STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF BLOOMINGTON, INDIANA, FOR APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES FOR WATER UTILITY SERVICE AND FOR AUTHORITY TO ISSUE AND APPROVAL OF BONDS, NOTES, OR OTHER OBLIGATIONS	)	**CAUSE NO. 45533**

PUBLIC'S EXHIBIT NO. 6

SETTLEMENT TESTIMONY OF CARLA F. SULLIVAN

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

October 6, 2021

Respectfully submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

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CERTIFICATE OF SERVICE

This is to certify that a copy of the ***Office of Utility Consumer Counselor Settlement Testimony of Public Exhibit No. 6 – Carla F. Sullivan*** has been served upon the following counsel of record in the captioned proceeding by electronic service on October 6, 2021.

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SETTLEMENT TESTIMONY OF OUCC WITNESS CARLA F. SULLIVAN
CAUSE NO. 45533
CITY OF BLOOMINGTON

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Carla F. Sullivan, and my business address is 115 West Washington Street, Suite 1500 South, Indianapolis, Indiana 46204.

Q: Have you previously submitted testimony in this proceeding?

A: Yes. My direct testimony was submitted as Public's Exhibit No. 1.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to summarize and support the accounting adjustments and overall revenue requirement set forth in the Joint Stipulation and Settlement Agreement ("Settlement"). I also present support for the agreed annual capital project status reporting, debt true-up reporting, and Bloomington's commitment to file a rate case on or before December 31, 2027. The Settlement is the result of an arm's length negotiation between Petitioner, the City of Bloomington ("Bloomington"), the Indiana Office of Utility Consumer Counselor ("OUCC"), the Trustees of Indiana University ("IU"), and the Washington Township Water Authority ("WTWA") (collectively, the "Settling Parties").

The Settling Parties have agreed to an annual revenue requirement of $20,903,711. The Settlement provides Bloomington a 18.26% increase ($3,100,542 annually), implemented in two phases, which will ensure Bloomington the financial means to provide safe, reliable water service. OUCC witness Jerome Mierzwa addresses the cost allocation and rate design aspects of the Settlement.

II. REVENUE REQUIREMENT

Q: Please describe the agreed revenue increase.

A: The Settlement reflects an agreed compound increase to Bloomington's annual operating revenues of 18.26% or $3,100,542. The increase will provide Bloomington an opportunity to fund its operating and maintenance expenses, taxes other than income taxes, payments in lieu of taxes, extensions and replacements, advance meter infrastructure and solar leases, and current and proposed debt service.

The increase will be implemented in two phases. Phase One will occur upon a Final Order in this Cause and will result in an 8.39% or $1,424,754 annual increase to Bloomington's current operating revenue. The Phase One increase is designed to meet Bloomington's increased operating and maintenance cost, extensions and replacements revenue requirement, interest payments on additional debt service, and payments for the advance meter infrastructure and solar leases. The Phase Two increase will be implemented on January 1, 2024 and will increase annual operating revenue by 9.11% or $1,675,788 over Phase One. The Phase Two increase is designed to provide Bloomington additional revenue to meet its extensions and replacements revenue requirement and to fund additional debt service. The Settling Parties agree the increase is reasonable and necessary for Bloomington's continued provision of safe, reliable water service.

Q: How does the Settlement differ from Bloomington's petition to increase its rates?

A: The Settlement reduced Bloomington's case-in-chief revenue requirement request by adding a revenue offset adjustment, adjusting test year operating revenue to account for growth, and decreasing Bloomington's operating expense adjustments. Additionally, the Settling Parties agreed to reduce Bloomington's proposed annual debt service and requested extensions and replacements allowance. The Settlement also eliminates over half the solar lease expense from rates. A short summary of each item follows:

A. Revenue Offset

Q: What revenue offset was agreed upon?

A: The Settling Parties agreed to offset the total revenue requirement by the amount Bloomington can reasonably expect to earn in interest and non-utility income in future years. The total revenue requirement was decreased by $73,060 ($65,310 in interest income and $7,750 in non-utility income).

Q: Is the adjustment in ratepayers' best interest?

A: Yes. Decreasing the total revenue requirement by a utility's interest and non-utility income follows traditional ratemaking theory and produces lower rates.

B. Operating Revenue Adjustment

Q: Please describe the adjustment to test year operating revenue.

A: Bloomington's test year operating revenue was increased by $98,153. The increase represents the additional operating revenue Bloomington can expect to earn in future years due to customers being added to the system during the test and posttest years. The Settling Parties agreed to a conservative adjustment of $98,153, increasing test year operating revenue from $17,704,598 to *pro forma* present rates operating revenue of $17,802,751.

C. <u>Operating Expense Adjustment</u>

Q: Please explain how the Settlement adjusts Bloomington's operating and maintenance expense.

A: Bloomington's petition requested an aggregate increase of $212,591 in operating and maintenance expense. Operating and maintenance expense per the Settlement is $76,779 lower. The resulting revenue requirement for operating and maintenance expense is $9,791,599, an increase over test year of $135,812 ($212,591 - $76,779 = $135,812).

Q: What is the primary cause of Bloomington's requested operations and maintenance expense increase?

A: Bloomington's test year did not include a payment to the City of Bloomington for health insurance. The payment, $428,220, was made just a few days after the test year ended.

D. <u>Average Annual Debt Service</u>

Q: What is Bloomington's average annual debt service under the Settlement?

A: Bloomington's average annual debt service consists of current debt service and future debt service. Current debt service is $5,278,299. As agreed in the Settlement, Bloomington's future borrowing will not exceed $17,200,000 with an interest rate not to exceed six percent (6%) per annum. The Settling Parties have agreed that

Bloomington's forthcoming financing will fund capital improvement projects that are necessary for Bloomington to continue to provide safe, reliable water service.

E. Extensions and Replacements

Q: Please explain the Settlement's adjustment to extensions and replacements.

A: Bloomington requested a Phase Two extensions and replacement budget of $3,866,500. The Settling Parties agreed to fund a portion of its requested extensions and replacement budget through its proposed debt issuance, resulting in a Settlement extensions and replacement budget of $3,700,000.

Q: Is the agreed allowance for extensions and replacements reasonable?

A: Yes. Extensions and replacements are required in order to maintain capital assets in their proper working condition. In my opinion, the settled extensions and replacements revenue requirement affords Bloomington enough cash funding to maintain its system without overburdening ratepayers. By decreasing Bloomington's extensions and replacements revenue requirement and increasing its debt financing to cover the difference, long-lived assets are funded using long term debt.

F. Solar Lease Payment

Q: Did the Settling Parties agree to an annual Solar Lease payment?

A: Yes. The Settling Parties agreed Bloomington's water utility is responsible for $79,683 in solar lease expense annually, which is half of Bloomington's originally requested amount.

III. REPORTING REQUIREMENTS

Q: What reporting requirements does the Settlement stipulate?

A: The Settlement contains detailed agreements on Bloomington's annual capital project status reports and a debt true-up report that will also show Bloomington's calculation of its Phase One and Phase Two rates. The Settlement also includes stipulations regarding when Bloomington will file a new rate case and agreed protocols regarding Bloomington's next cost of service study. OUCC witness Jerome Mierzwa addresses the cost of service study terms in his settlement testimony.

A. Annual Capital Project Status Reports

Q: What is the purpose of the agreed capital project status reports?

A: While Bloomington included its capital improvement plan in its rate case filing as Attachment JZW-1, the Settlement acknowledges that Bloomington has discretion as to which capital projects it completes each year. The agreed capital project status reports will provide information to the Settling Parties and Commission concerning which capital projects Bloomington completed and at what cost. The report will include the final cost of each project and a detailed breakdown of the costs, including soft costs.

However, Bloomington agrees to prioritize the projects identified in Attachment JZW-1 unless, in Petitioner's discretion, unanticipated and unforeseen events arise making an unidentified project necessary to complete in order to continue the provision of safe drinking water.

Q: When will each capital project status report be filed?

A: Bloomington will file an annual status report within sixty (60) days of the end of the calendar year. The status filing will continue until a new rate case is filed.

B. Debt True-Up and Phase Two Rates

Q: According to the Settlement, when is Bloomington required to file a debt true-up report?

A: Bloomington must file a debt true-up report within thirty (30) days of closing on the debt issuance.

Q: What is included in the agreed debt true-up report?

A: The true-up report will explain the terms of the new debt issuance. the interest rate, and total balance. Bloomington will also provide an itemized account of all issuance costs, an amortization schedule, a calculation of the rate impact, and a revised tariff. The rate impact calculation should be presented in the same manner as the agreed schedules.

Q: Are the Settling Parties given the opportunity to object to the true up report?

A: Yes. The OUCC and any interested intervenor has fourteen (14) days from the filing of the true up report to file an objection with the Commission. Bloomington will have fourteen (14) days to respond to any objections. Thereafter, the Commission will resolve issues through a process it deems appropriate.

Q: Is action required if the effect on rates is immaterial?

A: If the true-up results in an increase or decrease that is immaterial, the Settling Parties may agree, in writing, that the true-up need not be implemented.

Q: When does the financing authority for the agreed debt issuance in the Cause expire?

A: The financing authority agreed to by the Settling Parties expires twelve (12) months from the date of the Final Order of this Cause. Any remaining authority cannot be used after the expiration.

C. New Rate Case

Q: When must Bloomington a file a new rate case?

A: Bloomington must file a new rate case no later than December 31, 2027 so that new rates are available in 2029.

Q: Why must Bloomington file a new rate case?

A: Bloomington must file a new rate case to remove the 2020B Refunding bond and any other bonds which have been fully paid off and have no corresponding expense. The rate case will be accompanied by a cost of service study as summarized by Mr. Mierzwa.

IV. CONCLUSION

Q: Is the Settlement fair, reasonable, and in the public interest?

A: Yes. I believe the Settlement is an appropriate compromise between all Parties and balances Bloomington's financial needs with the interests of its customers.

Q: Does this conclude your testimony?

A: Yes.