

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF FORT WAYNE,)
INDIANA, FOR AUTHORITY TO ESTABLISH)
AND IMPLEMENT A SYSTEM DEVELOPMENT) CAUSE NO. 45124
CHARGE FOR WATER UTILITY SERVICE.)

PETITION OF THE CITY OF FORT WAYNE,)
INDIANA, FOR AUTHORITY TO ISSUE LONG) CAUSE NO. 45125
TERM DEBT TO FINANCE WATER SYSTEM)
IMPROVEMENTS AND TO ADJUST ITS RATES)
AND CHARGES FOR WATER SERVICE.)

SETTLEMENT TESTIMONY

OF

EDWARD R. KAUFMAN, CRRA – PUBLIC’S EXHIBIT NO. 4S

ON BEHALF

OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JANUARY 8, 2019

Respectfully Submitted,



Daniel M. Le Vay, Atty. No. 22184-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Office of Utility Consumer Counselor's Settlement Testimony of Edward R. Kaufman, CRRA* has been served upon the following counsel of record in the captioned proceeding by electronic service on January 8, 2019.

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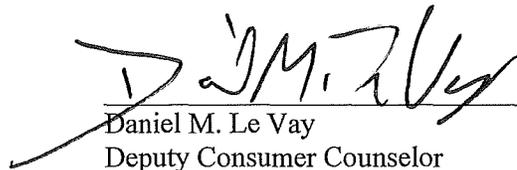
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**SETTLEMENT TESTIMONY OF OUCG WITNESS
EDWARD R. KAUFMAN, CRRA
CAUSE NOS. 45124 & 45125
FORT WAYNE MUNICIPAL WATER UTILITY**

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

2 A: My name is Edward R. Kaufman, and my business address is 115 West Washington
3 Street, Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: Are you the same Edward R. Kaufman who filed direct testimony in Cause**
5 **No. 45125 on behalf of the OUCG?**

6 A: Yes.

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

8 A: The purpose of this settlement testimony is to support the Joint Stipulation and
9 Settlement Agreement ("Settlement Agreement") entered into by Fort Wayne, the
10 Indiana Office of Utility Consumer Counselor ("OUCG"), General Motors ("GM"),
11 and the City of New Haven ("New Haven") (collectively referred to as the "Settling
12 Parties").

13 **Q: Are you sponsoring any schedules with your settlement testimony?**

14 A: No. The Settlement schedules will be provided by Fort Wayne's accounting
15 witness, Mr. Eric Walsh.

16 **Q: Please describe the settlement reached by the Settling Parties.**

17 A: The Settling Parties agreed that Fort Wayne should be authorized to increase its
18 rates and charges for water service to reflect a total net revenue requirement in the
19 amount of \$62,360,281 resulting in a total increase of \$14,792,793 or 31.1% over
20 Fort Wayne's current revenues at existing rates. The Settling Parties further agreed
21 that Fort Wayne shall implement its 31.1% (32.0% for inside City and 25.9% for

1 outside City) rate increase over five (5) phases with the first phase ("Phase I") in
2 the amount of 4.87% (3.73% for outside City) to be effective upon the issuance of
3 the Commission's final order in this Cause. The second phase ("Phase II") in the
4 amount 5.93% (5.18% for outside City) will be effective twelve months after Phase
5 I. The third phase ("Phase III"), in the amount of 5.90% (4.99% for outside City),
6 will be effective twelve months after Phase II. The fourth phase ("Phase IV") in
7 the amount of 5.86% (4.79% for outside City) will be implemented twelve months
8 after Phase III. The fifth phase ("Phase V") in the amount of 5.90% (4.89% for
9 outside City) will be implemented twelve months after Phase IV.

10 The Settling Parties stipulate and agree that Fort Wayne should be
11 authorized to issue revenue bonds ("Revenue Bonds") in an amount not to exceed
12 Eighty Five Million Five Hundred Seventy Thousand Dollars (\$85,570,000) and at
13 an interest rate not to exceed 7%. The proceeds from the Revenue Bonds will be
14 used to pay certain costs of issuance and to complete capital improvements
15 identified in Petitioner's Exhibit No. 6 (Cause 45125) and in Mr. Walsh's June 22,
16 2018, Accounting Report on Proposed Improvement Projects and Increase in Rates
17 and Charges (Petitioner's Exhibit No. 12 (Cause No. 45125) at page 14).

18 **Q: Please describe or set forth the provisions in the Settlement Agreement that**
19 **affect the borrowing.**

20 A: Sections 11, 12 and 14 of the Settlement Agreement includes the following
21 provisions:

22 11. **Terms of Financing and True-Up Report.** Consistent with
23 Exhibit A Fort Wayne will seek to market and issue the Revenue
24 Bonds in separate series, will seek low interest debt from SRF where
25 cost advantageous (including applying for 0% financing for
26 replacing lead lines), and will wrap the amortization schedules

1 around its existing debt in the manner proposed by Mr. Walsh in his
2 Direct and Rebuttal Testimonies in Cause 45125. Fort Wayne will
3 seek to market and issue an aggregate amount of \$41,010,000 of
4 Revenue Bonds in 2019. Fort Wayne will later seek to market and
5 issue an aggregate amount of \$44,560,000 of Revenue Bonds. If
6 Fort Wayne receives grant funds for capital improvements that are
7 contained in its Capital Improvement Plan in this Cause, Fort Wayne
8 shall reduce its debt issuance(s) by the amount of grant funds used
9 in the Capital Improvement Plan projects. Fort Wayne shall issue
10 the \$44,560,000 of revenue bonds in or before 2022. The Phase IV
11 rates shall not go into effect until 45 days before the issuance of the
12 2022 Revenue Bonds. In the event Fort Wayne does not or cannot
13 issue the Revenue Bonds within 45 days of the Phase IV rate
14 increase, Petitioner should use funds collected to pay debt service
15 on the yet, unissued debt to offset the amount it needs to borrow.
16 Within twenty-one (21) days after completing the final issuance of
17 each series of the Revenue Bonds, Fort Wayne shall file a true-up
18 report with the Commission identifying the exact amount of bonds
19 that were issued, the exact amortization schedule, and the interest
20 rate on such bonds. To the extent the costs of issuance or interest
21 rate(s) materially impact revenue requirements, Fort Wayne will
22 adjust or "true-up" its rates to reflect the same.

23 **12. Expenditures from Debt Service Reserve.** If Fort Wayne
24 spends any of the funds from its Debt Service Reserve for any reason
25 other than to make the last payment on the underlying debt, Fort
26 Wayne agrees to spend such funds for only the prepayment of
27 principal and interest on any outstanding bond indebtedness on
28 capital projects and/or on capital expenditures for the water utility
29 (excluding tank maintenance and painting). Upon expenditure of
30 any funds from its Debt Service Reserve, Fort Wayne will provide
31 a report to the Commission and the Settling Parties within ten (10)
32 business days after such expenditure that states: (i) how much Fort
33 Wayne spent from its Debt Service Reserve; (ii) why and on what it
34 spent the funds from its Debt Service Reserve; (iii) a cite to and
35 quote from any applicable loan documents that allow Fort Wayne to
36 spend funds from its Debt Service Reserves; (iv) how Fort Wayne
37 plans to replenish its Debt Service Reserve; and (v) any cost cutting
38 activities Fort Wayne has implemented to forestall spending funds
39 from its Debt Service Reserve.

40 **14. Fort Wayne's Report of Capital Improvements.** On an
41 annual basis, Fort Wayne will provide a report to the Settling Parties
42 (Fort Wayne will send New Haven's copy to the Clerk Treasurer of
43 New Haven) concerning the amounts spent on the Capital

1 Improvement Plan projects and the projects commenced and/or
2 completed in the prior twelve (12) months.

3 **Q: Does your settlement testimony address provisions that apply specifically to**
4 **either GM or New Haven?**

5 A: No. The settlement agreement includes several provisions regarding cost of service
6 and continuing service issues pertinent to GM and New Haven. My testimony does
7 not address these provisions. However, I have reviewed these provisions and the
8 OUCG does not oppose these provisions and we agree that the Commission should
9 approve them as reasonable.

10 **Q: Did the Parties agree on a System Development Charge ("SDC")**

11 A: Fort Wayne's SDC calculation as provided in attached Exhibit D to the Settlement
12 Agreement should be implemented pursuant to the terms of the Settlement
13 Agreement.

14 **Q: Do you believe that the settlement is a fair, just and reasonable resolution of**
15 **all the issues in this Cause?**

16 A: Yes. The settlement represents a reasonable compromise of the OUCG's, New
17 Haven's, GM's and Fort Wayne's positions as set forth in their respective cases.
18 As such, the testimony provided in their respective cases together with all
19 settlement testimony provides an evidentiary basis to support the settlement.
20 Further, I believe that the settlement should be considered to be in the public interest
21 because, Petitioner will have sufficient funds to pay necessary operating expenses
22 and complete its proposed capital improvements. The ratepayers will receive the
23 benefit of lower than requested rates and increased service due to the new and
24 improved facilities.

1 **Q: What specific concerns of the OUCC were resolved in the Settlement**
2 **Agreement?**

3 A: Petitioner's Phase IV rate increase is in large part driven by its proposed 2022 debt
4 issuance. The Settlement Agreement provides that Petitioner's Phase IV rates will
5 not go into effect until 45 days before the issuance of its 2022 debt issuance. In the
6 event Fort Wayne does not or cannot issue the debt within 45 days of the Phase IV
7 rate increase, Petitioner should use funds collected to pay debt service on the yet,
8 unissued debt to offset the amount it needs to borrow. This provision ensures that
9 Petitioner will not collect funds for its 2022 debt without incurring an actual
10 expense related to the debt issuance.

11 **Q: Does this conclude your settlement testimony?**

12 A: Yes.

AFFIRMATION

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

Edward R. Kaufman
By: Edward R. Kaufman
Cause No. 45124/45125
Indiana Office of
Utility Consumer Counselor

1/8/19
Date: