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IN THE CITY OF ST. LOUIS  
STATE OF MISSOURI

MSD TECHNICAL CONFERENCE FOR REBUTTAL TESTIMONY

MAY 9, 2019

Metropolitan Saint Louis Sewer District  
2350 Market Street  
Saint Louis, MO 63103

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1           CHAIRMAN TOENJES: We will call to order the May  
2    9, 2019, meeting of the Rate Commission of the  
3    Metropolitan St. Louis Sewer District.

4           Our technical conference will begin. My name is  
5    Leonard Toenjes. I am the Chair of the Rate Commission  
6    Metropolitan St. Louis Sewer District, and will serve as  
7    Chair of this proceeding. Let's start with a role call.  
8    We will ask Mr. Schoedel to take the role call.

9           MR. SCHOEDEL: Thank you. Jerry Beckmann.

10          MR. BECKMANN: Present.

11          MR. SCHOEDEL: Brandy Bowdry. Paul Brockmann.  
12    Don Bresnan.

13          MR. BRESNAN: Present.

14          MR. SCHOEDEL: Mickey Croyle.

15          MS. CROYLE: Present.

16          MR. SCHOEDEL: Brad Goss.

17          MR. GOSS: Present.

18          MR. SCHOEDEL: Russell Hawes. Chan Mahanta.  
19    Steven Mahfood. Lloyd Palans.

20          MR. PALANS: Present.

21          MR. SCHOEDEL: Tom Ratzki. Mark Schoedel,  
22    present. John Stein.

23          MR. STEIN: Present.

24          MR. SCHOEDEL: Leonard Toenjes.

25          CHAIRMAN TOENJES: Present.

1 MR. SCHOEDEL: Paul Ziegler. Paul, are you  
2 online? Mr. Chairman, we have eight. We have a quorum.

3 CHAIRMAN TOENJES: Thank you, Mr. Schoedel. The  
4 charter plan for the District was approved by the voters  
5 of St. Louis and St. Louis County at a special election  
6 of February 9, 1954, and amended at a general election  
7 on November 7, 2000.

8 The amendment to the charter plan established the  
9 Rate Commission to review and make recommendations to  
10 the District regarding changes in wastewater rates,  
11 stormwater rates, and tax rates proposed by the  
12 District.

13 The charter plan requires the Board of Trustees  
14 of the District to select organizations to name  
15 delegates to the Rate Commission to ensure a fair  
16 representation of all users of the district's services.

17 The Rate Commission representative organizations  
18 are to represent commercial/industrial users,  
19 residential uses, and other organizations interested in  
20 the operation of the District; including organizations  
21 focusing environmental issues, labor issues,  
22 socioeconomic issues, community neighborhood  
23 organizations, and other nonprofit organizations.

24 The Rate Commission currently consists of  
25 representatives of Associated General Contractors of

1 Missouri, St. Louis County Municipal League, Lutheran  
 2 Senior Services, St. Louis Counsel of Construction  
 3 Consumers, Greater St. Louis Labor Counsel, Missouri  
 4 Botanical Garden, Mound City Bar Association, League of  
 5 Women Voters of Metro St. Louis, Home Builders  
 6 Association, Farm County Incorporated, Missouri  
 7 Coalition for the Environment, City of Ladue, Engineers  
 8 Club of St. Louis, Missouri Industrial Energy Consumers,  
 9 and Education Plus.

10           Upon receipt of a rate change notice from the  
 11 District, the Rate Commission is to recommend to the  
 12 Board of Trustees changes in the wastewater, stormwater,  
 13 or tax rate necessary to pay, number one, interest and  
 14 principal falling due on bonds issued to finance assets  
 15 of the District; number two, the cost of operation and  
 16 maintenance; and number three, such amounts as may be  
 17 required to cover emergencies and anticipated  
 18 delinquencies.

19           Further, any changes in a rate recommended to the  
 20 Board of Trustees by the Rate Commission is to be  
 21 accompanied by a statement that the proposed rate  
 22 change:

23           Number one, is consistent with constitutional  
 24 statutory or common law as amended from time to time.

25           Number two, enhances the district's ability to

1 provide adequate sewer and drainage systems and  
2 facilities, or related services.

3 Number three, is consistent with and not in  
4 violation of any covenant or provision relating to any  
5 outstanding bonds or indebtedness of the District.

