

BEFORE THE

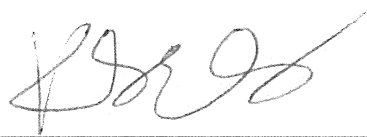
INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF WABASH)
VALLEY POWER ASSOCIATION, INC. FOR)
AUTHORITY TO EXECUTE NOTES AS EVIDENCE)
OF INDEBTEDNESS UP TO \$330 MILLION)
PAYABLE AT PERIODS OF MORE THAN TWELVE)
MONTHS FOR THE PURPOSE OF FUNDING THE)
CONSTRUCTION OR IMPROVEMENT OF)
CERTAIN TRANSMISSION, DISTRIBUTION, AND)
GENERATION FACILITIES AND GENERAL)
PLANT AND TO ENCUMBER ITS PROPERTY TO)
SECURE THE INDEBTEDNESS)

CAUSE NO. 45656

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
PUBLIC'S EXHIBIT NO. 1
TESTIMONY OF OUCC WITNESS
CALEB R. LOVEMAN

Respectfully submitted,



Kelly S. Earls

Attorney No. 29653-49

Deputy Consumer Counselor

OFFICIAL
EXHIBITS

IURC
PUBLIC'S 1
EXHIBIT NO. 3-17-22
DATE REPORTER

TESTIMONY OF OUCC WITNESS CALEB R. LOVEMAN
CAUSE NO. 45656
WABASH VALLEY POWER ASSOCIATION, INC.

I. INTRODUCTION

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

2 A: My name is Caleb R. Loveman, and my business address is 115 W. Washington
3 St., Suite 1500 South, Indianapolis, Indiana 46204.

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

5 A: I am employed as a Utility Analyst in the Indiana Office of Utility Consumer
6 Counselor's ("OUCC") Electric Division. A summary of my educational
7 background and experience is included in Appendix A attached to my testimony.

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

9 A: My testimony provides an analysis and explains the OUCC's understanding of
10 Wabash Valley Power Association, Inc.'s ("WVPA" or "Petitioner") request for a
11 certificate of authority to incur debt up to an aggregate principal amount of
12 \$330,000,000 in the form of promissory notes ("Notes").¹ Ultimately, the OUCC
13 recommends the Indiana Utility Regulatory Commission ("Commission") approve
14 Petitioner's financing request, subject to certain conditions.

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

17 A: I reviewed WVPA's petition, testimony, and exhibits, as well as Petitioner's
18 responses to the OUCC's formal data request. I also reviewed Petitioner's previous
19 financing case, Cause No. 45325.

¹ Petitioner's Exhibit No. 1, Direct Testimony of Nisha A. Harke, Page 2.

II. DESCRIPTION OF WVPA'S REQUEST

1 **Q: What is the total amount of financing authority WVPA is requesting?**

2 A: Petitioner is requesting authority to issue promissory notes, for cash, for a sale price
3 not to exceed \$330,000,000.²

4 **Q: What is your understanding of how WVPA anticipates the financing will**
5 **proceed?**

6 A: WVPA proposes financing the \$330,000,000 debt through the National Rural
7 Utility Cooperative Finance Corporation or private placement lenders.³ In response
8 to OUCC data request ("DR") question 1.5, Petitioner provided the names of some
9 of the potential private placement lenders, in the event WVPA borrows from one.⁴

10 **Q: Does WVPA have an existing credit facility?**

11 A: Yes. WVPA has a \$400 million line of credit facility, approved by the Commission
12 in Cause No. 44928. In 2021, Petitioner used this credit facility for general
13 corporate purposes. WVPA also used this credit facility for letters of credit that are
14 issued in connection with power purchase agreement credit support and other
15 contractual obligations. Finally, Petitioner utilized the credit facility for short-term
16 funding of capital expenditures which is then replaced with long-term financing.⁵

17 **Q: When does WVPA expect to incur the debt that it has requested authority for**
18 **in this Cause?**

19 A: WVPA expects to finance \$125 million in 2022, \$85 million in 2023, and the
20 remaining \$120 million in 2024.⁶ If WVPA believes it is in the best interest of its

² *Id.*

³ *Id.*, at 10.

⁴ *See* OUCC Attachment CRL-1, Petitioner's response to OUCC's DR 1.5.

⁵ *Id.*, Petitioner's response to OUCC's DR 1.3.

⁶ Petitioner's Exhibit No. 1, Direct Testimony of Nisha A. Harke, Page 10.

1 members, WVPA will consider financing the entire \$330 million sooner than
2 2024.⁷

3 **Q: What is WVPA's proposed use of the funds?**

4 A: Petitioner has proposed using the funds for various capital projects relating to its
5 facilities and services. Petitioner's Exhibit No. 3 (Confidential) lists WVPA's
6 expected capital expenditures for 2022, 2023, and 2024. WVPA intends to fund all
7 the capital expenditures in excess of \$330 million out of its cash from operations.⁸

8 **Q: How will the proposed capital projects benefit WVPA's members and**
9 **ratepayers?**

10 A: WVPA witness Nisha A. Harke states, "[t]he capital projects listed on Petitioner's
11 Exhibit 3 (Confidential) are needed to meet member load growth, provide reliable
12 delivery of electric service for Wabash Valley's members and customers, maintain
13 Wabash Valley's generating assets, and meet Wabash Valley's members' electric
14 needs. Securing long-term fixed rate debt to fund capital projects creates rate
15 stability for Wabash Valley's members."⁹

16 **Q: When does the OUCC recommend the requested authority for this financing**
17 **program cease?**

18 A: The OUCC is not in favor of an open-ended financing authority. As Petitioner
19 shows, the financing authority in this Cause is not needed past year 2024.
20 Therefore, financing authority in this cause should expire no later than December
21 31, 2024.

⁷ *Id.*, at 12.

⁸ *Id.*, at 8-9.

⁹ *Id.*, at 10.

1 **Q: Did the Commission impose an expiration date on WVPA's previously granted**
2 **financing authority in Cause No. 45325?**

3 A: Yes. In its final order, the Commission noted it often establishes authorization
4 expiration dates for other utilities who request financing authorizations; and that it
5 was not overly restrictive at the time to impose an expiration date.¹⁰

6 **Q: Does Petitioner seek approval of specific construction projects in this**
7 **proceeding?**

8 A: No. The scope of this financing case is limited to the requested financing authority.
9 The OUCC reserves its right to review and challenge the details of specific
10 construction projects and associated costs in appropriate proceedings.

III. INTEREST RATE STRUCTURE

11 **Q: What is WVPA's proposed interest rate for such debt financing?**

12 A: The OUCC reviewed the proposed confidential interest rates Petitioner submitted.¹¹
13 The proposed interest rates appear to be reasonable.

14 **Q: Does Petitioner propose interest rate maximums?**

15 A: No. Petitioner does not propose interest rate maximums; however, it does provide
16 expected interest rates. While the OUCC does not have an issue with the expected
17 interest rates, the OUCC recommends maximums be established. As a general
18 matter, the OUCC typically recommends two items regarding interest rate
19 maximums. First, in the case of fixed interest rate debt, the rate should not exceed
20 by more than 500 basis points the yield to maturity on U.S. Treasury bonds of
21 comparable maturity at the time of pricing. Second, in the case of variable interest
22 rate debt, the rate should not be more than 8.0% in total (including the appropriate

¹⁰ *In re Wabash Valley Power Association, Inc.*, Cause No. 45325, Final Order pp. 5-6 (Ind. Util. Regul. Comm'n Apr. 15, 2020)

¹¹ Petitioner's Exhibit No. 1, Direct Testimony of Nisha A. Harke, Page 10.

1 rate and any applicable credit spread) at the time of issuance. If Petitioner's interest
2 rates are within the stated maximums, the OUCC generally does not object to this
3 aspect of a financing authority request.

4 **Q: Did your review show whether Petitioner has sufficient revenue to repay the**
5 **borrowings and associated interest expense?**

6 A: Yes. WVPA is regulated in part by the Federal Energy Regulatory Commission and
7 is allowed to recover costs needed to meet the Board-approved margin.¹²
8 Petitioner's Indenture of Trust requires a Times Interest Earned Ratio ("TIER") of
9 1.0 or greater and a Debt Service Coverage Ratio ("DSC") of 1.1 or greater.
10 Petitioner's Exhibit No. 5 (Confidential) and 6 (Confidential), which are comprised
11 of a Pro Forma Consolidated Balance Sheet and Pro Forma Consolidated Income
12 Statement respectively, include the \$330 million borrowing.¹³ The bottom of the
13 Pro Forma Income Statement (Petitioner's Exhibit No. 6 (Confidential)) shows
14 WVPA exceeding the TIER and DSC requirements WVPA's Indenture of Trust
15 requires, which illustrates WVPA has sufficient revenue to repay the borrowings
16 and associated interest expense.

IV. CAPITAL STRUCTURE

17 **Q: What does WVPA indicate regarding its target capital structure?**

18 A: In response to OUCC DR question 1.4, Petitioner stated, "Wabash Valley, in
19 accordance with a board approved financial policy, strives to achieve an equity ratio
20 of 20% or better. Within the most recent Board approved strategic plan, however,

¹² *Id.*, at 13.

¹³ *Id.*

1 the Board has targeted a 30% equity ratio by 2025. For the year ending 2020, the
2 equity ratio was 24.3%.”¹⁴

V. CREDIT RATING

3 **Q: What is WVPA's credit rating?**

4 A: Petitioner has a current Standard and Poor's rating of A with a stable outlook.¹⁵

VI. RECOMMENDATIONS

5 **Q: What does the OUCC recommend in this proceeding?**

6 A: The OUCC recommends the Commission approve Petitioner's financing request,
7 subject to the following conditions:

8 a) Petitioner's issuances pursuant to this authority shall be at competitive
9 market rates;

10 b) Interest rates should meet the following criteria: credit spread associated
11 with new fixed debt should not exceed more than 500 basis points compared
12 to the yield to maturity on U.S. Treasury bonds of comparable maturity at
13 the time of pricing and 8.0% all-in rate for new variable rate debt;

14 c) An expiration date of December 31, 2024, be set for the financing authority;
15 and

16 d) Petitioner should provide a written report to both the OUCC and the
17 Commission within 30 days of incurring the debt. The report should include
18 all the terms of the debt, which includes: the amount and use of debt,
19 maturity period, interest rate, premiums/discounts, issuance expenses,
20 collateral details, repayment terms, and any other terms.

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

22 A: Yes, it does.

¹⁴ See OUCC Attachment CRL-1 - Petitioner's response to OUCC's DR 1.4.

¹⁵ Petitioner's Exhibit No. 8.

APPENDIX A
QUALIFICATIONS OF CALEB R. LOVEMAN

1 **Q: Please describe your background and experience.**

2 A: I graduated from Franklin University in 2015 with a Bachelor of Science in
3 Accounting. From 2016 to 2019, I owned and operated an E-commerce business.
4 During this time, I also worked as a Staff Accountant for Legacy Administration
5 Services, LLC and as a Financial Analyst for Cummins, Inc. to gain additional
6 accounting experience. I began my career with the OUCC in July 2019 as a Utility
7 Analyst in the Electric Division. I review Indiana utilities' requests for regulatory
8 relief filed with the Commission. I also prepare and present testimony based on my
9 analyses and make recommendations to the Commission on behalf of Indiana utility
10 consumers. I attended "The Basics" Practical Regulatory Training for the Electric
11 Industry, sponsored by the National Association of Regulatory Utility
12 Commissioners ("NARUC") and the New Mexico State University Center for
13 Public Utilities, in Albuquerque, New Mexico in 2019. I also attended the Indiana
14 Energy Association ("IEA") 2019 Energy Conference and the Indiana Industrial
15 Energy Consumers, Inc. ("INDIEC") 2019 Indiana Energy Conference. In 2020, I
16 attended the Institute of Public Utilities Accounting and Ratemaking Course at
17 Michigan State University and the INDIEC 2020 Indiana Energy Conference.

18 **Q: Have you previously filed testimony in other Commission proceedings?**

19 A: Yes.

**Wabash Valley Power Association, Inc.'s
Objections and Responses to
OUCC's Data Request Set No. 1
Cause No. 45656**

Q 1.3: How did Petitioner used the \$400 million credit facility as increased and granted in Cause No. 44928? Please explain what purposes the funds were used for.

RESPONSE: From time to time, Wabash Valley Power borrows on the credit line and repays the borrowings (normally within a month or two). In 2021, Wabash Valley utilized the line several times for general corporate purposes. Additionally, Wabash Valley utilizes the credit facility for letters of credit that are issued in connection with power purchase agreement credit support and other contractual obligations. Wabash Valley also utilizes the credit facility from time to time for short-term funding of capital expenditures and then replaces those borrowings with long-term financing.

SPONSORING WITNESS: Nisha A. Harke

**Wabash Valley Power Association, Inc.'s
Objections and Responses to
OUCC's Data Request Set No. 1
Cause No. 45656**

Q 1.4: Does Wabash Valley Power Association, Inc. have a target capital structure? If so, please provide.

RESPONSE: Wabash Valley, in accordance with a Board approved financial policy, strives to achieve an equity ratio of 20% or better. Within the most recent Board approved strategic plan, however, the Board has targeted a 30% equity ratio by 2025. For the year ending 2020, the equity ratio was 24.3%.

SPONSORING WITNESS: Nisha A. Harke

**Wabash Valley Power Association, Inc.'s
Objections and Responses to
OUCC's Data Request Set No. 1
Cause No. 45656**

Q 1.5: On Page 10, Ms. Harke states, "Wabash Valley proposes to finance \$330 million of the estimated costs related to these capital projects through competitive lenders such as the National Rural Utility Cooperative Finance Corporation ("CFC"), CoBank, or private placement lenders, which typically include life insurance companies." Please list the "life insurance companies" being referenced to and any additional "private placement lenders" not listed.

RESPONSE: Private placement lenders normally include life insurance companies. The current list of all of Wabash Valley's lenders, including the numerous life insurance companies are Wabash Valley's debt portfolio are attached as Attachment Q 1.5.

For the financing proposed in this Cause, some potential private placement lenders could be the same life insurance companies in our current portfolio, or could be different life insurance companies should we take the private placement approach for these borrowings.

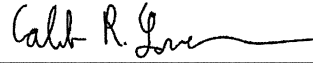
SPONSORING WITNESS: Nisha A. Harke

LISTING OF LENDERS
Wabash Valley Power Association, Inc.

American Fidelity Assurance Company
American United Life Insurance Company
AXA Equitable Life Insurance Company
Bank of America
Bankers Life and Casualty Company
Brighthouse Life Insurance Company
Brighthouse Reinsurance Company of Delaware
CoBank
Colonial Penn Life Insurance Company
Connecticut General Life Insurance Company
Employers Reassurance Corporation
Erie Family Life Insurance Company
Fifth Third Bank
General American Life Insurance Company
Gerlach & Co (f/b/o Athene Asset Management)
Great West Life & Annuity Insurance Company
Hare & Company (investment advisor 40/86 Advisors, Fort Washington Advisors and Athene Asset Management)
ING Life Insurance and Annuity (investment advisor Voya Investment Management LLC and Athene Asset Management)
ING USA Annuity and Life Insurance (investment advisor Voya Investment Management LLC and Athene Asset Management)
Knights of Columbus
Life Insurance Company of North America
Met Life Insurance KK
Metropolitan Life Insurance Company
Met Tower Life Insurance Company (previously Metropolitan Life Insurance and Annuity Company)
Minnesota Life Insurance Company (investment advisor Securian Asset Management)
MTL Insurance Company
National Rural Utilities Cooperative Finance Corporation (CFC)
Physicians Mutual Insurance Company
Pioneer Mutual Life Insurance Company
PNC Bank
Prudential Insurance Company of America
Reliastar Life Insurance Company (investment advisor Voya Investment Management LLC)
Reliastar Life Insurance Company of New York (investment advisor Voya Investment Management LLC)
RGA Reinsurance Company
Security Life of Denver Insurance (investment advisor Voya Investment Management LLC)
Senior Health Insurance Company of Pennsylvania (previously Conseco Senior Health Insurance Company)
The Northwestern Mutual Life Insurance Company
The State Life Insurance Company
Thrivent Financial
Trustmark Life Insurance Company (investment advisor Securian Asset Management)
United of Omaha Life Insurance Company
Zurich American Insurance Company

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.



Caleb R. Loveman
Utility Analyst II
Indiana Office of Utility Consumer Counsel

Cause No. 45656
Wabash Valley Power Association, Inc.

Date: February 11, 2022

CERTIFICATE OF SERVICE

This is to certify that a copy of *OUCC Public's Exhibit No. 1 Testimony of OUCC Witness Caleb R. Loveman* has been served upon the following parties of record in the captioned proceeding by electronic serve on February 11, 2022.

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