

STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE RATE) Cause No. 45955
INCREASE PETITION OF MARYSVILLE-)
OTISCO-NABB WATER CORPORATION)

PREFILED DIRECT TESTIMONY
OF
TRACY WYNE

ON BEHALF OF
MARYSVILLE-OTISCO-NABB WATER CORPORATION

Respectfully Submitted By:

/s/ Darren A. Craig

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Counsel for Petitioner Marysville-Otisco-Nabb Water Corporation

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been electronically served upon the following via e-mail, the agreed method of service for this proceeding, on October 2, 2023:

Indiana Office of the Utility Consumer Counselor
115 West Washington Street, Suite 1500 South
Indianapolis, IN 46204

/s/ Darren A. Craig _____

Darren A. Craig

1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND AFFILIATION WITH MARYSVILLE-OTISCO-NABB WATER CORPORATION.

- a. My name is Tracy Wyne. My business address is Sherman, Barber, and Mullikin, CPAs, 210 West Third Street, Madison, Indiana 47250. Other than being retained to provide certain professional accounting services, I am unaffiliated with Marysville-Otisco-Nabb Water Corporation.

2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATION, AND ANY EXPERIENCES THAT YOU BELIEVE ARE RELEVANT TO YOUR TESTIMONY.

- a. I hold a BS degree from Indiana University. I am a licensed Certified Public Accountant in the State of Indiana and a Certified Fraud Examiner. I joined the firm in 2010 and currently serve as a manager. My firm and I regularly work with rural water and wastewater utilities, including a number regulated by the Indiana Utility Regulatory Commission. The services we provide to utilities include rate consulting, financial advisory services, financial statement audits, reviews, and compilations, and other related services. We also work with various municipal entities and non-utility businesses providing accounting services and financial analysis. I am also a member of the AICPA and the Indiana CPA Society. I believe all these experiences are relevant to my testimony here and our work with Marysville-Otisco-Nabb Water Corporation (“MON”).

3. DO YOU SERVE THIS UTILITY IN ANY OTHER CAPACITY?

- a. Sherman, Barber, and Mullikin, CPAs other accounting services for MON, including, for example, annual audited financial statements, IURC report preparation and Form 990 preparation.

4. DID YOU ADVISE OR WORK WITH MON WHEN ITS LAST BASE RATES WERE SET?

- a. No. Our firm began providing services for MON for the year ended December 31, 2009, and did not provide assistance in 2004 when its last base rates were set.

5. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

- a. Yes.

6. HAVE YOU PREPARED TESTIMONY AND EXHIBITS ON BEHALF OF MON IN THIS CASE?

- a. Yes.

7. WHAT EFFORTS HAVE YOU UNDERTAKEN PRIOR TO THE PREPARATION OF YOUR RATE REPORT AND TESTIMONY IN THIS CAUSE?

- a. I have reviewed the books and records of MON and have had numerous communications with its management and staff, as well as with other witnesses and counsel. I have also reviewed the testimony of MON's other witnesses in this cause. I have also reviewed the testimony of MON's other witnesses.

8. WHAT IS THE PURPOSE OF YOUR TESTIMONY AND EXHIBITS YOU HAVE PRE-FILED IN THIS PROCEEDING?

- a. The purpose of this pre-filed testimony is to explain the rate study which was prepared for MON. The rate study sets forth the proper level of rate relief for

MON in this Cause and the forecasted revenue requirements for MON to cover its estimated operating expenses, extension and replacement funding, and the repayment of proposed long-term debt. Once the proposed rates and charges have been determined, based on the results of the rate study, a new proposed tariff is prepared.

9. HOW MANY CUSTOMERS DOES MON SERVE?

- a. MON serves approximately 2,506 customers.

10. HAVE YOU DETERMINED THE PROPER LEVEL OF RATE RELIEF FOR MON?

- a. Yes, I have. Based on our rate study, MON will need an increase in annual operating revenues of \$590,401, which represents an increase of 63.90% above forecasted present rates to be implemented as an across-the-board increase to all customers. The proposed 63.90% increase as presented in rate study is calculated based on MON's expected income and expenses and other cash flows of the forecasted year ending December 31, 2023.

11. WHAT TEST YEAR WAS USED IN CONDUCTING THE RATE STUDY?

- a. The test year is the year ended December 31, 2022. The test year, when coupled with fixed, known, and measurable adjustments expected to occur within twelve (12) months of the end of the test year, is representative of MON's operations for ratemaking purposes.

12. PLEASE EXPLAIN YOUR FINANCIAL RATE STUDY TO THE EXTENT NOT SELF-EXPLANATORY.

- a. The first section of the report (pages 4-6) contains historical and forecasted statements of income at present and proposed rates, a summary of forecasted cash

flows and revenue requirements and the forecasted increase in rates. A summary of significant assumptions made in preparing the forecast appears on page 7.

Pages 8 through 16 provide details concerning the adjustments made in developing the forecast. The report also contains, on page 17 a schedule summarizing the components of MON's Extensions and Replacements Plan and a schedule of estimated project costs and source of funds is presented on page 18. The complete amortization schedule relating to MON's proposed indebtedness appears on pages 19 and 20. Page 21 presents a calculation of debt coverage at present and proposed rates.

13. PLEASE EXPLAIN THE METHOD USED TO DEVELOP THE FORECASTED INFORMATION.

- a. See page 7 for the Summary of Significant Assumptions. The forecast adjustments are included on pages 8-16. These adjustments are necessary to reflect twelve months of normal operations and to include only those revenues and expenses that are expected to occur within twelve months of the test year end. A Forecasted Schedule of Cash Flows and Revenue Requirements and Required Increase in Rates and Charges is presented on page 6. This is a summary of the annual revenue requirements for MON and includes forecasted net income, debt service and debt service reserve requirements, and provisions for extensions and replacements.