6 Number four, does not impair the ability of the  
7 District to comply with applicable federal or state laws  
8 or regulations as amended from time to time.

9 And number five, imposes a fair and reasonable  
10 burden on all classes of ratepayers.

11 The Rate Commission received a rate change notice  
12 from the District on March 4, 2019.

13 Under the District's charter plan, the Rate  
14 Commission must, on or before July 2, 2019, issue its  
15 report on the proposed rate change notice to the Board  
16 of Trustees and the District, unless the Board of  
17 Trustees, upon application of the Rate Commission,  
18 extends the period of time for the issuance of the Rate  
19 Commission report for an additional 45-day period.

20 At its meeting on March 14, 2019 the Board of  
21 Trustees approved the Rate Commission's request for an  
22 extension.

23 The rate commission's report on a proposed rate  
24 change must now be issued on or before August 16, 2019.

25 Under procedural rules adopted by the Rate



1 Commission on March 8, 2019, any person affected by the  
2 rate change proposal had an opportunity to submit an  
3 application to intervene in these proceedings no later  
4 than March 25, 2019.

5 An application to intervene was filed by Missouri  
6 Industrial Energy Consumers, which was deemed granted.

7 On March 4, 2019 the District submitted to the  
8 Rate Commission prepared direct testimony of Brian L.  
9 Hoelsher, Susan M. Myers, Richard L. Unverferth, Brett  
10 A. Berthold, Marion M. Gee, Tim R. Snoke, Bethany Pugh,  
11 William Stannard, and Thomas A. Beckley.

12 On March 8, 2019, the Rate Commission submitted  
13 its first discovery request to the District. On March  
14 13, 2019, the District filed its responses.

15 On March 11, 2019, the Rate Commission submitted  
16 its second discovery request to the District, which the  
17 District responded to on March 20, 2019.

18 On March 25, 2019, the Rate Commission submitted  
19 its third discovery request to the District, which the  
20 District responded to on April 2, 2019.

21 On April 8, 2019, a technical conference was held  
22 on the record regarding the rate setting documents and  
23 the direct testimony filed with the Rate Commission by  
24 the District.

25 The purpose of the technical conference was to

1 provide the District an opportunity to answer questions  
2 propounded by members of the Rate Commission, then by  
3 any intervenor, and finally by Lashly and Baer, legal  
4 counsel to the Rate Commission.

5 On April 8, 2019, intervenor Missouri Industrial  
6 Energy Consumers submitted its first discovery request  
7 to the District, which the District responded to on  
8 April 18, 2019.

9 On April 11, 2019, the Rate Commission submitted  
10 its fourth discovery request to the District, which the  
11 District responded to on April 22, 2019.

12 On April 11, 2019, intervenor Missouri Industrial  
13 Energy Consumers submitted its second discovery request  
14 to the District, which the District responded to on  
15 April 22, 2019.

16 On April 26, 2019, the District submitted its  
17 first discovery request to intervenor Missouri  
18 Industrial Energy Consumers; to which Missouri  
19 Industrial Energy Consumers responded to on May 7, 2019.

20 On April 23, the Rate Commission consultants and  
21 intervenor Missouri Industrial Energy Consumers  
22 submitted rebuttal testimony.

23 This technical conference will be held on the  
24 record, regarding the rebuttal testimony.

25 Each person submitting rebuttal testimony shall

1 answer questions propounded by members of the Rate  
 2 Commission, the District, then the intervenor, and  
 3 finally by our legal counsel.

4 Following the technical conference, the District,  
 5 the intervenor, and the Rate Commission consultant may  
 6 submit prepared surrebuttal testimony and schedules.

7 A technical conference will be held on the record  
 8 regarding the surrebuttal testimony on June 20, 2019.

9 Ratepayers who do not wish to intervene will be  
 10 permitted to participate in a series of on-the-record  
 11 public hearing sessions, which will begin on May 14,  
 12 2019.

13 Who is here on behalf of St. Louis Metropolitan  
 14 Sewer District?

15 MS. MYERS: Susan Myers.

16 CHAIRMAN TOENJES: Who is here on the behalf of  
 17 Missouri Industrial Energy Consumers?

18 MR. NEUSCHAFER: Brandon Neuschafer.

19 CHAIRMAN TOENJES: Also present are Pam Lemoine  
 20 and Prabha Kumar of Black and Veatch, Nicole Young of  
 21 Lion CSG, consultant to the Rate Commission.

