STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF GRANGER WATER UTILITY LLC FOR (1) APPROVAL OF AN INITIAL SCHEDULE OF RATES AND CHARGES FOR WATER UTILITY SERVICE; (2) FOR APPROVAL OF LONG TERM DEBT, INCLUDING AN ENCUMBRANCE OF ITS FRANCHISE, WORKS OR SYSTEM RELATED THERETO; (3) FOR ISSUANCE OF A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO PROVIDE WATER UTILITY SERVICE IN CERTAIN AREAS OF ST. JOSEPH COUNTY, INDIANA; (4) FOR CERTAIN DEFERRED ACCOUNTING TREATMENT; AND (5) FOR CONSENT OF THE COMMISSION TO OBTAIN A LICENSE, PERMIT OR FRANCHISE TO USE COUNTY PROPERTY PURSUANT TO IND. CODE § 36-2-2-23	)	**CAUSE NO. 45568**

PUBLIC'S EXHIBIT NO. 2

TESTIMONY OF SHAWN DELLINGER

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

SEPTEMBER 28, 2021

Respectfully submitted

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CERTIFICATE OF SERVICE

This is to certify that a copy of the ***Public's Exhibit No. 2, Testimony of Shawn Dellinger*** has been served upon the following counsel of record in the captioned proceeding by electronic service on September 28, 2021.

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TESTIMONY OF OUCC WITNESS SHAWN DELLINGER
CAUSE NO. 45568
GRANGER WATER UTILITY LLC

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Shawn Dellinger, and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, IN 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 a Utility Analyst for the OUCC's Water/Wastewater division. My focus is on financial issues.

Q: Please describe your educational background and experience.

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

Q: What is the purpose of your testimony?

A: In conjunction with its application for a certificate of public convenience and necessity to provide water service, Granger Water Utility LLC ("GWU," "Utility," "Petitioner") seeks approval of long-term financing and an encumbrance of Petitioner's franchise, works or system related to its loan, which debt and encumbrances were entered into in March of 2021. I address the debt Petitioner proposes to borrow on an annual basis from Village Development LLC ("Developer"). I analyze the life cycle costs of different options to provide water service to the ratepayers in the Hills of St. Joe Farm subdivision ("The Hills" or "the Development"). I provide an overview of the rates charged to ratepayers based on different assumptions and scenarios, including (1) if the ratepayers were to be connected and become customers of Mishawaka Utilities, (2) if Petitioner charges full authorized cost or if growth is slower than anticipated in Petitioners model, and (3) what charges would be if Petitioner included in rate base the distribution plant and the regulatory asset. I note that Granger borrowed funds without first acquiring the required Commission authority, and I discuss the prohibition against encumbering utility assets without Commission approval. I discuss Granger's projected capital structure. I discuss the affiliate contracts and various relationships that the Petitioner has with other entities.

Q: What did you do to form the opinions in your testimony.

A: I read the Petition. I read the Testimony of Mr. J. Patrick Matthews and Ms. Jennifer Wilson. I prepared and reviewed Discovery questions. I attended informal meetings with Petitioner, both before and after petitioner initiated this cause. I read the Sani Tech, Inc. order from Cause No. 43793-U, which Petitioner referenced in its Water Service Management Plan.

Q: Are you sponsoring any attachments?

A: Yes. I list my attachments in Appendix B.

II. DEBT ISSUES

Q: Please describe Petitioner's long term debt issuance.

A: Petitioner has already encumbered the utilities assets and borrowed $1,481,397, which has been spent to complete the water treatment plant, which is already in service. Therefore, all terms of this debt are known and not hypothetical. The interest rate on this debt is 4.25%. It is to be paid off by March 31, 2024. The closing date on this loan was March 19, 2021. The details may be found in Petitioner's Attachment JPM-14, and I will refer to this debt as the "Note" or "Loan."

Q: Do you have any concerns about this loan?

A: Yes, I have two primary concerns. First, Petitioner disregarded the statutory prohibition against encumbering utilities' assets without first securing Commission approval. Second, the debt is due to mature on March 31, 2024, which presents several problems due to its nearness in time.

Q: Was Petitioner made aware of the need to secure Commission approval before closing on the loan?

A: Yes. Petitioner closed on the long-term borrowing on March 19, 2021. However, seven months earlier, on August 17, 2020, Ms. Dana Lynn of the Indiana Utility Regulatory Commission ("IURC") sent an email to Mr. Matthews beginning with the sentence "As a startup water utility, Granger Water would need to retain an attorney and file a Petition with the Commission requesting approval of initial rates and charges, as well as <u>for financing approval</u>, if necessary." (emphasis added.)[1] Further, in the Financial Capacity Checklist dated October 14, 2020, Ms. Lynn noted that "Indiana Code § 8-1-2-78 requires financing authority to be obtained from the IURC before a utility may incur debt."[2] Together, these communications indicate that Petitioner knew but chose to disregard the requirement of securing Commission approval before entering into long-term debt and encumbering utility assets.

Q: Please explain your concerns with the due date on the debt.

A: I am concerned that the debt matures before there is any realistic chance of paying it off, requiring Petitioner to either refinance this debt in the very near future, or come back for Commission approval to issue new debt, either of which will require another filing before

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[1] Please see OUCC Attachment SD-1 for this e-mail. This e-mail is in response to a Mr. Matthews e-mail dated August 13, 2020, in which he states "…I am building a new community well to service 229 homes."

[2] Please see OUCC Attachment SD-2, consisting of data response 4-18, which includes the financial capacity checklist referenced.

the Commission. According to Petitioner, the cash to make the payments on this note will come from "equity contributions" made by the owners of the utility following lot sales in the Development.[3] For each lot sale, the owners plan to make an equity contribution of $9,259.[4] Pursuant to the terms of the debt, it is to be paid by March 31, 2024. In order to meet that date, the Development would need to sell lots much more quickly than even the 38 new customers per year Petitioner projected. This means Petitioner will likely have to come back to the Commission for approval of new debt prior to this debt maturing. A longer term for the loan would have been prudent to avoid the necessity of further Commission authorization, to reduce the cash flow strains upon the utility, and to maintain a more balanced capital structure for a longer period of time. This would also have been in keeping with the recommendations of Dana Lynn from the Financial Capacity review dated October 14, 2020. "It would be more reasonable for Granger to incur debt with a 20- or 25-year payback period."[5]

Q: Does the source of cash to make the payment on this loan matter from a financing perspective?

A: Yes. The utility's ability to make the payments on this loan are directly tied to lot sales, which are not within the utility's control. Adding fewer customers than 38 per year over the first five years means the loan will not be paid off as quickly as the end of year four

[3] Petitioners Exhibit 2, Petitioners Late-Filed Attachments submitted August 13, 2021. Q15, page 10, lines 12-15. "The Water Plant Loan will be repaid through equity contributions from the owners that are funded from fixed curtailment releases agreed to between Granger Water and its lending bank for each lot sold as part of the residential development, as well as from available funds of Granger Water."

[4] Please see Data Request 1-4 Response, OUCC Attachment SD-3.

[5] Please see OUCC Attachment SD-2, page 7.

(2025).[6] (Petitioner's own forecasts of 38 additional customers per year would not result in a payoff prior to the March 31, 2024 maturity date.)[7]

Q: Does Petitioner propose any other debt?

A: Yes. To fund the purchase of the distribution system being installed by its affiliate Village Development LLC, Petitioner proposes to enter into annual $370,000 loans from that affiliate.[8] Mr. Mathews also explained in his testimony that Granger Water "further requests authority to enter into loan agreements on the same basic terms and conditions for purchase of the water distribution system for future phases of the Hills." Petitioner's Exhibit 1, page 18, Q41. He added that "Granger Water would be willing to make a compliance filing related to this request so that the Commission and the OUCC would know when Granger water enters into subsequent water distribution system purchase agreements." Id. Essentially, instead of the developer building and then contributing the distribution system to the utility in exchange for service, the utility would buy the distribution system from its affiliate.

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[6] This slower pace could be the 24 customer per year growth projected by Petitioner in their Water System Management Plan in Exhibit 2.7 and by OUCC witness Ms. Sullivan, the 25 customers per year added based the on same Water System Management Plan in section 2.4.2, or even the growth projections of 35 per year in years 6-10 in Petitioner's case (see Appendix A: Assumptions in Attachment JZW-1).

[7] Petitioner assumes 38 new customers per year for the first five years, and charges this to 35 a year from years 6 through 10. Petitioner's assumptions of adding 38 customers per year at the beginning of the year would indicate that Year 1 in these models in 2022, so year 4 is 2025. Based on Petitioner response to Data Request 5-12, included as OUCC Attachment SD-4, these years are more generalized, so in that sense year one would presumably begin on August 15, 2020, since the first customer is included at this time and lot sales are occurring, or perhaps March 19, 2021, since that is when the first lot sale occurred (per Data Response 3-2, found in OUCC Attachment SD-5).

[8] The proposed loan document may be found as Petitioner's Attachment JPM-16.

Q: What is the OUCC's position regarding these loans?

A: As discussed in the testimony of OUCC witness Ms. Carla Sullivan, the OUCC does not agree that these assets should be purchased by the utility. Therefore, the OUCC's position is that this series of loans should not be approved. Moreover, my concerns with these proposed loans include the fact that they are being made by an affiliate, whose ownership mirrors that of the utility, loaning money to purchase assets created by that affiliate and asking for commission approval to continue engaging in these transactions indefinitely. There is also a lack of transparency on the underlying distribution plant cost. Further, per the loan agreement higher interest rates are required to be paid to the affiliate if the utility does not make timely payments. If the Commission is inclined to approve these loans those concerns need to be addressed.

Q: Are there any other aspects of these loans that need to be addressed?

A: In this cause, there does not need to be a true-up section because the assets have already been encumbered, the debt has already been closed, and the ongoing debt is being rejected by the OUCC. There also doesn't need to be a debt service reserve, because that is not required in this cause.

Q: Are there any other debts that should be addressed?

A: During the August 5, 2021 meeting between the OUCC and Petitioner, Mr. Matthews stated that there was a loan with the developer that involved encumbering the utility's assets. But later in response to discovery (OUCC DR 5-3), Granger stated that there are no further debts that encumber the utility's assets. However, in an earlier discovery response (OUCC DR 2-23), Petitioner referred to the mortgage (Attachment JPM-15) as a "cross collateralization agreement." (See OUCC Attachment SD-6.)

Q: What is "cross collateralization"?

A: "Cross collateralization is the act of using an asset that's collateral for an initial loan as collateral for a second loan. If the debtor is unable to make either loan's scheduled repayments on time, the affected lenders can eventually force the liquidation of the asset and use the proceeds for repayment."[9] In other words, if Petitioner's answer to data request 2-23 was accurate, the utility property is collateral for a second loan. This would be highly problematic.

III. CAPITAL STRUCTURE AND WEIGHTED AVERAGE COST OF CAPITAL

Q: Please explain the Petitioners proposed capital structure.

A: Petitioner proposed a cost of debt of 4.25%, and a cost of equity of 8% for weighted average cost of capital of 5.50% in the first year increasing each year to 7.71% in year ten. The percentage of capital from these two sources in their proposal varies from being mostly debt in the first few years to almost exclusively equity thereafter.

Q: Is this proposed capital structure appropriate?

A: No. The preponderance of debt in the capital structure in the early years is understandable. However, the proposed transition of the capital structure over time to one funded almost exclusively by equity is not in the ratepayers' interest because it results in higher rates than a more balanced capital structure. One potential solution would be to extend terms on the water plant loan, so more debt stayed in the capital structure for longer. Another would be

[9] This is the definition of Cross Collateralization from Investopedia. https://www.investopedia.com/terms/c/cross-collateralization.asp

to fund the expansion of the plant with debt rather than equity at the time that is required.[10]

Q: Are the costs of debt and equity appropriate?

A: I do not take issue with the 4.25% cost of debt. However, the cost of equity should be addressed. Ms. Wilson testifies that that Petitioner's 8% estimated cost of equity "…is materially lower than its actual cost of equity, for estimating required rate increases to achieve allowable net operating income."[11] I do not necessarily agree that an 8% cost of equity for a utility that has almost no debt, as Petitioner projects it will have, is an artificially low cost of equity.

Q: Is there another aspect of Ms. Wilson's statement that you wish to address?

A: Yes. If the 8% cost of equity is, as Ms. Wilson suggests, materially lower than its actual cost of equity, it is not appropriate to use to estimate Granger's "required rate increases to achieve [its] allowable net operating income." In other words, Ms. Wilson acknowledges her testimony is understating what Granger would ask for in rates if it was seeking its entire allowable return.

IV. LIFE CYCLE COSTS FOR DIFFERENT OPTIONS

Q: Did Petitioner perform a life cycle cost analysis?

A: No. However, in its Water System Management Plan Petitioner included what it designated as a cost-benefit analysis (Section 3.3.5 of the Water System Management Plan). Presumably Petitioner performed this analysis because a life cycle cost analysis is required by IDEM as part of the utility's Water System Management Plan. However, it

[10] Petitioner estimates the cost to expand the plant is $500,000. OUCC Witness Mr. Parks estimates this cost to be $1,080,000.

[11] Please see Ms. Wilson's testimony, Q20.

lacked characteristics of a true life cycle cost analysis. In fact, it is also not truly a cost benefit analysis as it does not compare costs to benefits.

Q: What is the function of a life cycle cost analysis?

A: In this context, a life cycle cost analysis should compare the costs of different methods to provide water service in order to determine the most economically efficient means to provide water service.

Q: Who performed the cost benefit analysis Granger included in its Water System Management Plan?

A: In response to discovery from the OUCC, Mr. Matthews indicated he performed this analysis, and that it was approved by Burne Miller, PE.[12] The analysis consisted of one page in which Mr. Mathews compared four different options including broad assumptions about the cost per foot and booster station costs of extending mains from various municipal providers including Mishawaka. Mr. Miller certified this analysis, but it is unclear what exactly he certified other than that Mr. Matthews' numbers showed the chosen option was the most cost-effective solution based on the numbers Mr. Matthews calculated.[13]

Q: Did the cost-benefit analysis incorporate all the factors that should be considered in a life cycle cost analysis?

A: No. Mr. Mathews only considered the utility's initial capital costs. Mr. Matthews did not consider any of Granger's ongoing costs associated with any of the alternatives. In particular, his "cost benefit analysis" (i.e., life cycle cost analysis) did not recognize the significant operation and maintenance costs associated with Granger operating its own water plant installation and costs of maintaining the plant and interacting with customers.

[12] OUCC Attachment SD-7, consisting of data response 4-17.

[13] There are mathematical errors in the analysis as given, specifically the extended cost of the Mishawaka Utilities Pipe costs, but this is immaterial.

It also did not include capital costs Petitioner estimates it will incur in the near team to expand the plant. (Further, although it is described as a cost-benefit analysis, there are no benefits included with any of the options.)

Q: What costs should be considered in a comprehensive life cycle cost analysis?

A: A comprehensive life cycle cost analysis should consider all known and reasonably estimated costs and the year the costs will occur. These costs should be converted to a present value. This requires establishing an appropriate discount rate. A higher discount rate reduces future values more than a lower discount rate. In either case, a positive discount rate will result in a future cash flow that will be a lower present value than a current cash flow for the same dollar amount

Q: What cost estimates did you use in your life cycle cost analysis?

A: For capital costs for the water treatment plant, I used the capital costs Petitioner provided in its case, as well as the inputs used in the cost benefit analysis in section 3.3.5 of the Attachment JPM-6, p. 45 of the Water System Management Plan. I also incorporated estimates from OUCC witness Mr. Parks. For purposes of the capital costs for the option of connecting to Mishawaka, I incorporated the cost estimates made by Mr. Parks and described in his testimony. For operating expenses, I used the operating expenses Petitioner assumed for its financial models by year set forth in Petitioner's Appendix A to Attachment JZW-1 to Ms. Wilson's testimony.

Q: What discount rates did you use in your life cycle cost analysis?

A: I used Petitioner's estimated weighted average cost of capital by year over ten years as provided by Petitioner.

Q: For your life cycle cost analysis, what options did you consider?

A: My life cycle cost analysis is limited to looking only at two options – Petitioner's treatment plant and the option of constructing a connection to Mishawaka's system. Under Petitioner's "cost benefit analysis" provided in section 3.3.5 of its water system management plan, Petitioner identified the cost of constructing a connection to Mishawaka's system as $5,017,816 and the initial cost of its water treatment plant as $1,700,000.[14] (Since that time, Petitioner indicates it has incurred a cost of $1,990,167 constructing its water plant and indicated it will need to incur another $500,000 capital expense in the near future making the near-term construction costs $2,313,786 if reduced to present value. (If not converted to present value, the cost would be $2,490,167.)) Based on my life cycle cost analysis, in which I incorporate certain assumptions about operating costs provided by Petitioner converted to present value, incorporate Petitioner's assumptions about customer growth, and incorporate near term required plant upgrades converted to present value, my analysis indicates the life cycle cost of Petitioner building its own plant is $4,794,365. Incorporating a more reasonable projection of customer growth of 24 customers per year and increasing the near-term expansion costs to reflect Mr. Parks' higher estimate, the life cycle cost of Petitioner building its own plant is $5,073,995. Mr. Parks also estimated the cost to make a connection to Mishawaka of $1,920,000 based on a revised estimate on water main lengths required, one booster stations rather than two, and more reasonable cost per foot to install the mains. Comparing these two conclusions as I describe in more detail below, my life cycle cost analysis indicates a connection to Mishawaka is a significantly lower cost option.

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[14] Please see Petitioner Attachment JPM-6, page 49.

Q: Please discuss your analysis of the water treatment plant options.

A: The $1,700,000 cost that Petitioner provided in the Water System Management Plan, section 3.3.5 was the cost that Petitioner in theory based its decision to proceed with the new plant option upon. This reflects an initial capital outlay only. Armed with actual costs, I replaced this initial capital cost with more recent data, specifically discovery responses on actual costs provided in OUCC DR-4-3.[15] This total project cost in this response is $1,990,167. Next, I added Petitioner's own estimates for capital costs to expand the plant that it estimates would cost $500,000 and be completed in year 7.[16] This results in a cost of $2,313,786. The addition of $323,619 to the overall cost instead of $500,000 is due to discounting this cost to the present day.

Q: Are ongoing costs incorporated into this estimate?

A: Yes. The next step incorporates the ongoing annual costs to this capital cost. The ongoing costs that I included are Petitioner's own estimated O&M costs and depreciation expense. Because the operator/owner of the plant will have to keep it functioning in the long run, I used depreciation as a surrogate for ongoing capital replacement. All of the O&M costs are found in Petitioner's Attachment JZW-1, under the estimated statements of income. (Page 6 of 13.) I used the Commission's 2% composite depreciation rate applied to the cost of the water plant and the expansion for each year. I also assumed costs after Year 10 grow 2% a year, which is the long-term estimate of inflation from the Federal Reserve and would continue to be discounted at 7.71% per year per Petitioners JZW-1 (Corrected) Schedule

[15] Please see OUCC Attachment SD-8.

[16] Please see Ms. Wilson Testimony, Q9.

of Allowable Net Operating Income.[17] This is called a perpetuity function and is simply the cost divided by the discount rate minus the growth rate. This results in a total present value of $984,710 for the first ten years and $1,495,869 after year 10, resulting in a total cost of $4,794,365 after including capital costs.

Q: What if the pace of growth is 24 customers per year and you incorporated Mr. Parks' capital cost estimate for the expansion?

A: Continuing to adjust for all costs based on Petitioner's assumptions as given in Appendix A of Attachment JZW-1, this results in a total cost of the treatment plant option of $5,073,995. The breakdown in this and any other cost may be found in OUCC Attachment SD-9.

Q: What analysis did you prepare for the life cycle costs for the option of connecting to Mishawaka Utilities?

A: I looked at Petitioners estimate as found in the Water System Management Plan section 3.3.5. This was $5,017,816. OUCC witness Mr. Parks prepared a more robust estimate of these estimated costs at $1,920,000. Although there are minimal ongoing expenses associated with the option of connecting to Mishawaka Utilities, these are not reflected in a life cycle cost analysis because they are borne by the ratepayers and are not cash outlays by the utility or the ratepayers. These costs are analyzed later in my testimony when I review ratepayer rates.[18]

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[17] Long term inflation estimate of 2% sourced from Federal Reserve Summary of Economic Projections, September 22, 2021, page 2 of 17. https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20210922.pdf

[18] For clarity, considering depreciation expense with the same assumptions as the other scenarios as far as discount rate and using 2% perpetual growth, total depreciation expense for the $1,920,000 capital expense is $628,839 in present value for this option, for a total cost of $2,548,839.

Q: What is the result of this analysis?

A: Including Petitioner's own estimated operating costs and updated capital costs, the life cycle cost analysis I performed indicates that the cost of the water treatment plant is not $1.7 Million, as Petitioner indicated, but is instead $4,794,365.[19] As to the cost of connecting to Mishawaka's system, Mr. Parks estimates that the cost of connecting is $1,920,000. I have set forth detailed assumptions by year for these scenarios, as well as sources of the numbers used and assumptions made, in OUCC Attachment SD-9. The various results of key analyses are set forth in the table blow for purposes of comparison:

Table SD-1

Lifecycle Costs

Provider	Total Cost
Water Plant-Capital Cost Per WSMP 3.3.5	$ 1,700,000
Water Plant-Initial Capital Cost Updated Per Discovery	$ 1,990,167
Water Plant-Initial Capital Cost Updated Per Discovery and Including Petitioners Expected Expansion Costs	$ 2,313,786
Water Plant-Petitioners Numbers-Including O&M Cost in Present Value and Depreciation	$ 4,794,365
Water Plant-As above but assuming 24 customers per year growth and Mr. Parks Estimated Expansion Costs	$ 5,073,995
Mishawaka Utilties-Capital Cost per WSMP 3.3.5	$ 5,017,816
Mishawaka Utilities-Capital Cost per Mr. Parks Testimony	$ 1,920,000

Q: What do these cost estimates show?

A: It shows that the least cost option is a connection to Mishawaka and not the construction of a treatment plant. Notwithstanding that Petitioner has already constructed its plant, the operating costs alone of this plant going forward indicates it makes more economic sense for a connection to Mishawaka be made to secure water for the subdivision, even if this water treatment plant is treated as a sunk cost. Salvage revenues have not been estimated

[19] This amount uses Petitioner's assumption of customer growth of 38 to 35 customers per year as shown on Attachment JZW-1, p. 4. Making only an adjustment for customer growth and using the OUCC's baseline assumption of 24 new customers per year (up to 229 in year 10) and incorporating the revised cost estimates and timing from Mr. James Parks, the total cost would be $5,073,995.

and are not a part of this analysis but would serve to mitigate the sunk costs of the treatment plant.

V. COST TO RATEPAYERS IN DIFFERENT SCENARIOS

Q: The life cycle cost analysis should compare the cost of providing water service using different means. Does it compare the effect on rates?

A: No. A life cycle cost analysis is not designed to show the direct effect of the different choices on the ratepayer. The rates that would result from the different options, clearly favors connecting to Mishawaka. Mishawaka currently charges much less than the $75 rate, which will not include all allowable revenue requirements including a full return on investment.[20] Looking at costs over the next ten years, at no point during that time will Mishawaka's rates be as high as the rates Granger proposes to charge. From a ratepayer's perspective, connecting to Mishawaka is the best option.

The monthly costs as presented in Petitioner's case are nearly double the anticipated rates for Mishawaka over the next ten years.[21] Moreover, Petitioner acknowledges its requested rate does not include all of its allowable revenue requirements.[22] If Petitioner were to ask for all of its allowable revenue requirements, a ratepayer on a system for all ten years would be exposed to charges almost five times what Mishawaka would be expected to charge. See Table SD-2 below. In addition, this does not include other issues,

[20] Mishawaka currently charges $37.83 per month to residential customers.

[21] Assuming the monthly rates given in Petitioner case, and assuming Mishawaka rates increase 2% per year each year (long term inflation estimate), which is higher than the projected increase of Petitioners rates, total cost over ten years is $4,971 as a customer of Mishawaka and $9,433 as a customer of the Petitioner. $9,433 is 90% higher than $4,971.

[22] This can be most easily found as the "Rate Increase Required" line in Ms. Wilson's testimony, attachment JZW, page 8 of 13 (Corrected) "Schedule of Allowable New Operating Income." Allowable rates would thus be determined by taking Flat Rate Charge times the Rate Increase Required in a given year. For instance, in year 5 these numbers are $78.57 Flat Charge and 95% Rate Increase Required, so "allowable" charges are $153.21 ($78.57 * 1.95).

such as the effect on rates of other unusual regulatory treatment Petitioner has requested, nor the effect on rates of the utility not meeting its customer growth projections.

Q: What are those other issues?

A: There are three primary issues that I discuss below. These are the treatment of the distribution system plant in rate base, the regulatory asset Petitioner has requested, and the impact of adding new customers at a slower rate than anticipated in the Petitioners models.

Q: How does the treatment of the distribution plant into rate base affect ratepayers?

A: Petitioner indicates that while it will *purchase* the distribution system from its affiliate, it will not include the value of the distribution system in its rate base.[23] If Petitioner were to elect to include the payments for distribution system plant in its rate base, the effect would be significant. In year 10, for example, the allowable monthly rate would increase from $117.51 to $174.22.[24] Petitioner stated in the August 5, 2020 meeting with the OUCC that it would be willing to clarify and memorialize this position to be permanent. At this point this is not a commitment Petitioner has made, if it can be made. Of course, this would not be an issue if Petitioner were to do what utilities typically do -- accept contribution of the distribution system from the developer.

Q: How would the proposed regulatory asset affect ratepayers?

Petitioner has requested a regulatory asset to allow for recovery of net operating losses

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[23] As found on Ms. Wilson's testimony, attachment JZW, page 8 of 13 (Corrected) "Schedule of Allowable New Operating Income", "Less: Net Distribution System" the distribution system that could be included in rate base is being removed from this calculation. For instance, in year 5, a total of $1,705,526 is being removed from New Utility Plant in Service ($3,403,490) to arrive at the Calculated Rate Base of $1,516,685 (also removing $181,279 of CIAC).

[24] This calculation is simply taking the "Less: Net Distribution System" line from Ms. Wilson's testimony, attachment JZW, page 8 of 13 (Corrected) "Schedule of Allowable New Operating Income" of $3,221,499 in year 10, multiplying this number by the WACC in this year (7.71%), and taking the resulting number of $248,377.60 dividing by 365 (the number of customers), which is $680.49 per customer, and dividing this number by 12 to arrive at a monthly additional charge of $56.71. Please see OUCC Attachment SD-14 for more details.

until net operating income is achieved. In Petitioner's model, these losses are projected to be $193,265 over the first four years. To that extent, Petitioner is only deferring its recovery of its actual costs of providing water service. Assuming the return on this asset would be the Petitioner's estimated weighted cost of capital, and assuming this asset would be amortized over five years beginning in year 5, this would result in an additional $54,624 in ratepayer charges each year.[25] Based on Petitioner's estimated customers in those years, monthly charges would increase between $23.96 in the first year of recovery (2026) and $13.79 by the fifth year (2030).[26] This assumes Petitioner becomes profitable on a Net Operating Income basis by 2026. But if profitability is delayed, the regulatory asset could be significantly higher. The request for a regulatory asset should be rejected. But in case the Commission is inclined to consider such a request, the potential cost of such a request should be recognized. OUCC witness Carla Sullivan also discusses this request in her testimony.

Q: How would a slower rate of customer acquisition affect ratepayer rates?

A slower rate of new customer additions would spread the same cost of the water plant over fewer customers, as well as the operating costs that are generally fixed, and would significantly increase the anticipated costs falling on the smaller number of ratepayers. In the table below, this possibility is captured by looking at the costs in the OUCC accounting schedules. The primary adjustment for the purposes of ratepayer costs is changing the customer growth from 38 to 24 per year and incorporating the expected costs and timing

[25] Please see the math behind this calculation is OUCC attachment SD-10.

[26] Not including any gross-up for taxes.

of the anticipated expansion.[27] There are other adjustments that have a less significant impact, including taxes, loan payments and the treatment of distribution assets as CIAC. A more complete discussion is found in Ms. Sullivan's testimony.

Q: Please explain Table SD-2

A: The below table summarizes the monthly charges that ratepayers will experience over the next ten years, based on different assumptions. For presentation purposes, only years 1, 5, and 10 are shown, but attachment SD-12 includes all years 1-10.

Table SD-2

Summary of cost for ratepayers under different scenarios

Scenario	Description	Total Charges over 10 years-Per Cutomer	Excess Cost over most economical option	Year 1 2022	Year 5 2026	Year 10 2031
1	Mishawaka Utilities providing service	$ 4,970.74	0%	$ 37.83	$ 40.95	$ 45.21
2	Granger-Per Petitioners Case	$ 9,432.72	90%	$ 75.00	$ 78.57	$ 81.04
3	Granger-Per Petitioners Case-Allowable Monthly Charge	$ 29,060.50	485%	$ 789.75	$ 153.21	$ 117.51
4	Granger-OUCC Accounting Schedules	$ 36,204.84	628%	$ 962.76	$ 187.83	$ 144.60
5	Granger-Allowable Charge including Distribution Rate Base	$ 35,388.54	612%	$ 831.30	$ 207.74	$ 174.22
6	Granger-Allowable additional Charge including Regulatory Asset	$ 1,092.48	n/a		$ 23.99	

Q: Are customer aware of the potential for these increased rates?

A: Customers are aware there may be an increase at some point, but it is doubtful a reasonable interpretation of the notice Granger is providing to customers would prepare customer for increases of the magnitude that are possible. Below is a copy of the Notice included as attachment JPM-12.

[27] Petitioner models incremental customer growth of 38 in years 1-5 and 35 in years 6-10.

Notice to Customers & Prospective Customers

The water utility system that will provide service to your home or prospective home is owned by a private company, Granger Water Utility LLC ("Granger Water"). Granger Water is presently regulated by the Indiana Utility Regulatory Commission ("IURC"). Granger Water initially proposes to charge a $75 monthly fee per residence for water utility service. This monthly rate for water utility service will yield less than the amount necessary to completely recover the cost of providing water utility service and to provide a return on Granger Water's investment in the property used to provide water utility service. Given the anticipated growth in customers, Granger Water is willing to forego immediate recovery of its costs and investment. In the future, Granger Water may seek an increase in its rates that would allow recovery of the costs of providing service and provide a reasonable return on Granger Water's investment in the property used to provide water utility service.

This notice does not address potential costs in any concrete, quantitative terms. To better inform ratepayers of the potential for increases, listing the current rates that would be required "to completely recover the cost of providing water utility service and to provide a return on Granger Water's investment in the property used to provide water service" would help customers understand the scope of the allowable rates to which they may be subject. If customers were aware that the rates that would be charged to recover those costs were many multiples of the $75 currently being proposed, they would be better placed to make a decision whether to become customers of this utility.

VI. AFFILIATES

Q: Are there related entities involved with this case?

A: Yes. There are multiple entities that share ownership that affect Petitioner's operations as a utility.

Q: Please explain the relevant entities.

A: Granger Water Utility is owned by Seven Diamonds and Circumlocution, which two companies also represent the entirety of the board members. Seven Diamonds and Circumlocution also own Village Development, which is the developer of the Hills at St.

Joe Farm. The builder that is constructing the shell of the water treatment plant is New Buffalo Land Improvement Company, d/b/a Forest Beach Builders, which is a Michigan Corporation.

Q: Please explain the ownership of each of these entities.

A: Granger Water Utility is owned by Seven Diamonds LLC (65%) and Circumlocution LLC (35%). Seven Diamonds LLC is owned by Mr. J. Patrick Matthews (50%) and Aimee Matthews (50%). Circumlocution LLC is owned by Mr. Ken Keber (100%). Village Development is owned by Seven Diamonds LLC (65%) and Circumlocution LLC (35%). Mr. Matthews incorporated and is president of New Buffalo Land Development (d/b/a Forest Beach Builders), although Petitioner did not include ownership details of this entity in Discovery.[28]

Q: Please explain the interactions these entities will have with Granger Water Utility.

A: Village Development is the entity that owns the development referred to as the Hills at St. Joe Farm. Village Development will sell homes in this development which will then be ratepayers for the water service. There is a direct linkage between lot sales and equity injections, so equity injections into Granger are directly linked to the sales of lots by the Developer. Because these equity injections are used to pay the promissory note, the success of Village Development is inextricably linked to the financial viability and performance of Granger. Circumlocution and Seven Diamonds are corporate entities that share ownership of both the Development and the Utility. They also are the board members of Granger Water Utility. Due to this shared ownership, these entities are the conduit for equity injections linked to the lot sales. Further, Petitioner proposes Village Development

[28] See OUCC Attachment SD-11, which consists of Data Response 2-1, 2-2 and 2-3.

sell all distribution system plant that it installs to the Utility and will be the lender for the Utility via proposed, annual, $370,000 loans. These loans would be paid with cash received from the owners via equity injections, although the testimony is not always clear on this point.[29] However, it appears that these injections of capital are also directly linked to the lot sales.[30] New Buffalo Land Development (d/b/a Forest Beach Builders) will build an approximately $300,000 building as part of the water treatment plant.

Q: Do you have concerns with the activities of these affiliates?

A: There are always complicating factors when a utility works with affiliates. Presenting adequate cost support is critical to provide assurances that the utility is not subsidizing other entities controlled by the owner. This cost support would be vital to alleviate these concerns, both for the $300,000 building built by Forest Beach Builders and the ongoing $370,000 distribution piping charges.[31] To date, I understand there is only one affiliate agreement on record with the Commission. If the Commission authorizes Petitioner to operate as a water service provider, it should require Petitioner to file all agreements with its affiliates and that it require transparency of all costs.

Q: Does this conclude your testimony?

A: Yes.

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[29] See late Filed Attachments and corrections to Case-In-Chief, Ms. Wilson testimony, Q11, page 6-7. "Granger Water plans to make equity contributions to assist in the purchase of the distribution system of Granger Water and other shortfalls that may arise."

[30] Please see OUCC attachment SD-13. This consists of Data Response 1-6, 2-6 and 2-11.

[31] I am addressing issues with the Petitioner's testimony, the OUCC does not agree that these transactions should occur in the method proposed by the Petitioner. My discussion of these issues does not minimize these concerns.

Appendix A

Q: Please describe your educational background.

A: I graduated from Indiana University with a degree in Biology, a minor in Economics and a certificate from the Liberal Arts and Management Program (LAMP) which is an honors certificate program through the Kelley School of Business and the College of Arts and Sciences, at the time restricted to twenty-five (25) students per year. I received my MBA from Indiana University with a concentration in finance. I am a member of Phi Beta Kappa honor society for my undergraduate studies and Beta Gamma Sigma honor society for my masters program. Although not specifically related to my educational background, I have been a member of Mensa for a number of years.

Q: Please describe your work experience.

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

Q: How long have you been at the OUCC?

A: I have been a Utility Analyst II in the water division at the OUCC since December of 2019. My focus is financial issues, such as ROE's, Capital Structures, etc.

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

A: Yes, I have testified before the commission regarding various aspects of finance.

Appendix A

List of Attachments

SD-1	Notice of necessity to get Commission Approval for financing
SD-2	Financial Checklist
SD-3	Curtailment Amounts
SD-4	Calendar vs. Model Years
SD-5	Timing of Lot Sales
SD-6	Encumbrance of Debt
SD-7	Cost Benefit Source
SD-8	WTP Project Costs
SD-9	Life cycle Cost Analysis
SD-10	Regulatory Asset Rate Impact
SD-11	Ownership
SD-12	Ratepayer Monthly Charges
SD-13	Equity Injections from Lot Sales
SD-14	Distribution System Impact on Rates

Gmail

Patrick Matthews <pat@7.diamonds>

Re: Granger Water Utility LLC

1 message

Lynn, Dana <DLynn@urc.in.gov> Mon, Aug 17, 2020 at 9:09 AM
To: Patrick Matthews <pat@7.diamonds>
Cc: "Gassert, Curt" <cgassert@urc.in.gov>, "Goodwin, Travis" <TGoodwin1@idem.in.gov>

Mr. Matthews -

As a start up water utility, Granger Water would need to retain an attorney and file a Petition with the Commission requesting approval of initial rates and charges, as well as for financing approval, if necessary.

The Commission receives more Petitions for start up wastewater system then water system. Thus, it may be more difficult to find an example of a start up water system case on the Commission's website. However, if you were to use the Commission's electronic document system and search under Petition Type for "CTA" cases, you can get an idea of the information that will need to be filed, but a utility attorney that has practice before the Commission should know and understand what needs to be filed. As I mentioned to Mr. Goodwin, you can expect this process to take at least 6 months.

Also, you can ask questions of me or others at the Commission within 30 days of filing your Petition, which a utility attorney should know this information too. However, within 30 days of filing a Petition, any communication with me or any staff member at the Commission would be considered an ex parte communication that would need to be tendered to your case record.

I hope this information is helpful. Please let me know if you have any other questions.

Sincerely,

Dana M. Lynn
Chief Technical Advisor
Water/Wastewater Division
Indiana Utility Regulatory Division
T: 317-232-2750
E: dlynn@urc.in.gov
F: 317-232-6758

From: Patrick Matthews <pat@7.diamonds>
Sent: Thursday, August 13, 2020 7:32 PM
To: Lynn, Dana <DLynn@urc.IN.gov>
Subject: Granger Water Utility LLC

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

Dana,

I found your contact on the link below.

I am a land developer in Granger, IN and I am building a new community well to service 229 homes. As IDEM was reviewing my Water System Management Plan I became aware of the need to file for rate approval with the IURC.

Can you please provide some guidance as to how I go about this?

I am on a strict timeline and any guidance would be greatly appreciated.

Thank you,
Patrick Matthews
574.315.9668 cell

Link:
https://www.in.gov/iurc/2896.htm
This year's free Small Utility Workshop has been canceled. Please contact Dana Lynn at 317-232-2750 or dlynn@urc.in.gov with any questions.

IURC Cause No. 45568
Granger Water's Responses to OUCC DR 4
August 16, 2021

Q-4-18: Please provide a copy of the Certification of Demonstration of Capacity for a New Public Water Supply (with all attachments) that was approved and issued by the Indiana Department of Environmental Management ("IDEM").

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

See Attachment OUCC 4-18.

Certification of Demonstration of Capacity for a New Public Water Supply, IDEM, 10/22/2020 (3 pages with attached 4 page IURC Financial Capacity Review, Dana Lynn, 10/14/2020)

IDEM

INDIANA DEPARTMENT OF ENVIRONMENTAL MANAGEMENT

We Protect Hoosiers and Our Environment.

100 N. Senate Avenue • Indianapolis, IN 46204
(800) 451-6027 • (317) 232-8603 • www.idem.IN.gov

Eric J. Holcomb
Governor

Bruno L. Pigott
Commissioner

CERTIFICATION OF DEMONSTRATION OF CAPACITY FOR A NEW PUBLIC WATER SUPPLY

October 22, 2020

Mr. J. Patrick Matthews
Granger Water Utility, LLC
1122 North Frances Street
South Bend, IN 46617

Dear Mr. Matthews:

Re: Demonstration of Capacity
Granger Water Utility, LLC
Proposed PWSID# IN5271002

You are hereby notified that the Drinking Water Branch of the Office of Water Quality has determined that the Water System Management Plan, originally submitted on June 22, 2020 including additional information submitted thereafter, for the proposed Granger Water Utility, LLC public water supply PWSID # IN5271002 to be located at or near 12851 Cleveland Road, Granger, IN, meets the technical, managerial, and financial capacity requirements specified under 327 IAC 8-3.6 with the following conditions.

This approval is contingent upon the following conditions:

- The method of disinfection should be clarified in the construction permit process. Numerous places in the WSMP indicate disinfection will be achieved with liquid chlorine injection, and multiple places in the operator responsibilities indicate gas chlorine will be implemented.
- The financial review indicates several outstanding issues. A written summary of these issues is being provided. The reviewers also recognized that all the findings would need to be addressed during the application process for rate approval from the IURC. In an effort to allow Granger Water Utility LLC to move on to the rate approval process, their demonstration of capacity is approved, but their ability to be activated as a community public water supply in Indiana is still contingent upon them obtaining rate approval from the IURC.

This Certification does not constitute a construction permit. You must obtain a valid construction permit prior to the construction or installation of the proposed new public water system. Any fundamental change in the information provided in this water system management plan which may affect drinking water quality, operations, or public health must be resubmitted for review and approval by this agency.

This Certification may be modified, suspended, or revoked for cause including, but not limited to the following:

Violation of any term or condition of this certification; or,
Obtaining this certification by misrepresentation or failure to fully disclose all relevant facts.

Nothing herein will be construed as guaranteeing that the proposed public water supply facility will meet standards, limitations or requirements of this or any other agency of state or federal government, as this agency has no direct control over the actual construction, operation, and maintenance of the proposed project.
If you wish to challenge this action, you must file a Petition for Administrative Review with the Office of Environmental Adjudication (OEA) and serve a copy of the petition upon IDEM. The requirements for filing a Petition for Administrative Review are found in IC 4-21.5-3-7 and 315 IAC 1-3-2. A summary of the requirements of these laws is provided below.

A Petition for Administrative Review must be filed with the Office of Environmental Adjudication (OEA) within fifteen (15) days of the issuance this notice (eighteen (18) days if you received this notice by U.S. Mail), and a copy must be served upon IDEM. Addresses are:

Director
Office of Environmental Adjudication
Indiana Government Center North
Room N103
100 North Senate Avenue
Indianapolis, Indiana 46204

Commissioner
Indiana Department of Environmental Management
Indiana Government Center North
Room 1301
100 North Senate Avenue
Indianapolis, Indiana 46204

The petition must contain the following information:

1. The name, address, and telephone number of each petitioner.
2. An identification of each petitioner's interest in the subject of the petition.
3. A statement of facts demonstrating that each petitioner is:
   a. a person to whom the order is directed;
   b. aggrieved or adversely affected by the determination; or
   c. entitled to administrative review under any law.
4. The reasons for the request for administrative review.
5. The particular legal issues proposed for review.
6. The facts, terms, or conditions of the action for which the petitioner requests review.
7. The identity of any persons represented by the petitioner.
8. The identity of the person against whom administrative review is sought.
9. A copy of the action that is the basis of the petition.
10. A statement identifying petitioner's attorney or other representative, if any.

Failure to meet the requirements of the law with respect to a Petition for Administrative Review may result in a waiver of your right to seek administrative review. Examples are:

1. Failure to file a Petition by the applicable deadline;
2. Failure to serve a copy of the Petition upon IDEM when it is filed; or
3. Failure to include the information required by law.

If you seek to have an action stayed during the administrative review, you may need to file a Petition for a Stay of Effectiveness. The specific requirements for such a Petition can be found in 315 IAC 1-3-2 and 315 IAC 1-3-2.1.
Pursuant to IC 4-21.5-3-17, OEA will provide all parties with notice of any pre-hearing conferences, preliminary hearings, hearings, stays, or orders disposing of the review of this action. If you are entitled to notice under IC 4-21.5-3-5(b) and would like to obtain notices of any pre-hearing conferences, preliminary hearings, hearings, stays, or orders disposing of the review of this action without intervening in the proceeding you must submit a written request to OEA at the address above.

If you have questions regarding your Petition for Administrative Review by the Office of Environmental Adjudication please refer to the FAQs on OEA's website at http://www.in.gov/oea.

In order to assist the permit staff in tracking appeals, we request that you submit a copy of your petition to Liz Melvin, Capacity Development, Operator Certification and Permits Section Chief, OWQ Drinking Water Branch – Mail Code 66-34, 100 N. Senate Ave, Indianapolis, Indiana 46204-2251.

If you have any questions regarding this matter, please contact Liz Melvin, Capacity, Certification & Permit Section Chief at 317/234-7418 or Travis Goodwin, Capacity Development Coordinator, Drinking Water Branch, at 317/234-7426.

Sincerely,

Matthew Prater, Chief
Drinking Water Branch
Office of Water Quality

cc: Megan L. Fleig, P.G., Peerless Midwest Inc., e-copy
St. Joseph County Health Department, e-copy
Matthew Prater, Chief, Drinking Water Branch
Liz Melvin, Section Chief, Permit, Certification, and Capacity IDEM/DWB
Travis Goodwin, Capacity Development IDEM/DWB
Lucio Ternieden, Chief, Field Inspection Section IDEM/DWB
Lance Mabry, Permit Section IDEM/DWB
Dana Lynn, Indiana Utility Regulatory Commission
Scott Bell, Office of the Utility Consumer Counselor

PWSID #:
Proposed Public Water Supply Name: **Granger Water Utility LLC**

FINANCIAL CAPACITY CHECKLIST

Rule Requirement	Included In Plan? (Y, N, N/A)	Page Referenced	Comments
Community Public Water Supply			
Five (5) Year Budget Plan			
Pro Forma Income Statement	Y	p. 67- Exhibit 2.0	See below
Pro Forma Balance Sheet	N		
Statement of Retained Earnings	N		
Statement of Cash Flows	Y	p. 67 – Exhibit 2.0	Exhibit appears to represent all costs to provide service, but exhibit is not footed
Projected Details of Operating Revenues	Y	p. 67- Exhibit 2.0	See below
Projected Details of Operating Expenses	Y	p. 67- Exhibit 2.0	See below
Operation & Maintenance Expenses	Y	p. 67- Exhibit 2.0	See below
Administration Expenses	Y	p. 67- Exhibit 2.0	No comments
Twenty (20) Year Financial Plan	Y	p. 68 – Exhibit 2.4	Covers the basic requirements contained in the IAC.
Projected Growth	Y	p. 12, p. 68 – Exhibit 2.4	Development only has enough land for 229 residential lots, projected annual growth rate of approximately 10% was used.
Infrastructure Replacement Plan	Y	p. 66 – Exhibit 1.5	No comments
Account to Fund Repairs & Growth	Y	p. 32	Reflects a "Capital Reserve Contribution"

Nontransient Noncommunity Systems	[redacted]		
Five (5) Year Budget Plan			
Summary of Revenues of PWS	Y	Exhibit 2.0	See below
Summary of Expenses of PWS	Y	Exhibit 2.0	See below
CPA Certification?	Y	p.27	

Reviewer's Signature: _______Dana M. Lynn_________ Date: 10/14/20
Comments/Concerns: Granger acknowledges that it will need approval of its rates and charges before charging customers. However, Granger has not yet filed a Petition for approval of rates and charges with the IURC.

As an investor-owned utility (IOU), rates are established based on operating expenses and a reasonable rate of return on investment (i.e., revenue requirements). However, we find that most start-up IOUs will elect to forego its allowed revenue requirements to keep its proposed rates lower. Thus, our review is based strickly on the cash flow necessary for this utility to be financially fiable.

Concerns identified with Granger's Exhibits 2.0 and 2.4 are as follows:

1. Operating Revenues are based upon 24 homes being built each year and with all homes coming on line January 1 of each year. This is an unrealistic assumption as most homes in a new development connect to a water utility at various times throughout the year. Moreover, staff found no support that a 10% growth rate is reasonable.
2. It appears Granger anticipates charging $2,400 per residential customer for its System Development Charge (SDC) and Connection Fee. It also appears that Granger plans to charge $7 per customer for fire protection. Granger provided no explanation how these charges were determined. These charges should be cost based. Moreover, SDCs and Connection fees are considered sources of capital, called Contributions in Aid of Construction (CIAC)), used to fund Utility Plant in Service.
3. On Exhibit 2.0, Income Tax Credits (Line 2.2.9) appear to represent a source of cash. Perhaps, these amounts would more properly be shown as a contribution from the shareholders. In addition, the amounts appear unrealistically high based on the losses of income presented on Line 2.2.5.
4. As an IOU, Granger will be subject to paying property taxes. Thus, it would be reasonable that some amount be included in Taxes Other Than Income for property taxes.
5. Sales Tax should be removed from Revenues and Expenses. Sales Tax should be reflected on Granger's balance sheet as Granger is only acting as a fiduciary for the

Indiana Department of Revenue.

6. Debt Service and Debt Service Reserve (Line 2.2.12) should include interest expense on the proposed debt, but Interest Expense is listed in Total Operating Expenses. Thus, staff is unsure if Granger double counted this cost.

The tables below reflects a more realistic projection of revenues by normalizing Granger's 24 customer connections over the course of a year. Finally, we excluded costs associated with sales tax, as explained above, and capital reserve contributions because it appears the $5,800 listed as "Greater of Depreciation or Extensions and Replacements" will cover the costs associated with Granger's proposed Infrastructure Replacement Plan. The second table excludes interest expense based on the possibility that Granger included this cost twice in Exhibit 2.0. With these adjustments, both tables reflect the negative cash flow Granger may sustain in its first five years of operation:

Based on Information provided on Exhibit 2.0	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue (Excludes Sales Tax)	$ 10,371	$ 31,113	$ 51,855	$ 72,597	$ 93,339
Add: SDCs and Connection Fees	57,600	57,600	57,600	57,600	57,600
Income Tax Credits	57,628	88,731	92,983	92,983	92,983
Less: Expenses (Excludes Capital Reserve Contribution)	128,896	122,992	116,762	110,226	109,659
Infrastructure Replacement	5,800	5,800	5,800	5,800	5,800
Debt Service	266,800	266,800	266,800	289,704	310,892
Cash - Over/(Shortfall)	$ (275,897)	$(218,148)	$ (186,924)	$ (182,550)	$ (182,429)
Cumulative Cash - Over/(Shortfall)	$ (275,897)	$(494,045)	$ (680,969)	$ (863,519)	$ (1,045,948)

Assumes Granger may have Double Counted Interest Expense	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue (Excludes Sales Tax, Connection and SDC)	$ 10,371	$ 31,113	$ 51,855	$ 72,597	$ 93,339
Add: SDCs and Connection Fees	57,600	57,600	57,600	57,600	57,600
Income Tax Credits	57,628	88,731	92,983	92,983	92,983
Less: Expenses (Excludes Capital Reserve Contribution)	128,896	122,992	116,762	110,226	109,659
Infrastructure Replacement	5,800	5,800	5,800	5,800	5,800
Debt Service (Principal Only)	213,440	221,978	230,857	262,995	294,703
Cash - Over/(Shortfall)	$ (222,537)	$(173,326)	$ (150,981)	$ (155,841)	$ (166,240)
Cumulative Cash - Over/(Shortfall)	$ (222,537)	$(395,863)	$ (546,844)	$ (702,685)	$ (868,925)

Cumulative cash shortfalls could possibly near or exceed $1 million dollars during the first five years of operation. Staff believes these short falls can continue into future years but to a lessor degree because of additional growth and because the debt appears to be amortized over 5 years. Nonetheless, unless Granger can provide additional information explaining how the owners plan to cover these cash shortfalls, staff believes this utility will not be financially viable.

