
**VERIFIED DIRECT TESTIMONY OF JENNIFER Z. WILSON
ON BEHALF OF THE GRANGER WATER UTILITY LLC**

Cause No. 45568

INTRODUCTION

1 **1. Q PLEASE STATE YOUR NAME AND ON WHOSE BEHALF, YOU ARE**
2 **TESTIFYING.**

3 A My name is Jennifer Z. Wilson, and I am testifying on behalf of the Petitioner, Granger
4 Water Utility LLC (“Petitioner” or “Granger Water”).

5 **2. Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A I am a Consulting Managing Director with Crowe LLP (“Crowe”), a certified public
7 accounting and consulting firm. Crowe’s Consulting Public Sector Municipal Advisory
8 practice and its predecessor, Municipal Consultants, have been providing rate and
9 financial consulting services to various types of utility companies for over fifty-five
10 years. My business address is 135 North Pennsylvania Street, Suite 200, Indianapolis,
11 Indiana 46204.

1 **3. Q PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL**
2 **QUALIFICATIONS.**

3 A I received a bachelor's degree in accounting from Indiana University in 1992. During
4 my employment, I have attended numerous seminars and conferences pertaining to
5 accounting, utility, and rate issues. Universities, utility associations, accounting
6 organizations, state regulatory associations, governmental entities, and other
7 organizations sponsored these seminars. I am a Certified Public Accountant licensed in
8 the State of Indiana and am a member of the Indiana CPA Society and the American
9 Institute of Certified Public Accountants. I am designated by the Municipal Securities
10 Rulemaking Board (MSRB) as a Municipal Advisor Representative and a Municipal
11 Advisor Principal.

12 **4. Q HOW LONG HAVE YOU BEEN EMPLOYED BY CROWE AND IN WHAT**
13 **CAPACITIES?**

14 A I have been employed by Crowe since 1992 after graduating from Indiana University.
15 During my employment, I have been responsible for supervising and performing
16 numerous projects including utility rate engagements, feasibility studies, cost of service
17 studies, utility financial analysis, rate evaluation, revenue sufficiency reviews, and other
18 projects related to a variety of utility issues.

1 **5. Q HAVE YOU TESTIFIED BEFORE THE COMMISSION IN THE PAST?**

2 A Yes, I testified on behalf of the City of Fort Wayne in its water rate case and financing
3 case, in Cause Nos. 42979 and 42724, the City of South Bend in Cause No. 42779, the
4 City of New Castle Water Utility in Cause No. 42984, the City of Lafayette in Cause
5 No. 45006, Crawfordsville Electric Light & Power in Cause No. 45420, and most
6 recently, for the City of Bloomington Water Utility in Cause No. 45533.

7 **6. Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CAUSE?**

8 A The purpose of my testimony is to present the estimated financial results of Granger
9 Water based on its proposed rates and charges and various assumptions provided to us
10 by Granger Water's management. Granger Water engaged Crowe to develop revenue
11 requirements for its annual operations and calculate rates and charges. The June 21,
12 2021, Rate Report ("Report"), which is prefiled as Petitioner's Attachment JZW-1,
13 documents the results of the analysis that was performed by Crowe under my
14 supervision.

15 **7. Q WERE THE SCHEDULES WHICH ARE INCLUDED IN THE REPORT**
16 **PREPARED BY YOU OR PREPARED UNDER YOUR DIRECT SUPERVISION?**

17 A Yes. I either prepared the schedules or provided supervision as to their preparation.

1 **8. Q WHAT WERE THE SOURCES OF THE DATA USED TO PREPARE THE**
2 **SCHEDULES OF THE REPORT?**

3 A The data and assumptions used to prepare the schedules were provided by Granger
4 Water based on its expectations of growth and future costs, input from consulting
5 engineers, and input from contractors to be engaged for providing water service. Given
6 Granger Water does not have historical financial information from which to calculate
7 revenue requirements, I relied on the assumptions provided by management in
8 completing my analysis. I think the assumptions provided by management are
9 reasonable, however, would note that any changes in assumptions will result in changes
10 to financial results.

11 **9. Q WHAT ASSUMPTIONS ARE MOST SIGNIFICANT TO YOUR REPORT?**

12 A Appendix A to my Report describe general report assumptions provided by
13 Management of Granger Water as well as the assumptions underpinning each schedule
14 of the Report. I would highlight the importance of the customer growth assumptions,
15 which assuming new customers to Granger Water of 38 per year from year one to year
16 five, and 35 per year from year six to year ten. Customer growth effects estimated
17 revenues and expenses, repayment of the Water Plan Loan, collection of system
18 development charges, and build out of distribution plant assets. I discuss these elements
19 in greater detail below. Another key assumption is that the water plant assets initially
20 constructed are sized to serve approximately 260 customers. The Report assumes that

1 expanding the treatment capacity of the water plant will require additional plant capital
2 expenditures of \$500,000.

3
4 **10. Q DESCRIBE THE RELATIONSHIP BETWEEN GRANGER WATER'S**
5 **REVENUE REQUIREMENTS AND PROPOSED RATES AND CHARGES.**

6 A. In a traditional cause before the Indiana Utility Regulatory Commission, the petitioner
7 submits proposed rates and charges that are calculated at sufficient levels to recover the
8 utility's revenue requirements. This method is suitable for established utilities with a
9 relatively stable customer base, however, is not suitable for the Petitioner. Granger
10 Water will serve a new residential development to be constructed over the next ten years
11 and beyond, which means that the relatively low number of customers in the early years
12 of the development will not be able to support the revenue requirements of Granger
13 Water without facing exorbitant rates. Granger Water proposes a flat rate charge of
14 \$75.00 as an initial rate that balances the cash needs of Granger Water with the customer
15 growth expected to occur within the residential development. The flat rate charge
16 includes both provision for water service and provision of fire protection. Granger Water
17 plans, but does not seek approval of in this current cause, to increase rates according to
18 the Alternative Regulatory Procedures for Small Utilities for five successive years
19 following approval of its initial rates. Granger Water anticipates that customer growth
20 will close the gap between revenues generated from customers and Granger Water's
21 revenue requirement.