22 And Lisa Stump and Brian Malone on Lashly and  
 23 Baer, legal counsel to the Rate Commission.

24 Under the Rate Commission's operational rules, no  
 25 person shall be required to answer questions for a total

1 period of more than three hours.

2 And the time shall be evenly divided among all of  
3 the participants desiring to ask questions.

4 Following questions by members of the Rate  
5 Commission, I will attempt to allocate the time equally  
6 among the participants and our legal counsel.

7 To the extent that the District, the intervener,  
8 or legal counsel has not completed the questions at the  
9 expiration of that person's allotted time; and to the  
10 extent that time remains, such persons will be permitted  
11 to propound additional questions until the three hours  
12 has expired.

13 Does anyone have any procedural matters?

14 MS. STUMP: Mr. Chair?

15 CHAIRMAN TOENJES: Yes, Ms. Stump.

16 MS. STUMP: Would you like to approve the minutes  
17 while you have a quorum?

18 CHAIRMAN TOENJES: I would love to.

19 MS. STUMP: I think they should -- everyone  
20 should have them. They're the minutes from April 9 --  
21 April 8 and 9.

22 MR. SCHOEDEL: Mr. Chairman, I note that Mr. Goss  
23 has arrived as well. Paul Ziegler, are you online.

24 MR. ZIEGLER: I am online.

25 MR. SCHOEDEL: Thank you. Noted in attendance.

1           CHAIRMAN TOENJES: Would anyone care to review  
2 the minutes and/or make a motion in regard to the  
3 minutes?

4           MR. BROCKMANN: I'll make a motion.

5           MR. BRESNAN: Second.

6           CHAIRMAN TOENJES: A motion made and seconded to  
7 adopt the minutes as presented. All in favor, signify  
8 by saying aye.

9           (THOSE VOTING IN FAVOR ANNOUNCED AYE)

10          CHAIRMAN TOENJES: Opposed? Hearing none, the  
11 minutes approved. Thank you, Ms. Stump. Any other  
12 procedural matters?

13          MR. GOSS: Mr. Chairman, I need some technical  
14 assistance to get on MSD's network. If someone can help  
15 me from MSD. I had the same problem had last time I'm  
16 having again. Thank you.

17          CHAIRMAN TOENJES: There being no further  
18 procedural matters, Mr. Neuschafer, are you ready to  
19 present those persons for whom you've filed testimony on  
20 behalf of Missouri Industrial Energy Consumers?

21          MR. NEUSCHAFER: I am.

22          CHAIRMAN TOENJES: Plead proceed.

23          MR. NEUSCHAFER: Brandon Neuschafer.

24          CHAIRMAN TOENJES: Would you introduce your  
25 witness, please.

1 MR. NEUSCHAFER: Yes. On behalf of Missouri  
2 Industrial Energy Consumers, Mr. Michael Gorman of  
3 Brubaker and Associates is here to answer questions  
4 about the written testimony that was submitted.

5 CHAIRMAN TOENJES: Thank you. Mr. Gorman, is the  
6 testimony you're about to give the truth, the whole  
7 truth, and nothing but the truth?

8 MR. GORMAN: Yes.

9 CHAIRMAN TOENJES: Thank you. Does any member of  
10 the Rate Commission have questions of Mr. Gorman at this  
11 time?

12 Hearing none, Ms. Myers do you have any questions  
13 for Mr. Gorman?

14 MS. MYERS: Yes, we do.

15 CHAIRMAN TOENJES: Please come forward.

16 MS. MYERS: Good morning.

17 CHAIRMAN TOENJES: Ms. Myers, will you please  
18 introduce your team.

19 MS. MYERS: I will. The district's first line of  
20 questioning is going to have to do with our finance plan  
21 so Tim Snoke, MSD secretary/treasurer, and Bethany Pugh  
22 from PFM are going to ask that line of questions.

23 CHAIRMAN TOENJES: Thank you. Please proceed.

24 MS. MYERS: Thank you.

25 EXAMINATION

1 BY MR. SNOKE:

2 Q. Good morning again.

3 A. Good morning.

4 Q. Okay. I want to start by talking about interest  
5 rates. So throughout your rebuttal testimony, which is  
6 on Exhibit MIEC73, you broadly use the term interest  
7 rate.

8 But there are different kinds of interest rates,  
9 correct? For example, coupon rate and yield?

10 A. Yeah. I was using the term to describe the cost  
11 of the funds to the MSD for issuing additional --

12 Q. Okay. So cost can be interpreted in a different  
13 way. So coupon rate is the rate of interest paid on the  
14 bond's face value; is that correct?

15 A. Yes.

16 Q. And then a yield is the actual return an investor  
17 receives, based on the coupon rate, but also the price  
18 paid for the bond, right?

19 A. Correct.

20 Q. So those can be different?

21 A. They can.

22 Q. In your model, you assume that they are the same?

23 A. I was attempting to price the actual cost to the  
24 MSD of issuing additional debt.

25 I will acknowledge that I did not notice a line

1 in your model, where you were projecting to issue debt  
2 at a premium to face value.

3 So the 3 percent interest costs that I included  
4 in my model, I will acknowledge is probably too low.

5 **Q. Okay. So that will actually let me skip a little**  
6 **bit of questions, which I think will please everybody.**

7 So if we go to your model. So in the -- your  
8 response to our first discovery request, you did provide  
9 a table, table 2 to question five, I believe. That will  
10 be on page 3 of Exhibit 75.

11 A. I did. Yes.

12 **Q. I don't want to belabor this point; but you are**  
13 **showing premium, correct?**

14 A. I did.

15 **Q. And that's the line that should --**

16 A. I used the same assumption that was already built  
17 into the model, and that assumed that the bond would be  
18 sold at a premium.

19 (INTERRUPTION BY COURT REPORTER)

20 A. I did not change the model. The model had built  
21 in an assumption that the bonds would be sold at a  
22 premium.

23 **Q. Is it fair to say that the construction fund cash**  
24 **for financing plan in your model right now is not**  
25 **correct?**



1           A. I do believe the interest costs are probably too  
2 low. But the model still projected the level of the  
3 funds available.

4           **Q. Well --**

5           A. Including the premiums. I can review that, but  
6 it's my understanding that the model automatically  
7 estimated the amount of bonds to be issued, and then  
8 made the assumption about the bonds face value being  
9 sold at a premium.

10          **Q. In your models, since you're assuming the lower**  
11 **cost of debt, it should be assuming lower premiums than**  
12 **what's in our model.**

13                   **And in fact, this shows higher premiums than in**  
14 **our model.**

15                   **I know you don't have our model in front of you.**  
16 **But do you recall if that's correct?**

17           A. I will review that. But the interest costs  
18 probably understates what the costs of funds would be to  
19 MSD.

20                   But the actual cash proceeds from bond sales is a  
21 function of additional debt that needs to be sold in  
22 order to have the cash available to fund the program.

23                   And using the model, with an assumption of  
24 selling an amount of bonds stated in the face value, and  
25 then the model having the stated amount of assumptions

1 for premiums, would accumulate the amount of cash  
2 available to MSD by selling more bonds.

3 Q. Okay. So it sounds like it's fair to say that  
4 you're not aware of an error in your version of the  
5 model that is calculating premium, when it should not be  
6 calculating premium.

7 A. Well, I don't agree with the assertion you're  
8 making.

9 I will say that I think I've understated the  
10 funds -- the cost of funds available to MSD.

11 Q. Okay. So going back to our discussion -- brief  
12 discussion about coupons and yields.

13 We've already agreed that coupon can be different  
14 than yield.

15 Do you understand that a premium is generated  
16 only when the coupon rate is higher than the yield?

17 A. That's right. Yes.

18 Q. Okay. And in your model, you stated in -- this  
19 was in discovery response, Exhibit 75 again. This was  
20 on page 1 in response one.

21 The face value of the bonds would be equal to the  
22 proceeds received from market; which by definition,  
23 means no premium, correct?

24 A. Where did I say that?

25 Q. That is in Exhibit 75 on page 1 in response one.

1     **The second sentence says: Hence, it assumes that the**  
2     **face value of the bonds would be equal to the bond**  
3     **proceeds received from the market.**

4         A. Yeah. That is the understanding I had at the  
5     model, because I missed the line that showed that the  
6     bond would be sold at a premium.

