

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF JACKSON COUNTY)
WATER UTILITY, INC., FOR)
AUTHORITY TO ISSUE LONG TERM) CAUSE NO. 45640 PHASE 2
DEBT AND CHANGES TO ITS RATES,)
CHARGES AND TARIFF)

PUBLIC'S EXHIBIT NO. 7

TESTIMONY OF SHAWN DELLINGER

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

DECEMBER 13, 2022

Respectfully submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR



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CERTIFICATE OF SERVICE

This is to certify that a copy of the *Public's Exhibit No. 7– OUCC's Testimony of Shawn Dellinger on behalf of the OUCC* has been served upon the following counsel of record in the captioned proceeding by electronic service on December 13, 2022.

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TESTIMONY OF OUCC WITNESS SHAWN DELLINGER
CAUSE NO. 45640 (PHASE 2)
JACKSON COUNTY WATER UTILITY, INC.

I. INTRODUCTION

1 **Q: Please state your name and business address.**

2 A: My name is Shawn Dellinger, and my business address is 115 W. Washington St., Suite
3 1500 South, Indianapolis, IN 46204.

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

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Senior
6 Utility Analyst in the Water/Wastewater division. My focus is on financing and other
7 financial matters. A description of my educational background and professional
8 experience is set forth in Appendix A.

9 **Q: What is the purpose of your testimony?**

10 A: In this phase of its rate case, Jackson County Water Utility, Inc., a not-for-profit utility,
11 (hereafter "Jackson County Water" or "Petitioner") proposes a revenue requirement that
12 includes both debt service and debt service reserve for recently issued debt. I accept and
13 agree with Petitioner's schedule of annual debt service. However, I disagree with
14 Petitioner's proposal to use the highest annual debt service, which occurs in 2025, as the
15 *pro forma* revenue requirement. I also disagree with Petitioner's proposal to use the
16 maximum annual debt service of the individual bond issuances for calculating the required
17 amount of debt service reserve. I recommend the *pro forma* revenue requirement be based
18 on the average expense over five years to prevent overstating this expense.

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

2 A: I prepared testimony in Phase 1 of this Cause, so I am familiar with the financing issues
3 present in this phase of Petitioner's rate case. In this Phase, I read the Petition and the
4 testimony of Mr. Earl L Ridlen, III. I reviewed Petitioner's responses to discovery
5 requests.

II. REVENUE REQUIREMENT FOR DEBT SERVICE

6 **Q: Please describe Petitioner's recent debt issuance, which was authorized in Phase 1 of**
7 **this cause.**

8 A: Phase 1 of this cause established a debt authority of \$4,300,000. Petitioner borrowed this
9 amount in two series of bonds. Series A was issued in the amount of \$285,000 at a rate of
10 2% over 20 years. Series B was issued in the amount of \$4,015,000 at an interest rate of
11 1.6% over 35 years.

12 **Q: Was this structure appropriate based on the Commission's order for Phase 1?**

13 A: Yes. The exact amounts were slightly different from that originally proposed, but certainly
14 they are within the general parameters of discretion and prudence that a utility would
15 maintain when issuing debt. I have no issues with the debt as issued, and believe ratepayers
16 are well served by Petitioner's pursuit of subsidized funding for the lead service line
17 replacement.

18 **Q: What is Petitioner's requested Debt Service Revenue Requirement?**

19 A: For all currently outstanding debt Petitioner requested a total *pro forma* revenue
20 requirement of \$1,193,079, which is the maximum debt service payment in bond year 2025.
21 (See Exhibit D of Mr. Ridlen's testimony.)

Q: Do you agree with Petitioner's requested Debt Service Revenue Requirement?

A: No. Petitioner states that \$1,193,079 is the Maximum Debt Service (line 4 of Exhibit D for Mr. Ridlen's Testimony). It is more appropriate to base rates on the average cost of debt over the life of the rates being set in this Cause.

Q: What is the average cost of debt over the life of the rates in this Cause?

A: Petitioner and the OUCC both assume the life of the rates to be established in this Cause is five years. The average cost of debt over the life of rates is \$1,191,522.

Table SD-1

Bond Year	Combined Debt Service	
2023	\$	1,189,842
2024	\$	1,190,625
2025	\$	1,193,079
2026	\$	1,191,143
2027	\$	1,192,920
Average	\$	1,191,522

Q: Why is the average cost over the life of rates more appropriate to use than the maximum debt service?

A: The setting of rates requires the aligning of costs with revenues. A utility's overall costs will vary from year to year, especially in something like debt service where bonds are sometimes being issued at later times or being paid off during the period the rates are expected to cover. The overall costs are estimated over each of the five years, and the amount of revenue that must equal those costs over the five years is by definition the average of those years. If the debt service revenue requirement is different than the average, there will be an over collection or an under collection, neither is desirable. For its proposed *pro forma* annual debt service revenue requirement, Petitioner has proposed its highest annual debt service expense during the life of the rates and would therefore over

1 collect for all other years. Over collection is avoided if the *pro forma* debt service revenue
2 requirement is based on an average of the expense over the life of the rates.

3 **Q: What is your recommendation for the debt service revenue requirement?**

4 A: I recommend a *pro forma* annual revenue requirement for debt service of \$1,191,522.

5 **Q: Will setting the *pro forma* annual revenue requirement at \$1,191,522 result in a**
6 **shortfall in 2025 when debt service will be \$1,193,079?**

7 A: No. That \$1,557 difference will be met through a combined overcollection of \$2,577 in
8 years 2023 and 2024 (See OUCC Attachment SD-2). Moreover, as explained more fully
9 in the testimony of Mr. Parks, the OUCC recognized the utility's need to more robustly
10 fund its periodic maintenance expense. Consequently, any decrease such as those made in
11 this testimony will result in an increase in the OUCC's proposed periodic maintenance
12 expense, which would preserve the life of assets inuring ultimately to the benefit of Jackson
13 County's ratepayers.

III. REVENUE REQUIREMENT FOR DEBT SERVICE RESERVE

14 **Q: What debt service reserve revenue requirement did Petitioner propose?**

15 A: Petitioner proposed a \$47,953 debt service reserve revenue requirement. (See Exhibit D
16 of Mr. Ridlen's testimony, and Exhibit F.)

17 **Q: Do you agree with Petitioner's proposed debt service reserve revenue requirement?**

18 A: No. Petitioner provided a maximum annual debt service for each bond issue, divided this
19 total by 60 months (for five years to fund), and then converted this to an annual
20 requirement. Petitioner proposes to fund an overall amount of \$239,766.60 (i.e., the annual
21 reserve funding of \$47,953.32 per year multiplied by five years)¹. The 2003 loan should
22 be disregarded from the ongoing revenue requirement as it is a rural development loan that

¹ The amount of \$47,953 is found in Exhibit F of Attachment ELR-1 in Mr. Ridlen's testimony.

1 is fully funded, but all other loans are with the SRF. Since SRF views the different debt
2 service reserve accounts holistically, these loans should be treated together, with the
3 maximum prospective annual debt service being used as the amount of funding required
4 (or the total required balance of the debt service reserve for the SRF loans), less the current
5 existing balance. This amount may be funded over five years. In this case, the maximum
6 annual debt service for the SRF loans is \$893,487.² The existing debt service reserve
7 balance is \$654,848.92. Therefore, the balance to be funded during the life of these rates
8 is \$238,638 and the annual amount is \$47,728.³ I set forth my calculations in OUCC
9 Attachment SD-1

10 **Q: What is your recommended revenue requirement for debt service reserve?**

11 A: I recommend a debt service reserve revenue requirement of \$47,728.

IV. OTHER ISSUES

12 **Q: Are there any other issues regarding Petitioner's proposed debt service reserve**
13 **revenue requirement that you would like to address?**

14 A: Yes. On page 4 of the order for Phase 1 the Commission indicated this is the time to
15 address how the revenue requirement for debt service should be addressed once the reserve
16 had been met:

17 Regarding the OUCC's recommendations that Petitioner eliminate its debt
18 service reserve from rates once the reserve has been fully funded and place
19 its debt service reserve in a restricted account, we find these issues are more
20 appropriately addressed in Phase 2 of this proceeding.

² This is the maximum annual debt service requested by Petitioner of \$1,193,079, less the \$299,592 (\$149,796 times 2) for the rural development loan. This totals to \$893,487. This occurs in Bond Year 2025.

³ \$893,487 required amount less the \$654,848.92 current balance = \$47,727.62, rounded to \$47,728.

1 **Q: What is the OUCC's position regarding the debt service reserve revenue**
2 **requirement?**

3 A: Unlike many operating expenses, debt service reserve requirements are not an annual
4 ongoing expense. Once a reserve requirement has been met, there is no need to continue
5 to collect for that expense. That event can be predicted, and then ratepayers may be
6 relieved of the obligation to pay an expense that no longer exists. I recommend that once
7 the debt service reserve funding requirement has been met that the pro forma revenue
8 associated with the debt service reserve (\$47,728 annually) be placed in Petitioner's
9 restricted tank maintenance fund. Thereafter, those deposits should be noted in the utility's
10 annual reports to the IURC.

V. CONCLUSIONS

11 **Q: Please summarize your conclusions and recommendations:**

12 A: I recommend:

- 13 1. Petitioners Debt Service Revenue Requirement be set at \$1,191,522 annually.
- 14 2. Petitioners Debt Service Reserve Revenue Requirement be set at \$47,728 annually.
- 15 3. Petitioner be required to place the \$47,728 collected for the debt service reserve into the
16 restricted tank maintenance fund once the debt service reserve has been fully funded.

17 **Q: Does this conclude your testimony?**

18 A: Yes.

Appendix A

1 **Q: Please describe your educational background.**

2 A: I graduated from Indiana University with a degree in Biology, a minor in Economics and
3 a certificate from the Liberal Arts and Management Program (LAMP) which is an honors
4 certificate program through the Kelley School of Business and the College of Arts and
5 Sciences, at the time restricted to twenty-five (25) students per year. I received my MBA
6 from Indiana University with a concentration in finance. I am a member of Phi Beta Kappa
7 honor society for my undergraduate work and Beta Gamma Sigma honor society for my
8 master's program. I have been a member of Mensa for several years.

9 **Q: Please describe your work experience.**

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

17 **Q: How long have you been at the OUCC?**

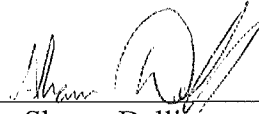
18 A: I was hired as a Utility Analyst II in the Water Division in December of 2019, in May of
19 2022 I was promoted to Senior Utility Analyst. My focus is financial issues, such as
20 financings, ROE's, capital structures, and the like.

21 **Q: Have you previously testified before the Indiana Utility Regulatory Commission**
22 **("Commission")?**

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

AFFIRMATION

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



By: Shawn Dellinger
Cause No. 45640 Phase 2
Office of Utility Consumer Counselor (OUCC)

Date: 12/12/22

Bond Series	Maximum Annual Debt Service	Current Funding	Lender
2003	\$ 299,592.00	\$ 315,486.00	Rural Development
2009A	\$ 118,736.80	\$ 118,736.80	SRF
2014	\$ 316,840.00	\$ 316,840.00	SRF
2018	\$ 285,831.00	\$ 219,272.12	SRF
2022A	\$ 18,680.00	\$ -	SRF
2022B	\$ 154,528.00	\$ -	SRF
Total:	\$ 1,194,207.80	\$ 970,334.92	

Total Funding-SRF Loans only \$ 654,848.92

Maximum Annual Debt Service*	\$ 1,193,079.00
Portion for Rural Development	\$ 299,592.00
Maximum Debt Payment-SRF	\$ 893,487.00
Required Balance to be funded	\$ 238,638.08
Annual Funding Requirement (five years)	\$ 47,727.62

*-Maximum Annual payment of \$1,193,079 in Bond Year 2025

Source: Attachment ELR-1, Exhibit E*

Bond Year	2003	2009A	2014	2018	2022A	2022B	Combined Debt Service	Recommended Debt Service Revenue Requirement	Over/Under Collection
2022	\$ 299,592	\$ 117,472	\$ 316,800	\$ 285,326	\$ 2,866	\$ 32,298	\$ 1,054,354	\$ 1,191,522	
2023	\$ 299,592	\$ 117,328	\$ 315,900	\$ 285,082	\$ 17,700	\$ 154,240	\$ 1,189,842	\$ 1,191,522	\$ 1,680
2024	\$ 299,592	\$ 117,084	\$ 315,920	\$ 285,770	\$ 18,460	\$ 153,800	\$ 1,190,626	\$ 1,191,522	\$ 896
2025	\$ 299,592	\$ 118,736	\$ 316,840	\$ 285,366	\$ 18,200	\$ 154,344	\$ 1,193,078	\$ 1,191,522	\$ (1,556)
2026	\$ 299,592	\$ 118,222	\$ 316,640	\$ 284,894	\$ 17,940	\$ 153,856	\$ 1,191,144	\$ 1,191,522	\$ 378
2027	\$ 299,592	\$ 118,606	\$ 316,340	\$ 285,352	\$ 18,680	\$ 154,352	\$ 1,192,922	\$ 1,191,522	\$ (1,400)
Average: Years 2023-2027							\$ 1,191,522	Total: \$	(0)

*-Slight differences due to rounding