

**Rate Commission of
the Metropolitan St. Louis Sewer District**

2011 Wastewater Rate Change Proceeding

**Missouri Industrial Energy Consumers' Responses to
the Metropolitan St. Louis Sewer District's First Set of Data Requests**

Request:

1. Does the Consultant perform utility rate design consulting work? Please provide a list of all clients for which this type of consulting work was performed since 2002.
 - 1.a Please indicate the type of rate design development performed for each client and indicate if the client provides natural gas, electric, water/wastewater combined and/or stand alone wastewater.
 - 1.b Please indicate the type of rate analysis and review performed for each client and indicate if the client provides natural gas, electric, water/wastewater combined and/or stand alone wastewater.
 - 1.c Please indicate which clients listed are currently managing capital project programs or similar initiatives and the dollar size of each program.
 - 1.d Please indicate which clients listed have issued bonds, total outstanding bonds to date, anticipated dollar size of future issuances through June 30, 2016 and breakdown by types of bonds (general obligation, revenue, State or Federal bond programs).

Response:

1. Attachment MSD-MIEC 1-1 is a list of utility rate proceedings where Mr. Gorman has filed testimony on the topic of utility cost of service and rate design. Mr. Gorman has also performed class cost of service and rate design assessments for clients based on utility-proposed cost of service methods and rate designs for electric, natural gas, water and wastewater services. Mr. Gorman's analysis in these utility rate proceedings include: proper functionalization of cost, allocation of cost (including direct assignment), and the development of allocation factors, and the assessment of rates that produce accurate allocation of costs and price signals to encourage efficient customer consumption decisions. Further, Appendix A attached to the rebuttal testimony of Mr. Gorman details his professional experience and qualifications.
 - 1.a See response to MSD-MIEC 1-1.
 - 1.b See response to MSD-MIEC 1-1.

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- 1.c. In the utility rate proceedings listed in response to MSD-MIEC 1-1, Mr. Gorman filed testimony on behalf of an intervention group composed of utility customers. Mr. Gorman did not provide testimony on behalf of the utility.
- 1.d See response to MSD-MIEC 1-1.c.

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Request:

2. Please describe the tools and methods used by Brubaker to design wastewater rates. Please describe how these tools and methods were used by Mr. Gorman to analyze the basic requirements and assumptions utilized in MSD's May 10, 2011 Rate Proposal (Exhibit MSD 1).

Response:

2. Generally, Mr. Gorman relies on the data included in the utility filings and a functioning electronic copy of the utility's cost of service model. Costs are generally functionalized to collector system, treatment plant, and customers, recognizing base and extra capacity volumes, customer demands, the collector system pressure and size designs, and customer-related costs. This allows for the allocation of costs to customers for whom the costs were incurred to provide service.

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Request:

3. Please describe Mr. Gorman's experience representing clients, developing and facilitating credit presentations with the major rating agencies Moody's, Fitch, Standard & Poors and Eagan Jones.
 - 3.a Please provide a list of these clients indicating the dollar size of presented bond issuance and resulting bond ratings.
 - 3.b Please indicate the key issues focused on by the rating agencies during the lists client credit presentations and their impacts in the resulting bond ratings.

Response:

3. Mr. Gorman has extensive experience in utility rate cases and regulatory capital improvement planning investigations where he has proposed rate designs and/or developed regulatory plans that have supported utility investment grade credit ratings. Mr. Gorman has worked on behalf of the utility customers in these rate proceedings. Mr. Gorman has not developed or facilitated credit presentations with the major rating agencies listed.
 - 3.a Not applicable.
 - 3.b Not applicable.

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Request:

4. Describe Mr. Gorman's experience in handling the issuance of bonds for clients. Please provide a list of these clients and Mr. Gorman's involvement in the issuance of these bonds.
 - 4.a Please describe Mr. Gorman's role in the issuance of bonds for each of the listed clients.
 - 4.b Please describe Mr. Gorman's experience with the underwriting of bonds?
 - 4.c Please describe Mr. Gorman's experience in the development of bond feasibility studies including your involvement in such studies for the clients listed.

Response:

4. Mr. Gorman has not been directly involved in the handling or issuance of bonds for clients. See response to MSD-MIEC 1-3 for more details on Mr. Gorman's experience. Mr. Gorman provided testimony in MSD's 2007 rate proceeding, discussing the proper funding of the utility CIP and produced credit metrics designed to support the utility's investment grade credit rating.
 - 4.a Not applicable.
 - 4.b Not applicable.
 - 4.c Not applicable.

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Request:

5. Please provide in paper and electronic form any analysis Mr. Gorman prepared related to the long term direction of interest rates such as probability distributions, historic statistics, "boot strapping of Treasury STRIP rates or any other quantitative analysis.

Response:

5. As stated on page 14 of his rebuttal testimony, Mr. Gorman relied on publicly available industry data to develop his debt service cost adjustments. This factual data included recent long-term bond interest rates from other similar credit rated municipal utilities. This information was utilized in the development of his adjusted debt service cost calculation shown on his Schedule MPG-2.

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Request:

6. On page 5, line 7, of Mr. Gorman's rebuttal testimony, he states "MSD Staff substantially overestimates bad debt expense." Please provide the analysis performed to support this statement. Provide all paper and electronic "documents" as defined above which relate to this analysis.

Response:

6. Mr. Gorman's analysis used to support his statement is shown on Schedule MPG-3 attached to his rebuttal testimony. An electronic copy of Mr. Gorman's Schedule MPG-3 is provided as Attachment MSD-MIEC 1-6.

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Request:

7. On page 5, line 19 and 20 of Mr. Gorman's rebuttal testimony, he refers to a consensus of economists' future inflation projections. Please provide all analysis and underlying source material used to support this statement. Provide all paper and electronic "documents" as defined above which relate to this analysis.
 - 7.a Please list all economists future inflation projections used for your analysis of the of [sic] the May 10, 2011 Rate Proposal.
 - 7.b Please describe the usefulness and nature of relevance for each economists future inflation projection listed in your response to question 7.a.

Response:

7. As stated on page 10 of Mr. Gorman's rebuttal testimony, Mr. Gorman relied on future inflation projection data from a recent March 10, 2011 *Blue Chip Economic Indicators* report. This document relies on a survey of professional economists' inflation projections. A copy of the relevant material from the March 10, 2011 *Blue Chip Economic Indicators* report is provided as Attachment MSD-MIEC 1-7.
 - 7.a Mr. Gorman's analysis relies on a consensus of independent professional economists' projections, as reported in the March 10, 2011 *Blue Chip Economic Indicators* report.
 - 7.b The *Blue Chip Economic Indicators* forecast is based on a survey of unbiased and independent professional economists' projections. It is widely used in the industry and provides a balanced and independent assessment of consensus outlook for future economic projections. BAI has no influence on the referenced independent economists and their projections as published in the March 10, 2011 *Blue Chip Economic Indicators* report.

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Request:

8. On page 6, line 21 of Mr. Gorman's rebuttal testimony, he states "... the MSD service area continues to recover from the global economic recession." Please provide all analysis performed and underlying source material used to support this statement. Provide all paper and electronic "documents" as defined above which relate to this analysis.

Response:

8. As stated on page 7, lines 18-27 of Mr. Gorman's rebuttal testimony, Mr. Gorman relied on statements including a Federal Reserve publication. A copy of the Federal Reserve District's May 2011 report is provided as Attachment MSD-MIEC 1-8.

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Request:

9. On page 7, line 18, of Mr. Gorman's rebuttal testimony, he cites or refers to a general summary provided by the Federal Reserve Bank regarding MSD's service area. Please provide a complete copy in paper or electronic form of this referenced material. Provide all paper and electronic "documents" as defined above which relate to this analysis.

Response:

9. See response to MSD-MIEC 1-8 and Attachment MSD-MIEC 1-8.

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Request:

10. On page 8, line 4 and 5, of Mr. Gorman's rebuttal testimony, he states "...the area economy has stabilized and has....started to show signs of improvement." Please provide all analysis and underlying source material used to support this statement. Provide all paper and electronic "documents" as defined above which relate to this analysis.

Response:

10. Mr. Gorman's statement is based on his review of the May 2011 Federal Reserve report concerning economic activity in the district, which included St. Louis and MSD's service territory. A copy of the St. Louis Federal Reserve Bank's statement is provided in response to MSD-MIEC 1-8. See Attachment MSD-MIEC 1-8.

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Request:

11. On page 9, line 18 and 19 of Mr. Gorman's rebuttal testimony, he refers to the MSD Staff's inflation projection and states it is "...overstated because it does not accurately reflect a reasonable outlook for future inflation." Please provide all analysis and underlying source material used to support this statement. Provide all paper and electronic "documents" as defined above which relate to this analysis.
 - 11.a Please provide a copy of the *Blue Chip Economic Indicators* survey referenced on page 10 line 3 of Mr. Gorman's rebuttal testimony.
 - 11.b Please describe the usefulness and nature of relevance of any document produced pursuant to question 12a. of these requests.