1 **11. Q HOW WILL GRANGER WATER OPERATE IF RATES AND CHARGES DO**
2 **NOT RECOVER GRANGER WATER'S REVENUE REQUIREMENT?**

3 A As summarized on the statement of cash flows, Granger Water will have several cash
4 flow sources that it anticipates will offset unrecovered revenue requirements, including
5 equity infusion from curtailment amounts from lot sales, System Development Charges,
6 and other equity contributions. Curtailment amounts are an agreed-upon amount between
7 Granger Water and its lending bank of the lot sales that are designated for repayment of
8 Granger Water's initial loan for construction of the water plant. Anticipated curtailments
9 from lot sales, as well as an interest reserve included in the loan amount, will be used to
10 make loan payments in the first few years of operations. System Development Charges
11 will generate positive cashflow to help Granger Water pay for operating expenses that
12 are unable to be funded through water revenues. To the extent that the Commission
13 requires the use of System Development Charges to pay for operating expenses, Granger
14 Water requests such approval. Granger Water intends to cease using System
15 Development Charges to fund operating expenses and instead reserve funds for future
16 capital improvements once it reaches a point of sustainable cash flows from operations.
17 Finally, Granger Water plans to make equity contributions to assist in purchase of the
18 distribution system of Granger Water and other shortfalls that may arise.

19 **12. Q HOW CAN GRANGER WATER USE SYSTEM DEVELOPMENT CHARGES**
20 **TO PAY FOR OPERATING EXPENSES IF THEY ARE INTENDED AS A**

1 **CAPITAL CONTRIBUTION?**

2 A Given the start-up nature of Granger Water and the residential development as a whole,
3 Granger Water was required to invest in infrastructure to make Granger Water viable
4 for future customers. In doing so, Granger Water relied on its owners' resources debt
5 financing to fund initial build out of infrastructure. Granger Water views System
6 Development Charges not as a contribution for future capital expenditure, but rather a
7 reimbursement for prior capital expenditures. Within established utility systems, System
8 Development Charges are a mechanism for new customers to buy into the system for
9 the additional available capacity that enables the new customer to connect to the system.
10 Similarly, new customers to Granger Water are effectively reimbursing the owners of
11 Granger Water for making capacity available to them. This functions as a change in
12 capital structure over time as Granger Water shifts from funding from debt and equity,
13 to funding from debt, equity, and contributions. Such a change in capital structure frees
14 up cash for Granger Water to use to offset operating losses during infancy of Granger
15 Water and the residential development.

16 **13. Q HOW WAS THE SYSTEM DEVELOPMENT CHARGE CALCULATED?**

17 Chapter VII.2 of the American Water Works Association Manual M1 – Principles of
18 Water Rates, Fees, and Charges Seventh Edition (AWWA Manual) provides for three
19 primary methods for calculating system development charges.

20 The AWWA Manual states that:

1 “There are many different methods that may be used to calculate cost-based system
2 development charges. The three basic or common methods for calculating the SDCs
3 are as follows:

- 4 • The *buy-in method* is based on the value of the existing system's capacity. This
5 method is typically used when the existing system has sufficient capacity to
6 serve new development now and into the future.
- 7 • The *incremental cost method* is based on the value or cost to expand the existing
8 system's capacity. This method is typically used when the existing system has
9 limited or no capacity to serve new development and new or incremental
10 facilities are needed to serve new development now and into the future.
- 11 • The *combined approach* is based on a blended value of both the existing and
12 expanded system's capacity. This method is typically used where some capacity
13 is available in parts of the existing system (e.g., source of supply), but new or
14 incremental capacity will need to be built in other parts (e.g., treatment plant) to
15 serve new development at some point in the future.” (pages 329 and 330 AWWA
16 Manual)

17 The AWWA Manual goes further to state that the fundamental formula for calculating
18 an SDC is to divide the system value by the system capacity and then multiply the
19 resulting figure by the capacity required for the new customer. All three (3) methods of
20 calculating an SDC (buy-in method, incremental cost method and the combined
21 approach) use the same basic formula but the inputs are slightly different.

1 The Petitioner's characteristics as a new utility merit use of the Incremental Cost
2 Method in which the costs of new plant to be added to expand capacity is allocated
3 across anticipated users of the new capacity. While more appropriate conceptually, this
4 method would attempt to spread nearly one and half million of plant related costs across
5 two hundred and fifty customers and result in a nearly \$6,000 charge. This charge is not
6 reasonable in the context of the other system development charges across the State and
7 Mr. Matthews thinks that level of charge could deter prospective customers. Given
8 Granger Water's long-term success and stability will be achieved through customer
9 growth, Granger Water proposes an initial charge of \$1,750, which includes provision
10 for the income tax due on the system development charge. After taxes, this results in a
11 contribution of \$1,015 to Granger Water. This value balances cash flow requirements.
12 Furthermore, Mr. Matthews does not think such a value will deter future customer
13 growth.

14 **14. Q WILL THE GROSSED-UP PORTION OF SYSTEM DEVELOPMENT**
15 **CHARGES OFFSET GRANGER WATER'S RATE BASE?**

16 A Though the system development charge recorded as contribution in aid of construction
17 (CIAC) will offset Granger Water's rate base, the portion collected related to income
18 taxes will not. The income tax portion of the charge does not result in additional utility
19 plant in service, therefore, recording it as CIAC results in devaluing Granger Water's
20 rate base for collections not related to utility plant.

1 **15. Q DESCRIBE GRANGER WATER'S CAPITAL STRUCTURE.**

2 A Approximately seventy-five percent (75%) of initial land purchase and construction of
3 the water plant is funded through a loan (the "Water Plant Loan"), while the remaining
4 twenty-five percent (25%) is funded through equity contributions from the owners to
5 the project. The Water Plant Loan will be repaid through fixed curtailment releases
6 agreed to between Granger Water and its lending bank for each lot sold as part of the
7 residential development, as well as from available funds of Granger Water. Distribution
8 System assets will be purchased from the Developer through issuance of a loan from the
9 developer (the "Distribution Loan"). The outstanding loan balance will increase with
10 future build-outs of the distribution system, and will be repaid through equity
11 contributions of the developer of \$290,000 per year, as well as available funds of
12 Granger Water. Additional assumptions concerning the debt are included in Appendix
13 A of my Report. Additionally, I address the rationale for structuring the acquisition of
14 distribution system plant as a loan in a subsequent question.

15 **16. Q DESCRIBE THE SCHEDULES INCLUDED WITHIN YOUR REPORT.**

16 A The Report includes a Balance Sheet, Income Statement, Statement of Cash Flows,
17 and Summary of Debt, based on assumptions outlined in Appendix A of the Report.
18 The assumptions outline the majority of details concerning these schedules and are
19 critical to understanding the information summarized in these schedules. The Report
20 also includes a schedule summarizing Granger Water's estimated weighted average
21 cost of capital, allowable net operating income, and the rate increase required to

1 recover the full level of allowable net operating income (the "Allowable NOI
2 Schedule"). Lastly, I included a schedule of proposed charges for Granger Water.

3 **17. Q HOW IS GRANGER WATER'S TAX LIABILITY REPRESENTED IN**
4 **GRANGER WATER'S FINANCIAL STATEMENTS?**

5 A Granger Water plans to gross-up CIAC such that payers of system development
6 charges pay for the income taxes associated with their contributions. For the sake of
7 estimating pro-forma financial statements, these statements assume that the gross-up
8 of CIAC adequately cover the income taxes due on CIAC; neither the inflow of gross
9 up taxes nor the outflow of taxes paid related to CIAC are included in the income
10 statement or statement of cash flows. No income taxes are estimated related to Utility
11 operations for the projected period; therefore, income taxes are not included within the
12 estimated financial statements.

13 **18. Q HOW IS RATE BASE CALCULATED ON THE ALLOWABLE NOI**
14 **SCHEDULE?**

15 A Rate Base is calculated by identifying the net amount of utility plant in service after
16 factoring in depreciation on gross utility assets. Net utility plant in service is adjusted
17 for the net amount of distribution plant assets purchased by Granger Water as well as
18 the net amount of CIAC collected through system development charges. Both the net
19 distribution system and net CIAC are depreciated/amortized at the composite
20 depreciation rate of 2%.

1 **19. Q WHY ARE NET DISTRIBUTION ASSETS EXCLUDED FROM RATE BASE?**

2 A Many residential developments are donated by developers to existing utilities, and
3 therefore recorded as CIAC. The Tax Cuts and Jobs Act made such donations taxable.
4 To avoid burdening ratepayers with additional income tax, Granger Water has opted to
5 structure the acquisition of distribution system as a sale rather than a donation so as to
6 avoid a tax event. Granger Water recognizes that though this treatment is beneficial to
7 rate payers related to income tax; it also creates an opportunity for Granger Water to
8 generate a return on distribution system plant. Granger Water is willing to forego this
9 return in order to follow more traditional developments as it relates to rate-making
10 effects.

11 **20. Q WHAT COST OF EQUITY ASSUMPTION IS USED ON THE ALLOWABLE**
12 **NOI SCHEDULE?**

13 A Determining the cost of equity is a complex issue with many perspectives. Given
14 Granger Water is at its infancy and will not generate a return on rate base for the initial
15 years of operations, Granger Water does not propose a cost of equity to be approved in
16 this cause. For illustrative purposes only, Granger Water has included an estimate of
17 eight percent (8%), which Granger Water believes is materially lower than its actual
18 cost of equity, for estimating required rate increases to achieve allowable net operating
19 income.

1 **21. Q DESCRIBE THE RATE INCREASE REQUIRED SECTION OF THE**
2 **ALLOWABLE NOI SCHEDULE.**

3 A This section is not intended to show proposed rate increases, but rather show what rate
4 increase would be required over the current rates such that Granger Water's Net
5 Operating Income and Income Tax on Utility Operations equals its Allowable Net
6 Operating Income. You can see that the addition of customers, combined with modest
7 rate increases according to the IURC's Alternative Regulatory Procedures results in
8 closing the gap between actual rates and the rates required to produce Allowable Net
9 Operating Income. Required rate increases decline through the estimated period as new
10 customer growth spreads Granger Water's cost across a wider customer base. This
11 Report does not provide an estimate beyond ten years, however, Granger Utility
12 anticipates customer growth beyond what is projected in this Report. Such growth would
13 necessitate expansion of capacity at the plant and also would serve to lower the required
14 rate increase.

15 **22. Q DESCRIBE THE SCHEDULE OF PROPOSED RATES AND CHARGES.**

16 A The Schedule of Proposed Rates and Charges shows the proposed flat rate charge of
17 \$75 per month, which includes water service and fire protection service, and the
18 grossed up system development charge of \$1,750. Other miscellaneous charges are
19 also included based on cost estimates provides by Granger Water's qualified operator.

1 **23. Q HOW ARE THE SERVICE CALL, BAD CHECK CHARGES, AND LATE**
2 **PAYMENT CHARGE DETERMINED?**

3 A The Service Call (Business Hours/Non-Emergency) is the estimated cost for providing
4 one hour of service at an estimated hourly rate of \$135 from the service contractor plus
5 \$100 for overhead and billing expenses incurred by the Utility. The Service Call (Non-
6 Business Hours/Emergency) follows a similar format, with an estimated hourly rate of
7 \$405 from the service contractor plus \$150 for overhead and billing expenses incurred
8 by the Utility. Should service call exceed one hour, additional hours will be billed at the
9 service contractor rate. The bad check charge is the \$25 non-sufficient fund fee charged
10 from the bank and an overhead and billing charge of \$100. The late payment charge of
11 ten percent (10%) on the first three dollars and three percent (3%) on amounts in excess
12 of three dollars is typical of the charge allowed for water utilities.

13 **24. Q HOW IS THE DEFERRED ACCOUNTING TREATMENT REFLECTED IN**
14 **THE REPORT?**

15 A The Report does not show the effect of accounting for operating losses as a regulatory
16 asset, but rather shows all losses as recorded to Retained Earnings. Granger Water
17 requests the ability to book Net Operating Losses from inception to the year in which it
18 generates positive Net Operating Income as a debit to a regulatory asset, rather than a
19 debit to Retained Earnings. While not summarized in the Report, the Report shows Net
20 Operating Losses through year 4 of approximately \$193,000. If the Commission allows
21 for this loss to be accounted for as a regulatory asset, it will be recorded as a

1 miscellaneous deferred debit. The permission to create this regulatory asset can then be
2 available to be used in future proceedings to recover the cost of the initial investment
3 and expected loss to be incurred in the start-up of Granger Water.

4

5 **25. Q DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY AT THIS**
6 **TIME?**

7 A Yes.

VERIFICATION

I hereby affirm, under the penalties for perjury, that the foregoing representations are true to the best of my knowledge, information, and belief.

Dated: June 21, 2021

Jennifer Z. Wilson
Jennifer Z. Wilson

Rate Report

Granger Water Utility LLC

June 21, 2021

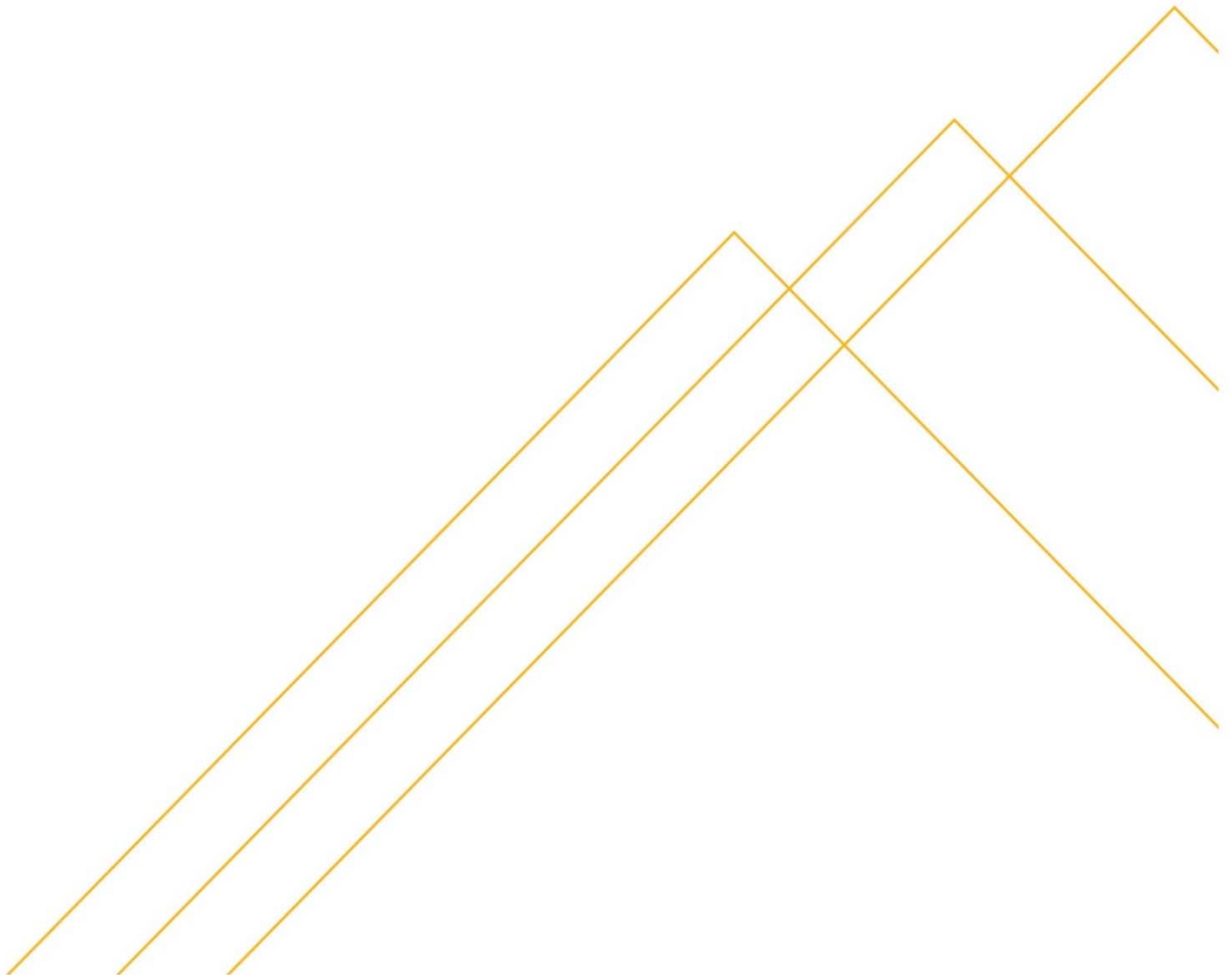


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Purpose of the Report

Crowe LLP (“Crowe”) has performed a study and analysis of the operating and financial assumptions pertaining to the Granger Water Utility LLC (“Utility”). The results of our analysis are contained in this Rate Report (“Report”).

The purpose of the Report is to estimate the Utility’s revenue requirements, propose an initial flat rate charge to be billed to customers of the Utility, and to calculate the rate increases required for the Utility to generate its allowable net operating income. This Report is based on assumptions provided by management of the Utility through its consultation with consulting engineers and contractors, and its experience with prior residential developments. Assumptions are detailed in Appendix A to this Report.

As of the date of this Report, the Utility has not commenced operations. The Report estimates ten years of operating results. Years do not correspond directly to a calendar year or fiscal year, but rather are representative of pro-forma years beginning at the point the Utility commences operations.

In the course of preparing this Report, we have not conducted an audit of any financial or supplemental data used in the accompanying tables and notes. We have provided an assessment based on information provided by the Utility that may vary from actual results because events and circumstances frequently do not occur as estimated and such variances may be material. We have no responsibility to update this Report for events and circumstances occurring after the date of this Report.

If you have any questions regarding this Report, please call Jennifer Wilson at (317) 269-6696 or Craig Lotz at (317) 689-5512.

Crowe’s services are conducted in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants, and Crowe’s deliverables and other work product are based on underlying assumptions and other information determined by Client. Crowe’s services, deliverables and other work product do not constitute a forecast or projection of any kind. With no relevant precedent for the COVID-19 pandemic, it is impossible to predict with accuracy the economic repercussions of the COVID-19 pandemic, and therefore Crowe’s services, deliverables and other work product must not be relied upon for predicting such repercussions. Crowe’s services, deliverables and other work product are intended solely for the use of Crowe’s Client, and no other person or entity may rely on Crowe’s services, deliverables or other work product for any purpose. Crowe LLP disclaims any obligation to update this work product.

Financial Statements

Estimated Balance Sheets

	Opening	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Utility Plant in Service	\$ 1,867,850	\$ 2,219,350	\$ 2,576,333	\$ 2,938,885	\$ 3,307,093	\$ 3,681,045	\$ 4,030,848	\$ 4,886,108	\$ 5,246,910	\$ 5,613,340	\$ 5,985,487
Less: Accumulated Depreciation/Amortization	-	(41,007)	(89,154)	(144,552)	(207,314)	(277,555)	(354,792)	(449,134)	(550,693)	(659,580)	(775,910)
Net Utility Plant in Service	1,867,850	2,178,343	2,487,179	2,794,333	3,099,779	3,403,490	3,676,056	4,436,974	4,696,217	4,953,760	5,209,577
Current and Accrued Assets											
Cash	26,161	19,357	42,142	46,953	52,684	58,863	60,423	80,406	86,781	88,199	88,477
Interest Reserve	122,317	59,358	11,351	-	-	-	-	-	-	-	-
Capital Reserve	-	1,573	3,593	6,083	9,074	12,594	16,673	21,342	26,635	32,585	39,228
Total Current and Accrued Assets	148,478	80,288	57,086	53,036	61,758	71,457	77,096	101,748	113,416	120,784	127,705
Total Assets	2,016,328	2,258,631	2,544,265	2,847,369	3,161,537	3,474,947	3,753,152	4,538,722	4,809,633	5,074,544	5,337,282
Equity Capital											
Common Stock	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Additional Paid In Capital	533,931	887,336	1,531,187	2,175,510	2,798,736	3,092,256	3,386,335	4,181,004	4,476,297	4,772,247	5,068,890
Retained Earnings	-	-	(148,569)	(272,462)	(359,547)	(409,654)	(421,724)	(408,728)	(440,713)	(465,200)	(469,140)
Current Year Net Income	-	(148,569)	(123,893)	(87,085)	(50,107)	(12,070)	12,996	(31,985)	(24,487)	(3,940)	17,664
Total Equity Capital	534,931	739,767	1,259,725	1,816,963	2,390,082	2,671,532	2,978,607	3,741,291	4,012,097	4,304,107	4,618,414
Liabilities											
Water Plant Loan	1,481,397	1,129,565	776,292	394,930	-	-	-	-	-	-	-
Distribution System Loan	-	351,500	433,422	524,394	624,889	622,136	562,309	554,948	525,517	469,592	389,908
Total Liabilities	1,481,397	1,481,065	1,209,714	919,324	624,889	622,136	562,309	554,948	525,517	469,592	389,908
Contributions in Aid of Construction (CIAC)	-	38,570	77,140	115,710	154,280	192,850	228,375	263,900	299,425	334,950	370,475
Less: Accumulated Amortization	-	(771)	(2,314)	(4,628)	(7,714)	(11,571)	(16,139)	(21,417)	(27,406)	(34,105)	(41,515)
Net CIAC	-	37,799	74,826	111,082	146,566	181,279	212,236	242,483	272,019	300,845	328,960
Total Equity Capital and Liabilities	\$ 2,016,328	\$ 2,258,631	\$ 2,544,265	\$ 2,847,369	\$ 3,161,537	\$ 3,474,947	\$ 3,753,152	\$ 4,538,722	\$ 4,809,633	\$ 5,074,544	\$ 5,337,282

Data Source: Assumptions provided by management of the Utility. See Appendix A.

Summary of Estimated Debt

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Water Plant Loan										
Beginning Loan Balance	\$ 1,481,397	\$ 1,129,565	\$ 776,291	\$ 394,930						
Principal Repaid	(351,832)	(353,274)	(381,361)	(394,930)						
Interest (4.25%) (1)	(62,959)	(48,007)	(32,992)	(16,785)						
Ending Loan Balance	<u>\$ 1,129,565</u>	<u>\$ 776,291</u>	<u>\$ 394,930</u>	<u>\$ -</u>						
Distribution System Loan										
Purchased Distribution System	\$ 351,500	\$ 356,983	\$ 362,552	\$ 368,208	\$ 373,952	\$ 349,803	\$ 355,260	\$ 360,802	\$ 366,430	\$ 372,147
Cumulative Purchased Distribution System	351,500	708,483	1,071,035	1,439,243	1,813,195	2,162,998	2,518,258	2,879,060	3,245,490	3,617,637
Beginning Loan Balance	-	351,500	433,422	524,394	624,889	622,136	562,309	554,948	525,517	469,592
Purchased Distribution System	351,500	356,983	362,552	368,208	373,952	349,803	355,260	360,802	366,430	372,147
Principal Repaid	-	(275,061)	(271,580)	(267,713)	(376,705)	(409,630)	(362,621)	(390,233)	(422,355)	(451,831)
Interest (4.25%) (1)	-	(14,939)	(18,420)	(22,287)	(26,558)	(26,441)	(23,898)	(23,585)	(22,334)	(19,958)
Ending Loan Balance	<u>\$ 351,500</u>	<u>\$ 433,422</u>	<u>\$ 524,394</u>	<u>\$ 624,889</u>	<u>\$ 622,136</u>	<u>\$ 562,309</u>	<u>\$ 554,948</u>	<u>\$ 525,517</u>	<u>\$ 469,592</u>	<u>\$ 389,908</u>

(1) Interest not included in Ending Loan Balance.

Data Source: Assumptions provided by management of the Utility. See Appendix A.

Estimated Statements of Income

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<u>Incremental Customer Growth</u>	38	38	38	38	38	35	35	35	35	35
<u>Operating Revenues</u>										
Water Sales	\$ 34,200	\$ 68,400	\$ 104,199	\$ 141,100	\$ 179,135	\$ 215,468	\$ 252,855	\$ 286,888	\$ 320,919	\$ 354,956
<u>Operating Expenses</u>										
<u>Operation and Maintenance Expenses</u>										
Purchased Power	6,000	6,000	6,000	6,000	6,000	6,000	12,000	12,000	12,000	12,000
Maintenance	936	1,928	2,979	4,091	5,267	6,510	7,823	9,209	10,671	12,213
Billing Expense	12,000	12,000	12,780	15,060	17,340	19,440	21,540	23,640	25,506	27,396
Qualified Operator	43,200	44,496	45,831	47,206	48,622	49,594	50,586	51,598	52,630	53,683
Insurance	6,000	6,180	6,365	6,556	6,753	6,888	7,026	7,166	7,310	7,456
Legal Fees	5,000	5,150	5,305	5,464	5,628	5,740	5,855	5,972	6,091	6,213
Regulatory Reporting and Permit Fees	1,200	1,236	1,236	1,236	1,236	1,236	1,236	1,236	1,236	1,236
Security Service	600	618	637	656	675	689	703	717	731	746
Consumer Confidence Reporting	600	618	637	656	675	689	703	717	731	746
Total Operation and Maintenance Expenses	75,536	78,226	81,770	86,925	92,196	96,786	107,472	112,255	116,906	121,689
<u>Depreciation Expense</u>	40,236	46,604	53,084	59,676	66,384	72,669	89,064	95,570	102,188	108,920
<u>Taxes Other Than Income Taxes</u>										
Utility Receipts Tax	479	958	1,459	1,975	2,508	3,017	3,540	4,016	4,493	4,969
Property Taxes (Net of Abatement)	3,559	3,559	3,559	3,559	3,559	3,559	60,866	75,949	78,938	81,756
Total Taxes Other Than Income Taxes	4,038	4,517	5,018	5,534	6,067	6,576	64,406	79,965	83,431	86,725
Net Operating Income	(85,610)	(60,947)	(35,673)	(11,035)	14,488	39,437	(8,087)	(902)	18,394	37,622
<u>Other Expense</u>										
Interest Expense (Water Plant)	(62,959)	(48,007)	(32,992)	(16,785)	-	-	-	-	-	-
Interest Expense (Distribution System)	-	(14,939)	(18,420)	(22,287)	(26,558)	(26,441)	(23,898)	(23,585)	(22,334)	(19,958)
Total Other Expense	(62,959)	(62,946)	(51,412)	(39,072)	(26,558)	(26,441)	(23,898)	(23,585)	(22,334)	(19,958)
Net Income	\$ (148,569)	\$ (123,893)	\$ (87,085)	\$ (50,107)	\$ (12,070)	\$ 12,996	\$ (31,985)	\$ (24,487)	\$ (3,940)	\$ 17,664

Data Source: Assumptions provided by management of the Utility. See Appendix A.

Estimated Statements of Cash Flow

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Cash Flows from Operating Activities										
Net Income	\$ (148,569)	\$ (123,893)	\$ (87,085)	\$ (50,107)	\$ (12,070)	\$ 12,996	\$ (31,985)	\$ (24,487)	\$ (3,940)	\$ 17,664
Plus: Depreciation Expense	40,236	46,604	53,084	59,676	66,384	72,669	89,064	95,570	102,188	108,920
Net Cash Flows from Operating Activities	(108,333)	(77,289)	(34,001)	9,569	54,314	85,665	57,079	71,083	98,248	126,584
Cash Flows from Financing Activities										
Shareholder Contribution (Lot Sales)	351,832	351,832	351,832	330,235	-	-	-	-	-	-
Shareholder Contribution (Capital Reserve)	1,573	2,019	2,491	2,991	3,520	4,079	4,669	5,293	5,950	6,643
Shareholder Contribution (Plant)	-	-	-	-	-	-	500,000	-	-	-
Shareholder Contribution (Distribution Loan)	-	290,000	290,000	290,000	290,000	290,000	290,000	290,000	290,000	290,000
Principal Payment on Water Plant Loan	(351,832)	(353,274)	(381,361)	(394,930)	-	-	-	-	-	-
Principal Payment on Distribution System Loan	-	(275,061)	(271,580)	(267,713)	(376,705)	(409,630)	(362,621)	(390,233)	(422,355)	(451,831)
Plant Expansion	-	-	-	-	-	-	(500,000)	-	-	-
Contribution in Aid of Construction	38,570	38,570	38,570	38,570	38,570	35,525	35,525	35,525	35,525	35,525
Net Cash Flows from Financing Activities	40,143	54,086	29,952	(847)	(44,615)	(80,026)	(32,427)	(59,415)	(90,880)	(119,663)
Net Increase (Decrease) in Cash	(68,190)	(23,203)	(4,049)	8,722	9,699	5,639	24,652	11,668	7,368	6,921
Beginning Cash	148,478	80,288	57,086	53,036	61,758	71,457	77,096	101,748	113,416	120,784
Net Increase (Decrease) in Cash	(68,190)	(23,203)	(4,049)	8,722	9,699	5,639	24,652	11,668	7,368	6,921
Ending Cash (1)	\$ 80,288	\$ 57,085	\$ 53,037	\$ 61,758	\$ 71,457	\$ 77,096	\$ 101,748	\$ 113,416	\$ 120,784	\$ 127,705

(1) For select years, Ending Cash does not align to Beginning Cash of the subsequent year due to presentation of amounts rounded to the nearest dollar.

Data Source: Assumptions provided by management of the Utility. See Appendix A.

Schedule of Allowable Net Operating Income

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<u>Weighted Average Cost of Capital (WACC)</u>										
Total Equity Capital	\$ 739,767	\$ 1,259,725	\$ 1,816,963	\$ 2,390,082	\$ 2,671,532	\$ 2,978,607	\$ 3,741,291	\$ 4,012,097	\$ 4,304,107	\$ 4,618,414
Total Long-Term Debt	1,481,065	1,209,714	919,324	624,889	622,136	562,309	554,948	525,517	469,592	389,908
Equity Capital (8.00%)	32.75%	49.51%	63.81%	75.60%	76.88%	79.36%	82.43%	83.42%	84.82%	86.53%
Long-Term Debt (4.25%)	65.57%	47.55%	32.29%	19.77%	17.90%	14.98%	12.23%	10.93%	9.25%	7.31%
WACC	5.54%	6.22%	6.79%	7.26%	7.33%	7.44%	7.54%	7.59%	7.65%	7.73%
<u>Allowable Net Operating Income</u>										
Utility Plant in Service	\$ 2,219,350	\$ 2,576,333	\$ 2,938,885	\$ 3,307,093	\$ 3,681,045	\$ 4,030,848	\$ 4,886,108	\$ 5,246,910	\$ 5,613,340	\$ 5,985,487
Less: Accumulated Depreciation	(41,007)	(89,154)	(144,552)	(207,314)	(277,555)	(354,792)	(449,134)	(550,693)	(659,580)	(775,910)
Net Utility Plant in Service	2,178,343	2,487,179	2,794,333	3,099,779	3,403,490	3,676,056	4,436,974	4,696,217	4,953,760	5,209,577
Less: Net Distribution System	(344,470)	(687,283)	(1,028,415)	(1,367,838)	(1,705,526)	(2,012,069)	(2,316,964)	(2,620,184)	(2,921,705)	(3,221,499)
Less: Net CIAC	(37,799)	(74,826)	(111,082)	(146,566)	(181,279)	(212,236)	(242,483)	(272,019)	(300,845)	(328,960)
Calculated Rate Base	1,796,074	1,725,070	1,654,836	1,585,375	1,516,685	1,451,751	1,877,527	1,804,014	1,731,210	1,659,118
Times: WACC	5.54%	6.22%	6.79%	7.26%	7.33%	7.44%	7.54%	7.59%	7.65%	7.73%
Allowable Net Operating Income	99,502	107,299	112,363	115,098	111,173	108,010	141,566	136,925	132,438	128,250
Less: Pro Forma Net Operating Income	(85,610)	(60,947)	(35,673)	(11,035)	14,488	39,437	(8,087)	(902)	18,394	37,622
Revenue Increase Required	185,112	168,246	148,036	126,133	96,685	68,573	149,653	137,827	114,044	90,628
Divided by: Revenue Conversion Factor	0.566	0.566	0.566	0.566	0.566	0.566	0.566	0.566	0.566	0.566
Additional Revenue Required	327,065	297,265	261,557	222,858	170,828	121,158	264,414	243,519	201,498	160,126
Divide by: Adjustable Operating Revenues	34,200	68,400	104,199	141,100	179,135	215,468	252,855	286,888	320,919	354,956
Rate Increase Required	956%	435%	251%	158%	95%	56%	105%	85%	63%	45%
Cumulative Customer Count	38	76	114	152	190	225	260	295	330	365
Flat Rate Charge	\$ 75.00	\$ 75.00	\$ 76.17	\$ 77.36	\$ 78.57	\$ 79.80	\$ 81.04	\$ 81.04	\$ 81.04	\$ 81.04

Data Source: Assumptions provided by management of the Utility. See Appendix A.

Proposed System Development Charge

<hr/>		
Proposed System Development Charge		<u>\$ 1,750.00</u>
Less: Provision for Taxes		
Federal Tax Rate	37.00%	
State Tax Rate	<u>5.00%</u>	
Total Tax Rate		<u>42.00%</u>
Taxes Due on System Development Charge		<u>735.00</u>
Net System Development Charge		<u>\$ 1,015.00</u>

Data Source: Assumptions provided by management of the Utility. See Appendix A.

Schedule of Proposed Rates and Charges

	Charge
Water Service - Flat Rate	\$ 75.00
System Development Charge	1,750.00
Service Call (1 hour minimum)	
Business Hours	235.00
Non-Business Hours	555.00
Service Call (additional hours in excess of 1 hour)	
Business Hours	135.00
Non-Business Hours	405.00
Bad Check Charge	125.00
Late Payment Charge	
On first three dollars (\$3.00) of the water service charge	10%
Amount in Excess of three dollars (\$3.00) of the water service charge	3%

Data Source: Assumptions provided by management of the Utility. See Appendix A.

Appendix A: Assumptions

The following assumptions, provided by and approved by management the Utility, were used in preparation of the Report.

Report Area	Assumption
General	<ul style="list-style-type: none"> • Assumes incremental growth of customers for a given year are present for the entire year. The Years summarized are not intended to correspond directly to calendar year. • Starting flat rate charge of \$75.00 per customer per month. Assumes rate increases each year for five years of 1.56%, which is the 2020 Alternative Regulatory Procedures index rate published by the Indiana Utility Regulatory Commission. • Assumes new customers of 38 per year from year 1 through year 5, and 35 per year from years 6 through 10 for a total of 365 customers. Customer growth drives multiple factors in the model, including sales, annual collection of system development charges, repayment of debt service, and several expense categories on the Income Statement. • Initial Water Plant capacity adequate to serve 260 customers. Additional customers beyond 260 will require additional capital expenditures of \$500,000.
Balance Sheets	<ul style="list-style-type: none"> • Utility Plant in Service is the sum of the following components <ul style="list-style-type: none"> ▪ Initial Water Plant: sum of land costs, soft costs, construction costs, and financing costs. ▪ Distribution System Improvements: build-out of distribution system to be contributed to the Utility by the developer of the project at an estimated cost of \$9,250 per lot to be connected to the Utility. Cost per lot is increased annually by the 2020 Alternative Regulatory Procedures index rate. ▪ Additional Plant Capacity: expenditure required to complete capacity expansion of the plant for units beyond 260 . • Accumulated Depreciation/Amortization. Accumulated balance of Depreciation Expense recorded on the Income Statement plus accumulated amortization of Contribution in Aid of Construction (CIAC). • Cash. Operating funds of the Utility targeted at a minimum balance of 120 days of operation and maintenance expense and taxes other than income taxes. • Interest Reserve. Funded through loan proceeds and applied to payments of interest expense on the Water Plant Loan as available. • Capital Reserve. Assumes estimated contributions from the shareholders of the Utility for capital needs. • Additional Paid In Capital. Equity contributions comprising of cumulative curtailments from lot sales, contributions to Capital Reserves, and Additional Plant Capacity less \$1,000 provision for common stock. • Water Plant Loan. Initial financing for build-out of the water treatment plant at an interest rate of four and twenty-five hundredths percent (4.25%). Principal on the loan is repaid from equity contributions from curtailments released from lot sales, and funds from the Utility as available. • Distribution System Loan. The Utility will purchase the distribution system assets via a loan from the developer of the infrastructure. The loan will accumulate a balance as phases of the distribution system are built out. Interest of four and twenty-five hundredths percent (4.25%) will be paid on the loan balance. The loan will be repaid with utility cash as available or through equity contributions.
Statements of Income	<ul style="list-style-type: none"> • Water Sales: Calculated using a flat rate charge for each particular year times cumulative customer count times twelve months. Assumes incremental customer growth for the year is billed for twelve months of the year. • Purchased Power. Assumes \$500 per month charge for the first 230 units and \$1,000 a month at the point cumulative customer count exceeds 230 units. • Maintenance. Assumes maintenance expense equal to five percent (5%) of Water