Regarding the proposed debt shown on Exhibits 2.0 and 2.4, there is no description of the terms of debt, including the amount and interest rates in the WSMP. It also appears that Granger plans to payback the debt over an approimate 5-year period. By Granger proposing a debt issuance with what appears to be a 5-year payback period, significant inputs of cash will be needed from the shareholder to offset the utility's costs during the term of the debt. Typically, the term of a debt issuance is set to help a utility's cash flow. It would be more reasonable for Granger to incur debt with a 20 or 25-year payback period. In addition, we note that Indiana Code § 8-1-2-78 requires financing authority be obtained from the IURC before a utility may incur debt.

Further, section 2.4.2 of the WSMP states that "[t]he cost of the infrastructure to the distribution system will be included in the development cost of each phase of the development paid for through lot sales proceeds. Granger must follow the IURC's administrative rules found under 170 Indiana Administrative Code, Article 6 (IURC Rules). Included in the IURC Rules are requirements for main extensions to serve the proposed development (170 IAC 6-1.5). Wells and treatment plants are typically funded by shareholders through either debt or equity. The mains in the distribution system are typically contributed to the utility and recorded as CIAC except to the extent of a 3-year revenue allowance (170 IAC 6-1.5-10). The 3-year revenue allowance included in the Commisison's main extension rules essentially represents the portion of the main the utility will fund. In this case, $65 per month rate x 36 months = $2,340.

Finally, as a new, start-up water utility, Granger's rate structure should be based on metering each customer's water usage. The use of a flat monthly rate for a new start-up system, as proposed by Granger, is a rate structure that has been regarded as a thing of the past and does not adequately send the proper pricing signals to customers thereby discouraging conservation.

45568, Granger Water
07/20/2021

Q-1-4: What is the dollar amount, per lot, of the curtailment Granger Water will receive from the lending bank?

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

Granger Water will not receive an amount from the lending bank. Rather, for each lot sold, the owner of Granger Water will make equity contributions to Granger Water in the amount of $9,259, which will then be paid by Granger Water to the bank for repayment of the loan on the water plant.

IURC Cause No. 45568
Granger Water's Responses to OUCC DR 5
August 26, 2021

Q-5-12: See Petitioner's Exhibit No. 2 (Attachment JZW-1 Rate Report to Ms. Wilson's case-in-chief testimony, page 4 of 13). Please state the date associated with "the Opening." Please identify the years corresponding to "Years 1 -10."

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

Attachment JZW-1 shows generalized projections by year. These projections do not correspond directly to actual years. For example, Granger Water projects 38 customers will be added in Year 1 and assumes all 38 customers will be added on the first day of the year, will be charged $75 per month, and will be charged for all 12 months of the projected year. This is a generalized assumption of revenues for the year.

Q-3-2: Please provide the following with respect to Granger Water Utility, LLC:

a. A trial balance (including balance sheet and income statements accounts) for each accounting period.

b. All general ledger transactions in Excel format (with formulas and inputs intact) that it is sortable and searchable. For each transaction, please state or provide: (1) the account number; (2) the account name; (3) the transaction date; (4) the general ledger month; (5) a description of the transaction; (6) the transaction amount; and (7) the transaction number or other information used to identify or distinguish the transaction.

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

a. Please see Attachment OUCC 3-2-a.

b. Please see Attachment OUCC 3-2-b.

Granger Water Utility, LLC Trial Balance As of June 30, 2021

45568, Granger Water
DR 3-2 a, 08/05/2021

Granger Water LLC

Trial Balance

Period Ending June 30, 2021

	Jun 30, 21	
	Debit	**Credit**
11000 · TCU Checking Account	1,206.04	
11100 · TCU Savings Account	55,571.71	
19000 · WIP - Granger Water Utility	265,914.64	
18000 · Granger Water Utility Land	169,000.00	
20000 · Accounts Payable		336,380.69
25000 · N/P Seven Diamonds		37,126.14
25001 · N/P Forest Beach Builders		70,116.91
28000 · TCU GWU Loan		789,890.86
30400 · Seven Diamonds Equity		282,694.52
30600 · Circumlocution Equity		152,220.12
42000 · Curtailment from Lot Sale		55,554.00
42500 · Interest Income		12.71
60400 · Bank Service Charges	7.00	
61000 · Business Licenses and Permits	656.22	
61400 · Civil Engineering	2,893.86	
61500 · Closing Costs	10,314.14	
61900 · Construction Expense	113,881.00	
63500 · IURC Expense	27,868.75	
63800 · Legal Fees	17,589.20	
66600 · Printing and Reproduction	5,850.00	
68900 · Water Plant	1,053,243.39	
TOTAL	**1,723,995.95**	**1,723,995.95**

45568, Granger Water
DR 3-2 b, 08/05/2021

Type	Date	Num	Name	Memo	Split	Debit	Credit
Bill Pmt -Check	05/26/2021	EFT	Papczynski Construction, Inc.		20000 · Accounts Payable	(38,231.00)	
Bill Pmt -Check	05/26/2021	1001	Peerless Midwest, Inc.		20000 · Accounts Payable	(50,850.00)	
Bill Pmt -Check	05/26/2021	EFT	Peerless Midwest, Inc.		20000 · Accounts Payable	(162,791.82)	
General Journa	05/26/2021	8		To Record Draw #2 from TCU for GWU	28000 · TCU GWU Loan	50,698.54	
General Journa	05/26/2021	9		To Record Draw #3 from TCU for GWU	-SPLIT-	202,380.32	
Bill Pmt -Check	06/28/2021	1005	Jones Obenchain, LLP		20000 · Accounts Payable	(220.70)	
Bill Pmt -Check	06/28/2021	1003	Danch, Harner & Associates		20000 · Accounts Payable	(1,414.50)	
Bill Pmt -Check	06/28/2021	1004	Dentons Bingham Greenebaum LLP		20000 · Accounts Payable	(3,671.50)	
Bill Pmt -Check	06/28/2021	1002	Crowe LLP		20000 · Accounts Payable	(11,060.00)	
Bill Pmt -Check	06/28/2021	EFT	Peerless Midwest, Inc.		20000 · Accounts Payable	(519,245.30)	
General Journa	06/28/2021	13		To Record Draw #4 from TCU for GWU	-SPLIT-	535,612.00	
Bill Pmt -Check	07/08/2021	EFT	Papczynski Construction, Inc.		20000 · Accounts Payable	(46,200.00)	
Check	07/08/2021	1006	Seven Diamonds, LLC		25000 · N/P Seven Diamonds	(46,200.00)	
General Journa	07/08/2021	21		To Record Expense paid by Seven Diamc	25000 · N/P Seven Diamonds	46,200.00	
Bill Pmt -Check	07/26/2021	EFT	RB Trucking & Towing		20000 · Accounts Payable	(51,326.39)	
Bill Pmt -Check	07/26/2021	EFT	Peerless Midwest, Inc.		20000 · Accounts Payable	(200,869.19)	
General Journa	07/26/2021	20		To Record Draw #5 from TCU for GWU	-SPLIT-	372,647.38	
Bill Pmt -Check	07/27/2021	1009	Danch, Harner & Associates		20000 · Accounts Payable	(1,479.36)	
Bill Pmt -Check	07/27/2021	1010	Dentons Bingham Greenebaum LLP		20000 · Accounts Payable	(13,697.00)	
Bill Pmt -Check	07/27/2021	1008	Crowe LLP		20000 · Accounts Payable	(16,808.75)	
Check	07/27/2021	1007	Forest Beach Builders		25001 · N/P Forest Beach Builder:	(41,916.69)	
General Journa	03/19/2021	2		To Book TCU Granger Water Utility Loar	-SPLIT-	12.00	
General Journa	03/19/2021	3		To Record Curtailment from Lot 17	-SPLIT-	9,259.00	
General Journa	03/19/2021	3		To Record Curtailment from Lot 18	11100 · TCU Savings Account	9,259.00	
Check	03/31/2021			Service Charge	60400 · Bank Service Charges	(7.00)	
Deposit	03/31/2021			Interest	42500 · Interest Income	1.34	
General Journa	04/07/2021	10		To Record Curtailment from Lot 35	42000 · Curtailment from Lot Sale	9,259.00	
Deposit	04/30/2021			Interest	42500 · Interest Income	3.20	
General Journa	05/05/2021	11		To Record Curtailment from Lot 8	42000 · Curtailment from Lot Sale	9,259.00	
Deposit	05/31/2021			Interest	42500 · Interest Income	4.57	
General Journa	06/10/2021	12		To Record Curtailment from Lot 33	42000 · Curtailment from Lot Sale	9,259.00	
General Journa	06/25/2021	15		To Record Curtailment from Lot 15	42000 · Curtailment from Lot Sale	9,259.00	
Deposit	06/30/2021			Interest	42500 · Interest Income	3.60	
General Journa	07/07/2021	16		To Record Curtailment from Lot 12	42000 · Curtailment from Lot Sale	9,259.00	
General Journa	12/31/2020	1		To Record Land Contribution in The Hills	-SPLIT-	169,000.00	
General Journa	12/31/2020	5		To Record Expenses Paid by Village Deve	-SPLIT-	252,614.64	
General Journa	12/31/2020	6		To Allocate Well Field Development	30400 · Seven Diamonds Equity	13,300.00	

Type	Date	Num	Name	Memo	Split	Debit	Credit
Bill	03/04/2021	530922	Peerless Midwest, Inc.		66600 · Printing and Reproductio	(5,850.00)	
Bill	04/05/2021	60316	Peerless Midwest, Inc.		68900 · Water Plant	(162,791.82)	
Bill	04/30/2021	170268.5	Danch, Harner & Associates		61400 · Civil Engineering	(1,414.50)	
Bill	05/01/2021	530837	Peerless Midwest, Inc.		68900 · Water Plant	(45,000.00)	
Bill	05/04/2021	452385	Jones Obenchain, LLP		63800 · Legal Fees	(220.70)	
Bill	05/05/2021	4493809	Dentons Bingham Greenebaum LLP		63800 · Legal Fees	(3,671.50)	
Bill	05/07/2021	60723	Peerless Midwest, Inc.		68900 · Water Plant	(519,245.30)	
Bill	05/09/2021	5921	Papczynski Construction, Inc.		61900 · Construction Expense	(38,231.00)	
Bill	05/26/2021	860206.001	Crowe LLP		63500 · IURC Expense	(11,060.00)	
Bill Pmt -Check	05/26/2021	EFT	Papczynski Construction, Inc.		11000 · TCU Checking Account	38,231.00	
Bill Pmt -Check	05/26/2021	EFT	Peerless Midwest, Inc.		11000 · TCU Checking Account	162,791.82	
Bill Pmt -Check	05/26/2021	1001	Peerless Midwest, Inc.		11000 · TCU Checking Account	50,850.00	
Bill	06/09/2021	4496179	Dentons Bingham Greenebaum LLP		63800 · Legal Fees	(13,697.00)	
Bill	06/09/2021	EXC-667	RB Trucking & Towing		68900 · Water Plant	(49,926.39)	
Bill	06/15/2021	61306	Peerless Midwest, Inc.		68900 · Water Plant	(200,869.19)	
Bill	06/24/2021	EXC-703	RB Trucking & Towing		68900 · Water Plant	(6,000.00)	
Bill	06/26/2021	62621	Papczynski Construction, Inc.		61900 · Construction Expense	(4,200.00)	
Bill	06/26/2021	62821	Papczynski Construction, Inc.		61900 · Construction Expense	(42,000.00)	
Bill Pmt -Check	06/28/2021	EFT	Peerless Midwest, Inc.		11000 · TCU Checking Account	519,245.30	
Bill Pmt -Check	06/28/2021	1002	Crowe LLP		11000 · TCU Checking Account	11,060.00	
Bill Pmt -Check	06/28/2021	1003	Danch, Harner & Associates		11000 · TCU Checking Account	1,414.50	
Bill Pmt -Check	06/28/2021	1004	Dentons Bingham Greenebaum LLP		11000 · TCU Checking Account	3,671.50	
Bill Pmt -Check	06/28/2021	1005	Jones Obenchain, LLP		11000 · TCU Checking Account	220.70	
Bill	06/30/2021	EXC-684	RB Trucking & Towing		68900 · Water Plant	(1,400.00)	
Bill	06/30/2021	21752	Danch, Harner & Associates		61400 · Civil Engineering	(1,479.36)	
Bill	06/30/2021	701-2440345	Crowe LLP		63500 · IURC Expense	(16,808.75)	
Bill Pmt -Check	07/08/2021	EFT	Papczynski Construction, Inc.		11000 · TCU Checking Account	46,200.00	
Bill	07/21/2021	706-2444059	Crowe LLP		63500 · IURC Expense	(4,123.75)	
Bill Pmt -Check	07/26/2021	EFT	Peerless Midwest, Inc.		11000 · TCU Checking Account	200,869.19	
Bill Pmt -Check	07/26/2021	EFT	RB Trucking & Towing		11000 · TCU Checking Account	51,326.39	
Bill Pmt -Check	07/27/2021	1008	Crowe LLP		11000 · TCU Checking Account	16,808.75	
Bill Pmt -Check	07/27/2021	1009	Danch, Harner & Associates		11000 · TCU Checking Account	1,479.36	
Bill Pmt -Check	07/27/2021	1010	Dentons Bingham Greenebaum LLP		11000 · TCU Checking Account	13,697.00	
General Journa	03/15/2021	13		To Record Expense paid by Seven Diamc	68900 · Water Plant	(28,000.00)	

Type	Date	Num	Name	Memo	Split	Debit	Credit
General Journa	03/19/2021	2		To Book TCU Granger Water Utility Loar	11100 · TCU Savings Account	(9,126.14)	
General Journa	07/08/2021	21		To Record Expense paid by Seven Diamc	11000 · TCU Checking Account	(46,200.00)	
Check	07/08/2021	1006	Seven Diamonds, LLC		11000 · TCU Checking Account	46,200.00	
General Journa	05/01/2021	7		To Record Expenses paid by FBB	-SPLIT-	(30,106.22)	
General Journa	06/30/2021	14		To Record Materials purchased for the v	68900 · Water Plant	(40,010.69)	
General Journa	07/02/2021	19		Water Plant Roof Hatches Paid by FBB	68900 · Water Plant	(1,906.00)	
General Journa	07/14/2021	17		To Record Expense Paid by FBB to Ryan	68900 · Water Plant	(9,000.00)	
General Journa	07/21/2021	18		Expense Paid by FBB for Drywall of Wat	68900 · Water Plant	(10,000.00)	
Check	07/27/2021	1007	Forest Beach Builders		11000 · TCU Checking Account	41,916.69	
General Journa	05/26/2021	8		To Record Draw #2 from TCU for GWU	11000 · TCU Checking Account	(50,698.54)	
General Journa	05/26/2021	9		To Record Draw #3 from TCU for GWU	11000 · TCU Checking Account	(202,980.32)	
General Journa	06/28/2021	13		To Record Draw #4 from TCU for GWU	11000 · TCU Checking Account	(536,212.00)	
General Journa	07/26/2021	20		To Record Draw #5 from TCU for GWU	11000 · TCU Checking Account	(373,922.43)	
General Journa	12/31/2020	6		To Allocate Well Field Development	-SPLIT-	(8,645.00)	
General Journa	12/31/2020	1		To Record Land Contribution in The Hills	18000 · Granger Water Utility Lar	(109,850.00)	
General Journa	12/31/2020	5		To Record Expenses Paid by Village Deve	19000 · WIP - Granger Water Util	(164,199.52)	
General Journa	12/31/2020	6		To Allocate Well Field Development	30400 · Seven Diamonds Equity	(4,655.00)	
General Journa	12/31/2020	1		To Record Land Contribution in The Hills	18000 · Granger Water Utility Lar	(59,150.00)	
General Journa	12/31/2020	5		To Record Expenses Paid by Village Deve	19000 · WIP - Granger Water Util	(88,415.12)	
General Journa	03/19/2021	3		To Record Curtailment from Lots 17 & 1	11100 · TCU Savings Account	(18,518.00)	
General Journa	04/07/2021	10		To Record Curtailment from Lot 35	11100 · TCU Savings Account	(9,259.00)	
General Journa	05/05/2021	11		To Record Curtailment from Lot 8	11100 · TCU Savings Account	(9,259.00)	
General Journa	06/10/2021	12		To Record Curtailment from Lot 33	11100 · TCU Savings Account	(9,259.00)	
General Journa	06/25/2021	15		To Record Curtailment from Lot 15	11100 · TCU Savings Account	(9,259.00)	
General Journa	07/07/2021	16		To Record Curtailment from Lot 12	11100 · TCU Savings Account	(9,259.00)	
Deposit	03/31/2021			Interest	11100 · TCU Savings Account	(1.34)	
Deposit	04/30/2021			Interest	11100 · TCU Savings Account	(3.20)	
Deposit	05/31/2021			Interest	11100 · TCU Savings Account	(4.57)	
Deposit	06/30/2021			Interest	11100 · TCU Savings Account	(3.60)	
Check	03/31/2021			Service Charge	11100 · TCU Savings Account	7.00	
General Journa	05/01/2021	7		To Record Expenses paid by FBB	25001 · N/P Forest Beach Builder	656.22	
Bill	04/30/2021	170268.5	Danch, Harner & Associates		20000 · Accounts Payable	1,414.50	
Bill	06/30/2021	21752	Danch, Harner & Associates		20000 · Accounts Payable	1,479.36	
General Journa	03/19/2021	2		To Book TCU Granger Water Utility Loar	11100 · TCU Savings Account	9,114.14	

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Type	Date	Num	Name	Memo	Split	Debit	Credit
General Journa	05/26/2021	9		To Record Draw #3 from TCU for GWU	11000 · TCU Checking Account	600.00	
General Journa	06/28/2021	13		To Record Draw #4 from TCU for GWU	11000 · TCU Checking Account	600.00	
General Journa	07/26/2021	20		To Record Draw #5 from TCU for GWU	11000 · TCU Checking Account	1,275.05	
General Journa	05/01/2021	7		To Record Expenses paid by FBB-Well H	25001 · N/P Forest Beach Builder	29,450.00	
Bill	05/09/2021	5921	Papczynski Construction, Inc.	Well House	20000 · Accounts Payable	38,231.00	
Bill	06/26/2021	62821	Papczynski Construction, Inc.		20000 · Accounts Payable	42,000.00	
Bill	06/26/2021	62621	Papczynski Construction, Inc.		20000 · Accounts Payable	4,200.00	
Bill	05/26/2021	860206.001	Crowe LLP		20000 · Accounts Payable	11,060.00	
Bill	06/30/2021	701-244034	Crowe LLP		20000 · Accounts Payable	16,808.75	
Bill	07/21/2021	706-244405	Crowe LLP		20000 · Accounts Payable	4,123.75	
Bill	05/04/2021	452385	Jones Obenchain, LLP		20000 · Accounts Payable	220.70	
Bill	05/05/2021	4493809	Dentons Bingham Greenebaum LLP		20000 · Accounts Payable	3,671.50	
Bill	06/09/2021	4496179	Dentons Bingham Greenebaum LLP		20000 · Accounts Payable	13,697.00	
Bill	03/04/2021	530922	Peerless Midwest, Inc.	Computer Model for Upper Aquifer	20000 · Accounts Payable	5,850.00	
General Journa	03/15/2021	13		To Record Expense paid by Seven Diamc	25000 · N/P Seven Diamonds	28,000.00	
Bill	04/05/2021	60316	Peerless Midwest, Inc.	Water Treatment Plant Equipment and	20000 · Accounts Payable	162,791.82	
Bill	05/01/2021	530837	Peerless Midwest, Inc.	Water Treatment Plant Equipment and	20000 · Accounts Payable	45,000.00	
Bill	05/07/2021	60723	Peerless Midwest, Inc.		20000 · Accounts Payable	519,245.30	
Bill	06/09/2021	EXC-667	RB Trucking & Towing		20000 · Accounts Payable	49,926.39	
Bill	06/15/2021	61306	Peerless Midwest, Inc.		20000 · Accounts Payable	200,869.19	
Bill	06/24/2021	EXC-703	RB Trucking & Towing	Reach Fork Rental	20000 · Accounts Payable	6,000.00	
Bill	06/30/2021	EXC-684	RB Trucking & Towing		20000 · Accounts Payable	1,400.00	
General Journa	06/30/2021	14		To Record Materials purchased for the v	25001 · N/P Forest Beach Builder	40,010.69	
General Journa	07/02/2021	19		Water Plant Roof Hatches Paid by FBB	25001 · N/P Forest Beach Builder	1,906.00	
General Journa	07/14/2021	17		To Record Expense Paid by FBB to Ryan	25001 · N/P Forest Beach Builder	9,000.00	
General Journa	07/21/2021	18		Expense Paid by FBB for Drywall of Wat	25001 · N/P Forest Beach Builder	10,000.00	

Q-2-23: Please explain what utility assets are being acquired through the loan associated with the $7,270,000 mortgage. Please state the anticipated cost of those assets.

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

To be clear, the Granger Water is only borrowing $1,481,397.00 from Teachers Credit Union ("TCU") as evidenced by the Promissory Note. It is common for banks to get as much collateral as possible and often use a "cross collateralization agreement" to cross collateralize the collateral. This is what the mortgage is referencing. A promissory note is a promise to pay. A mortgage is an instrument that attaches a promissory note to real property. TCU is funding the land purchase and other development costs including the water plant. The Utility is only borrowing the $1,481,397. The use of these funds is demonstrated in Attachment JZW-1.

Q-5-3: Please identify all loans from any person or entity that encumber or will encumber Granger Water's Utility assets. Please provide a copy of all such loan documents if not already provided.

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

Please see Granger Water's case-in-chief. There are no unidentified loans that will encumber Granger Water's assets.

Q-4-17: Reference Section 3.3.5 Cost benefit analysis of Attachment JPM-6, Water System Management Plan (pages 49 - 51 of 91). Please identify, provide or answer the following:

a. Name of the person or entity that prepared the cost benefit analysis on page 49.

b. Sizes and capacities of water mains and booster stations (i.e., diameter and pipe type, booster station capacities in gallons per minute, etc.).

c. Support documentation for the $285 per LF water main cost and the $500,000 cost for each booster station.

d. Location of the assumed connection points to the Mishawaka, South Bend and Elkhart municipal water systems that were used to establish the length of each water main extension.

e. Why did Petitioner only evaluate capital costs in the cost benefit analysis?

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

a. The cost benefit analysis was prepared by J. Patrick Matthews and approved by Burne Miller, P.E.

b. The cost benefit analysis does not include this level of detail; however, the estimate of $285 per lineal foot is all-inclusive, meaning this number includes due diligence costs, civil engineering, route surveys, staff time, subcontractors, materials, entitlements, etc.

c. See Granger Water's response to Q-4-17(b). The pumping station estimate was validated verbally by Peerless.

d. The lineal footage estimate was established via satellite map measurements. After taking said measurements, no further documentation was made.

e. The initial cost difference was substantial enough that no additional investigation was necessary.

Q-4-3: Reference Attachment JPM-9, Estimated Project Costs, The Granger Water Utility LLC, Construction Budget (Plant Only), May 18, 2021. Please state, identify or provide the following:

a. Name of the person and entity that prepared the cost estimate.

b. Basis for each cost listed.

c. Copies of all contracts for each listed cost component (e.g., Architectural at $35,516, Civil Engineering (Danch) at $50,000, Peerless Midwest at $1,074,000, Site Work (RB) at $50,000, etc.). Please identify all listed cost components that do not have a contract.

d. Copies of all invoices incurred to date for each listed cost component.

e. Total amount paid to date for the new groundwater wells and water treatment plant facilities.

f. Total amount remaining to be incurred for the new groundwater wells and water treatment plant facilities.

g. Anticipated final completion date when the new groundwater wells and water treatment plant facilities will be complete and in service.

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

a. J. Patrick Matthews of Granger Water Utility LLC prepared the cost estimate.

b. Verbal conversations with vendors combined with J. Patrick Matthews' professional experience in making such estimates.

c. See Attachment OUCC 4-3(c

d. See Attachment OUCC 4-3(d).

e. See Attachment OUCC 4-3(e).

f. See Attachment OUCC 4-3(f).

g. August 15, 2021.

Attachment JPM-9 - Estimated Project Costs

The Granger Water Utility LLC
Consturction Budget (Plant Only)
May 18, 2021

		Q-4-3-c Repsonse
Land (Lot 230 Hills)	169,000	Proration of total land costs
Total Land	**169,000**	
Soft (indirect) Costs		
Architectural	35,316	Spalding invoice 1466 attached
Civil Engineering (Danch)	50,000	Professional Estimate
Environmental	4,684	Professional Estimate
Geotechnical	5,000	Professional Estimate
Permits	2,000	Professional Estimate
Legal Fees	50,000	Professional Estimate
IURC Application	65,000	Professional Estimate
Accounting Fees	5,000	Professional Estimate
Recording Fees	5,000	Professional Estimate
Title Insurance	5,000	Professional Estimate
Contingency	11,350	Professional Estimate
Total Soft (indirect) Costs	**238,350**	
Construction Costs		
Peerless Midwest	1,074,000	Peerless 2 quotes attached
Site Work (RB)	50,000	Professional Estimate
Shell (Buildings)	300,000	Forest Beach Builders Budget Attached
Total Const Costs	**1,424,000**	
Financing Costs		
Financing Fee (bps)	12,500	Professional Estimate
Appraisal	6,000	Professional Estimate
Progress Inspections	18,000	Professional Estimate
Construction Interest Carry	122,317	Professional Estimate
Total Financing Costs	**158,817**	
Grand Totals	**1,990,167**	

The Granger Water Utility LLC

The Hills at St Joe Farm - Major Subdivision

Water Plant Facility Draw Report

Water Plant	Adj Budget	Drawn To Date	Balance To Complete
Soft (indirect) Costs			
Architectural	35,316.20	35,316.20	0.00
Structural Engineering	0.00	0.00	0.00
MEP Engineering	0.00	0.00	0.00
Civil Engineering (JPR)	0.00	0.00	0.00
Civil Engineering (Danch)	50,000.00	51,340.86	(1,340.86)
Environmental	4,683.80	0.00	4,683.80
Geotechnical	5,000.00	0.00	5,000.00
Permits	2,000.00	906.22	1,093.78
Legal Fees	50,000.00	50,675.56	(675.56)
IURC Application	65,000.00	35,043.75	29,956.25
Accounting Fees	5,000.00	4,865.00	135.00
Recording Fees	5,000.00	0.00	5,000.00
Market Study	0.00	0.00	0.00
Title Insurance	5,000.00	0.00	5,000.00
Developer's Fee	0.00	0.00	0.00
Real Estate Taxes	0.00	0.00	0.00
Construction Review	0.00	0.00	0.00
Contingency	11,350.00	3,245.04	8,104.96
Total Soft (indirect) Costs	**238,350.00**	**181,392.63**	**56,957.37**
Construction Costs			
Peerless Midwest	1,074,000.00	1,235,045.15	(161,045.15)
Site Work (RB)	50,000.00	89,101.39	(39,101.39)
Shell (Buildings)	300,000.00	198,785.13	101,214.87
	0.00	0.00	0.00
	0.00	0.00	0.00
Total Const Costs	**1,424,000.00**	**1,522,931.67**	**(98,931.67)**
Financing Costs			
Financing Fee (bps)	12,500.00	0.00	12,500.00
Appraisal	6,000.00	6,867.50	(867.50)
Progress Inspections	18,000.00	2,400.00	15,600.00
Construction Interest Carry	122,317.00	4,316.42	118,000.58
Total Financing Costs	**158,817.00**	**13,583.92**	**145,233.08**
Grand Totals	**1,821,167.00**	**1,717,908.22**	**103,258.78**

45568, Granger
Attachment DR 4-3 (e)
08/16/2021

The Granger Water Utility LLC

The Hills at St Joe Farm - Major Subdivision

Water Plant Facility Draw Report

Water Plant	Adj Budget	Drawn To Date	Balance To Complete
Soft (indirect) Costs			
Architectural	35,316.20	35,316.20	0.00
Structural Engineering	0.00	0.00	0.00
MEP Engineering	0.00	0.00	0.00
Civil Engineering (JPR)	0.00	0.00	0.00
Civil Engineering (Danch)	50,000.00	51,340.86	(1,340.86)
Environmental	4,683.80	0.00	4,683.80
Geotechnical	5,000.00	0.00	5,000.00
Permits	2,000.00	906.22	1,093.78
Legal Fees	50,000.00	50,675.56	(675.56)
IURC Application	65,000.00	35,043.75	29,956.25
Accounting Fees	5,000.00	4,865.00	135.00
Recording Fees	5,000.00	0.00	5,000.00
Market Study	0.00	0.00	0.00
Title Insurance	5,000.00	0.00	5,000.00
Developer's Fee	0.00	0.00	0.00
Real Estate Taxes	0.00	0.00	0.00
Construction Review	0.00	0.00	0.00
Contingency	11,350.00	3,245.04	8,104.96
Total Soft (indirect) Costs	**238,350.00**	**181,392.63**	**56,957.37**
Construction Costs			
Peerless Midwest	1,074,000.00	1,235,045.15	(161,045.15)
Site Work (RB)	50,000.00	89,101.39	(39,101.39)
Shell (Buildings)	300,000.00	198,785.13	101,214.87
	0.00	0.00	0.00
	0.00	0.00	0.00
Total Const Costs	**1,424,000.00**	**1,522,931.67**	**(98,931.67)**
Financing Costs			
Financing Fee (bps)	12,500.00	0.00	12,500.00
Appraisal	6,000.00	6,867.50	(867.50)
Progress Inspections	18,000.00	2,400.00	15,600.00
Construction Interest Carry	122,317.00	4,316.42	118,000.58
Total Financing Costs	**158,817.00**	**13,583.92**	**145,233.08**
Grand Totals	**1,821,167.00**	**1,717,908.22**	**103,258.78**

Water Plant-Petitioners Numbers-Including O&M Cost in Present Value and Depreciation

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Customers-Incremental Growth	38	38	38	38	38	35	35	35	35	35
Total Customer Count	38	76	114	152	190	225	260	295	330	365
Cost per Ratepayer-Monthly	$ 75.00	$ 75.00	$ 76.17	$ 77.36	$ 78.57	$ 79.80	$ 81.04	$ 81.04	$ 81.04	$ 81.04
Overall Water Sales	$ 34,200	$ 68,400	$ 104,201	$ 141,105	$ 179,140	$ 215,460	$ 252,845	$ 286,882	$ 320,918	$ 354,955
Cost of WTP	$ 1,990,167.00						$ 500,000.00			
Cost of Land	$ 169,000.00									
Capital Cost-Total	$ 1,990,167									
Depreciation-Annual	$ 36,423	$ 36,423	$ 36,423	$ 36,423	$ 36,423	$ 36,423	$ 46,423	$ 46,423	$ 46,423	$ 46,423
Purchased Power	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000
Maintenance	$ 1,026	$ 2,052	$ 3,126	$ 4,233	$ 5,374	$ 6,464	$ 7,585	$ 8,606	$ 9,628	$ 10,649
Billing Expense	$ 12,000	$ 12,000	$ 12,840	$ 15,120	$ 17,400	$ 19,500	$ 21,600	$ 23,700	$ 25,620	$ 27,510
Qualified Operator	$ 43,200	$ 44,496	$ 45,831	$ 47,206	$ 48,622	$ 49,594	$ 50,586	$ 51,598	$ 52,630	$ 53,683
Insurance	$ 6,000	$ 6,180	$ 6,365	$ 6,556	$ 6,753	$ 6,888	$ 7,026	$ 7,166	$ 7,310	$ 7,456
Legal Fees	$ 5,000	$ 5,150	$ 5,305	$ 5,464	$ 5,628	$ 5,740	$ 5,855	$ 5,972	$ 6,091	$ 6,213
Regulatory Reporting and Permit Fees	$ 1,200	$ 1,236	$ 1,236	$ 1,236	$ 1,236	$ 1,236	$ 1,236	$ 1,236	$ 1,236	$ 1,236
Security Service	$ 600	$ 618	$ 637	$ 656	$ 675	$ 689	$ 703	$ 717	$ 731	$ 746
Consumer Confidence Reporting	$ 600	$ 618	$ 637	$ 656	$ 675	$ 689	$ 703	$ 717	$ 731	$ 746
Total O&M	$ 75,626	$ 78,350	$ 81,976	$ 87,126	$ 92,363	$ 96,800	$ 107,294	$ 111,712	$ 115,977	$ 120,238
Total Annual Expense	$ 112,049	$ 114,773	$ 118,399	$ 123,550	$ 128,787	$ 133,223	$ 153,717	$ 158,135	$ 162,400	$ 166,661
Discount Rate	5.50%	6.16%	6.74%	7.22%	7.29%	7.40%	7.52%	7.57%	7.63%	7.71%
NPV-Annual Expense	$ 112,049.34	$ 108,113.55	$ 103,918.87	$ 100,233.70	$ 97,192.80	$ 93,230.73	$ 99,491.55	$ 94,883.60	$ 90,181.88	$ 85,414.11
Total NPV-10 Years	$ 984,710.13									
Perpetuity NPV-Assume 2% growth after year 10, using Year 10 discount rate and costs	$ 1,495,868.86									
Capital Costs	$ 1,990,167.00						$ 500,000.00			
Discounted Capital Costs	$ 1,990,167.00						$ 323,619.34			
Total Discounted Capital Costs	$ 2,313,786.34									
Total	$ 4,794,365.34									

Water Plant-As above but assuming 24 customers per year growth and Mr. Parks Expansion Cost Estimates

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Customers-Incremental Growth	24	24	24	24	24	24	24	24	24	24
Total Customer Count	24	48	72	96	120	144	168	192	216	229
Cost per Ratepayer-Monthly	$ 75.00	$ 75.00	$ 76.17	$ 77.36	$ 78.57	$ 79.80	$ 81.04	$ 81.04	$ 81.04	$ 81.04
Overall Water Sales	$ 21,600	$ 43,200	$ 65,811	$ 89,119	$ 113,141	$ 137,894	$ 163,377	$ 186,716	$ 210,056	$ 222,698
Cost of WTP	$ 1,990,167.00									
Cost of Land	$ 169,000.00									
Capital Cost-Total	$ 1,990,167									
Depreciation-Annual	$ 36,423	$ 36,423	$ 36,423	$ 36,423	$ 36,423	$ 36,423	$ 46,423	$ 46,423	$ 46,423	$ 46,423
Purchased Power	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000
Maintenance	$ 648	$ 1,296	$ 1,974	$ 2,674	$ 3,394	$ 4,137	$ 4,901	$ 5,601	$ 6,302	$ 6,681
Billing Expense	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 13,200	$ 14,640	$ 16,080	$ 17,520	$ 18,960	$ 19,740
Qualified Operator	$ 43,200	$ 44,496	$ 45,831	$ 47,206	$ 48,622	$ 49,594	$ 50,586	$ 51,598	$ 52,630	$ 53,683
Insurance	$ 6,000	$ 6,180	$ 6,365	$ 6,556	$ 6,753	$ 6,888	$ 7,026	$ 7,166	$ 7,310	$ 7,456
Legal Fees	$ 5,000	$ 5,150	$ 5,305	$ 5,464	$ 5,628	$ 5,740	$ 5,855	$ 5,972	$ 6,091	$ 6,213
Regulatory Reporting and Permit Fees	$ 1,200	$ 1,236	$ 1,236	$ 1,236	$ 1,236	$ 1,236	$ 1,236	$ 1,236	$ 1,236	$ 1,236
Security Service	$ 600	$ 618	$ 637	$ 656	$ 675	$ 689	$ 703	$ 717	$ 731	$ 746
Consumer Confidence Reporting	$ 600	$ 618	$ 637	$ 656	$ 675	$ 689	$ 703	$ 717	$ 731	$ 746
Total O&M	$ 75,248	$ 77,594	$ 79,984	$ 82,447	$ 86,183	$ 89,613	$ 93,090	$ 96,527	$ 99,991	$ 102,500
Total Annual Expense	$ 111,671	$ 114,017	$ 116,408	$ 118,870	$ 122,607	$ 126,036	$ 139,513	$ 142,951	$ 146,414	$ 148,923
Discount Rate	5.50%	6.16%	6.74%	7.22%	7.29%	7.40%	7.52%	7.57%	7.63%	7.71%
NPV-Annual Expense	$ 111,671.34	$ 107,401.41	$ 102,170.77	$ 96,437.24	$ 92,528.90	$ 88,201.23	$ 90,298.14	$ 85,772.40	$ 81,304.80	$ 76,323.49
Total NPV-10 Years	$ 932,109.74									
Perpetuity NPV-Assume 2% growth, using Year 10 discount rate and co	$ 1,336,663.60									
Capital Costs	$ 1,990,167.00				$ 1,080,000					
Discounted Capital Costs	$ 1,990,167.00				$ 815,055					
Total	$ 5,073,995.08									

Regulatory Asset-Scenario 6

NOL	$ (85,610.00)	$ (60,947.00)	$ (35,673.00)	$ (11,035.00)	$ (193,265.00)
Starting Balance	$ -	$ (87,964.28)	$ (156,207.04)	$ (203,610.58)	
Combined Balance	$ (85,610.00)	$ (148,911.28)	$ (191,880.04)	$ (214,645.58)	
Average Balance	$ (42,805.00)	$ (118,437.78)	$ (174,043.54)	$ (209,128.08)	
Return (WACC)	5.50%	6.16%	6.74%	7.22%	
Return on-Amount	$ (2,354.28)	$ (7,295.77)	$ (11,730.53)	$ (15,099.05)	
Ending Balance	$ (87,964.28)	$ (156,207.04)	$ (203,610.58)	$ (229,744.62)	

Ending Balance-Year 4	$ (229,744.62)				
Assumption-Amortize over 5 years	Year 5	Year 6	Year 7	Year 8	Year 9
Starting Balance	$ (229,744.62)	$ (189,877.96)	$ (147,283.84)	$ (101,681.73)	$ (52,687.51)
Average Balance	$ (202,432.62)	$ (162,565.96)	$ (119,971.84)	$ (74,369.73)	$ (25,375.51)
Return (WACC)	7.29%	7.40%	7.52%	7.57%	7.63%
Return on-Amount	$ (14,757.34)	$ (12,029.88)	$ (9,021.88)	$ (5,629.79)	$ (1,936.15)
Ending Balance	$ (189,877.96)	$ (147,283.84)	$ (101,681.73)	$ (52,687.51)	$ 0.33
Return	$ 54,624.00	$ 54,624.00	$ 54,624.00	$ 54,624.00	$ 54,624.00
Number of customers	190	225	260	295	330
Average Bill Impact	$ 23.96	$ 20.23	$ 17.51	$ 15.43	$ 13.79
Gross-Up	0.99872392	0.99872392	0.99872392	0.99872392	0.99872392
Revenue Increase	$ 54,693.79	$ 54,693.79	$ 54,693.79	$ 54,693.79	$ 54,693.79
Number of customers	190	225	260	295	330
Average Bill Impact	$ 23.99	$ 20.26	$ 17.53	$ 15.45	$ 13.81

Q-2-1: Mr. Matthews states on page 5, line 4 of his direct testimony, "Petitioner's proposed service area is comprised of approximately 151-acres." Please identify who owns the land in the service area and its relationship if any with Petitioner. If the owner is corporation, please identify all owners and officers of the corporation.

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

The Village Development LLC purchased 76 acres for the Hills Subdivision. The Village Development LLC conveyed Lot 230, 4.7 acres, for the water plant as an equity contribution. The Village Development LLC has an option to purchase the remaining 75 acres currently owned by Mr. Paul Blum. See response to OUCC DR 2-2 for ownership interests. Paul Blum has no relationship to Petitioner. J. Patrick Matthews is President of The Village Development LLC, and Ken Keber is Secretary-Treasurer of The Village Development LLC.

Q-2-2: Please identify each person or entity who currently has an interest in the project developing the 76-acres known as "The Hills" and Granger Water Utility, LLC.

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

Petitioner responds to the Data Request providing the entities who have a direct interest in 1) The Hills at St. Joe Farm subdivision and 2) Granger Water Utility LLC.

The Village Development LLC is developing The Hills at St. Joe Farm subdivision. The Village Development LLC, is owned 65% by Seven Diamonds LLC, and 35% by Circumlocution LLC.

Granger Water Utility LLC, is owned 65% by Seven Diamonds LLC, and 35% by Circumlocution LLC.

Q-2-3: Please answer the following questions for each person identified in the previous question:

a. Identify the companies each person is affiliated with and what position the person holds.
b. Identify the stake each person has in the current project.
c. Identify the service/tasks each person/company will perform in the current project.
d. Identify the anticipated cash flow for each person/company.

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections. Granger Water further objects to the Data Request on the basis that it is not reasonable calculated to lead to admissible evidence. Indiana Code § 8-1-2-49 ("Section 49") provides that the jurisdiction of the Indiana Utility Regulatory Commission over affiliated interests (as defined in Section 49) only extends to "access to all accounts and records of joint or general expenses[.]" The cash flows of affiliated interests do not constitute "accounts and records of joint or general expenses". Granger Water further objects to the Data Request to the extent the Data Request seeks information or data resulting from a calculation that Granger Water has not performed and objects to performing.

Response:

The Village Development LLC

a. Please refer to the response to OUCC Data Requests 2-1 and 2-2;
b. Please refer to the response to OUCC Data Request 2-2; The Village Development LLC does not own any membership interests in Granger Water Utility LLC;
c. No tasks related to Granger Water Utility LLC have been assigned by The Village Development LLC; all tasks are assigned by Granger Water Utility LLC; and
d. Please see objections.

Seven Diamonds LLC

a. J. Patrick Matthews is the Managing Member, and Aimee Matthews is a Member.
b. J. Patrick Matthews and Aimee Matthews each own 50% of Seven Diamonds LLC; neither J. Patrick Matthews nor Aimee Matthews directly owns any membership interests of Granger Water Utility LLC;
c. No tasks related to Granger Water Utility LLC have been assigned by Seven Diamonds LLC; all tasks are assigned by Granger Water Utility LLC; and
d. Please see objections.

Circumlocution LLC

a. Ken Keber, Manager

b. Ken Keber owns 100% of Circumlocution LLC's membership interests; Ken Keber does not directly own any membership interests of Granger Water Utility LLC;

c. No tasks related to Granger Water Utility LLC have been assigned by Circumlocution LLC; all tasks are assigned by Granger Water Utility LLC; and

d. Please see objections.

Ratepayer charges over ten years

Scenario	Description	Total Charges over 10 years-Per Cutomer	Excess Cost over most economical option	Year 1 2022	Year 2 2023	Year 3 2024	Year 4 2025	Year 5 2026	Year 6 2027	Year 7 2028	Year 8 2029	Year 9 2030	Year 10 2031
1	Mishawaka	$ 4,970.74	0%	$ 37.83	$ 38.59	$ 39.36	$ 40.15	$ 40.95	$ 41.77	$ 42.60	$ 43.45	$ 44.32	$ 45.21
2	Granger-Per Petitioners Case	$ 9,432.72	90%	$ 75.00	$ 75.00	$ 76.17	$ 77.36	$ 78.57	$ 79.80	$ 81.04	$ 81.04	$ 81.04	$ 81.04
3	Granger-Per Petitioners Case-Allowable Monthly Charge	$ 29,060.50	485%	$ 789.75	$ 324.00	$ 266.60	$ 198.82	$ 153.21	$ 124.49	$ 165.32	$ 149.92	$ 132.10	$ 117.51
4	Granger-OUCC Accounting Schedules	$ 37,378.80	652%	$ 950.81	$ 472.27	$ 315.69	$ 233.69	$ 199.69	$ 215.83	$ 183.83	$ 198.05	$ 177.03	$ 168.01
5	Granger-Allowable Charge including Distribution Rate Base	$ 35,388.54	612%	$ 831.30	$ 370.42	$ 317.26	$ 252.96	$ 207.74	$ 179.63	$ 221.17	$ 205.95	$ 188.39	$ 174.22
6	Granger-Additional Charge for Regulatory Asset	$ 1,092.48	n/a					$ 23.99	$ 20.26	$ 17.53	$ 15.45	$ 13.81	

Assumptions and sources:

1 Mishawaka-2% growth per year in rates. This is Federal Reserve Long term inflation projection. Rates from published Tarrifs and found in Mr. Parks testimony
2 Monthly flat rate charge per page 8 of 13 (Corrected) from attachment JZW-1.
3 Monthly flat rate charge times "Rate increase required" line. Per page 8 of 13 (Corrected) from attachment JZW-1.
4 OUCC Accounting schedules, primary adjustment is 24 customers per year growth rather than 38/35, also increasing expansion cost from $500,000 to $1,080,000 and moving to year 5
5 Same as option 3, except including the "Net Distribution System" rate base that Petitioner is voluntarily forgoing, using WACC per page 8 of 13 (Corrected) from attachment JZW-1.
6 Only including the return on and of a regulatory asset as described in Petitioners testimony, Wilson page 14 (Q24). Total value of $193,265, plus return of component. Assuming 5 year amortization beginning in year 5.

Q-1-6: Page 12 of attachment JZW-1, states, "the developer of the project will contribute an estimated cost of $9,250 per lot." How will the funds contributed by the Developer be accounted for in Granger Water's accounting system?

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

The owner of Granger Water is the same as the "Developer". The Developer will build out the distribution plant for Granger Water that will be sold to Granger Water. The distribution plant is estimated to cost $9,250 per lot. The Developer will sell the distribution plant in exchange for a note to be repaid by Granger Water to the Developer. Questions 15 and 19 of Ms. Wilson's testimony discuss this arrangement. Granger Water will record the distribution plant as an asset, and record a liability of equal amount for repayment to the Developer. Equity contributions by the owner of Granger Water will be made each year to Granger Water (estimated at $290,000) and recorded as Additional Paid in Capital for repayment of the loan to the Developer.

Q-2-6: Using NARUC's System of Accounting, please create a sample journal entry recording each of the following events.

a. Initial infusion of equity, $530,000;

b. "Curtailment" amounts from lot sales;

c. Revenue from System Development Charge ("SDC");

d. Taxes related to SDC;

e. Equity contributions from the developer of $290,000;

f. Revenue designated to pay property taxes;

g. Mortgage, $7,270,000,

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

a. The initial infusion of equity equals $533,931 (see page 4 of 13 of Attachment JZW-1). Debit Cash $25,161; debit Utility Plant in Service $508,770; credit Other Paid in Capital $533,931.

b. For each curtailment: debit Cash $9,259; credit Other Paid in Capital $9,259. Subsequent to this for the payment of the Water Plant Loan, debit Water Plant Loan $9,259; credit Cash $9,259.

c. For each charge: debit Cash $1,750; credit Contributions in Aid of Construction $1,015; credit Accrued Taxes $735.

d. See response c. above.

e. See response to OUCC Data Request 1-6.

f. Granger Water will not designate a revenue as held to pay for a specific operating expense.

g. There is no entry. The mortgage is the securitization document for a promissory note.

Q-2-11: Please show and explain how the "equity contribution" from the developer in the amount of $290,000 was calculated.

Objection: Granger Water objects to the Data Request on the basis of the foregoing general objections.

Response:

See Granger Water's response to OUCC Data Request 1-6. The amount of $290,000 was selected in context of the anticipated cash flows of Granger Water Utility. The actual contribution will differ depending on (1) cash needs of the Utility and (2) timing of growth of the Utility and required build-out of the distribution system. The $290,000 equity contribution amount by the owners in the current model allows the distribution system loan to be repaid shortly after the project 10-year period. The projection shown in the Attachment JZW-1 on page 5 of 13, the ending Distribution System Loan balance at Year 10 is $389,908.

Additional Ratepayer Costs for including distribution system in rate base
Option 5

	Year 1 2022	Year 2 2023	Year 3 2024	Year 4 2025	Year 5 2026	Year 6 2027	Year 7 2028	Year 8 2029	Year 9 2030	Year 10 2031
Net Distribution System	$ 344,470	$ 687,283	$ 1,028,415	$ 1,367,838	$ 1,705,526	$ 2,012,069	$ 2,316,964	$ 2,620,184	$ 2,921,705	$ 3,221,499
WACC	5.50%	6.16%	6.74%	7.22%	7.29%	7.40%	7.52%	7.57%	7.63%	7.71%
Addition to Revenue	$ 18,946	$ 42,337	$ 69,315	$ 98,758	$ 124,333	$ 148,893	$ 174,236	$ 198,348	$ 222,926	$ 248,378
Number of Customers	38	76	114	152	190	225	260	295	330	365
Annual Charge	$ 498.58	$ 557.06	$ 608.03	$ 649.72	$ 654.38	$ 661.75	$ 670.14	$ 672.37	$ 675.53	$ 680.49
Monthly Charge-for Distribution System	$ 41.55	$ 46.42	$ 50.67	$ 54.14	$ 54.53	$ 55.15	$ 55.84	$ 56.03	$ 56.29	$ 56.71
Granger-Allowable Monthly Charge	$ 789.75	$ 324.00	$ 266.60	$ 198.82	$ 153.21	$ 124.49	$ 165.32	$ 149.92	$ 132.10	$ 117.51
Total Allowable Monthly Charge including Distribution System	$ 831.30	$ 370.42	$ 317.26	$ 252.96	$ 207.74	$ 179.63	$ 221.17	$ 205.95	$ 188.39	$ 174.22