FILED
January 25, 2019
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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

PREFILED TESTIMONY

OF

EDWARD R. KAUFMAN, CRRA – PUBLIC'S EXHIBIT NO. 3

ON BEHALF

OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JANUARY 25, 2019

Respectfully Submitted,

Daniel M. Le Vay, Atty. No. 22184-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Office of Utility Consumer Counselor's Prefiled Testimony of Edward R. Kaufman, CRRA*** has been served upon the following counsel of record in the captioned proceeding by electronic service on January 25, 2019.

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TESTIMONY OF OUCC WITNESS EDWARD R. KAUFMAN, CRRA
CAUSE NO. 45151
CWA AUTHORITY, INC.

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Edward R. Kaufman, and my business address is 115 West Washington Street, Suite 1500 South, Indianapolis, Indiana 46204.

Q: By whom are you employed and in what capacity?

A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as the Assistant Director with the Water-Wastewater Division. My background and qualifications are described in Appendix A.

Q: What is the purpose of your testimony?

A: My testimony responds to CWA Authority's ("CWA" or Petitioner") proposed allocation of its anticipated capital expenditures. Petitioner plans to spend $589.4 million on capital projects during the three year period August 1, 2019 through July 31, 2022. Petitioner anticipates funding approximately $361 million through three debt issuances that are scheduled to take place in 2019, 2020 and 2021, and requests an additional $228 million through revenue funded extensions and replacements ("E&R").[1] Petitioner proposes to fund 38.7% of its anticipated capital projects through E&R, and argues this level of E&R funding is necessary to improve its Debt Service Coverage ("DSC") ratio to 1.50. My testimony explains how Petitioner miscalculated (understated) its DSC ratio and why it does not need its

[1] Petitioner's proposed rates include $72 million for E&R in Phase I, $76 million for E&R in Phase 2, and $80 million for E&R in Phase 3.

proposed E&R level to achieve a 1.50 DSC ratio. While I propose a substantial increase over Petitioner's current level of E&R, I recommend reducing Petitioner's requested E&R to $202 million ($64 million in Phase I, $68 million in Phase 2, and $70 million in Phase 3). My proposed E&R level (combined with other OUCC adjustments) produces DSC ratios (1.65, 1.65, and 1.64) well in excess of Petitioner's desired ratio.

To support its proposed level of E&R, Petitioner argues that its revenue requirements should be set to achieve a desired DSC ratio. Petitioner also asserts that it needs to set a date certain when it will stop issuing long term debt. As a general principle, I disagree with any proposal to set revenue requirements to achieve a desired Pro Forma DSC ratio.[2] I also disagree with Petitioner's argument to establish a date certain when it will be authorized to have its revenue requirements based on a 100% funding of its capital projects through E&R.

Petitioner's proposed annual debt service is based on a 2019 debt issuance of $218,923,828, a 2020 debt issuance of $142,605,502, and a 2021 debt issuance of $106,322,076. I have made several adjustments to Petitioner's proposed debt issuances. First, I have added $8.0 million, $8.0 million and $10.0 million[3] respectively to Petitioner's 2019, 2020 and 2021 debt issuances to offset the reduction I propose to E&R. This adjustment provides that my proposed reductions to E&R is capital spending neutral. Additionally, I decreased the amount of Petitioner's proposed 2019 debt issuances by $14,715,343 and its 2020 and 2021

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[2] Absent extraordinary circumstances, such as an emergency rate case.
[3] These figures do not include issuance costs.

debt issuances by $5,410,000 based on recommendations made by OUCC engineering witness James Parks.

Next, Petitioner has recorded SIA-2 and SIA-3 revenues as an offset to the amount of its 2019 debt issuance. Ms. Stull disagrees with how Petitioner recorded SIA-2 and SIA-3 Revenues, and based on her adjustments I have eliminated SIA-2 and SIA-3 revenues as an offset to Petitioner's 2019 debt issuance. This adjustment increases Petitioner's 2019 debt issuance by $19,810,431 ($9,949,843 + $9,860,588). Finally, my proposed annual loan amounts include additional funds for debt service reserve, issuance costs and rounding. Based on the OUCC's proposed adjustments, Petitioner will issue 2019 debt of $233,640,000, 2020 debt of $145,405,000 and 2021 debt of $111,280,000 (Refer to my Table 3).

On its proposed debt issuances, Petitioner uses a 4.8% interest rate. This figure is somewhat overstated; using an interest rate more reflective of current rates reduces the annual debt service on Petitioner's proposed debt issuances. My testimony provides revised amortization schedules for Petitioner's debt based on my amount and interest rates (Schedules ERK 1, 2, and 3).

Next, my testimony addresses several of the details that need to be identified and resolved when a utility issues long term debt. For example, when a utility is issuing debt, there is typically a gap between the time a utility increases its rates and when it issues its anticipated debt. To the extent reasonably possible, this gap should be minimized. To the extent this gap cannot be minimized, funds collected for annual debt service before the actual cost is incurred should be used to reduce the amount of funds a utility needs to borrow. My testimony explains and I propose mechanisms to accomplish this objective. My testimony also discusses and proposes a true-up procedure and reporting requirements on Petitioner's proposed debt issuances. Finally, Petitioner proposes to include the interest expense that it estimates it will owe on customer deposits. I disagree with Petitioner's calculation and propose eliminating this expense from Petitioner's annual cost of debt service.

Q: Please describe the review and analysis you conducted to prepare your testimony.

A: I read the Petition and testimony filed by Petitioner in this Cause. I wrote discovery and reviewed Petitioner's responses. I reviewed Citizens Energy Group's Management Discussion & Financial Report 2018. I reviewed the Commission's final order in Cause No. 43936, authorizing Citizens' acquisition of the Indianapolis Water system and Wastewater system. I reviewed the final orders in Cause No. 44685, CWA Authority's last rate case, and Cause No. 44306, Citizens Water's last rate case. I attended the field hearing on January 17, 2018.

Q: Does your testimony include schedules and attachments?

A: Yes. Appendix B contains a list of my schedules and attachments:

II. CASH FUNDED EXTENSIONS AND REPLACEMENTS

A. Introduction and Scope

Q: How much rate relief is Petitioner seeking for proposed capital projects in this Cause?

A: Petitioner's proposed annual revenue requirements include $72 million designated as cash-funded E&R in its Phase I rates, $76 million in its Phase 2 rates and $80 million in its Phase 3 rates.[4] *See* the Direct Testimony of John Brehm, p. 40 and the Direct Testimony of Korlon Kilpatrick, Attachment KLK-1, p. 1 of 16, line 47. In this manner, Petitioner seeks to recover approximately 38.7% of its proposed capital additions as an annual revenue requirement directly through rates. Brehm, p. 40.

Q: Is Petitioner's proposal to recover $228 million ($76 million per year over three years) in revenue requirements, while funding $361 million through long term debt, based on the types of projects Petitioner plans to construct during the next three years?

A: No. Petitioner asserts there is no relationship between how capital funds are raised and how they are spent, and treats these funds as one pot of money. Its decision to fund 38.7% of its capital projects through E&R is based on its desire to reduce its reliance on long-term debt and to achieve a DSC of at least 1.50. Petitioner also asserts a need to increase its DSC ratio over time. I disagree with the principle of setting rates to achieve a desired DSC ratio. It is more appropriate to fund long-lived assets through long-term debt and to fund shorter-lived or regularly incurred assets through E&R. Even if Petitioner's principle of setting its E&R to achieve a 1.50 DSC ratio is accepted, Petitioner's calculation understates its DSC ratio and its proposed E&R level is unnecessary to achieve a Pro Forma 1.50 DSC ratio.

Q: Is the OUCC challenging the proportion of capital projects that should be recovered through cash funded E&R?

A: Yes. Petitioner proposes a material increase in the proportion of capital expenditures that would be funded directly through E&R. Because Petitioner seeks such a large increase in its proportion of rate-funded E&R, Petitioner's proposed

[4] In Cause No. 44685 Petitioner sought to recover $62 million (authorized $57.0 million), or approximately 28.5%, of its proposed capital additions as an annual revenue requirement directly through rates.

rate increase is higher than it needs to be. The OUCC proposes cash-funded E&R of $64 million in Phase I, $68 million in Phase 2, and $70 million in Phase 3. The OUCC is attempting to be responsive to Petitioner's desire to reduce its reliance on debt and to improve its DSC ratio. Thus, OUCC's proposed level of cash-funded E&R is a significant increase over Petitioner's current authorized level of $57.0 million, but still balances Petitioner's desire to improve its Debt Service Coverage ratio while reducing Petitioner's proposed rate increases.

B. Debt Service Coverage Ratio ("DSC")

Q: Why is the DSC ratio important when evaluating revenue requirements?

A: The DSC ratio measures a utility's ability to pay its annual debt service. More specifically, it calculates the revenues available for debt service and divides that figure by the annual debt service. To determine revenues available for debt service, this calculation assumes all operating and maintenance expenses are paid first, and only the remaining funds are available to pay debt service. For example, if a utility had total revenue requirements of $2.0 million, with operating and maintenance expenses of $800,000, it would have revenues available for debt service of $1.2 million. If the utility had annual debt service of $600,000, it would have a DSC ratio of 2.0. The DSC ratio is a key measure of a Municipal/Not-For-Profit utility's ability to repay its debt. In fact, many loan covenants require specific action if the DSC gets below specified thresholds.

Q: Does Petitioner have minimum DSC ratio requirements?

A: Yes. Page 24 of Citizens Energy's 2018 Annual Financial Report identifies that CWA authority has Minimum Coverage Requirements of 1.20 on its Revenue Bonds and 1.10 on its Second Lien Bonds. *See* Attachment ERK-1.

Q: How does Petitioner's proposed DSC ratio compare to its minimum required DSC ratio?

A: Petitioner's proposed revenue requirements (based on its calculations) would produce a DSC ratio of 1.52. Mr. Brehm provides these calculations on page 19 of his testimony. Mr. Brehm also provided a more detailed copy of his DSC ratio calculations with his workpapers. I have included a copy of his analysis as Attachment ERK-2.

Q: Is Petitioner's DSC ratio understated?

A: Yes. When setting rates for a municipal or not-for-profit utility, a simple way to calculate a prospective debt service coverage ratio is to add the annual debt service included in rates to the E&R included in rates and then divide that figure by the annual debt service. This is how Mr. Brehm calculated a Pro Forma DSC ratio for Petitioner. However, this calculation is incomplete. If a utility's revenue requirements include debt service reserve, working capital or payment in lieu of taxes "PILOT", these items also need to be added to the numerator to calculate the DSC ratio. Revenues for working capital, debt service reserve and PILOT are included in the DSC ratio, because a utility would pay its debt service before making payments to these accounts. Thus, these revenues would be available to make debt service payments and are counted when calculating a DSC ratio. While Petitioner is not seeking revenue requirements for working capital or debt service reserve, it is seeking more than $25 million per year in PILOT in each phase of its proposed revenue requirements. Holding all other factors constant, including PILOT payments as available revenues, increases Petitioner's Pro Forma DSC ratio to approximately 1.7.[5]

Table ERK -1 Petitioner's DSC Ratio

	Pro Forma 12 Months Ended 7/31/2020	Pro Forma 12 Months Ended 7/31/2021	Pro Forma 12 Months Ended 7/31/2022
Net Revenue Available for Debt Service	$211,508,616	$ 224,578,144	$235,210,405
Payment in Lieu of Taxes (PILOT)	$ 26,777,713	$ 28,323,728	$ 28,945,721
Total Revenue Available for Debt Service	$238,286,329	$ 252,901,872	$264,156,126
Total Debt Service	$139,508,616	$ 148,578,144	$155,210,405
E&R	$ 72,000,000	$ 76,000,000	$ 80,000,000
Debt Service Coverage Ratio	1.71	1.70	1.70

Q: Why should PILOT be considered available revenue when calculating Petitioner's DSC ratio?

A: In response to OUCC DR 2-17 and 2-18 (Attachment ERK-9), Petitioner cited to Section 3.05 of the Asset Purchase Agreement approved by this Commission in Cause No. 43936 and acknowledged:

> The obligation of Purchaser to make **PILOT Payments to the City shall be subordinate** to operating and maintenance expenses, payment of principal and interest on any bonded indebtedness, depreciation or replacement fund expenses, bond and interest sinking fund expenses and any other priority fund requirements required by law or any ordinance, resolution, indenture, contract, or similar instrument binding on the System.

Emphasis added.

[5] Based on Petitioner's proposed revenue requirements.

The Purchase Agreement clearly identifies that PILOT payments to the City are subordinate to principal and interest payments. Thus, Petitioner's DSC ratio should not exclude PILOT to calculate available revenues as has been done by Mr. Brehm.

Q: Why else do you believe the DSC ratios provided in Mr. Brehm's testimony are understated?

A: Page 24 of Citizens Energy's "Annual Financial Report 2018" shows "CWA Wastewater Utility Revenue Bonds" (Series 2011 A, Series 2012A, Series 2014A, Series 2015A, Series 2016A, Series 2016C, and Series 2017A) with a 2018 Actual Coverage ratio of **2.04**. Page 24 of Citizens Energy's "Annual Financial Report 2018" also shows "CWA Wastewater Utility Revenue Second Lien Bonds" (Series 2011B and 2016B), with a 2018 Actual Coverage ratio of **1.71**. *See* Attachment ERK 1. The coverage ratios included in Citizens Energy's published reports exceed the calculations provided by Mr. Brehm in his testimony. In DR 12-1 and 12.2, the OUCC ask Petitioner how the DSC ratios from CEG's 2018 annual report were calculated. *See* Attachment ERK 3. Petitioner's responses includes PILOT to calculate its First and Second Lien debt service coverage ratio. CWA's published DSC ratios are more consistent with industry benchmark DSC ratios.

III. <u>OUCC PROPOSED E&R</u>

Q: Will a somewhat lower level of E&R provide Petitioner with a reasonable DSC ratio?

A: Yes. I propose that Petitioner's revenue requirements be based on Phase I E&R of \$64.0 million, Phase 2 E&R of \$68 million and Phase 3 E&R of \$70.0 million. While less than Petitioner's proposal, my proposal is a sizeable increase over the \$57.0 million included in Petitioner's last rate case. The OUCC's proposed level of E&R (including PILOT payments as described above) leads to Pro Forma DSC ratios of 1.65 (Phase I), 1.65 (Phase 2) and 1.64 (Phase 3).

Table ERK 2a OUCC DSC Ratio

	Pro Forma 12 Months Ended 7/31/2020	Pro Forma 12 Months Ended 7/31/2021	Pro Forma 12 Months Ended 7/31/2022
Net Revenue Available for Debt Service	$203,675,668	$ 216,710,862	$225,658,328
Payment in Lieu of Taxes (PILOT)	$ 26,777,713	$ 28,323,728	$ 28,945,721
Total Revenue Available for Debt Service	$230,453,381	$ 245,034,590	$254,604,049
Total Debt Service	$139,675,668	$ 148,710,862	$155,658,328
E&R	$ 64,000,000	$ 68,000,000	$ 70,000,000
Debt Service Coverage Ratio	1.65	1.65	1.64

Table ERK 2b OUCC Change in Debt Service

	Pro Forma 12 Months Ended 7/31/2020	Pro Forma 12 Months Ended 7/31/2021	Pro Forma 12 Months Ended 7/31/2022
2019 Debt Issuance	$256,939.62	$256,939.62	$256,939.62
2020 Debt Issuance		($34,333.45)	($34,333.45)
2021 Debt Issuance			$315,204.81
Customer Deposits	$ 89,888.00	$ 89,888.00	$ 89,888.00
Total	$167,051.62	$132,718.17	$447,922.98

Thus, the OUCC's proposed E&R will provide an improved DSC ratio, but will result in a lower rate increase than that proposed by Petitioner.

Q: Did you increase the amount of Petitioner's debt issuances (and subsequent annual debt service) by the amount that you reduced E&R?

A: Yes. To ensure my proposed changes to E&R result in the same level of capital spending, I increased Petitioner's 2019A bonds by $8,635,000, its 2020A bonds by $8,635,000 and its 2021A bonds by $10,794,000 (figures include issuance costs).

According to Mr. Brehm's JRB Attachment 2, page 8 of 8, lines 24 and 25, Mr. Brehm assumed issuance costs and funds to pre-fund a debt service reserve of approximately 7.94%. I used the same ratio to determine the total cost necessary to increase Petitioner's future debt issuances. Schedules ERK 1, 2, and 3 provide revised amortization schedules.

Q: Have you made additional adjustments to your proposed amortization schedules that impact your DSC ratio calculation?

A: Yes. As discussed in the debt service section of my testimony, I have used a lower interest rate for Petitioner's 2019 and 2020 debt issuances. Additionally, OUCC witness James Parks recommends $25.860 million of projects be excluded from Petitioner's capital plan. I have removed the costs of these projects from my proposed amortization schedules. Finally, Petitioner's annual debt service includes its estimated annual interest expense of $89,888 (Attachment JRB-1, page 6 of 6, line 15) on its customer deposits. As I explain later in my testimony, Petitioner's customer deposits can earn interest and it is unnecessary to include the interest expense paid on customer deposits to calculate Petitioner's annual debt service. I have reduced Petitioner's annual debt service by $89,888.

Q: Does the Commission have the authority to determine the appropriate balance between debt-funded and E&R-funded capital projects?

A: Yes. In its final order in Citizens Water, Cause No. 44306, the Commission stated on page 29:

> We agree with Mr. Lykins that it is a matter of balance, and ultimately it is this Commission's duty to make the determination of the "right balance."

The OUCC's proposal provides a more balanced approach than Petitioner's by increasing Petitioner's E&R from $57.0 million to $64.0 million in Phase I, $68 million in Phase 2 and $70.0 million in Phase 3. By Phase 3, the total is an increase of more than 22%. The OUCC's proposed revenue requirements provide a DSC ratio in excess of 1.64. But the OUCC's proposed revenue requirements, which balances the rate increase with the need to maintain reasonable rates, produce a lower rate increase than that proposed by Petitioner.

A. Extensions and Replacements vs. Capital Expenditures

Q: Does Petitioner believe E&R and "capital expenditures" are synonymous?

A: Yes. Petitioner classifies 100% of its projected spending on capital projects as E&R.

Q: Do you agree that the terms E&R and capital expenditures are synonymous?

A: No. E&R and capital improvements are not synonymous. Not all capital expenditures should be considered extensions and replacements as that term is used in Indiana regulation. The term E&R is typically used to describe normal annual replacements, extensions, and improvements, such as meters, services, vehicles, smaller mains, and similar items, which occur on a regular basis each year.

Q: Why is this distinction important?

A: It is generally appropriate to fund smaller/shorter term assets through rates and larger/longer-term assets through long-term debt. Doing so prevents inter-generational inequities. In other words, it prevents current ratepayers from being required to pay all the costs of constructing assets that will last for many years and be used substantially by future ratepayers. For large, long-lived assets it is appropriate for ratepayers to pay for the cost of the asset over the asset's life. Moreover, attempting to fund a large, long-lived asset through rates could lead to rate spikes or rate shock.

CWA Authority's "Deep Rock Tunnel" project is a good example of a capital project that is not E&R. This project is very expensive and will have a long life. It is appropriate to fund this project through debt and it would be inappropriate to fund this project entirely or substantially through rates. In its last rate case, CWA Authority sought rates to fund the Deep Rock Tunnel project through debt. Doing otherwise would have resulted in a more significant rate increase than what resulted. In CWA Authority's last case, Mr. Brehm recognized the effect on ratepayers of including a very large capital project in an E&R revenue requirement. Mr. Brehm stated as follows:

> [I]t would be impractical to fund the entire amount of extensions and replacements through the revenues of the wastewater system as it would result in a rate increase of more than 100 percent.

> Cause No. 44305, Brehm testimony, pp. 22-23.

I agree with these concerns expressed by Mr. Brehm in Cause No. 44305. Mr. Brehm's point highlights the distinction between capital projects and E&R.

Q: Does the AWWA M1 Manual, Principles of Water Rates, Fees, and Charges by the American Water Works Association discuss the difference between cash funded projects and debt funded projects?

A: Yes. While the M1 Manual (7th Edition)) uses the term PAYGO to describe normal annual replacements, extensions, and improvements, it supports a mix of cash and debt funding for capital projects. On pages 39-40, the M1 Manual states as follows:

> It is common practice for utilities to finance a portion of its capital improvement program from annual revenues (sometimes referred to

> as pay-as-you-go, or PAYGO, capital funding). Often, normal annual replacements, extensions, and improvements (such as meters, services, vehicles, smaller mains, and similar items, which occur on a regular basis each year) are financed in this way. Also, utilities may use current revenue to finance a portion of major capital replacements and improvements. However, major capital projects are typically debt financed, because the repayment of the debt over a number of years reduces fluctuations in annual revenue requirements, spikes in rates, and more closely matches capital costs to the useful life of the facility. Thus, existing customers will not be required to pay 100 percent of the initial cost of facilities to be used by future customers. Compliance with debt-service coverage covenants may provide for cash financing of a portion of the annual capital improvements.

The M1 Manual's explanation that capital costs should be funded by a mix of debt and cash is sound.

Q: Is there another body that supports this view?

A: Yes. **<u>Financing and Charges for Wastewater Systems</u>** by the Water Environment Federation ("WEF") Manual of Practice (MOP) 27 (p. 82) explains that capital expenditures are appropriately financed through long-term debt:

> It is common practice for municipally owned utilities to finance normal annual replacements and improvements from current revenues. Such expenditures typically cover ongoing expenditures for vehicles, smaller mains, and equipment and are reasonably consistent in amounts each year. <u>Major capital expenditures are generally financed through the issuance of long-term debt, which better matches the term of financing with the life of the facility being financed, and helps to spread the costs of financing over future users, who benefit from the facilities.</u> However, debt service coverage requirements associated with most revenue bond issues provide for the generation of revenues, over and above the annual principal and interest payments on the bonds, which may be used for cash financing of a portion of the major capital improvement program. Debt-service coverage is discussed subsequently in this chapter.

Emphasis added.

B. E&R and Revenue Requirements

Q: On page 41 of his testimony Mr. Brehm argues "[i]f the amount of Pro Forma E&R is reduced for any reason, the amount of revenue funded E&R included in Pro Forma revenue requirements should not be reduced." Do you agree with Mr. Brehm's assertion?

A: No. Mr. Brehm proposes revenue requirements to provide Petitioner a desired debt service coverage ratio. But in doing so, he is seeking revenues for a potentially phantom expenditure. Mr. Brehm proposes that the Commission authorize revenue requirements for Petitioner irrespective of Petitioner's Pro Forma E&R. I am not aware of any provision in the municipal/not-for profit statute that permits the Commission to authorize revenues just to meet a utility's desired DSC ratio. Petitioner's proposal to be authorized revenue requirements simply to meet a desired DSC ratio, even if calculated correctly, should be denied.

C. Date Certain

Q: On pages 36-37 of his testimony, Mr. Brehm opines that it is important for Petitioner to establish and make public to rating agencies and debt investors a date certain when CWA plans to stop adding debt and fund its entire E&R requirements through revenues. Is Petitioner seeking a determination from the Commission in this cause that establishes a date certain where the Commission will authorize revenue requirements for CWA Authority based on a 100% funding of E&R requirements through revenues (no additional debt)?

A: I asked Petitioner that question in DR 2-9 and again in 10-2 (Attachment ERK 4). In neither case did Petitioner provide a definitive answer, and its testimony does not provide a definite request to the Commission in this cause. In the absence of a precise request for a date certain regarding 100% funding of capital projects through E&R, it is difficult for me to respond to Petitioner's request.

Q: Do you agree with Petitioner's claim that it at some defined point should fund 100% of its capital additions through E&R and exclude any future debt issuances?

A: No. While I recognize that Petitioner has a large proportion of debt and it makes sense to improve its debt service coverage ratio, I do not agree that Petitioner's ratepayers should bear the burden of funding 100% of its capital projects through E&R. It is appropriate to fund long-lived assets through long term debt. Doing so avoids intergenerational inequities. These types of projects should not be funded through E&R. The Commission has agreed with this principle, and has specifically applied it to Citizens.

> The question that this Commission must address, then, is determining an appropriate balance between funding E&R through rates verses debt, as this determination will impact the utility and ratepayers. Thus we need to balance Petitioner's goal to improve its financial posture, while simultaneously authorizing a rate increase that is not unduly burdensome to ratepayers. Petitioner's witness Brehm argues that Citizens is entitled under Ind. Code 8-1.5-3-8 to have the full amount of its annualized E&R included in determining its revenue requirement, and thus, the Commission has no discretion other than to approve its proposal to include less rate-funded E&R and support the remaining E&R with debt. We disagree with this interpretation of the statute and Indiana case law. If Mr. Brehm's assertion were taken to the extreme, the Commission would have not discretion to do anything but rubberstamp any level of E&R proposed by a municipal utility. Given the Section 8(b) requires that a municipal utility's rates are "nondiscriminatory, reasonable, and just" and subject to Commission approval under Section 8(f)(2), Section 8 does not support Mr. Brehm's assertion or the position Citizens has taken in its proposed order.

Citizens Water, Cause No. 44306, 2014 WL 1268669 at *30-31 (Ind. Util. Regulatory Comm'n Mar. 19, 2014).

> Finally, in testimony and during the hearing, various Citizens' witnesses indicated that the ultimate goal for Citizens would be for E&R to be 100% rate-funded, similar to the gas utility. We caution Citizens on this approach, as the capital intensive nature of the water utility makes the comparison to the gas utility questionable. Our

> approval in this Cause, while generally consistent with Citizens' proposal, should not be construed as supportive of any future request to increase the rate-funded portion of E&R.

Id. at *33.

Q: Are there other reasons to reject Citizens' proposal regarding E&R?

A: Yes. Once Petitioner completes its Deep Rock Tunnel, its need for capital additions and long term debt will decrease. This will naturally reduce Petitioner's reliance on long term debt and improve its DSC ratio. However, funding 100% of capital projects through E&R will lead to unnecessarily high rate increases.

Q: Are there other factors that make Petitioner's request less reasonable?

A: Yes. CWA Authority believes it does not need Commission authority to issue long-term debt. Thus, even if the Commission agreed with Petitioner and established a date certain where future rates would be set based on 100% funding of E&R, CWA Authority could still issue long term debt and seek recovery of the associated annual debt service in future revenue requirements.

Q: Should the Commission require Petitioner to report its DSC ratio to the OUCC and the Commission on a regular basis?

A: Yes. On page 44 of his direct testimony Mr. Brehm states that:

> From both an operational and credit rating perspective it is essential to sustain debt service coverage levels, not at the minimum level required by the bond indentures, but at levels significantly above minimum levels.

Petitioner argues it is essential to sustain DSC levels. CWA Authority cannot determine if it is sustaining its DSC ratio unless the ratio is calculated on a regular basis. Because Petitioner's desire to achieve a specified DSC ratio is a key component of this rate case, both the Commission and the OUCC should be informed regarding Petitioner's progress on achieving its DSC ratio. For each quarter, using the same format Mr. Brehm uses in his workpapers (*see also* Attachment ERK-2), Petitioner should provide to the OUCC and the Commission Petitioner's DSC ratio, calculated as of the last day of each fiscal quarter for the trailing twelve months.

Because, this is the type of calculation Petitioner should be completing on a regular basis, providing its DSC ratio calculations to the Commission and the OUCC should not impose any burden on Petitioner and demonstrate that CWA Authority is maintaining its financial integrity. Moreover, as stated in its "Annual Financial Report" for 2018, CWA is obligated to satisfy certain covenants, including meeting certain minimum debt service coverage requirements. This obligation further clarifies that conducting and providing this calculation should not impose any undue burden on CWA.

IV. AMOUNT OF DEBT ISSUANCES

Q: How did you calculate the amount for each of Petitioner's anticipated debt issuances?

A: As explained above, I added $8.0 million, $8.0 million and $10.0 million respectively to Petitioner's 2019, 2020 and 2021 loans to offset the reductions I proposed to E&R. OUCC witness James Parks explains that several of Petitioner's proposed projects are either unsupported, include excess cost estimates or are unnecessary. As a consequence, Mr. Parks' analysis reduces Petitioner's 2019 debt issuance by $14.180 million, its 2020 debt issuance by $5.410 million, and its 2021 debt issuance by $5.140 million.

Additionally, Petitioner included $22.3 million of SIA revenues as a source of funding for projects completed through 7/31/2019. *See,* JRB-2, page 8, line 18. This figure includes $9.95 million for SIA-2 (Att. KLK-7, line 4) and $9.86 million for SAA-3 (*id.,* line 8). As explained in Margaret Stull's testimony, these funds should be recognized as revenues and not as an offset to potential borrowing. Thus, I have increased the amount of debt Petitioner will need to borrow for its 2019 bonds by $19.8 million, before debt service reserve and issuance costs.

Q: What is the proposed amount for each of Petitioner's loans?

A: The chart below calculates the amount for Petitioner's 2019, 2020 and 2021 loans.

Table ERK-3

	2019 Loan	2020 Loan	2021 Loan
Petitioner Proposed Amount	$ 218,923,828	$142,605,502	$ 106,322,076
OUCC Adjustments			
Add E&R	$ 8,000,000	$ 8,000,000	$ 10,000,000
Add SIA 2 & 3	$ 19,810,431		
Remove Projects	$ (14,180,000)	$ (5,410,000)	$ (5,410,000)
OUCC Adjustments	$ 13,630,431	$ 2,590,000	$ 4,590,000
Additional Debt Service Reserve	$ 935,390	$ 177,739	$ 314,989
Additional Issuance Costs	$ 147,129	$ 27,957	$ 49,545
Rounding	$ 3,222	$ 3,802	$ 3,389
Total OUCC Adjustments	$ 14,716,172	$ 2,799,498	$ 4,957,924
OUCC Debt Issuance	**$ 233,640,000**	**$145,405,000**	**$ 111,280,000**
Net Difference	$ 14,716,172	$ 2,799,498	$ 4,957,924

V. INTEREST RATE

Q: To estimate Petitioner's annual debt service on its proposed debt issuances, Mr. Brehm uses a 4.80% interest rate. How did Mr. Brehm estimate his proposed interest rate for Petitioner's anticipated debt issuances?

A: According to Mr. Brehm's response to OUCC data request 10-01 (Attachment ERK-5), Mr. Brehm explained:

> Near the time of filing the case-in-chief, the Treasurer checks with investment bankers to assess market interest rates for debt similar to CWA. At the time of filing the case, interest rates for debt similar to CWA were in the range of 3.8%. However, there is a risk of interest rate increases while this case is pending due to the well-publicized tightening policy of the Federal Reserve. Consequently, consistent with his practice in prior CWA rate cases, Mr. Brehm added 100 basis points to account for the risk of increases during the pendency of the case plus the three steps.

Mr. Brehm further explained:

> Mr. Brehm also had the Treasurer check with investment bankers on December 27, 2018 for current interest rates in light of this Data Request and the interest rate estimate was 3.85% - 3.89%, which is supportive of the assumptions Mr. Brehm made in this case.

Q: Do you accept Mr. Brehm's proposed 100 basis point adjustment over current interest rates?

A: No. Mr. Brehm's proposed adjustment is excessive and overstates Petitioner's annual debt service.

Q: What interest rates do you use for Petitioner's proposed debt issuances to estimate annual debt service?

A: I started with the high end of the range Mr. Brehm provided in response to OUCC discovery (rounded to 3.90%), and added 50 basis points to account for concerns regarding rising interest rates. A cushion of 50 basis points for Petitioner's Phase I debt issuance should be a sufficient spread over current interest rates. Thus, I use an interest rate of 4.40% for Petitioner's Phase I debt issuance. Because there is more time until Petitioner will issue its Phase 2 and Phase 3 debt, I add an additional 20 basis points for Petitioner's debt issuances for Phase 2 and 40 basis points for Phase 3.[6]

Q: What annual debt service are you proposing for Petitioner's 2019, 2020 and 2021 debt issuances?

A: I propose an annual debt service of $14,217,092 for Petitioner's 2019A debt issuance (Schedule ERK 1). This is based on a 30 year term, at 4.4% and a $234,330,000 debt issuance. My calculation reduces the interest by 40 basis points, but increases the amount of debt by $15,406,172. Petitioner's proposed debt service for its 2019A debt is $13,918,289.

I propose an annual debt service of $8,981,632 for Petitioner's 2020A debt issuance (Schedule ERK 2). This is based on a 30 year term, at 4.6% and a $149,081,902 debt issuance. My calculation reduces the interest by 20 basis points, but increases the amount of debt by $1,989,498. Petitioner's proposed debt service for its 2020A debt is $9,066,279.

I propose an annual debt service of $7,023,234 for Petitioner's 2021A debt issuance (Schedule ERK 3). This is based on a 30 year term, at 4.8% and a $110,470,000 debt issuance. My calculation uses the same interest rate, but increases the amount of debt by $4,174,924. Petitioner's proposed debt service for its 2021A debt is $6,759,526.

[6] Thus I use 4.60% for Petitioner's 2020 debt and 4.80% for its 2021 debt.

Q: Did Mr. Brehm overstate his estimated interest rates in Petitioner's last rate case, Cause 44685?

A: Yes. Mr. Brehm assumed an interest rate of 4.8% for both Petitioner's 2016[7] and 2017 bonds. However, according to Petitioner's true-up reports Petitioner issued its 2016 and 2017 debt at effective interest rates of 3.346% and 3.53%. The annual debt service on Petitioner's 2016 debt was $2,692,417 less than the amount authorized in Phase I revenue requirements, and the annual debt service on Petitioner's 2017 debt was $1,695,295 less than authorized in Phase 2 revenue requirements (Attachments ERK 6 and 7).

Q: Does a true-up resolve all concerns regarding changes in interest rates?

A: No. A true-up is not a "zero sum game." By overstating its estimated interest rate, Petitioner will collect excess revenues in two ways. First, prior to implementing the true-up to reflect actual debt service costs, Petitioner will collect revenues based on an excessive interest rate. Second, the SIA adjustment is based on authorized revenues. Thus, a strategy of aiming high and making a downward adjustment still overstates required revenues during the SIA process. On page 5 of its Final Order in Cause No. 44990 approving a system integrity adjustment for CWA Authority, the Commission stated as follows:

> Therefore, under a plain reading of the statute, the annual operating revenues approved by the Commission in CWA's most recent rate case for the period of August 2016 through July 2017 consists of three months of annual revenue approved by the Rate Order and nine months of annual revenue approved based on the debt service true-up filing.

[7] The true-up report Petitioner provided for its 2016 debt issuance shows a Pro forma 2016 Weighted average coupon rate of 4.533%.

Petition of CWA Auth. for Approval to Implement a System Integrity Adjustment, Cause No. 44990, 2017 WL 6804744 at *6 (Ind. Util. Regulatory Comm'n (Dec. 28, 2017).

As an example, assume an annual debt service based on a 4.5% interest rate was $1,000,000, with total revenue requirements of $5,000,000. But when the loan was executed, the actual interest rate turned out to be 3.5%, with an annual debt service of $900,000 and a subsequent revenue requirement of $4,900,000. If the annual cost of debt service is overstated in a rate case due to an excessive interest rate, a utility is permitted to collected revenues through a SIA based on the overstated revenue requirement. Thus it is important to estimate as accurately as possible the anticipated interest rate on a proposed debt issuance.

VI. OTHER DEBT CONCERNS

A. Debt Timing

Q: Will there be a gap between the time Petitioner receives an order in this Cause and when its proposed debt is issued?

A: Yes. Therefore, I recommend Petitioner be ordered to reserve any funds collected in rates for its 2019 debt issuances, and use those funds to offset the amount it needs to borrow. For example, if a Petitioner issues its proposed debt three months after a final order in this cause, over which period it would have collected $25,000 per month for its proposed debt, then it should use the $75,000 (3 * $25,000) it collected to reduce the amount of debt that is issued (or to prefund its debt service reserve). This mechanism is a means to match revenues collected for a Petitioner's proposed bonds with its actual bond expense.

Q: Could this gap become immaterial?

A: Yes. If the gap in timing between a Commission order in this cause and when Petitioner closes on its debt is less than two months, then the funds collected could be considered immaterial, and Petitioner need not apply the funds collected against its proposed debt.

B. <u>True-Up and other issues</u>

Q: Should Petitioner be required to true-up its proposed annual debt service once the interest rates on its proposed debt are known?

A: Yes. Within thirty (30) days of closing on any long term debt issuance, Petitioner should file a report with the Commission and serve a copy on the OUCC. The report should explain the terms and purpose of the new loan, include the amount of debt service reserve, and show the offset to total principal described above. Because the precise interest rate and annual debt service will not be known until the debt is issued, Petitioner's rates should be trued-up to reflect the actual interest rates. Petitioner's report should include an amortization schedule of the debt, a revised rate schedule and tariff. If the change is immaterial, the parties should be permitted to agree to avoid the expense of the utility changing rates to little effect. Petitioner should have the right to decline to impose an *increase* in rates if such increase in CWA's estimation is immaterial. Likewise, the OUCC should be entrusted to decide that no *decrease* in rates need be imposed if it determines any such decrease would be immaterial. However, the Commission, in its sole discretion, may order Petitioner to file revised rates notwithstanding either the OUCC's or Petitioner's decision that a prospective change is immaterial.

C. Debt Service Reserve

Q: Please discuss concerns you have with Petitioner's debt service reserve.

A: Mr. Brehm discusses CWA's debt service reserve and explains that debt service is held in custody of the first and second lien bond trustees. Direct Testimony of John Brehm, page 1, Attachment JRB-1. If CWA Authority's situation becomes so precarious that it cannot otherwise meet its debt service obligations from net revenue, this is a very serious situation for Petitioner. This is not a situation of no-harm, no-foul that can be discounted by Petitioner replenishing its reserve funds. Before resorting to directing its custodial agent to make payments on its debt from the reserve funds, Petitioner would likely curtail construction projects or implement operational changes. In this event, it is appropriate that the Commission and the OUCC remain apprised of any activity regarding these debt service reserve funds. If the custodial agent spends any of the funds from its debt service reserves for any reason other than to make the last payment on its respective debt issuance, Petitioner should be required to file a report with the Commission and the OUCC within five (5) business days. The report should state how much CWA (or its custodial agent) spent from its debt service reserve, explain why funds were spent from the debt service reserve, provide a cite to any applicable loan documents that allow funds to be spend from the debt service reserve, describe CWA's plans to replenish its debt service reserve, and explain any cost-cutting activities CWA has implemented to forestall spending funds from its debt service reserve.

D. Phase 2 and 3 Timing

Q: Petitioner proposes that its Phase 2 and Phase 3 rate increase go into effect on August 1, 2020 and its Phase 3 on August 1, 2021. Do you agree that the timing of Petitioner's Phase 2 rate increase should be date specific?

A: No. To the extent possible, the gap between when Petitioner increases its Phase 2 the time it incurs the cost of its proposed 2020 debt should be minimized. The same holds true for its Phase 3 rates and its proposed 2021 debt. This will insure that ratepayers are not paying for a cost of debt service before Petitioner incurs the cost of debt service.

Q: How do you propose to accomplish this objective?

A: According to Petitioner's response to OUCC data request 14-2, Cause 44685 (Attachment ERK-8), CWA Authority released its Official Statement ("OS") for its Series 2014A bonds on June 10, 2014 and closed on its Series 2014A bonds on July 16, 2014. The difference between releasing its OS and closing on its 2014A bonds was approximately 5 weeks. CWA should file with the Commission and the OUCC indicating it has released its OS for its 2020 and 2021 bonds. Once CWA has released its OS and notified the OUCC and Commission, it can implement its Phase 2 rate increase without any further action by the Commission or the OUCC.

Q: Is there another event or action that could act as trigger for CWA Authority to implement its Phase 2 and Phase 3 rate increases?

A: Yes. The specific trigger is not as important as the concept of minimizing the time between the rate increase and the bond issuance. If Petitioner would like to propose a different trigger that takes no more than six (6) weeks before it will close on its 2020 and 2021 loans, that would be reasonable.

VII. CUSTOMER DEPOSITS

Q: According to line 15 of Petitioner's Exhibit JRB 1, page 6, Petitioner includes $89,888 for "interest paid" on customer deposits of $5,992,540 to calculate its annual total debt service. Do you agree with this adjustment?

A: No. The customer deposit fund will earn interest. The interest Petitioner earns on customer deposits should more than offset the costs it incurs from holding customer deposits. It is not necessary to include a revenue requirement for the interest expense Petitioner will pay on customer deposits. Moreover, Indiana utilities are not required to pay interest on customer deposits that are held for less than one year. Thus, Petitioner will not owe interest to customers on the entire $5,992,540. Even if it were appropriate to include interest expense on customer deposits, the cost should not be based on the entire balance.

VIII. RECOMMENDATIONS

Q: Please summarize your recommendations in this Cause.

A: Petitioner's revenue requirements should be based on annual E&R of $64.0 million in Phase I, $68.0 million in Phase 2 and $70 million in Phase 3.

Petitioner's revenue requirements should be based on a total annual debt service of $139,675,668 in Phase I, $148,710,862 in Phase 2 and $155,658,328 in Phase 3.

Petitioner's Phase 2 and Phase 3 rate increases should not take place until it has released its OS for its 2020 and 2021 bonds and notified the Commission and OUCC that it has done so.

Within thirty (30) days of closing on any long term debt issuance, CWA should file a report with the Commission, and serve a copy on the OUCC, explaining the terms and purpose of the new loan.

If CWA (itself or through its custodial agent) spends any of the funds from its debt service reserves for any reason other than to make the last payment on its respective debt issuance, Petitioner should be required to provide a report to the Commission and the OUCC within five (5) business days as described above.

Based on the concerns expressed by Mr. Brehm on page 28, CWA Authority should file a DSC calculation each quarter with the Commission and the OUCC as described above.

Q: Does this conclude your testimony?

A: Yes.

IX. APPENDIX A

Q: Please describe your educational background and experience.

A: I graduated from Bentley College in Boston, Massachusetts with a Bachelor's degree in Economics/Finance and an Associate's degree in Accounting. Before attending graduate school, I worked as an escheatable property accountant at State Street Bank and Trust Company in Boston, Massachusetts. I was awarded a graduate fellowship to attend Purdue University where I earned a Master's of Science degree in Management with a finance concentration.

I was hired as a Utility Analyst in the Economics and Finance Division of the OUCC in October 1990. My primary areas of responsibility have been in utility finance, utility cost of capital and regulatory policy. I was promoted to Principal Utility Analyst in August 1993 and to Assistant Chief of Economics and Finance in July 1994. As part of an agency wide reorganization in July 1999, my position was reclassified as Lead Financial Analyst within the Rates/Water/Sewer Division. In October, 2005 I was promoted to Assistant Director of the Water/Wastewater Division. In October 2012, I was promoted to Chief Technical Advisor. I have participated in numerous conferences and seminars regarding utility regulation and financial issues. I was awarded the professional designation of Certified Rate of Return Analyst ("CRRA") by the Society of Utility and Regulatory Financial Analysts ("SURFA"). This designation is awarded based upon experience and the successful completion of a written examination. In April 2012, I was elected to SURFA's Board of Directors, and I continue to serve on SURFA's board.

Q: Have you previously testified before the Indiana Utility Regulatory Commission ("Commission" or "IURC")?

A: Yes. I have testified in water, wastewater, natural gas, telecommunication and electric utilities cases. While my primary areas of responsibility have been in cost of equity, utility financing, fair value, utility valuation and regulatory policy, I have also provided testimony on trackers, guaranteed performance contracts, declining consumption adjustments, and other various issues.

X. APPENDIX B

Schedule ERK 1	Amortization schedule that calculates annual debt service for Petitioner's 2019 debt issuance
Schedule ERK 2	Amortization schedule that calculates annual debt service for Petitioner's 2020 debt issuance
Schedule ERK 3	Amortization schedule that calculates annual debt service for Petitioner's 2021 debt issuance
Attachment ERK 1	Is the cover page and page 24 from Citizen Energy's "Annual Financial Report 2018
Attachment ERK 2	Is a copy of Petitioner's workpaper 170IAC 1-5-13(a)(1)(A) and 170IAC 1-5-13(a)(1)(C)
Attachment ERK 3	Petitioner's responses to OUCC Data Request questions 12.1 and 12.2.
Attachment ERK 4	Petitioner's responses to OUCC Data Request questions 2.9 and 10.2.
Attachment ERK 5	Petitioner's responses to OUCC Data Request question 10.1.
Attachment ERK 6	Summary of CWA Authority's 2016 Actual Debt Issuance Compared to Pro Forma 44685 (Cause 44685 Phase I)
Attachment ERK 7	Summary of CWA Authority's 2017A Actual Debt Issuance Compared to Pro Forma 44685 (Cause 44685 Phase 2)
Attachment ERK 8	Petitioner's responses to OUCC Data Request question 14.2 from Cause No. 44685.
Attachment ERK 9	Petitioner's responses to OUCC Data Request question 2.17 and 2.18.

OUCC Revised Amortization Schedule

Series 2019A Pro Forma

Beginning Principal	$233,640,000
Interest Rate	4.40%
Yearly Payment	$14,175,229

	Interest	Principal	Total	Principal Balance
7/1/2019	$10,280,160	$3,895,069	$14,175,229	$229,744,932
7/1/2020	$10,108,777	$4,066,452	$14,175,229	$225,678,480
7/1/2021	$9,929,853	$4,245,375	$14,175,229	$221,433,104
7/1/2022	$9,743,057	$4,432,172	$14,175,229	$217,000,932
7/1/2023	$9,548,041	$4,627,188	$14,175,229	$212,373,745
7/1/2024	$9,344,445	$4,830,784	$14,175,229	$207,542,961
7/1/2025	$9,131,890	$5,043,338	$14,175,229	$202,499,623
7/1/2026	$8,909,983	$5,265,245	$14,175,229	$197,234,377
7/1/2027	$8,678,313	$5,496,916	$14,175,229	$191,737,461
7/1/2028	$8,436,448	$5,738,780	$14,175,229	$185,998,681
7/1/2029	$8,183,942	$5,991,287	$14,175,229	$180,007,394
7/1/2030	$7,920,325	$6,254,903	$14,175,229	$173,752,491
7/1/2031	$7,645,110	$6,530,119	$14,175,229	$167,222,372
7/1/2032	$7,357,784	$6,817,444	$14,175,229	$160,404,928
7/1/2033	$7,057,817	$7,117,412	$14,175,229	$153,287,516
7/1/2034	$6,744,651	$7,430,578	$14,175,229	$145,856,938
7/1/2035	$6,417,705	$7,757,523	$14,175,229	$138,099,415
7/1/2036	$6,076,374	$8,098,854	$14,175,229	$130,000,561
7/1/2037	$5,720,025	$8,455,204	$14,175,229	$121,545,357
7/1/2038	$5,347,996	$8,827,233	$14,175,229	$112,718,124
7/1/2039	$4,959,597	$9,215,631	$14,175,229	$103,502,493
7/1/2040	$4,554,110	$9,621,119	$14,175,229	$93,881,374
7/1/2041	$4,130,780	$10,044,448	$14,175,229	$83,836,925
7/1/2042	$3,688,825	$10,486,404	$14,175,229	$73,350,521
7/1/2043	$3,227,423	$10,947,806	$14,175,229	$62,402,716
7/1/2044	$2,745,719	$11,429,509	$14,175,229	$50,973,207
7/1/2045	$2,242,821	$11,932,408	$14,175,229	$39,040,799
7/1/2046	$1,717,795	$12,457,433	$14,175,229	$26,583,366
7/1/2047	$1,169,668	$13,005,561	$14,175,229	$13,577,805
7/1/2048	$597,423	$13,577,805	$14,175,229	$0

Petitioner's proposed annual debt service	$ 13,918,289
Increase/(decrease) annual debt service	$256,939.62

OUCC Revised Amortization Schedule

Series 2020A Pro Forma

Beginning Principal	$145,405,000
Interest Rate	4.60%
Yearly Payment	$9,031,946

	Interest	Principal	Total	Principal Balance
7/1/2019	$6,688,630	$2,343,316	$9,031,946	$143,061,684
7/1/2020	$6,580,837	$2,451,108	$9,031,946	$140,610,576
7/1/2021	$6,468,087	$2,563,859	$9,031,946	$138,046,717
7/1/2022	$6,350,149	$2,681,797	$9,031,946	$135,364,921
7/1/2023	$6,226,786	$2,805,159	$9,031,946	$132,559,762
7/1/2024	$6,097,749	$2,934,197	$9,031,946	$129,625,565
7/1/2025	$5,962,776	$3,069,170	$9,031,946	$126,556,395
7/1/2026	$5,821,594	$3,210,351	$9,031,946	$123,346,044
7/1/2027	$5,673,918	$3,358,028	$9,031,946	$119,988,017
7/1/2028	$5,519,449	$3,512,497	$9,031,946	$116,475,520
7/1/2029	$5,357,874	$3,674,072	$9,031,946	$112,801,448
7/1/2030	$5,188,867	$3,843,079	$9,031,946	$108,958,369
7/1/2031	$5,012,085	$4,019,861	$9,031,946	$104,938,509
7/1/2032	$4,827,171	$4,204,774	$9,031,946	$100,733,735
7/1/2033	$4,633,752	$4,398,194	$9,031,946	$96,335,541
7/1/2034	$4,431,435	$4,600,511	$9,031,946	$91,735,030
7/1/2035	$4,219,811	$4,812,134	$9,031,946	$86,922,896
7/1/2036	$3,998,453	$5,033,492	$9,031,946	$81,889,404
7/1/2037	$3,766,913	$5,265,033	$9,031,946	$76,624,371
7/1/2038	$3,524,721	$5,507,225	$9,031,946	$71,117,146
7/1/2039	$3,271,389	$5,760,557	$9,031,946	$65,356,589
7/1/2040	$3,006,403	$6,025,542	$9,031,946	$59,331,047
7/1/2041	$2,729,228	$6,302,717	$9,031,946	$53,028,329
7/1/2042	$2,439,303	$6,592,642	$9,031,946	$46,435,687
7/1/2043	$2,136,042	$6,895,904	$9,031,946	$39,539,783
7/1/2044	$1,818,830	$7,213,116	$9,031,946	$32,326,668
7/1/2045	$1,487,027	$7,544,919	$9,031,946	$24,781,749
7/1/2046	$1,139,960	$7,891,985	$9,031,946	$16,889,764
7/1/2047	$776,929	$8,255,016	$9,031,946	$8,634,747
7/1/2048	$397,198	$8,634,747	$9,031,946	$0

Petitioner's proposed annual debt service	$ 9,066,279
Increase/(decrease) annual debt service	($34,333)

OUCC Revised Amortization Schedule

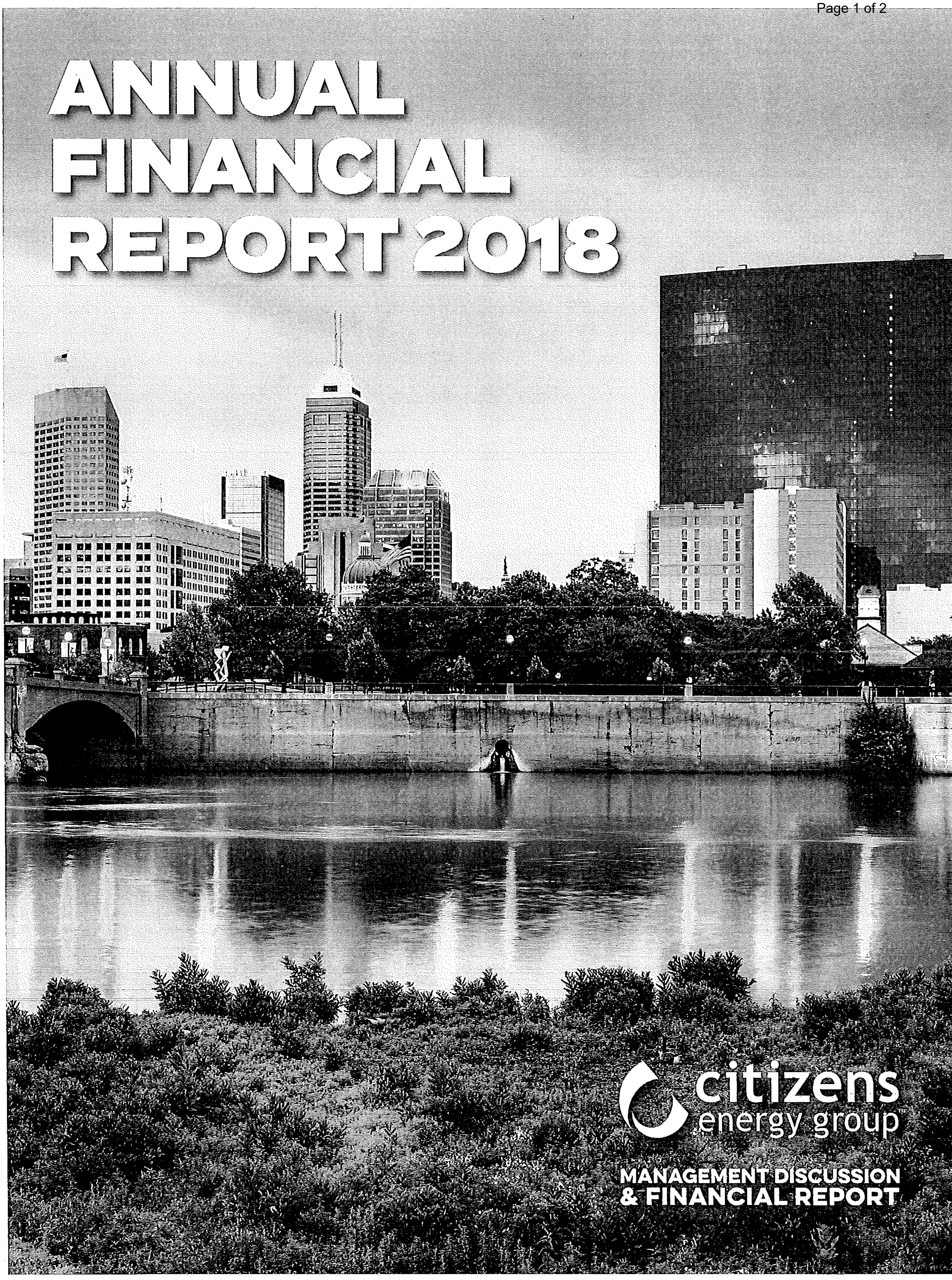
Series 2021A Pro Forma

Beginning Principal	$111,280,000
Interest Rate	4.80%
Yearly Payment	$7,074,731

	Interest	Principal	Total	Principal Balance
7/1/2019	$5,341,440	$1,733,291	$7,074,731	$109,546,709
7/1/2020	$5,258,242	$1,816,489	$7,074,731	$107,730,220
7/1/2021	$5,171,051	$1,903,680	$7,074,731	$105,826,540
7/1/2022	$5,079,674	$1,995,057	$7,074,731	$103,831,483
7/1/2023	$4,983,911	$2,090,820	$7,074,731	$101,740,663
7/1/2024	$4,883,552	$2,191,179	$7,074,731	$99,549,484
7/1/2025	$4,778,375	$2,296,356	$7,074,731	$97,253,129
7/1/2026	$4,668,150	$2,406,581	$7,074,731	$94,846,548
7/1/2027	$4,552,634	$2,522,097	$7,074,731	$92,324,451
7/1/2028	$4,431,574	$2,643,157	$7,074,731	$89,681,294
7/1/2029	$4,304,702	$2,770,029	$7,074,731	$86,911,266
7/1/2030	$4,171,741	$2,902,990	$7,074,731	$84,008,275
7/1/2031	$4,032,397	$3,042,334	$7,074,731	$80,965,942
7/1/2032	$3,886,365	$3,188,366	$7,074,731	$77,777,576
7/1/2033	$3,733,324	$3,341,407	$7,074,731	$74,436,169
7/1/2034	$3,572,936	$3,501,795	$7,074,731	$70,934,374
7/1/2035	$3,404,850	$3,669,881	$7,074,731	$67,264,494
7/1/2036	$3,228,696	$3,846,035	$7,074,731	$63,418,459
7/1/2037	$3,044,086	$4,030,645	$7,074,731	$59,387,814
7/1/2038	$2,850,615	$4,224,116	$7,074,731	$55,163,698
7/1/2039	$2,647,858	$4,426,873	$7,074,731	$50,736,825
7/1/2040	$2,435,368	$4,639,363	$7,074,731	$46,097,461
7/1/2041	$2,212,678	$4,862,053	$7,074,731	$41,235,409
7/1/2042	$1,979,300	$5,095,431	$7,074,731	$36,139,978
7/1/2043	$1,734,719	$5,340,012	$7,074,731	$30,799,966
7/1/2044	$1,478,398	$5,596,332	$7,074,731	$25,203,633
7/1/2045	$1,209,774	$5,864,956	$7,074,731	$19,338,677
7/1/2046	$928,256	$6,146,474	$7,074,731	$13,192,202
7/1/2047	$633,226	$6,441,505	$7,074,731	$6,750,697
7/1/2048	$324,033	$6,750,697	$7,074,731	$0

Petitioner's proposed annual debt service	$ 6,759,526
Increase/(decrease) annual debt service	$315,205

ANNUAL FINANCIAL REPORT 2018



citizens energy group

MANAGEMENT DISCUSSION & FINANCIAL REPORT

	September 30, 2018	September 30, 2017
Wastewater General Obligation Bonds Series 2007 C, 5.00%, due 2018	$ -	$ 6,285
Wastewater General Obligation Bonds Series 2013A, 5.25%, due 2018	-	1,198
Total Wastewater General Obligation Bond Debt	$ -	$ 7,483

Rate Covenants

Citizens and CWA are obligated to satisfy certain covenants, including meeting certain minimum debt service coverage requirements for each bond issue, which are generally calculated as earnings before interest, taxes, depreciation, and amortization, including certain adjustments, divided by the relevant debt service.

In addition, Citizens and CWA have covenants specifying in the event that debt service covenants cannot be met, Citizens and CWA shall take any appropriate action under the law and within its power, to generate income and revenues of the GUS, GUDS, Water System, Wastewater System and Thermal Energy System, respectively, in the amounts required to satisfy the covenants for subsequent fiscal years. These actions include, but are not limited to, the filing of a proceeding seeking additional revenues or other relief before the IURC.

Citizens' and CWA's rate covenant debt service coverage ratios, as defined by each indenture, are summarized as follows for 2018:

	Minimum Coverage Requirement	2018 Actual
GUDS Revenue Refunding Bonds Series 2008C, Series 2009A, Series 2010A, Series 2013A, and Series 2017A Second Lien Multi-Mode Revenue and Revenue Refunding Bonds	1.0	2.81
Thermal Energy System Revenue Bonds Series 2010A and 2010 B, Series 2013A, Series 2014A, and Series 2016A	1.0	1.83
Water Utility Net Revenue Bonds Series 2011C, Series 2011D, Series 2011F, 2011G, Series 2014A, Series 2016A, and 2016B	1.2	1.80
Water Utility Net Revenue Second Lien Bonds Series 2014B	1.1	1.76
CWA Wastewater Utility Revenue Bonds Series 2011A, Series 2012A, Series 2014A, Series 2015A, Series 2016A, 2016C, and 2017A	1.2	2.04
CWA Wastewater Utility Revenue Second Lien Bonds Series 2011B and 2016B	1.1	1.71

As of September 30, 2018, the Water System maintains $6.9 million in the Rate Stabilization Fund, which is recorded as cash and cash equivalents on the Combined Statement of Financial Position. For purposes of calculating and satisfying its rate covenant per the Water System indenture, Citizens may transfer funds from the Rate Stabilization Fund to revenues in any fiscal year, so long as the funds were not transferred to the Rate Stabilization Fund during such fiscal year. These funds were transferred to the Rate Stabilization Fund in fiscal 2012 and continue to be available to support net revenues of the Water System in future years.

4. SHORT-TERM AND OTHER BORROWINGS

Gas

Gas had $50.0 million in commercial paper outstanding at September 30, 2018 and September 30, 2017. The commercial paper has a maximum maturity of 270 days. It last remarketed in December 2018 and will remarket again in April 2019. Commercial paper is backed by a two year letter of credit issued by J.P. Morgan Chase which matures on July 12, 2020. Gas has two three year working capital lines of credit amounting to $50.0 million. The $25.0 million line of credit agreement with BMO Harris Bank NA has a maturity date of August 3, 2019 with an interest rate of LIBOR plus 1.25 percent. The $25.0 million line of credit with J.P. Morgan Chase has a maturity date of August 13, 2021 with an

170 IAC 1-5-13(a)(1)(A) and 170 IAC 1-5-13(a)(1)(C)
CWA Authority
Pro Forma Debt Service Coverage at Proposed rates

Line No.		Pro Forma 12 Months Ended 7/31/2020	Pro Forma 12 Months Ended 7/31/2021	Pro Forma 12 Months Ended 7/31/2022
		(A)	(B)	(C)
1	Pro Forma Revenue	307,880,061	322,594,189	333,924,355
2	System Development Charges	8,121,088	8,121,088	8,121,088
3	Other Income	2,180,250	2,180,250	2,180,250
4	Sub-Total	318,181,399	332,895,527	344,225,693
	Less:			
5	Pro Forma Operation and Maintenance Expense	79,895,071	79,993,655	80,069,567
6	Pro Forma Payment in Lieu of Taxes (PILOT)	26,777,713	28,323,728	28,945,721
7	Net Revenue Available for Debt Service	211,508,616	224,578,144	235,210,405
8	Total Debt Service	139,508,616	148,578,144	155,210,405
9	Line 7 Less Line 8 = Revenue Funded E&R	72,000,000	76,000,000	80,000,000
10	Total Debt Service Coverage Ratio (Line 7/ Line 8)	1.52	1.51	1.52

Cause No. 45151
Responses of CWA Authority Inc.
Office of Utility Consumer Counselor's
Twelfth Set of Data Requests

DATA REQUESTS

DATA REQUEST NO. 1:
Page 24 of Citizens Energy's "Annual Financial Report 2018" shows "CWA Wastewater Utility Revenue Bonds" (Series 2011 A, Series 2012A, Series 2014A, Series 2015A, Series 2016A, Series 2016C, and Series 2017A) with a 2018 Actual Coverage ratio of 2.04. Please provide all inputs and the actual calculation used to determine the reported 2.04 coverage ratio.