Response:

11. Please see MIEC's response to MSD-MIEC 1-7.
 - 11.a Please see MIEC's response to MSD-MIEC 1-7 and Attachment MSD-MIEC 1-7.
 - 11.b The *Blue Chip Economic Indicators* forecast is based on a survey of unbiased and independent professional economists' projections. They are widely used in the industry and provide a balanced and independent assessment of consensus outlook for future economic projections.

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Request:

12. On page 13, line 14 and 15 of Mr. Gorman's rebuttal testimony, he indicates he does not take issue with MSD Staff's assumptions underlying the state revolving "facilities". Please explain the meaning and relevance of this term facilities as used in this context.
 - 12.a Mr. Gorman also states he believes "the [MSD Staff's] interest rate for the revenue bonds is substantially overstated". Please provide all analysis and underlying source material used to support this statement. Provide all paper and electronic "documents" as defined above which relate to this analysis.

Response:

12. Mr. Gorman uses the statement "state revolving facilities" in the context as meaning portion of CIP projected to be financed by proceeds from state revolving loans.
 - 12.a As stated on page 14 of Mr. Gorman's rebuttal testimony, Mr. Gorman reviewed recent bond issuance filings from similar credit rated municipal utilities. A copy of those filings is provided as Attachment MSD-MIEC 1-12a.

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Request:

13. On page 14, line 5 and 6, of Mr. Gorman's rebuttal testimony, he indicates he has "... identified actual bond issuances by municipal utility companies for revenue bonds in support of municipal utility CIPS." Please provide a complete list of all municipal utility companies identified indicating the type of utility (natural gas, electric, water, wastewater), the size of each entities' CIP program, their respective amount of outstanding debt as of June 30, 2011 and accompanying bond ratings. Provide all paper and electronic "documents" as defined above which relate to this analysis.

Response:

13. Mr. Gorman reviewed the actual bond issuances of: (1) Nebraska Public Power District; (2) Omaha Public Power District; (3) Kansas City Board of Public Utilities; (4) City of Springfield, Illinois; (5) Knoxville Utilities Board; and (6) Memphis Light, Gas & Water Division. An electronic copy of those filings is provided in response to MSD-MIEC 1-12a.

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Request:

14. On page 14, line 9 of Mr. Gorman's rebuttal testimony, he refers to research he personally conducted related to the determination of the typical weighted average bond interest rate for municipal utility companies as 4%. Please provide all analysis and underlying source material used to conduct this research. Provide all paper and electronic "documents" as defined above which relate to this analysis.

Response:

14. A copy of Mr. Gorman's analysis is provided as Attachment MSD-MIEC 1-14.

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Request:

15. On page 16, line 4 and 5 of Mr. Gorman's rebuttal testimony, he states "... it is appropriate to develop a bad expense as a percentage of total bill collections based on historical records of MSD." Please indicate what historical MSD records were used to support this statement,
 - 15.a Please produce any document identified in your response to question number 15 above.
 - 15.b Please state the basis for the use of this approach as related to bad expense described on page 16, line 4 and 5 of Mr. Gorman's rebuttal testimony and the nature of relevancy to the Rate Proposal.
 - 15.c Please provide all analysis and underlying source material used to conduct this research as related to bad expense described on page 16, line 4 and 5 of Mr. Gorman's rebuttal testimony. Provide all paper and electronic "documents" as defined above which relate to this analysis.

Response:

15. As shown on Schedule MPG-3, attached to Mr. Gorman's rebuttal testimony, Mr. Gorman relied on historical data provided by MSD between the years 2006-2010.
 - 15.a A copy of Mr. Gorman's Schedule MPG-3 is attached to his rebuttal testimony. See Attachment MSD-MIEC 1-6.
 - 15.b The basis for Mr. Gorman's statement is the common regulatory practice of using actual historical customer data to make projections of future customer behavior adjusted for changes that can be measured and are reasonably certain to occur.
 - 15.c An electronic copy of Mr. Gorman's Schedule MPG-3 is provided in response to MSD-MIEC 1-6. See Attachment MSD-MIEC 1-6.

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Request:

16. Please describe Mr. Gorman's experience with the billing and collection operations of municipal utilities.
 - 16.a Please list each utility for which Mr. Gorman provided and or provides and service related to billing and collection operations.
 - 16.b For each utility listed in response to question 16.a above please indicate the type of utility (natural gas, electric, water, wastewater) and amount of monthly billings in terms of dollars and number of accounts.

Response:

16. Mr. Gorman has testified numerously on the topic of bad debt expense in previous utility rate proceedings.
 - 16.a Mr. Gorman has not directly provided billing or collection services to other utilities.
 - 16.b Not applicable.