Report Area	Assumption
	<p>Sales.</p> <ul style="list-style-type: none"> • Billing Expense. Assumes a monthly charge of \$1,000 for the first 100 customers. The Utility's 101st through 300th customer will result in an additional charge of \$5 per customer. The Utility's 301st through 500th customer will result in an additional \$4.50 per customer. Any customers beyond 500 customers (if applicable) will result in an additional \$4.25 per customer charge. • Qualified Operator. Assumes contract rate of \$43,200 per year increased annually by three percent (3%) for years 1 through 5 and two percent (2%) annually thereafter. • Insurance. Assumes initial premium amount of \$6,000 per year increased annually by three percent (3%) for years 1 through 5 and two percent (2%) annually thereafter. • Legal Fees. Assumes initial charges of \$5,000 per year increased annually by three percent (3%) for years 1 through 5 and two percent (2%) annually thereafter. • Regulatory Reporting and Permit Fees. Assumes year 1 fees of \$1,200 and fees of \$1,236 thereafter. • Security Service. Assumes initial charges of \$600 per year, increased annually by three percent (3%) for years 1 through 5 and two percent (2%) annually thereafter. • Consumer Confidence Reporting. Assumes initial charges of \$600 per year, increased annually by three percent (3%) for years 1 through 5 and two percent (2%) annually thereafter. • Depreciation Expense: Assumes Gross Utility Plant in Service (less net book value of land) multiplied by depreciation rate of two percent (2%) less the annual amortization of Contribution in Aid of Construction (CIAC). • Utility Receipts Tax. Assumes Water Sales multiplied by one and four-tenths percent (1.4%). • Property Taxes (Net of Abatement). Assumes Gross Taxable Value of Land less incremental growth in property eligible for abatement multiplied by the certified 2021 tax rate for Taxing District 011 (Harrison Township). Taxes are calculated one year in arrears (i.e. assets as of 2021 determine taxes due for 2022). <ul style="list-style-type: none"> ▪ Gross Taxable Value. Sum of land costs and 90% of the construction, soft costs, and financing costs for the Initial Water Plant, Distribution System Improvements, and Additional Plant Capacity, less accumulated amortization for Federal Income Tax purposes of four percent (4%) annually on depreciable property. ▪ Property Eligible for Abatement. Total of all real and personal property (excluding land costs) for taxes payable 2022 through 2026. Total of all real property (excluding land costs) for taxes payable in 2027. • Interest Expense (Water Plant): Assumes interest rate of four and twenty-five hundredths (4.25%) multiplied by loan principal outstanding as of January 1 of the year for which interest is due. • Interest Expense (Distribution System): Assumes interest of four and twenty-five hundredths (4.25%) multiplied by loan principal outstanding as of January 1 of the year for which interest is due.
Statement of Cash Flows	<ul style="list-style-type: none"> • Shareholder Contribution (Lot Sales): Lot curtailment amount multiplied by new customer growth assumption for applicable year. • Shareholder Contribution (Capital Reserve): Equity contribution to fund Capital Reserve. • Shareholder Contribution (Plant): Equity contribution to fund Additional Plant Capacity described in General Assumptions. Funding for future expansion has not yet been established and will be evaluated at time of expansion. • Principal Payment on Water Plant Loan. Total of "Shareholder Contribution (Lot Sales)" plus utility funds available for debt service. This amount is determined by maximizing repayment of debt while maintaining 120 days of Total Operation and Maintenance Expenses and Total Taxes Other Than Incomes Taxes from the Income Statement. • Principal Payment on Distribution System Loan. To be repaid from available utility funds following the same methodology as repayment of the of the Water Plant Loan, however, the Water Plant Loan is prioritized for repayment.

Report Area	Assumption
	<ul style="list-style-type: none"> Plant Expansion: amount of Additional Plant Capacity described in the General Assumptions. Contribution in Aid of Construction: System Development Charges (SDC) to be charged to new customers of the Utility. Only the net amount of SDC is shown after payment of income taxes.
Summary of Estimated Debt	<ul style="list-style-type: none"> Water Plant Loan. Assumes loan amount of initial soft costs, construction costs, financing costs and interest reserve less equity contribution made by the owners. Interest accrues at a rate of four and twenty-five hundredths percent (4.25%) applied to the outstanding balance of the loan on January 1 of the year paid. Distribution System Loan. Assumes loan amount for distribution system assets to be purchased, based on \$9,250 per lot multiplied by the assumed lots be sold for each respective year. Cost per lot is increased annually by the 2020 Alternative Regulatory Procedures index rate. Assumes interest accrues at a rate of four and twenty-five hundredths percent (4.25%) applied to the outstanding balance of the loan on January 1 of the year paid.
Schedule of Allowable Net Operating Income	<ul style="list-style-type: none"> Assumes no return generated on distribution system assets purchased from the developer. Equity Cost of Capital for initial rates evaluation of eight percent (8%). Cost of debt equal to four and twenty-five hundredths percent (4.25%). Revenue Conversion Factor of 0.566 based on one minus the sum of (1) Federal Income Tax rate of thirty-seven percent (37%), (2) State Income Tax rate of five percent (5%), and (3) Utility Receipts Tax of one and four-tenths percent (1.4%).
Proposed System Development Charge	<ul style="list-style-type: none"> Proposed System Development Charge set as to not deter potential customers of the Utility while balancing cash flow needs of Utility. Taxes due on Proposed System Development Charge based on (1) Federal Income Tax rate of thirty-seven percent (37%) and (2) State Income Tax rate of five percent (5%)
Schedule of Proposed Rates and Charges	<ul style="list-style-type: none"> The Service Call (Business Hours/Non-Emergency) is the estimated cost for providing 1 hours of service at an estimated hourly rate of \$135 from the service contractor plus \$100 for overhead and billing expenses incurred by the Utility. The Service Call (Non-Business Hours/Emergency) follows a similar format as the non-emergency charge, with an estimated hourly rate of \$405 from the service contractor plus \$150 for overhead and billing expenses incurred by the Utility Should service call exceed 1 hour, additional hours will be billed at the service contractor rate. The bad check charge is the \$25 non-sufficient fund fee charged from the bank and an overhead and billing charge of \$100. The late payment charge of ten percent (10%) on the first three dollars and three percent (3%) on amounts in excess of three dollars is typical of the charge allowed for water utilities.