RESPONSE:

See the file identified as OUCC DR 12.1

WITNESS:

N/A

Cause No. 45151
Responses of CWA Authority Inc.
Office of Utility Consumer Counselor's
Twelfth Set of Data Requests

DATA REQUEST NO. 2:

Page 24 of Citizens Energy's "Annual Financial Report 2018" shows "CWA Wastewater Utility Revenue Second Lien Bonds" (Series 2011B and 2016B), with a 2018 Actual Coverage ratio of 1.71. Please provide all inputs and the actual calculation used to determine the reported 1.71 coverage ratio.

RESPONSE:

Petitioner incorporates herein by reference its response to Data Request No. 12.1.

WITNESS:

N/A

Wastewater System Indenture
$ in 000s

	FY 2018
Net Income	$ 31,429
Adjustments:	
Add Connection Fees (GL 271010)	9,223
Add PILOT expense (92.7821.408180)	24,918
Add Interest Charges	71,221
Add Depreciation and Amortization (incl CSS)	78,024
Net Income Available for Debt Service	**214,815**
First Lien Debt Service	
2011A	45,274
2012A	12,113
2014A	15,227
2015A	10,197
2016A	12,398
2016C (SRF)	649
2017A (SRF)	9,389
Total First Lien Debt Service	105,247
First Lien Debt Service Coverage	**2.04**
Second Lien Debt Service	
2011B	18,106
2016B	2,354
Total Second Lien Debt Service	20,460
Second Lien Debt Service Coverage	**1.71**
General Obligation bonds	7,672
Total debt service including GO	133,379
Net Income available for Total DS Coverage	189,897
Total Debt Service Coverage	**1.42**

DATA REQUEST NO. 9:

On pages 36-39 of his testimony (Petitioner's Exhibit No. 2), Mr. Brehm said it is necessary for CWA to establish a "date certain when CWA will stop issuing debt."

a. Please explain what order or finding CWA seeks form the Commission in this cause that would further that goal.
b. Please explain whether Petitioner seeks a determination from the Commission in this cause that would endorse or otherwise approve funding 100% of its new capital improvements as an E&R revenue requirement.
c. Please explain why it is beneficial for CWA to stop issuing debt.
d. Please provide any study or analysis CWA has reviewed or relied on for the purpose of determining that it should no longer issue debt as a goal.

RESPONSE:

a) On page 7, lines 1-4 of his testimony, Mr. Brehm summarizes the essence of the Commission findings CWA is generally seeking through his testimony in this case without limiting or dictating specific findings the Commission might make, where he states, "From a revenue requirements standpoint, I provide support for and sponsor the pro forma revenue requirement of CWA for the revenue funded portion of total extensions and replacements ("E&R") and for debt service." Specifically, Mr. Brehm proposes $72.0 million of revenue funded E&R for the step one rates, $76 million of revenue funded E&R for the step two rates and $80.0 million of revenue funded E&R for the step three rates. Based on the assumption of these levels of E&R revenue funding, Mr. Brehm proposes a debt service revenue requirement amount of $139,508,616 for the step one rates, $148,578,144 for the step two rates and $155,210,405 for the step three rates, subject to true-up. However, Mr. Brehm supports the Commission's use of any part of his testimony it deems relevant to support findings approving CWA's proposed amounts for revenue funded E&R and debt service.
b) See the response to subpart (a) above of OUCC DR 2.9.
c) As a point of proper characterization of his testimony, Mr. Brehm testified on page 36, lines 14-18 that "CWA has issued and will continue to issue substantial debt while simultaneously trying to preserve its ability to issue that debt at reasonable cost in any market condition that could occur over the span of the Consent Decree projects and for unforeseen requirements for years beyond completion of the Consent Decree projects." Mr. Brehm's testimony from page 36, line 7 through page 39, line 22 as well as page 41, line 10 through page 42, line 18 provides the answer to the question in subpart (c) of this data request.

d) As a point of proper characterization of his testimony, Mr. Brehm testified on page 36, lines 14-18 that "CWA has issued and will continue to issue substantial debt while simultaneously trying to preserve its ability to issue that debt at reasonable cost in any market condition that could occur over the span of the Consent Decree projects and for unforeseen requirements for years beyond completion of the Consent Decree projects." A review of filed MSFR workpaper WP 170 IAC 1-5-13(a)(8), Debt Service Schedule for Existing Debt, column AQ, line 375 plus filed workpaper JRB Wastewater Exhibits (Excel File) in the DebtSrv tab demonstrates CWA will not experience any relief from its annual debt service amount that will build up through the three steps of this rate case until the end of fiscal year 2041. Moreover, beyond the three steps contemplated in this rate case, CWA's annual debt service is expected to further increase through completion of the Consent Decree.

WITNESS:

John R. Brehm

DATA REQUEST NO. 2:

In OUCC DR 2-9 the OUCC referred to Mr. Brehm's testimony at pages 36-39, where Mr. Brehm says it is necessary for CWA to establish a "data certain when CWA will stop issuing debt." In "Part B" of its request the OUCC asked: "Please explain whether Petitioner seeks a determination from the Commission in this cause that would endorse or otherwise approve funding 100% of its new capital improvements as an E&R revenue requirement." Petitioner's response did not provide a definitive yes or no answer to the OUCC's query.

a. Please answer the following with either yes or no. Is Petitioner seeking a determination from the Commission in this cause that endorses or otherwise approves funding 100% of new capital improvements as an E&R revenue requirement?

b. Please provide the precise language in a finding Petitioner would like the Commission to make regarding the rate of funding of future capital improvements as an E&R revenue requirement.

RESPONSE:

Petitioner objects to the foregoing Data Request on the grounds that it is cumulative and repetitive and already has been fully answered in response to a prior data request response. Such cumulative discovery requests are inconsistent with all the rules of discovery and informal discovery process agreed upon in this proceeding. Petitioner further objects to the foregoing Data Request to the extent it seeks legal theories of any attorney or expert of Petitioner in this proceeding as to particular proposed findings that might be included in a proposed order in this case and support therefor. Such information is work product and exempt from discovery. Subject to and without waiving the foregoing objections, Petitioner submits the response set forth below.

a) As Mr. Brehm explained in his prepared testimony and the prior answer to OUCC Data Request 2-9, "From a revenue requirements standpoint, I provide support for and sponsor the pro forma revenue requirement of CWA for the revenue funded portion of total extensions and replacements ('E&R') and for debt service." As Petitioner has further explained, in this case, CWA proposes $72.0 million of revenue funded E&R for the step one rates, $76 million of revenue funded E&R for the step two rates and $80.0 million of revenue funded E&R for the step three rates.
b) See objection above.

WITNESS:

John R. Brehm

Cause No. 45151
Responses of CWA Authority Inc.
Office of Utility Consumer Counselor's
Tenth Set of Data Requests

DATA REQUESTS

DATA REQUEST NO. 1:
For its anticipated 2020a and 2021a debt issuances, Petitioner assumes a 4.8% interest rate. What is the basis for Petitioner's assumed 4.8% interest rate? Please provide any supporting calculations, reports, or other documentation that Petitioner relies upon to support its assumed interest rate of 4.8%.

RESPONSE:

Near the time of filing the case-in-chief, the Treasurer checks with investment bankers to assess market interest rates for debt similar to CWA. At the time of filing the case, interest rates for debt similar to CWA were in the range of 3.8%. However, there is a risk of interest rate increases while this case is pending due to the well-publicized tightening policy of the Federal Reserve. Consequently, consistent with his practice in prior CWA rate cases, Mr. Brehm added 100 basis points to account for the risk of increases during the pendency of the case plus the three steps. Such an assumption has never been the subject of controversy in a CWA rate case, presumably since it is subject to true-up following actual issuance of the debt. Mr. Brehm also had the Treasurer check with investment bankers on December 27, 2018 for current interest rates in light of this Data Request and the interest rate estimate was 3.85% - 3.89%, which is supportive of the assumptions Mr. Brehm made in this case.

WITNESS:

John R. Brehm

CWA Authority, Inc.
Exhibit 1 - Summary of Financing Activity
Pursuant to Finding Paragraph D.3 of Order in Cause No. 44685

CWA Authority, Inc.
Phase 1
Summary of Series 2016 Actual Debt Issuance Compared to Pro Forma

Line No.		Actual Series 2016 Debt Issuance (A)		Pro Forma Series 2016 Debt Issuance (B)	Difference (C)
1	Principal Amount Series 2016A	193,270,000	(1)	264,664,064	(71,394,064)
2	Principal Amount Series 2016B	43,545,000	(2)	45,990,000	(2,445,000)
3	Principal Amount 2016 SRF Loan	12,500,000	(1)	-	12,500,000
	Total Principal Amount	249,315,000		310,654,064	(61,339,064)
3	Net Premium	43,284,717		-	43,284,717
4	Total Bond Proceeds	292,599,717		310,654,064	(18,054,347)
5	Less: Debt Service Reserve Fund Deposit	131,635	(3)	16,826,267	(16,694,632)
6	Less: Issuance Expenses	1,361,111		2,646,641	(1,285,530)
7	Net Proceeds Available to Fund Extensions and Replacements and Refund 2011C Bonds	291,106,971		291,181,156	(74,185)
8	Weighted Average Coupon Rate	4.62814%		4.53350%	0.095%
9	Effective Interest Rate (takes premium into consideration)	3.346%		4.534%	-1.188%
10	Annual Debt Service	15,513,550		18,205,967	(2,692,417)
11	Term: 30 Year Levelized Debt Service				

Note 1: A portion of the pro forma 2016A bonds were issued through the Indiana Finance Authority's SRF loan program due to advantageous interest rates.

Note 2: The Series 2016B bonds refund the Series 2011C bonds that have a bullet maturity of September 30, 2016.

Note 3: Market conditions allowed the reserve fund requirement to be met with a surety bond.

CWA Authority, Inc.
Exhibit 2 - Pro Forma Debt Service True Up Schedule
(in Dollars)

CWA Authority, Inc.
Phase 1 Pro Forma Debt Service True Up Schedule
(In Dollars)

Line No.		Phase 1 Pro Forma Debt Service per True Up		Phase 1 Pro Forma Debt Service per Rate Order	Difference
		(A)		(B)	(C)
1	CWA Authority First Lien Bonds, Series 2011A	45,278,025		45,278,025	-
2	CWA Authority First Lien Bonds, Series 2012A	12,110,700		12,110,700	-
3	CWA Authority First Lien Bonds, Series 2014A	15,224,350		15,224,350	-
4	CWA Authority First Lien Bonds, Series 2015A	10,194,650		10,194,650	-
5	CWA Authority First Lien Bonds, Series 2016 A and B	15,513,550	(1)	18,205,967	(2,692,417)
6	CWA Authority Second Lien Bonds, Series 2011B	18,102,850		18,102,850	-
7	Obligation to reimburse City for debt service on Sanitary District General Obligation Bonds	7,677,591		7,677,591	-
8	Customer Deposits	10,514		10,514	-
9	Total Debt Service	124,112,230		126,804,647	(2,692,417)

Note 1: A portion of the pro forma 2016A bonds were issued through the Indiana Finance Authority's SRF loan program due to advantageous interest rates.

Exhibit 1 - Summary of Financing Activity
Pursuant to Finding Paragraph D.3 of Order in Cause No. 44685

CWA Authority, Inc.
IURC Cause No. 44685
Compliance Filing
August 21, 2017

CWA Authority, Inc.
Phase 2
Summary of Series 2017A Actual Debt Issuance Compared to Pro Forma

Line No.		Actual Series 2017A Debt Issuance (A)		Pro Forma Series 2017A Debt Issuance (B)	Difference (C)
1	Principal Amount Series 2017A	163,526,839	(1)	166,827,929	(3,301,090)
2	Less: Debt Service Reserve Fund Deposit	8,918,979		10,606,243	(1,687,264)
3	Less: Issuance Expenses	107,860		1,668,279	(1,560,419)
4	Net Proceeds Available to Fund Extensions and Replacements	154,500,000		154,553,407	(53,407)
5	Interest Rate	3.53000%		4.80000%	-1.270%
7	Annual Debt Service	8,910,948		10,606,243	(1,695,295)
8	Term: 30 Year Levelized Debt Service				

Note 1: A portion of the 2017A bond was issued through the Indiana Finance Authority's (IFA) pooled loan program and a portion was issued through IFA's SRF loan program.

Exhibit 2 - Pro Forma Debt Service True Up Schedule
(in Dollars)

CWA Authority, Inc.
IURC Cause No. 44685
Compliance Filing
August 21, 2017

CWA Authority, Inc.
Phase 2 Pro Forma Debt Service True Up Schedule
(In Dollars)

Line No.		Phase 2 Pro Forma Debt Service per True Up		Phase 2 Pro Forma Debt Service per Rate Order	Difference
		(A)		(B)	(C)
1	CWA Authority Series 2011A	45,275,275		45,275,275	-
2	CWA Authority Series 2011B	18,105,475		18,105,475	-
3	CWA Authority Series 2012A	12,112,475		12,112,475	-
4	CWA Authority Series 2014A	15,226,438		15,226,438	-
5	CWA Authority Series 2015A	10,196,488		10,196,488	-
6	CWA Authority Series 2016 A and B	18,205,967		18,205,967	-
7	CWA Authority Series 2017A	8,910,948	(1)	10,606,243	(1,695,295)
8	Obligation to reimburse City for debt service on Sanitary District General Obligation Bonds	7,671,573		7,671,573	-
9	Customer Deposits	10,514		10,514	-
10	Total Debt Service	135,715,153		137,410,448	(1,695,295)

Note 1: A portion of the 2017A bond was issued through the Indiana Finance Authority's (IFA) pooled loan program and a portion was issued through IFA's SRF loan program.

Exhibit 3
(in Dollars)

CWA Authority, Inc.
IURC Cause No. 44685
Compliance Filing
August 21, 2017

CWA Authority, Inc.
Phase 1 and Phase 2 Pro Forma Debt Service True Up Schedule
(In Dollars)

Line No.		Phase 2 Pro Forma Debt Service per True Up (A)		Phase 2 Pro Forma Debt Service per Rate Order (B)	Difference (C)	
1	CWA Authority Series 2011A	45,275,275		45,275,275	-	
2	CWA Authority Series 2011B	18,105,475		18,105,475	-	
3	CWA Authority Series 2012A	12,112,475		12,112,475	-	
4	CWA Authority Series 2014A	15,226,438		15,226,438	-	
5	CWA Authority Series 2015A	10,196,488		10,196,488	-	
6	CWA Authority Series 2016 A and B	15,513,550	(1)	18,205,967	(2,692,417)	(2)
7	CWA Authority Series 2017A	8,910,948	(3)	10,606,243	(1,695,295)	
8	Obligation to reimburse City for debt service on Sanitary District General Obligation Bonds	7,671,573		7,671,573	-	
9	Customer Deposits	10,514		10,514	-	
10	Total Debt Service	133,022,736		137,410,448	(4,387,712)	

Note 1: A portion of the pro forma 2016A bonds were issued through the Indiana Finance Authority's SRF loan program due to advantageous interest rates.

Note 2: This true-up was made in the Phase 1 compliance filing and is therefore not part of the rate adjustment in the Phase 2 compliance filing.

Note 3: A portion of the 2017A bond was issued through the Indiana Finance Authority's (IFA) pooled loan program and a portion was issued through IFA's SRF loan program.

Cause No. 44685
Responses of CWA Authority, Inc.
Office of Utility Consumer Counselor's
Fourteenth Set of Data Requests

DATA REQUEST NO. 2:

In Petitioner's supplemental response to OUCC's Data Request Q 6.3, Petitioner provided a list of fifteen steps that occur before debt is issued. For each of the following steps, please state how far in advance of the closing (i.e., number of weeks) each generally occurs:

a. "Finalize the draft of the supplemental indenture."
b. "Receive ratings from rating agencies."
c. "Update the POS draft to include the credit ratings on the proposed bond issue."
d. "Release the POS to the public."
e. "Price the bonds."
f. "Complete the supplemental indenture including the final terms of the bonds."
g. "Release the OS to the public."
h. "Pre-closing – all bond documents are given a final review."

RESPONSE:

Petitioner objects to the Data Request on the basis the request is vague and ambiguous and, depending on its intended meaning, the request to pinpoint timing of "each of the following steps" is overly broad and unduly burdensome. Without waiving the foregoing objections, Petitioner responds that the rates approved in Cause No. 44305 were implemented on May 1, 2014 and the OS for the Series 2014A bonds was released to the public on June 10, 2014. The Series 2014A bonds closed on July 16, 2014.

WITNESS:

John R. Brehm

DATA REQUEST NO. 17:

Does CWA Authority have a legal obligation to pay PILOT funds it collects in revenue requirements to the City of Indianapolis? If yes, please provide the source that identifies its legal obligation to do so.

RESPONSE:

Section 3.05 of the Asset Purchase Agreement approved by the Commission in Cause No. 43936, provides as follows:

> Section 3.05. PILOT Payments. Prior to the Closing Date, the City shall have issued public debt, payments of principal and interest on which shall be secured and funded by a series of payments in lieu of taxes from the System ("PILOT Payments"), all as set forth in City County Special Ordinance No. 5, 2010 (the "PILOT Ordinance") passed pursuant to Indiana Code 36-3-2-10. As an essential component of the consideration received by the Sellers for the System and the Acquired Assets, upon Closing Purchaser shall be obligated to pay to the City when due the scheduled PILOT Payments as set forthh in the PILOT Ordinance, which the Parties have mutually agreed shall be fixed representing a bargained for exchange such that Purchaser is assured that such stream of PILOT Payments shall not be more, and the City is assured that such payments shall not be less, than the amounts set forth in the PILOT Ordinance. A component part of the approvals contemplated as conditions to Closing set forth in Sections 12.03 and 13.03 is IURC approval of this obligation on the part of Purchaser to make the PILOT Payments for the full term of the payment schedule as set forth in the PILOT Ordinance. Purchaser shall make the scheduled PILOT Payments in two equal installments on June 1 and December 1 of each year. In the event that Purchaser fails to pay the City the required payment on its due date, then interest shall accrue on such delinquent amount at a rate consistent with Indiana Code 36-3-2-10(j). For any portion of the calendar year that is prior to the Closing Date, Purchaser shall be entitled to a credit of the PILOT Payments due for the pre-Closing portion of the calendar year. The obligation of Purchaser to make PILOT Payments to the City shall be subordinate to operating and maintenance expenses, payment of principal and interest on any bonded indebtedness, depreciation or replacement fund expenses, bond and interest sinking fund expenses and any other priority fund requirements required by law or any ordinance, resolution, indenture, contract or similar instrument binding on the System. Purchaser agrees not to seek to subject

the Acquired Assets to property tax. Consistent with Indiana Code 36-3-2-10(h), Purchaser shall seek approval of rates sufficient to have cash earnings from legally available sources of revenue sufficient to timely make such PILOT Payments. The Sellers agree that the PILOT Ordinance shall not be amended in any manner which increases Purchaser's obligations under this Section 3.05. For years beginning in 2040 and thereafter, Purchaser shall continue to pay annually a payment in lieu of taxes equal to that amount determined in accordance with Indiana Code 36-3-2-10 or its successor.

WITNESS:

N/A

DATA REQUEST NO. 18:
Are funds CWA collects pursuant to the payment in lieu of taxes (PILT) revenue requirement available for CWA to make debt service payments? If no, explain why not.

RESPONSE:

CWA objects to this request on the grounds that it does not collect a discrete set of funds "pursuant to the payment in lieu of taxes (PILT) revenue requirement." Rather, CWA's rates and charges in a particular case are designed to recover all of its aggregated revenue requirements, including annual PILOT payments and debt service, among others, and once rates and charges have been approved by the Commission, CWA must use whatever revenues are generated by such rates and charges to manage all of its aggregated revenue requirements. Subject to and without waiving the foregoing objection, CWA responds as follows. CWA incorporates herein by reference its response to Data Request 2.17 above. CWA notes that under Section 3.05 of the Asset Purchase Agreement approved in Cause No. 43936, "[t]he obligation of [CWA] to make PILOT Payments to the City shall be subordinate to operating and maintenance expenses, payment of principal and interest on any bonded indebtedness, depreciation or replacement fund expenses, bond and interest sinking fund expenses and any other priority fund requirements required by law or any ordinance, resolution, indenture, contract or similar instrument binding on the System."

WITNESS:

N/A

AFFIRMATION

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

Edward Kaufman

By: Edward R. Kaufman
Cause No. 45151
Indiana Office of
Utility Consumer Counselor

1/25/2019
Date: