

**BEFORE THE RATE COMMISSION OF THE
METROPOLITAN ST. LOUIS SEWER DISTRICT**

**SEPTEMBER 16, 2011 FOURTH DISCOVERY REQUEST
OF THE RATE COMMISSION**

St. Louis Metropolitan Sewer District Response

ISSUE: WASTEWATER RATE CHANGE PROPOSAL
WITNESS: METROPOLITAN ST. LOUIS SEWER DISTRICT
SPONSORING PARTY: RATE COMMISSION
DATE PREPARED: SEPTEMBER 26, 2011

**Metropolitan St. Louis Sewer District
2350 Market Street
St. Louis, Missouri 63132**

**BEFORE THE RATE COMMISSION
OF THE METROPOLITAN ST. LOUIS SEWER DISTRICT**

For Consideration of a Wastewater)
Rate Change Proposal by the Rate)
Commission of the Metropolitan)
St. Louis Sewer District)

**SEPTEMBER 16, 2011 FOURTH DISCOVERY REQUEST
OF THE RATE COMMISSION**

St. Louis Metropolitan Sewer District Response

Pursuant to §§ 7.280 and 7.290 of the Charter Plan of the Metropolitan St. Louis Sewer District (the “Charter Plan”), Operational Rule 3(2) and Procedural Schedule §§ 1, 14, 15 and 17 of the Rate Commission of the Metropolitan St. Louis Sewer District (“Rate Commission”), the Rate Commission requests additional information and answers from the Metropolitan St. Louis Sewer District (“District”) regarding the Rate Change Proposal dated May 10, 2011 (the “Rate Change Proposal”).

The District is requested to amend or supplement the responses to this Discovery Request, if the District obtains information upon the basis of which (a) the District knows that a response was incorrect when made, or (b) the District knows that the response, though correct when made, is no longer correct.

The following Discovery Requests are deemed continuing so as to require the District to serve timely supplemental answers if the District obtains further information pertinent thereto between the time the answers are served and the time of the Prehearing Conference.

1. Please provide a rate change scenario using the assumptions included in the analysis presented in Exhibit MSD 1 basing the CIRP on a projected expenditure basis instead of the appropriation basis used in the Rate Change Proposal. Please provide the following schedules reflecting this scenario:

- a. Table 3-8 Wastewater Capital Improvement and Replacement Program
- b. Table 3-9 Wastewater Capital Improvement Program Financing
- c. Table 3-10 Projected Wastewater Debt Service Requirements
- d. Table 3-11 Comparison of Projected Wastewater Revenue Under Existing Rates with Projected Revenue Requirements
- e. Table 3-21 Comparison of Existing and Proposed Wastewater Rates.

RESPONDER: Keith Barber, MSD Rate Consultant

RESPONSE:

a. Table 3-8 is provided as Exhibit MSD 86B. This table reflects the CIRP at a 2010 cost level included in the rate model (appropriations) adjusted to match the uninflated 2010 totals previously presented in Exhibit MSD 18V (cash). This includes \$198,174,200 in 2013; \$214,995,800 in 2014; \$211,568,500 in 2015; \$224,290,750 in 2016 for a four-year total of \$849,029,250. Including the \$35,719,000 of projects to be financed by 2017 revenues derives the \$884,748,250 amount presented in Exhibit MSD 18V. These annual values were inflated to derive the values in Table 3-8. As indicated, the four-year inflated total is \$971,599,000 which is approximately 10 percent higher than the \$849,029,250 uninflated value over the same four-year period.

b. Table 3-9 is included in Exhibit MSD 86B. This table primarily reflects the CIRP from Table 3-8 and required changes to annual bond amounts. Interest income is reduced and issuance costs related to the bond amounts are also affected. End of year capital balances were targeted to be approximately the same as those presented in the District's Rate Proposal.

c. Table 3-10 is included in Exhibit MSD 86B. The debt service on proposed revenue bonds is related to the changes in bond issue amounts. No changes were made to proposed SRF loans.

d. Table 3-11 is included in Exhibit MSD 86B. Annual revenue increases and debt service amounts were revised in accordance with prior tables. Other line items were also impacted by prior changes. End of year operating balances were targeted to be approximately the same as those presented in the District's Rate Proposal.

e. Table 3-21 is included in Exhibit MSD 86B. Rates were developed to recover 100 percent of projected revenue requirements with the same phase-in of the five-tier environmental compliance charge.

2. District witness Jeanne F. Vanda states, "We benchmark our projects based on the average life of the bonds to be sold. The average life calculation takes into account how principal is paid over the entire maturity schedule. MSD has issued 30 year final maturity senior

lien bonds in the past and would like issue 30 year bonds for the bonds contemplated during this rate period. The average life of 30 year bonds tends to be in the 18 to 25 year range depending on the structure of the principal payments. MSD's average life tends to be longer because the senior lien bonds are structured to take into account debt service due on the subordinate SRF debt, which is limited to 20 years. We used a 25 year average life based on the senior lien bonds outstanding as follows:

Bond Series	Average Life	Average Interest Rate
Series 2004A	22.012 years	5.00%
Series 2006C	25.769 years	4.12%
Series 2008A	25.966 years	5.25%
Series 2010B (BABs)	27.529 years	Not comparable

Referring to sheet L-2 of Exhibit MSD 4A, the first principal payment on MSD's Series 2006c Revenue Bonds is scheduled to be paid on May 1, 2027, which means that these bonds have 21 years of interest only payments. Referring to sheet L-3 of Exhibit MSD 4A, the first principal payment on MSD's Series 2008A Revenue Bonds is scheduled to be paid on May 1, 2030, which means that these bonds have 22 years of interest only payments. Referring to sheet L-4 of Exhibit MSD 4A, the First principal payment on MSD's Series 2010B Build America Bonds is scheduled to be paid on May 1, 2035, which means that these bonds have 25 years of interest only payments. See Q. 29 Response Surrebuttal Testimony of Jeanne F. Vanda beginning at p. 15, l. 18.

Please provide a rate change scenario using the assumptions included in the analysis presented in Exhibit MSD 1 for projected debt service for the proposed revenue bonds to be issued during the period Fiscal years 2012 through Fiscal year 2016 using interest only payments.

Please provide the following schedules reflecting this scenario:

- a. Table 3-10 Projected Wastewater Debt Service Requirements
- b. Table 3-11 Comparison of Projected Wastewater Revenue Under Existing Rates with Projected Revenue Requirements
- c. Table 3-21 Comparison of Existing and Proposed Wastewater Rates

RESPONDER: Keith Barber, MSD Rate Consultant

RESPONSE:

a. Table 3-10 is provided as Exhibit 86C. This table shows proposed revenue bond debt service assuming interest only payments during the study period. The District does not have an option of interest only payments for SRF loans.

b. Table 3-11 is included in Exhibit 86C. Annual revenue increases and debt service amounts were revised in accordance with Table 3-10. Other line items were also impacted by this revision. End of year operating balances were targeted to be approximately the same as those presented in the District's Rate Proposal.

c. Table 3-21 is included in Exhibit MSD 86C. Rates were developed to recover 100 percent of projected revenue requirements with the same phase-in of the five-tier environmental compliance charge.

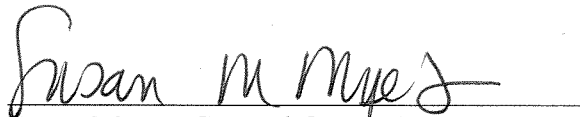
3. The Bipartisan Tax Fairness and Simplification Act, S.727, introduced on April 5, 2011, if adopted, would end traditional tax exemption for newly issued municipal bonds and provide that municipal bonds issued after December 31, 2011, would be taxable providing a 25% tax credit only for non-corporate holders and would eliminate advance refunding for outstanding tax-exempt bonds. The Tax Equity and Middle-Class Fairness Act, H.R.2495, introduced July 11, 2011, if adopted, would end traditional tax exemption after December 31, 2011, and require all new municipal bonds to be issued as taxable direct-pay bonds with a 28% federal subsidy rate. The Report of the National Commission on Fiscal Responsibility and Reform, dated December 2010 (Simpson-Bowles Commission), if implemented, would eliminate the exclusion for interest on municipal bonds. The Reducing the Debt: Spending and Revenue Options, Congressional Budget Office dated March 2011, if implemented, would replace the exclusion of interest on state and local government bonds with a direct-subsidy payment equal to 15% of the interest paid on the bonds.

Using the analysis presented in Exhibit MSD 1, please provide the information presented in Table 5-6 for two alternative scenarios incorporating the following changes to the assumptions used by MSD in its Rate Change Proposal:

- a. A net revenue bond interest rate of 6.0%
- b. A net revenue bond interest rate of 6.5%

RESPONDER: Keith Barber, MSD Rate Consultant

RESPONSE: The requested versions of Table 5-6 are provided as Exhibit MSD 86D. These tables show the impact of changing the District's assumed 5.5 percent annual interest rate on revenue bonds to 6.0 percent and 6.5 percent, respectively. The only compensating variable changed in these scenarios was the annual revenue increases.



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CERTIFICATE OF SERVICE

The undersigned certifies that on the 26th day of September, 2011:

An electronic copy of the foregoing instrument as e-mailed to the Secretary of the Rate Commission c/o jfenton@stlmsd.com.

SECRETARY OF RATE COMMISSION: Ms. Nancy Bowser
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Metropolitan St. Louis Sewer District
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At the request of the Rate Commission Counsel, one paper original and associated Exhibits are held at the Rate Commission office for Commissioner review.

An electronic copy of the foregoing instrument was e-mailed to:

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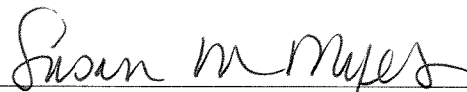
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