Electrical and treatment equipment and technologies have evolved considerably compared to most of the systems in place at the existing plant which are being replaced. Examples include higher efficiency motors and use of VFDs, use of filter air scour and improved sludge collectors to save water, and others. These are industry standard and are not considered to be adding cost to the project.

12. Please discuss whether critical infrastructure needs identified in the AFP are included in the proposed project.

The "critical infrastructure needs" relating to the existing water treatment plant are not included in the costs or improvements relating to the new water treatment plant project. These were identified for the purposes of EWSU prioritizing immediate improvements to ensure the existing plant will continue to operate as the new plant is being designed and constructed.

13. Please include a preliminary design site plan showing the proposed SRF funded project, labeling the primary process and site components.

A preliminary site design plan is attached to this response letter. This site plan will continue to be advanced as the design evolves.

14. Alternative project delivery options having a guaranteed maximum price are described as a construction manager at risk or progressive design build. SRF is open to alternative delivery methods. Please inform us well in advance of advertising, and provide a draft RFP for our review. In addition, a completed Front End Document Certification is requested at this time.

A copy of the RFP advertisement and subsequent RFQ document is attached to this letter.

EWSU is aware of the Front End Document Certification and we are currently working with IDEM to issue the permits, which is paused at this point as we work through the inclusion/exclusion of the Mercury Solids requirement. EWSU will provide this executed document prior to the loan closing as required by IFA.

15. As of June 2021, EWSU was in the process of renewing their NPDES permit. Please provide a summary of discussions that have occurred with IDEM since that time.

The permit was renewed in 2021 and is attached.

16. We understand the IURC hearing took place; please summarize the outcome and how this affects the selected plan.

The IURC has approved the project as submitted by EWSU, including the proposed rated plant capacity of 50 MGD and the treatment technologies recommended in the report. Funding for a residuals treatment and dewatering system remains a point of contention and EWSU may have to reduce part of the money allocated for their wastewater long-term control plan to cover these costs depending on the residuals management system required by IDEM.

17. Please provide a status of coordination with the US Army Corps of Engineers and Ohio River regulatory authorities.

As work associated with any extension of the outfall is still pending IDEM review and decision, no coordination with the US Army Corps or Ohio River regulatory authorities specific to the new water treatment plant have occurred at this time.

18. Please provide an updated Table 11, Alternative 2B Total Estimated Construction Cost, and Table 21, Proposed Project Cost.

- a. A construction contingency of 3% is included; please explain how this was determined.

The values in Table 11 have not changed. Table 21 has been revised to address comment 18.c below and is attached. Construction / estimating contingency is actually much higher and is inherent to the individual line items in the cost estimate. Specifically, nearly every line item in this table is resultant from a multi-component and more detailed cost estimate for the line item. In other words, the line item is a summary of a separate cost estimate that included contingency of 10 to 30% depending on the level of uncertainty. The 3%

value at the end of the table represents a system-wide contingency for integration between processes not otherwise accounted for in individual cost estimates.

- b. Please describe what is included in "Other Misc. Plant-Wide Improvements."

These are considered to capture ancillary costs associated with the new infrastructure such as office and room furnishings in the buildings, spare parts, specialty tools or re-build kits associated with treatment equipment, etc.

- c. Although costs for relocating the street maintenance facility are not planned for SRF funding, please include as part of the Proposed Project Costs.

This is shown in the table attached to these responses.

- d. Please provide a copy of the signed professional services agreements that will be reimbursed/paid for by the SRF loan.

The design of the facility was paid out of a 2016 bond, and the utility is not seeking reimbursement through SRF at this time.

19. Please revise Section 6.5 Project Schedule to include target dates for RFP, Guaranteed Savings Contract signing (if applicable), IDEM construction permit submittal and target approval, SRF loan closing, substantial completion.

Given the OUCC review process and final IURC decision took approximately one year to complete, the tentative schedule has been adjusted accordingly.

