

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

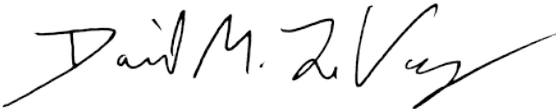
**PETITION OF THE CITY OF)
COLUMBUS, INDIANA, FOR (1)
AUTHORITY TO ISSUE BONDS, NOTES,)
OR OTHER OBLIGATIONS, (2)
AUTHORITY TO INCREASE ITS RATES) CAUSE NO. 45427
AND CHARGES FOR WATER SERVICE,)
(3) APPROVAL OF NEW SCHEDULES)
OF WATER RATES AND CHARGES,)
AND (4) AUTHORITY TO ESTABLISH)
AND IMPLEMENT SYSTEM)
DEVELOPMENT CHARGES.)**

PUBLIC'S EXHIBIT NO. 5

**SETTLEMENT TESTIMONY
OF
THOMAS W. MALAN
ON BEHALF OF
THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

January 13, 2021

Respectfully Submitted,



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CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Public's Exhibit No. 5, Settlement Testimony of Thomas W. Malan on behalf of the Indiana Office of Utility Consumer Counselor's* has been served upon the following counsel of record in the captioned proceeding by electronic service on January 13, 2021.

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**SETTLEMENT TESTIMONY OF
OUCC WITNESS THOMAS W. MALAN
CAUSE NO. 45427
CITY OF COLUMBUS**

I. INTRODUCTION

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

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

4 **Q: Did you previously provide testimony in this proceeding?**

5 A: Yes. My case-in-chief testimony was filed as Public's Exhibit No. 1 and includes
6 my qualifications and experience.

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

8 A: The purpose of my testimony is to support the Stipulation and Settlement
9 Agreement ("Settlement") between the City of Columbus ("Columbus" or
10 "Petitioner"), the OUCC, and Southwestern Bartholomew Water Corporation
11 ("SBWC"), (collectively called the "Settling Parties"). I testify the public interest
12 will be served if the Indiana Utility Regulatory Commission ("Commission")
13 approves the Settlement.

II. SETTLEMENT

14 **Q: What agreement did the Settling Parties reach with respect to Columbus's**
15 **requested increase to its rates and charges?**

16 A: The Settling Parties agreed for purposes of compromise and settlement that
17 Columbus should be authorized to increase rates and charges for water service to
18 reflect an overall *pro forma* net revenue requirement of \$7,738,434, yielding an
19 overall annual increase of \$3,313,434, or 74.85% over Columbus's current

1 revenues at existing rates.¹ This overall increase will be implemented in three
2 phases. The Settling Parties reached agreement on all revenue requirements for
3 Columbus, which agreement is reflected in the settlement schedules attached as
4 Attachment DLB-1S to the Settlement Testimony of Mr. Baldessari.

5 **Q: Did the Settling Parties accept any of the ratemaking adjustments**
6 **recommended by the OUCC in its case-in-chief testimony?**

7 A: Yes. For purposes of settlement, the other Settling Parties accepted all ratemaking
8 adjustments proposed by the OUCC in its case-in-chief and by extension the
9 OUCC's recommended revenue requirement and rate increase. Accordingly
10 support for that aspect of the settlement reached is provided in the OUCC's case-
11 in-chief testimony.

12 **Q: The OUCC recommended an overall 74.02% rate increase in its case-in-chief**
13 **testimony. Please explain why the Settlement reflects a 74.85% rate increase.**

14 A: In its case-in-chief, the OUCC included a revenue adjustment in its recommended
15 cost of service findings but we neglected to include this adjustment in our
16 accounting schedules. After correcting for this, the OUCC would have revised its
17 case to recommend a 74.85% rate increase.

18 **Q; Please explain this revenue adjustment.**

19 A: The OUCC proposed an adjustment to reduce operating revenues by \$19,722. This
20 adjustment removed a portion of the test year sale for resale revenues received
21 from Eastern Bartholomew Water Corporation. The purpose of examining a
22 test year is to determine what expenses and revenues should be considered to

¹ See Attachment DLB-1S, Comparison of Allocated Cost of Service with Revenue Under Adjusted Rates (page 2).

1 occur on a going forward basis during the life of the rates. Based on our
2 analysis, the OUCC believed these revenues received from the Eastern
3 Bartholomew Water Corporation would not recur in the future.

4 **Q: Did the Settling Parties agree to any other terms as part of the Settlement?**

5 **A:** Yes. The Settlement also includes terms related to debt issuance, including a true-
6 up process, treatment of debt service reserve revenue requirement once the reserve
7 is fully funded, implementation of a system development charge, implementation
8 of cost of service, and evaluation of an irrigation rate.

A. Debt Service

9 **Q: In the context of the overall settlement, did the Settling Parties agree to the**
10 **amount and terms of the bonds to be issued?**

11 **A:** Yes. The Settling Parties agreed that Columbus should be authorized to issue
12 bonds of up to \$22,200,000. Further, the Settling Parties agreed that \$577,425
13 of annual debt service be included in the revenue requirement for Phase 1 and
14 \$1,276,511 be included in the revenue requirement for Phase 2 and subsequent
15 years, subject to true-up. Additionally, the Settling Parties agreed that
16 \$255,302 of annual debt service reserve funds be included in the revenue
17 requirement, also subject to the true-up process.

18 **Q: What have the Settling Parties agreed is the appropriate use for the debt**
19 **service reserve revenue funds once the reserve is fully funded?**

20 **A:** The Settling Parties agree that, once the debt service reserve is fully funded,
21 Columbus shall annually spend the amount of money no longer needed for debt
22 service reserve to augment infrastructure replacement or reserve such funds to
23 offset future borrowing.

1 **Q: Please explain how this provision of the Settlement is in the public interest?**

2 A: Pursuant to the Settlement, Columbus's rates include a *pro forma* revenue
3 requirement of \$255,302 to fund a debt service reserve, which is required by
4 Columbus's lender. The OUCC recommended Columbus be required to reduce its
5 rates when it has met this lender requirement, which will occur in 2026. As an
6 alternative to this rate reduction, the Settling Parties agreed that once the debt
7 service reserve has been fully funded through rates, the *pro forma* annual revenue
8 requirement would then be applied to fund additional infrastructure replacement or
9 otherwise be set aside to reduce future borrowings. This agreement ensures rate
10 payers benefit from the continued inclusion of this revenue requirement in rates.

11 **Q: Did the Settling Parties agree to a true-up process for the debt issuance?**

12 A: Yes. The Settling Parties agreed Columbus will file a report within thirty days of
13 closing on each of its long-term debt issuances explaining the terms of the new
14 loan, stating the amount of debt service reserve required and itemizing all issuance
15 costs. The report shall include a revised tariff, an amortization schedule and a
16 statement of the effect on rates.

B. System Development Charge

17 **Q: In the context of the overall settlement, did the Settling Parties agree to a**
18 **System Development Charge?**

19 A: Yes. The Settling Parties agreed to a \$990 system development charge per
20 residential customer, which charge is to be applied to new or expanding
21 customers. Further, the Settlement reflects Columbus's correction of the system
22 development charge for a 12-inch main.

C. Irrigation Rate

1 **Q: In the context of the overall settlement, did the Settling Parties agree**
2 **Columbus would consider establishing an irrigation rate?**

3 A: Yes. The Settling Parties agreed that Columbus would consider establishing an
4 irrigation rate for irrigation customers. If Columbus determines that a separate rate
5 schedule is appropriate for irrigation customers, Columbus will seek Commission
6 approval to do so in its next rate case.

7 **Q: How is this provision of the Settlement in the public interest?**

8 A: An irrigation rate would ensure the costs of providing irrigation service will be
9 borne by those taking this service and not be subsidized by other customer classes.

D. Cost of Service and Rate Design

10 **Q: In the context of the overall settlement, did the Settling Parties agree to a**
11 **rate design by customer class?**

12 A: Yes. The Settling Parties agreed to accept the cost of service study
13 recommendations of OUCC witness Jerome D. Mierzwa. However, the Settling
14 Parties agreed that the rate increase for any customer classes shall not exceed an
15 approximate 113%. The Settling Parties further agreed that the revenue offset for
16 the large commercial and industrial customers and Eastern Bartholomew Water
17 Corporation should be allocated to the residential class.

18 **Q: How is this provision of the Settlement in the public interest?**

19 A: Capping the maximum rate increase for any customer class to 150% of the agreed
20 overall rate increase ($150\% \times 74.85\% = 113\%$) mitigates against rate shock.

III. CONCLUSION

1 **Q: Does this Settlement resolve all issues raised by the parties to this proceeding**
2 **in their respective testimonies and exhibits?**

3 A: Yes. The Settlement resolves all issues raised by the Settling Parties in this Cause.

4 **Q: Is this Settlement in the public interest?**

5 A: Yes. This Settlement is a reasonable compromise between the positions of the
6 Settling Parties and should be approved. The Settlement addresses the issues of
7 revenue requirement, debt issuance, cost of service, and system development
8 charges without the need for litigation, reducing costs for Columbus. The
9 Settlement also provides certainty of Columbus's ability to raise sufficient revenue
10 to pay all lawful expenses incident to the operation of the utility. Also, the
11 ratepayers will receive the benefit of lower than requested rates. Finally, the
12 Settlement was reached with the understanding and specific provision that it is not
13 intended to create precedent. Such agreements permit parties to reach reasonable
14 agreements that lower costs and produce good results without fear that they will be
15 impairing their ability to assert rights or argue positions in other cases. I consider
16 the terms of the Settlement Agreement to be in the public interest, and I recommend
17 the Commission approve and implement the Settlement.

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

19 A: Yes