14. PLEASE PROVIDE THE RATIONALE FOR EACH OF THE ADJUSTMENTS

- a. Adjustment 1 eliminates non-recurring items of revenue and expense. These are items in the test year that are not expected to recur that are 1) unusual in nature, 2)

expected to be eliminated by capital expenditures, or 3) will be eliminated due to contractual terms. Preliminary rate consultation that are expected to be capitalized as part of the project have been eliminated. Computer repairs and equipment as well as bad debt recovery have been eliminated for costs not expected to recur. Adjustment 2 normalizes metered residential revenues based on 1) actual customer growth during the test year and 2) anticipated customer growth during the twelve months following the test year. The adjustment for test year growth represents the annual revenues that would have occurred if the customer count were the same at the end of the test year as the beginning of the test year. 30 customers were added during the test year. The second part of the adjustment represents annual revenue growth based on an average annual increase of 31 customers for the twelve months following the test year. Customer growth has been predicted based on a 3-year average of historical growth. Adjustment 3 provides for an increase in purchased water for both the forecasted increase in customers in Adjustment 2 and increases in other charges by one of MON's suppliers. Adjustment 4 reduces insurance expenses from the test year based on current coverage and premium in effect during the test period. Adjustment 5 increases salaries according to a board-approved wages for calendar 2023. The increase in wages also serves as the basis for calculated increases in payroll taxes. In Adjustment 6, annual maintenance expenses have been increased for the installation of safety equipment on existing tanks as well as interior and exterior tank coatings. Construction of the proposed elevated storage tank will increase annual operational costs and that increase is reflected in Adjustment 7.

Adjustment 8 normalizes IURC fees to reflect normalization and forecasted adjustments in water revenue. Adjustment 9 adjusts rate sensitive revenue based on the required increase in rates.

15. DOES THIS CONCLUDE ALL OF THE FORECASTED ADJUSTMENTS TO NET INCOME?

- a. Yes.

16. DO THESE ADJUSTMENTS CONSIDER ALL EXPENDITURES MON IS EXPECTED TO INCUR DURING THE FORECAST PERIOD?

- a. No.

17. IS MON INCLUDING AN E&R PLAN IN ITS REVENUE REQUIREMENTS?

- a. Yes. MON's 5-year plan is included on page 17. The annual requirement of \$122,422 is based on average annual expenditures over the term of the plan.

18. DOES MON HAVE ANY OUTSTANDING LONG-TERM DEBT?

- a. No.

19. DOES MON SEEK TO INCUR ADDITIONAL DEBT IN THIS CAUSE?

- a. Yes, a schedule of estimated project costs and source of funds is presented on Page 18 and MON desires to finance the project with a loan from the Indiana Finance Authority State Revolving Fund ("SRF") Loan program, as well as a local match, and an ARP Grant for total funding of \$9,485,200.00. The amortization schedules of the proposed SRF notes on 19-20 is shown to be paid semi-annually over a 35-year period beginning July 1, 2024. An additional requirement of \$85,300 has been included to satisfy the requirements for a separate debt service reserve equal to the maximum annual debt service on the

proposed SRF borrowings to be funded over a 5-year period. MON has used an estimated interest rate of 4.0 percent for the SRF in its calculations for proposed debt service but uncertainty regarding the actual interest rate MON will be able to obtain exists due to potential market fluctuation and project priority ranking by SRF. If the actual rate is higher than rates used in calculating cash required for annual debt service on the proposed SRF notes, MON will file a true-up report. Unusual and significant uncertainty also exists as to the final borrowing amount MON will require to complete the proposed project due to current supply chain and labor shortage issues currently prevalent in the construction industry. MON may seek additional borrowing authority and agrees to restrict the use of funds borrowed to those based on construction bids for completion of the authorized projects as described in the PER, related contingencies, and soft costs. MON will also include the impact of the actual borrowing amount in a true-up report.

- b. It is possible that alternative financing methods will be utilized. In the event that alternative financing methods are necessary, the project will likely be financed through a Rural Development (RD) loan.

20. PLEASE EXPLAIN HOW THE TRUE-UP PROCESS WILL WORK.

- a. Once the bid process is complete, MON will know both the cost of the project and the interest rate(s) available through SRF. Within 30 days of closing, MON will provide a true-up report describing the final terms and amount of the debt, the debt service reserve provisions, a revised amortization schedule based upon the final debt terms, and a revised tariff.

**21. IN YOUR OPINION, IS THE PROPOSED FINANCING A REASONABLE
MEANS OF FUNDING THE PROJECT?**

- a. Yes. The SRF loan program provides a reasonable, cost-effective means of financing the proposed project. The financing of long-term assets better matches customers' use of the assets to payments for the assets. SRF's low interest rates and long amortization periods will allow the project to be completed with a lessened rate impact to MON members.

22. WHAT IS MON'S PROPOSED ANNUAL DEBT SERVICE REQUIREMENT?

- a. MON's proposed average annual debt service—calculated on a five-year average—is \$425,520.00.

VERIFICATION

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



Tracy Wyne, CPA, CFE

Respectfully Submitted By:

/s/ Darren A. Craig

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Counsel for Petitioner Marysville-Otisco-Nabb Water Corporation

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been electronically served upon the following via e-mail, the agreed method of service for this proceeding, on September 29, 2023:

Indiana Office of the Utility Consumer Counselor

115 West Washington Street, Suite 1500 South

Indianapolis, IN 46204

/s/ Darren A. Craig

Darren A. Craig