- Receive RFQs for Contractor Early Involvement: June 2022
- 60% Design and Guaranteed Maximum Price Development: October 2022
- SRF Loan Closing: December 2022
- IDEM Review and Approval: August 2022 through February 2023
- Begin Construction: July 2023
- Substantial Completion: March 2027
- Final Completion: June 2027

20. We understand the project was included in the April 20, 2021 board meeting agenda with public comment. As a reminder, please provide the following public hearing documents to SRF:

- a. Please complete and provide the PER Acceptance Resolution;
- b. Please complete and provide the Signatory Authorization Resolution;
- c. Publishers affidavit;
- d. Meeting minutes;
- e. Sign-in sheet;
- f. Written comments, if any, (including a statement regarding whether or not any comments were received during the 5-day public comment period); and
- g. Mailing labels.

All requested information is attached for your review.

21. Please include the status of Evansville's Asset Management Program.

EWSU continues to develop and strengthen its Asset Management program. The utilities current initiatives are:

1. SRF Asset Management Plan Gap assessment – Reporting System was established and Gaps Identified along with Next Steps for improving existing state of data and planning.
2. EWSU has established an asset definition hierarchy along with rules for documenting and tracking the addition and retirement of physical assets.
3. Strategic Asset Management Plan Gap assessment – EWSU has completed a self-assessment to gauge the organization’s understanding of Asset Management Principles and level of achievement.
4. Strategic Business Plan Development – EWSU is currently developing a 5-year Strategic Business Plan to aid in aligning the organization with its strategic asset management goals.
5. Asset Registry Validation Project (2022) – EWSU has initiated a project (to be completed in early 2023) to validate, tag, and organize it’s physical assets within all plant facilities. This initiative will document existing equipment and facilities with the intent of improving tracking of and comprehensive planning for the Utility’s assets.

22. Please provide an updated Financial Information Form.

The updated form is attached for your review.

23. Please clarify whether this financing will include water distribution piping from PER A or B. Please discuss whether Evansville is aware of any lead service lines in the distribution system, and if so, how the utility handles lead service line replacement.

At the time of the original submission lead services were not going to be a part of the SRF funding. EWSU is aware of lead services within its water distribution system. The Utility estimates that there are approximately 3000 currently within the water distribution system and the utility has budgeted to spend upwards of a \$1,000,000 towards lead service replacements over the next five years. With the enhancement to the SRF program around lead services it is anticipated that the utility will updating the application to take full advantage of the program.

24. The following will likely be used in the PER approval letter. Please review and verify this is accurate:

The Evansville Water and Sewer Utility (EWSU) existing water treatment plant was originally constructed in the 1890’s and is beyond the end of its useful life. Essential equipment has recently failed, with failure of additional infrastructure expected in the near-term. The antiquated treatment process has limited capability, and the utility receives taste and odor complaints amongst other operational and regulatory challenges. Replacement of the existing plant is necessary for Evansville to provide long-term reliability, safe operations, and improved water quality.

The existing plant will be replaced with a new 50 MGD surface water facility using conventional pretreatment, ozone, and biologically active filtration (BAF). The project includes:

- Relocated street maintenance facility, for new plant construction;
- Rehabilitated river intake, including raw water piping and metering; replacement of intake pumps and screens; permanganate feed system; powder activated carbon feed; electrical systems; and minor building renovation;
- Pretreatment system, including four new parallel trains of to provide additional powdered activated carbon contact time; rapid mixing (GPR) with coagulant

addition; three-stage flocculation; and sedimentation with inclined plate settlers and sludge collection equipment;

- Ozone system, including two parallel contact tanks; liquid oxygen storage; ozone generation, delivery and destruct systems; and secondary pumping for ozone motive and cooling water systems (GPR);
- Filtration system, including new building with 12 Biologically Active Filters (BAF); air scour and filter to waste provisions; and backwash supply holding tank;
- Chemical facility, housing chemical storage and feed systems, including liquid sodium hypochlorite for disinfection; sodium bisulfite for ozone quench; hydrofluosilicic acid for fluoridation, sodium hydroxide for pH adjustment, and coagulant for pretreatment.
- Clearwells, including two parallel tanks each with a volume of 2 to 2.5 MG
- High service pump station, including new vertical turbine pumps with variable frequency drives (GPR); flow monitoring; and diversion valves;
- Dewatering facility (pending IDEM requirements), repurposed portion of existing plant, including filter backwash recycling (GPR); residuals pump station and force main; rehabilitated thickening clarifiers; rehabilitated sludge pump station; sludge storage tank; dewatering building, sludge transfer pumps, polymer feed system, dewatering centrifuges, screw conveyors, cake storage, electrical and controls; covered sludge storage pad; front end loader; drain pump station; non-potable water system; standby generator; and consolidation of existing four outfalls to an extended Outfall 005;
- Administration building, including laboratory;
- Maintenance building, including 3-bay garage;
- Interconnecting piping;
- Electrical, controls, and security systems;
- Standby generators with potential re-use of existing generators;
- Electrical service entrance; and
- Access roads.

ATTACHMENTS

1. Preliminary site layout plan (noted in comment 13).
2. Advertisement for contractor RFQ and RFQ document (noted in comment 14)
3. Front End Document Certification (noted in comment 14)
4. Table 21: Proposed Project Cost (noted in comment 18a)
5. Wholesale Agreements
6. WTP NPDES Permit
7. Board Meeting Information
8. Financial Information Form

OUCG DR 6-5

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

Is it Evansville's position that the order in Cause 45545 permits increased capitalized interest costs to be borrowed in excess of the explicit debt authority granted by the order? Please explain.

Information Provided:

No, it is not Petitioner's position that additional capitalized interest would allow Petitioner to borrow in excess of the explicit debt authority granted by the Order. Evansville only plans to issue bonds up to the maximum financing authority granted by the Commission.

OUCS DR 6-6

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

Please refer to Data Request Response 2-15. Please explain how the interest incurred through financing line item of 2.25% of total project costs was estimated, and state why that is separate from the financing being requested in this subdocket.

Information Provided:

The 2.25% was an estimate based on Indiana's SRF loan interest rates at the time of making the estimate. See link below for current SRF rates.

The 2.25% interest incurred through financing line item included as part of the overall estimate of soft costs of 7.75% may be duplicative of what is included for capitalized interest in the proposed financing. Nevertheless, Petitioner and its consulting engineers believe 7.75% remains a reasonable estimate of soft costs given current market conditions. Further, as indicated in Mr. Baldessari's testimony, Petitioner will only borrow the amount required to build the WTP Project.

<https://www.in.gov/ifa/srf/finance/summary-of-current-interest-rate-policy/>

OUCR DR 6-7

DATA REQUEST
City of Evansville

Cause No. 45545 S1

Information Requested:

Does Petitioner know whether it is securing a WIFIA or SWIFIA loan will eliminate the need for capitalized interest? Please explain.

Information Provided:

Yes, Petitioner does know the answer. Even if a WIFIA or SWIFIA loan is secured it would only cover 49% of the overall costs for the treatment plant. An SRF loan would need to be issued to cover the remaining 51% of project costs and would still require capitalized interest for the SRF funded portion of the project.

Selected Yields

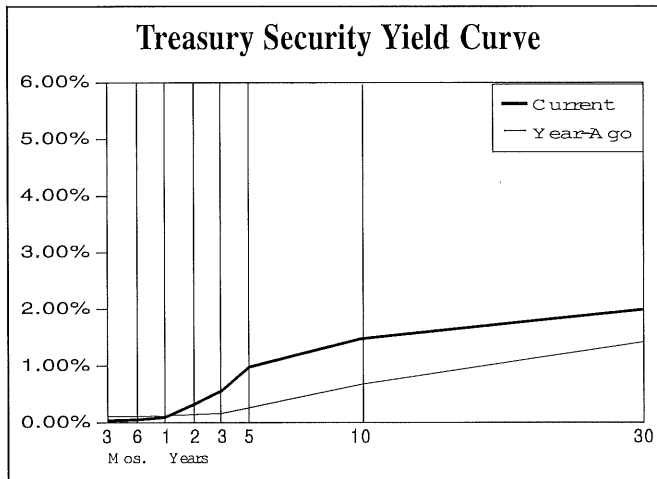
TAXABLE	Recent (9/27/21)	3 Months Ago (6/28/21)	Year Ago (9/28/20)
Market Rates			
Discount Rate	0.25	0.25	0.25
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.05	0.05	0.09
3-month LIBOR	0.13	0.15	0.22
U.S. Treasury Securities			
3-month	0.04	0.05	0.11
6-month	0.05	0.06	0.11
1-year	0.09	0.08	0.12
5-year	0.98	0.90	0.26
10-year	1.48	1.49	0.67
10-year (inflation-protected)	-0.87	-0.84	-0.94
30-year	1.99	2.10	1.42
30-year Zero	N/A	N/A	N/A
Common Stocks			
VL Stocks (Median)	1.80	1.70	2.30
DJ Industrials (12-mo. est.)	1.90	1.80	2.20
VL Utilities	3.60	3.50	3.90

TAXABLE	Recent (9/27/21)	3 Months Ago (6/28/21)	Year Ago (9/28/20)
Corporate Bonds			
Financial (10-year) A	2.20	2.22	1.78
Industrial (25/30-year) A	2.83	2.90	2.72
Utility (25/30-year) A	2.96	3.07	2.83
Utility (25/30-year) Baa/BBB	3.19	3.32	3.12
S&P 500 High Yield Corp. Bond Index	3.36	3.41	4.36
Foreign Bonds (10-Year)			
Canada	1.41	1.42	0.55
Germany	-0.23	-0.18	-0.52
Japan	0.05	0.06	0.03
United Kingdom	0.96	0.73	0.20
Mortgage-Backed Securities			
GNMA 5.5%	3.02	2.22	2.73
FHLMC 5.5% (Gold)	1.90	1.67	2.36
FNMA 5.5%	2.28	2.31	2.73
Preferred Stock			
Utility A	5.28	5.03	5.17
Financial BBB	5.45	5.29	5.49
Financial Adjustable A	N/A	N/A	N/A

TAX-EXEMPT

Bond Buyer Indexes			
20-Bond Index (GOs)	2.15	2.16	2.21
25-Bond Index (Revs)	2.51	2.53	2.71
General Obligation Bonds (GOs)			
1-year AAA	0.13	0.12	0.11
1-year A	0.24	0.28	0.43
5-year AAA	0.48	0.49	0.26
5-year A	0.67	0.72	0.66
10-year AAA	1.06	1.00	0.80
10-year A	1.32	1.29	1.25
25/30-year AAA	1.57	1.49	1.51
25/30-year A	1.96	1.81	2.09
Revenue Bonds (Revs) (15 Years)			
Education AA	1.46	1.49	1.53
Electric AA	1.47	1.37	1.35
Water/Sewer AA	1.34	1.42	1.31
Hospital AA	1.51	1.47	1.59
Toll Road AA	1.52	1.45	1.79

Source: Bloomberg Finance L.P.



Federal Reserve Data

BANK RESERVES (One-Month Period; in Billions, Not Seasonally Adjusted)

	Recent Levels			Average Level Over the Last...		
	8/21	7/21	Change	3 Mos.	6 Mos.	12 Mos.
Total Reserves	4140.1	3943.9	196.2	3977.4	3902.2	3484.3
Borrowed Reserves	80.8	87.6	-6.9	85.4	76.9	70.5
Non-Borrowed Reserves	4059.3	3856.3	203.1	3892.0	3825.2	3413.9

MONEY SUPPLY (One-Month Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...	
	8/21	7/21	Change	3 Mos.	6 Mos.
M1 (Currency+demand deposits+other liquid assets)	19677.7	19401.7	276.0	2.5%	7.0%
M2 (M1+small time deposits+retail money markets)	20797.0	20534.3	262.7	2.1%	5.8%

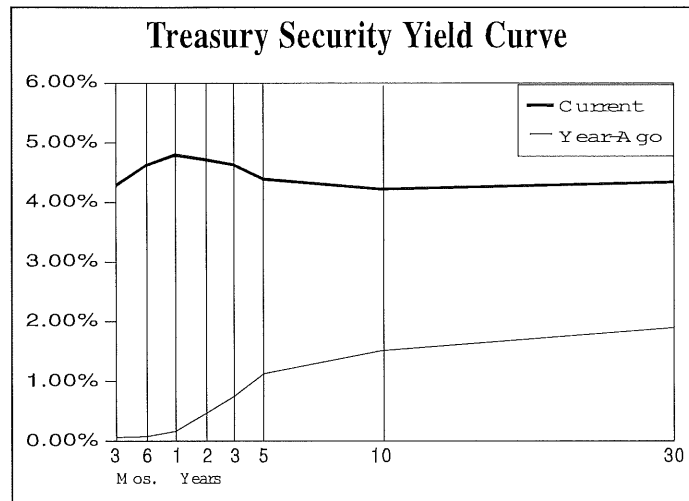
Source: United States Federal Reserve Bank

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Selected Yields

TAXABLE	Recent (11/7/22)	3 Months Ago (8/8/22)	Year Ago (11/8/21)	TAXABLE	Recent (11/7/22)	3 Months Ago (8/8/22)	Year Ago (11/8/21)
Market Rates				Corporate Bonds			
Discount Rate	4.00	2.50	0.25	Financial (10-year) A	5.86	4.26	2.26
Federal Funds	3.75-4.00	2.25-2.50	0.00-0.25	Industrial (25/30-year) A	5.74	4.34	2.77
Prime Rate	7.00	5.50	3.25	Utility (25/30-year) A	5.93	4.52	2.92
30-day CP (A1/P1)	3.90	2.32	0.05	Utility (25/30-year) Baa/BBB	6.27	4.85	3.15
3-month LIBOR	4.56	2.91	0.15	S&P 500 High Yield Corp. Bond Index	7.57	6.04	3.43
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	4.29	2.65	0.06	Canada	3.48	2.70	1.63
6-month	4.62	3.15	0.07	Germany	2.27	0.92	-0.25
1-year	4.80	3.30	0.16	Japan	0.25	0.17	0.06
5-year	4.39	2.91	1.13	United Kingdom	3.54	1.99	0.86
10-year	4.22	2.77	1.51	Mortgage-Backed Securities			
10-year (inflation-protected)	1.69	0.29	-1.11	GNMA 5.5%	5.74	4.73	2.79
30-year	4.34	3.00	1.89	FHLMC 5.5% (Gold)	5.89	4.58	1.92
30-year Zero	4.18	2.98	1.90	FNMA 5.5%	5.74	4.66	2.35
Common Stocks				Preferred Stock			
VL Stocks (Median)	2.20	2.10	1.70	Utility A	5.80	5.54	5.15
DJ Industrials (12-mo. est.)	2.20	2.20	1.80	Financial BBB	6.22	5.78	5.38
VL Utilities	3.80	3.30	3.60				



TAX-EXEMPT

Bond Buyer Indexes	Recent (11/7/22)	3 Months Ago (8/8/22)	Year Ago (11/8/21)
20-Bond Index (GOs)	4.06	3.21	2.10
25-Bond Index (Revs)	4.34	3.49	2.46
General Obligation Bonds (GOs)			
1-year AAA	3.09	1.54	0.15
1-year A	3.39	1.99	0.39
5-year AAA	3.20	1.83	0.58
5-year A	3.68	2.29	0.85
10-year AAA	3.34	2.25	1.09
10-year A	3.94	2.75	1.42
25/30-year AAA	4.00	2.85	1.51
25/30-year A	4.77	3.39	1.93
Revenue Bonds (Revs) (15 Years)			
Education AA	4.14	3.01	1.46
Electric AA	4.09	3.02	1.47
Water/Sewer AA	4.05	2.98	1.41
Hospital AA	4.54	3.30	1.54
Toll Road AA	4.37	3.14	1.57

Source: Bloomberg Finance L.P.

Federal Reserve Data

BANK RESERVES (One-Month Period; in Billions, Not Seasonally Adjusted)

	Recent Levels			Average Level Over the Last...		
	9/22	8/22	Change	3 Mos.	6 Mos.	12 Mos.
Total Reserves	3131.4	3305.9	-174.5	3232.0	3309.6	3658.7
Borrowed Reserves	20.3	18.8	1.5	19.5	21.0	29.2
Non-Borrowed Reserves	3111.1	3287.1	-176.0	3212.5	3288.6	3629.5

MONEY SUPPLY (One-Month Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...	
	9/22	8/22	Change	3 Mos.	6 Mos.
M1 (Currency+demand deposits+other liquid assets)	20283.5	20472.8	-189.3	-1.3%	-2.0%
M2 (M1+small time deposits+retail money markets)	21503.4	21632.4	-129.0	-0.5%	-1.1%

Source: United States Federal Reserve Bank

ENR Construction Cost Index

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Annual Average
2001	6281	6272	6279	6286	6288	6318	6404	6389	6391	6397	6410	6390	6342
2002	6462	6462	6502	6480	6512	6532	6605	6592	6589	6579	6578	6563	6538
2003	6581	6640	6627	6635	6642	6694	6696	6733	6741	6771	6794	6782	6695
2004	6825	6861	6957	7017	7064	7109	7126	7188	7298	7314	7312	7308	7115
2005	7297	7298	7309	7355	7398	7415	7422	7479	7540	7563	7630	7647	7446
2006	7660	7689	7692	7695	7691	7700	7721	7723	7763	7883	7911	7888	7751
2007	7880	7880	7856	7865	7942	7939	7959	8007	8050	8045	8092	8089	7967
2008	8090	8094	8109	8112	8141	8185	8293	8362	8557	8623	8602	8551	8310
2009	8549	8533	8534	8528	8574	8578	8566	8564	8586	8596	8592	8641	8570
2010	8660	8672	8671	8677	8761	8805	8844	8837	8836	8921	8951	8952	8799
2011	8938	8998	9011	9027	9035	9053	9000	9088	9116	9147	9173	9172	9063
2012	9176	9198	9268	9273	9290	9291	9324	9351	9341	9376	9398	9412	9308
2013	9437	9453	9456	9484	9516	9542	9552	9545	9552	9689	9666	9668	9547
2014	9664	9681	9702	9750	9796	9800	9835	9846	9870	9886	9912	9936	9807
2015	9972	9962	9972	9992	9975	10039	10037	10039	10065	10128	10092	10135	10034
2016	10133	10182	10242	10279	10315	10337	10379	10385	10403	10435	10443	10531	10339
2017	10542	10559	10667	10678	10692	10703	10789	10826	10823	10817	10870	10873	10737
2018	10078	10889	10959	10971	11013	11069	11116	11124	11170	11183	11184	11186	10995
2019	11206	11213	11228	11228	11230	11268	11293	11311	11311	11326	11381	11381	11281
2020	11392	11396	11397	11413	11418	11436	11439	11455	11499	11539	11579	11626	11466
2021	11628	11699	11750	11849	11990	12112	12238	12463	12465	12465	12467	12482	12134
2022	12556	12684	12791	12899	13004	13111	13168	13171	13173	13175			