

ORIGINAL

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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF EVANSVILLE,)
INDIANA, BY ITS WATER AND SEWER UTILITY)
BOARD, FOR AUTHORITY TO ISSUE BONDS,)
NOTES, OR OTHER OBLIGATIONS, FOR)
AUTHORITY TO INCREASE ITS RATES AND)
CHARGES FOR WATER SERVICE, AND FOR)
APPROVAL OF NEW SCHEDULES OF WATER)
RATES, CHARGES, AND RULES AND)
REGULATIONS FOR WATER SERVICE AND FOR)
APPROVAL OF ACCOUNTING AND RATEMAKING)
TREATMENT FOR WATER SERVICE TO REFLECT)
THE IMPACT OF ANTICIPATED CAPITAL)
REQUIREMENTS.)

CAUSE NO. 44137

APPROVED: SEP 11 2013

SUPPLEMENTAL ORDER OF THE COMMISSION

Presiding Officers:
Carolene Mays, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On August 6, 2013, the City of Evansville, Indiana (“Evansville,” “City,” or “Petitioner”) filed a Motion to Amend Order with the Indiana Utility Regulatory Commission (“Commission”) pursuant to Ind. Code § 8-1-2-72, requesting that the Commission amend its final order in this Cause dated February 13, 2013 (the “Order”) to remove the cap on interest rates applicable to the authorized issuance of waterworks district revenue bonds to fund the capital improvements projects approved in the Order in consideration of additional evidence that interest rates have increased significantly in the period since the Order was issued, which would have a material effect on the evidence the Commission heard. In support of its Motion, Petitioner submitted the Verified Testimony of Douglas L. Baldessari, CPA. The Indiana Office of Utility Consumer Counselor (“OUCC”) notified the presiding Administrative Law Judge that it would not be filing in opposition to Petitioner’s requested relief.

Pursuant to notice published as required by law, proofs of which were incorporated into the record, the Commission conducted an evidentiary hearing at 10:30 a.m. on August 29, 2013, in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Evansville and the OUCC appeared, and Evansville offered its supplemental evidence consisting of Mr. Baldessari’s Verified Testimony, which was admitted into the record without objection. Mr. Baldessari was available for cross-examination. No members of the general public appeared at the hearing.

Having considered the evidence of record and the applicable law and being duly advised, the Commission now finds:

1. **Commission Notice and Jurisdiction.** Due legal, and timely notice of the hearing conducted by the Commission in this Cause was given as provided by law. The City of Evansville, acting through its Water and Sewer Utility Board, is a “municipally owned utility” as defined in Ind. Code § 8-1-2-1(h). Indiana Code § 8-1.5-3-8(f)(2) requires Evansville to obtain this Commission’s approval of its water utility rates and charges, and Ind. Code § 8-1.5-2-19 requires approval from this Commission before Evansville may issue debt to fund improvements to the water utility when water utility revenues are pledged as collateral for such debt, as Evansville has proposed here. Thus, this Commission has jurisdiction over both Evansville and the subject matter of this proceeding.

2. **Petitioner’s Characteristics.** Evansville owns and operates municipal waterworks facilities that serve approximately 60,000 customers in the incorporated City of Evansville, in unincorporated areas of Vanderburgh County, and in other areas outside of Vanderburgh County, Indiana. Additionally, Petitioner sells water at wholesale to certain other customers such as Gibson Water, Inc. and German Township Water District, Inc.

3. **Relief Requested.** On February 13, 2013, the Commission issued its Order in this Cause (the “Order”), authorizing Evansville to increase its water rates and charges, in three phases. The Order also authorized Evansville to issue waterworks district revenue bonds in a principal amount not to exceed \$30,090,000 to fund the capital improvements projects approved herein including financing costs, capitalized interest and a debt service reserve. The Order stated the interest rates on such bonds shall be determined by the market, but shall not exceed 4.05%. The Order required Evansville, among other things, to make a compliance filing with the Commission within thirty days after closing reporting the final terms of the bonds and calculating a true-up of the rates to reflect the actual cost of repayment. Petitioner requests the Commission amend the Order pursuant to Ind. Code § 8-1-2-72 to remove the 4.05% cap on interest rates based on Petitioner’s submission of additional evidence that municipal bond interest rates have increased more than 100 basis points over the two months prior to its filing for maturities of 10 years or more.

4. **Petitioner’s Evidence in Support of its Motion to Amend Order.** Petitioner submitted the Verified Testimony of Douglas L. Baldessari, a Certified Public Accountant with the firm of Umbaugh, Certified Public Accountants, showing that municipal bond interest rates for maturities of 10 years or more increased more than 100 basis points over the two months leading up to his testimony, with much of the increase occurring in June. Mr. Baldessari explained that the proposed bonds are structured with most of the principal coming due in the last 5 years, where the interest rates have increased the most. He testified that if the bonds were priced as of August 1, 2013, the interest rate would likely be around 4.70%. As of the time of the hearing, Mr. Baldessari indicated the likely interest rate is 5%. He testified we are currently in a very volatile period of rising municipal bond interest rates from historical lows seen over the past couple years.

Mr. Baldessari stated Evansville is ready to move forward with the bond issue and competitively price the proposed bonds within 2 to 4 weeks following Commission approval. He explained that Evansville had not closed on its bond issue earlier because in order to market the

proposed bonds, current financial statements must be in the accounting report for the official statement and, due to the implementation of a new accounting and billing software system, the 2012 year-end financial statements were not completed until June. He stated the monthly financial statements are now being kept current and Evansville is ready to proceed with selling and closing on the proposed bond issue.

Mr. Baldessari testified that Evansville's ratepayers would not be adversely affected if there is no interest rate cap for the proposed bonds. He explained that the interest rate will necessarily be the market rate driven by economic conditions as they exist at the time of closing. In addition, Evansville will file a true-up report after the proposed bonds are issued including an updated amortization schedule with the actual interest rates on the bonds, amount borrowed and the resulting true-up Phase II water rates and charges which are scheduled to be effective January 1, 2014. Mr. Baldessari noted that the revenue requirements for Phase I rates in effect currently do not include any debt service on the proposed bonds as the interest payments through January 1, 2014 will be capitalized and paid from bond proceeds. He explained that Evansville will also true-up the bond sizing for any changes to the project costs resulting from the differential in the assumed interest rates and the final interest rates, including capitalized interest, required debt service reserve funding and underwriter's discount.

Mr. Baldessari testified that the Commission should not replace the 4.05% cap from the Order with a higher cap. He explained that if another cap were imposed, there is risk that the cap could again end up being too low, resulting in another delay during which interest rates could continue to climb. He stated it is imperative that Evansville close on the bonds as soon as possible to eliminate the risk of rising interest rates.

5. Commission Discussion and Findings. Petitioner requested the Commission amend its February 13, 2013 Order in this Cause under Ind. Code § 8-1-2-72 based upon new evidence of a significant increase in interest rates that materially affects the ability of Evansville to issue long-term debt. The OUCC stated that it had no objection to Petitioner's requested amendment of the Order to remove the 4.05% interest rate cap. Mr. Baldessari stated that Evansville would seek interest rates at the lowest market rate available.

We note that the evidence that the Commission considered prior to issuing its February 13, 2013 Order indicated that the 4.05% interest rate included a 50 basis point cushion to provide Evansville the flexibility needed to issue its bonds.¹ However, due to delays caused by Evansville's failure to timely update its accounting system, Evansville was not able to proceed with a bond issuance until June 2013, which was more than four months after Evansville received its authority to issue bonds. As indicated in Mr. Baldessari's Exhibit A filed on August 6, 2013, the lowest market rate available as of July 26, 2013 was 4.79%, and at the time of the hearing, Mr. Baldessari testified that the lowest rate had increased to 5.0%, and was expected to increase by approximately 8 basis points per week going forward. Accordingly, unless the maximum rate fell back below 4.05%, Evansville would be unable to proceed with any bond issuance pursuant to the Commission's February 13, 2013 Order in this Cause.

¹ Evansville did submit a change to its proposed order filed in the initial proceeding to replace "not exceed" with "average." However, the evidence of record did not support an average rate of 4.05 percent.

Based on the additional evidence presented, we find that Evansville should be permitted to issue its proposed waterworks district revenue bonds to fund the capital improvements projects approved in our February 13, 2013 Order at rates determined by the market at the time of closing, without being restricted to a specific rate cap. As set forth in that Order, Evansville shall make a compliance filing with the Commission, under this Cause, within thirty days after closing on the bonds approved herein reporting the final terms of such bonds and calculating a true-up of its rates to reflect the actual cost of repayment.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The 4.05% cap on the interest rate for the waterworks district revenue bonds approved in the Order in this Cause dated February 13, 2013 is hereby eliminated. Instead, the interest rates on such bonds shall be the lowest market rate reasonably achievable.

2. All other provisions of the February 13, 2013 Order in this Cause shall remain in full force and effect as set forth therein.

3. In accordance with Ind. Code § 8-1-2-70, Petitioner shall pay the following itemized charges within twenty (20) days from the date of the Order into the Commission public utility fund account described in Ind. Code § 8-1-6-2, through the Secretary of the Commission, as well as any additional costs that were incurred in connection with this Cause:

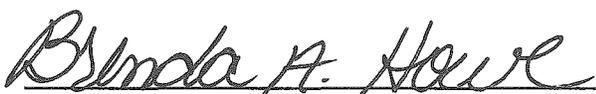
Commission Charges	\$ 388.77
OUCG Charges	\$ 537.28
Legal Advertising Charges	\$ 37.99
Total	\$ 964.04

4. This Order shall be effective on and after the date of its approval.

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: SEP 11 2013

I hereby certify that the above is a true and correct copy of the Order as approved.



**Brenda A. Howe
Secretary to the Commission**