7         **Q. Okay. So --**

8         A. I acknowledged that when I first sat down.

9         **Q. Right. But that statement then, by definition,**  
10     **means there's no premium.**

11        A. It does. Yes.

12        **Q. Okay. So the amount of premium, which totals 95**  
13     **million in table two then, should not be in your**  
14     **financing plan.**

15                That's line 3 of table two at the bottom of  
16     page 3 in Exhibit 75.

17        A. That may be. Yes.

18        **Q. And so given that that -- and it's a total of 95**  
19     **million, should not be there, isn't it likely that**  
20     **increasing the funding of CIRP by that amount to cover**  
21     **the shortfall is going to increase the proposed**  
22     **wastewater service charges that you've proposed?**

23        A. It would increase the revenue department. Yes.

24        **Q. Okay. Thank you. I want to move on to some of**  
25     **the underlying assumptions in your plan.**

1           So we've already established that in your model,  
2           the bond -- the coupon rate equals the yield rate.

3           In our first discovery request, which is Exhibit  
4           74, we asked if you were aware of any recent  
5           transactions that used similar assumptions to what you  
6           used; including coupons and yields that match.

7           And you provided three examples. Do you want me  
8           to go through those examples or --

9           A. No. I recall them. Two of them were MSD recent  
10          bond issues.

11          Another one was in Indianapolis, a citizens  
12          wastewater report.

13          Q. Right. One of them was an MSD bond issuance.  
14          It's series 17A. I have the official bond statement  
15          here.

16          So I'm going to open it up to the inside page,  
17          where it lists the interest or coupon rates and the  
18          yields.

19          A. I'm familiar.

20          Q. Okay. So the yields and the coupons on that page  
21          are not the same, are they?

22          A. They are not.

23          Q. Okay. And in fact, can you tell by looking at  
24          that, that the majority of the coupons -- I'm sorry,  
25          yes.

1           **The coupon rates, or interest rate, in that model**  
2           **are 5 percent, consistent with MSD's model?**

3           A. I think I said that in the data response that  
4           you're referring to. Yes.

5           **Q. All right. So this is not an example of a bond**  
6           **being issued for a coupon rate equals yield.**

7           A. I wasn't disputing that the bonds can be sold.  
8           I'm agreeing to the face value.

9           I'm simply stating the assumption I believed was  
10          accurately reflected in the model, where I was  
11          attempting to estimate the cost to MSD. Not issuing  
12          additional debt financing.

13          **Q. Okay. Then the next two examples you gave are**  
14          **from Citizens Energy Group, CWA Wastewater Authority.**

15                 **And on page 2 of your discovery response, which**  
16                 **again is Exhibit 75, you reference a page in Citizen's**  
17                 **2018 financial report that lists bond issuances.**

18                 **It is page 22 that you reference -- can you**  
19                 **confirm; is that -- that is the page that you**  
20                 **referenced?**

21           A. Yes.

22          **Q. Okay. Thank you. And so I'll start with the**  
23          **second issuance listed there, which is a 2017A fund.**

24                 **There's a description in the far left of that**  
25          **bond. I won't ask you to read it. But there's a**

1     **parenthetical in that description that says SRF; is that**  
2     **correct?**

3           A.   Yes.

4           **Q.   Are you aware that's State Resolving Fund?**

5           A.   That is correct.   Yes.

6           **Q.   So this is a State Revolving Fund loan.   It's**  
7     **actually issued at a subsidized rate, so it's not a**  
8     **comparable bond transaction.   But MSD has proposed**  
9     **senior issuances; is that correct?**

10          A.   That's what SRF mean, and that would be a correct  
11     description.

12          **Q.   Okay.   And then the 2016A bonds, it's noted --**  
13     **and you note that the coupons there range from 2 to 5**  
14     **percent.**

15                 And so I can show you a page from that official  
16     statement, if you like.   But again, that's going to be a  
17     bond where the coupons and the yields do not match.   So  
18     a premium would be generated, correct?

19          A.   That's any understanding.   Yeah.

20          **Q.   Yeah.   Okay.   So I talked just a little bit about**  
21     **the wastewater market in general.**

22                 Do you understand that the benchmark yield -- are  
23     you aware that the benchmark yield in the municipal bond  
24     market is the MMD rate?

25          A.   Benchmark yield on an AA-rated water/wastewater?

1           **Q. Within the tax exempt municipal bond market, MMD**  
2           **is the benchmark at which bonds are priced. And so**  
3           **they're in a spread to MMD?**

4           A. If you're -- yes. If you're acquiring a bond,  
5           that's true.

6           **Q. Okay. And so while MMD is reported as a yield,**  
7           **it assumes 5 percent coupons; are you aware of that?**

8           A. Well, that's what you modelled so --

9           **Q. So it assumes --**

10          A. That's what you sold your 2017 bond issuances.

11          **Q. And so if MSD is projecting bond issuances at**  
12          **mostly 5 percent coupon rate, the MMD benchmark rate**  
13          **assumes a 5 percent coupon rate, and the examples you**  
14          **provided use mostly a 5 percent coupon rate, isn't it**  
15          **reasonable that our financial model should use those**  
16          **same assumptions?**

17          A. It would. But the combination of those  
18          assumptions would result in bonds that are too expensive  
19          in your model.

20                 With a 5 percent coupon rate, then the premium  
21          you used was too low. The premium should have been  
22          higher or be more in line with what your 2017 net cost  
23          of your bond was, which is around -- what did I say?  
24          Three and a half?

25          **Q. It was about three and a half on the new money.**

1 **Three quarter roughly overall. So future bonds --**

2 A. -- assumptions you had in your model at a 5  
3 percent coupon rate, you're net cost of those bonds  
4 would've been in excess of 4 percent.

5 **Q. Okay. So -- and this is another assumption in**  
6 **your model; that future rates should reflect current**  
7 **rates and not make an allowance for rate increases for**  
8 **the uncertainty of future projections?**

9 A. It's my recommendation to the commission that the  
10 model be developed as closely as possible to what the  
11 actual cost will be to MSD.

12 I've been looking at projected interest rates for  
13 20 years now. And in the data response I provided you,  
14 I showed that over the last 10 years, in particular,  
15 there have been projections of very large increases, the  
16 interest rates, which have always turned out to be wrong  
17 in the last 10 years.

18 There continues to be an outlook for an increase  
19 in interest rates. The change in market conditions  
20 still seems to leave us with a lot of uncertainty about  
21 whether or not interest rates really will change.

22 So your question and the data response to me was  
23 whether or not I accommodated an expectation of an  
24 increased in interest rates.

25 And my response was, is I recognize interest



1 rates can increase. But there's no clear known fact  
2 that they will increase.

3 So in order to accommodate the uncertainty about  
4 where interest rates will be, I thought it would be more  
5 appropriate to be more conservative in estimating what  
6 the interest rate is in the model, relative to currently  
7 interest rates.

8 And that's what I attempted to do. But as I  
9 stated at the outset, I did make an error in the model.  
10 Because I did not recognize the line item, which assumed  
11 those bonds would be sold at a premium.

12 **Q. So in your rebuttal testimony, and then as**  
13 **revised a little bit in your discovery request, you did**  
14 **report that economist's estimates over a shorter period,**  
15 **two years, have proven to be incorrect.**

16 **And given that you just stated that there is**  
17 **uncertainty in the marketplace, and that even economists**  
18 **are not able to accurately predict rates, isn't it**  
19 **reasonable to, over a longer forecast period, five**  
20 **years, in the case of our rate proposal, to make some**  
21 **allowances for the possibility of increasing rates?**

22 A. As I said, I think it's appropriate to have a  
23 conservative estimate of what the interest rate will be.

24 But I don't think there needs to be too much of a  
25 risk factor added.

1           Because interest rates, as I've said, over the  
2 last 10 years, there's been projections of very large  
3 increases in interest rates. They have not been  
4 realized.

5           Interest rates have stayed low over the last 10  
6 years. Market data and the federal reserve are  
7 projecting interest rates to be relatively stable,  
8 largely because inflation is relatively stable.

9           The federal reserves' interaction in the  
10 marketplace has been normalized. So the impact to --  
11 the federal reserve impact on both short-term and  
12 long-term interest rates is no longer received this as a  
13 factor that may drive up interest rates.

14           So with all of that, I would agree that there  
15 needs to be some consideration that interest rates can  
16 increase.

17           But I would recommend to the Rate Commission that  
18 an interest rate projection that is much higher than  
19 what current interest rates not be used in the model.

20           Because I think that it unjustifiably inflates  
21 the revenue requirement, and unnecessarily increases  
22 wastewater rates to MSD customers.

23           **Q. Okay. And as you noted earlier, the rates that**  
24 **are currently in your model, you acknowledge, are too**  
25 **low?**



1           **Q. -- and your rebuttal testimony to that. So on**  
2 **page 16 and 17 of your rebuttal testimony, you**  
3 **identified three examples of projects that you believe**  
4 **are discretionary and could be deferred for a few years.**

5           **Is that an accurate characterization of your**  
6 **testimony? 16 and 17.**

7           A. Yeah. I was trying to give examples of certain  
8 projects that were included in the forecast for Fiscal  
9 Year 23 and 24 that could be deferred for a couple of  
10 years.

11           I wasn't trying to identify the specific projects  
12 that should be deferred; but simply there should be -- I  
13 believe there is flexibility in order to levelize the  
14 level of annual CIRP annual spend.

15           So this was an attempt to identify projects that  
16 may give MSD more flexibility and levelizing that level.

17           **Q. Okay. Did you characterize those three examples**  
18 **as, one, the wastewater solids combustion boiler; two,**  
19 **the wastewater plant repair; and three, capacity**  
20 **expansion?**

21           A. I did. Yes.

22           **Q. Okay. And also on page 2 of your schedule MPG3,**  
23 **in your testimony, you further identified seven specific**  
24 **project numbers that you believe are discretionary**  
25 **during the FY23-24 period; is that correct?**

1           A. It was my attempt at identifying whether or not  
2 there is some discretion in MSD.

3           It was not my recommendation to defer those  
4 specific projects.

5           Rather, it's my recommendation to levelize the  
6 annual CIRP spend. And to the extent that flexibility  
7 exists I'm encouraging you to do it.

8           Because levelizing the CIRP will levelize the  
9 regular ^ product? and mitigate unnecessary increases in  
10 wastewater rates.

11          **Q. Okay. So I want to talk about those three**  
12 **examples, project types that you've used.**

13           **First, we'll talking about the wastewater solids**  
14 **combustion boiler.**

15           **If you look at page 17 of your testimony, you**  
16 **list a wastewater solids combustion boiler as a project**  
17 **that could be deferred, as we've just spoken, correct?**

18          A. It's my understanding it can be. Yes.

19          **Q. Okay. So you've also said that you were not**  
20 **identifying specific projects.**

21           **But that wastewater solids combustion boiler that**  
22 **you're referring to, is that actually Project 12565 from**  
23 **page 2 of your schedule MPG3?**

24          A. I believe it is. Yes.

25          **Q. You understand the incinerators at the Bissell**

1     **and Lemay wastewater treatment plants are required for**  
2     **proper handling of biosolids; is that correct?**

3         A. I understand that they're not in service right  
4     now. But they will be placed in service for this  
5     purpose. Yes.

6         **Q. You also understand that the incinerators at the**  
7     **Bissell and Lemay treatment plants were constructed in**  
8     **the early 1970s?**

9         A. I did confirm that. But I do understand that has  
10    MSD found it appropriate to replace them.

11        **Q. Okay. Do you also understand that the operation**  
12    **of the incinerators are regulated by the United States**  
13    **EPA and MDNR?**

14        A. That's my understanding.

15        **Q. Are you familiar with the regulations and**  
16    **subsequent operating permits for the Bissell and Lemay**  
17    **treatment plant incinerators?**

18        A. I did not review that specifically.

19        **Q. So you are not familiar with those regulations?**

20        A. The regulations on the need for the -- the  
21    boilers?

22        **Q. The regulations that relate to the operation of**  
23    **the incinerators.**

24        A. I have not reviewed that specifically.

25        **Q. Okay. What is your understanding of the**

1 **District's Second Material Amendment to the Consent**  
2 **Decree?**

3 A. That there's certain levels of retrofits and  
4 improvements to the system that have to be made to  
5 satisfy the consent decree with the EPA.

6 **Q. Okay. I'm going to hand to you MSD Exhibit 37A.**  
7 **Would you please identify the title of that document.**

8 A. United States District Court, Eastern District of  
9 Missouri, Eastern Division. Second Material Amendment  
10 to Consent Decree.

11 **Q. Okay. And as you just confirmed, that was issued**  
12 **by the U.S. District Court of the Eastern District of**  
13 **Missouri, correct?**

14 A. That's the title of the document. Yes.

15 **Q. Okay. Would you please turn to page 3 of that**  
16 **document.**

17 A. I'm there.

18 **Q. And read the highlighted portion.**

19 A. Whereas the parties agree that the proposed  
20 amendment is necessary because MSD currently incinerates  
21 68,000 tons of sewage/sludge annually, utilizing  
22 multiple-earth incinerators, the federal plan  
23 requirements for sewage/sludge incineration units  
24 constructed on or before October 14, 2010, set forth in  
25 40CFR Part 62, Subpart LLL, paren, SSI rule, close

1    paren, issued by EPA in 2016 required MSD to replace its  
2    multiple-earth incinerators. The replacement of the  
3    incinerators will occur in fiscal years 21 through 26.  
4    The timeframe is estimated to cost approximately 360  
5    million in 2017 dollars.

6           **Q. So based upon the District's Second Material**  
7    **Amendment to the Consent Decree, the District really**  
8    **doesn't really have a discretion to delay this project,**  
9    **does it?**

10           A. Well, not beyond 2026. That's true.

11           **Q. Okay. Thank you. I want to move on to the**  
12    **second example. Actually, it was your third example.**

13                   **Capacity expansion. Regarding the capacity**  
14    **expansion that you referred to in your testimony, are**  
15    **you referring to the projects related to the capacity**  
16    **expansion of the lower Meramec wastewater treatment**  
17    **facility, which was Project 12255 on page 2 of your**  
18    **schedule MPG3?**

19           A. Yes.

20           **Q. Okay. And are you also referring to Project**  
21    **12170 of that same table as the decommissioning of the**  
22    **Fenton treatment plant facility?**

23           A. Well, I understand those two are interrelated  
24    together. Yes.

25           **Q. Okay. So those are the two specific projects**



1     **that you are referring to in your testimony.**

2           A. That was a project that was identified as  
3 potentially allowing MSD some flexibility on managing  
4 this annual CIRP spending.

5           **Q. Are you aware that all of these projects are**  
6 **listed in consent decree?**

7           A. No, I am not.

8           **Q. Do you understand that the Fenton treatment plant**  
9 **facility, to be eliminated by these projects, is located**  
10 **in the Meramec River flood plain?**

11          A. I haven't confirmed that. But that does sound  
12 correct.

13          **Q. Okay. And did you know that that treatment plant**  
14 **has flooded twice in the last four years?**

15          A. It's my understanding that there are issues with  
16 that plant. Yes.

17           CHAIRMAN TOENJES: I couldn't -- could you  
18 please.

19           MR. GORMAN: Pardon me.

20           CHAIRMAN TOENJES: -- speak in the microphone.

21           MR. GORMAN: Pardon me.

22           MS. MYERS: Do you hear that, or do we need to  
23 back up.

24           (THE COURT REPORTER READ BACK THE LAST ANSWER)

25          **Q. MS. MYERS: So the District does not really have**

1     **the discretion to delay consent decree projects**  
2     **associated with the Meramec treatment plant or the**  
3     **decommissioning on the Fenton treatment plant, do we?**

4         A. Well, you don't have complete discretion. But my  
5     recommendation wasn't to not do the project.

6             But simply manage the annual spend, such that you  
7     can do it in a reasonable amount of time, and do it in  
8     such a way that you don't have unnecessary increases in  
9     wastewater rates.

10         **Q. But you also indicated that you were not familiar**  
11         **with the projects being listed in the consent decree.**

12             **So you're not familiar with the schedule of those**  
13         **projects in the consent decree?**

14         A. Not specifically on a project basis. But I did  
15     look at your consent decree timeline projections.

16             And the period over which you are given in order  
17     to make retrofits in the system to comply with the  
18     consent decree.

19             And I believe, moving some of these capital  
20     programs that you budgeted to '23 and '24 out to '25 and  
21     '26, it's my understanding would not conflict your  
22     obligations of the consent decree.

23         **Q. But you testified you did not look at the**  
24         **specific schedule for the specific projects, correct?**

25         A. Yeah. There's only so much time to look at all

1 of these projections.

2 And in looking at the revenue requirements,  
3 you've included in support of your proposal to increase  
4 wastewater rates, I did look at the eye-level budgeting  
5 information.

6 And based on that, it did appear as though there  
7 was some time available to comply with the consent  
8 decree and accommodate all of these projects.

9 But do it over a period that stretched out two  
10 years, relative to what MSD was projecting.

11 **Q. Okay. So just to summarize, I understand you did**  
12 **not look at these specific project schedules in the**  
13 **consent decree --**

14 A. Correct.

15 **Q. -- correct?**

16 A. Correct.

17 **Q. Okay. So moving on to your second example, which**  
18 **is the wastewater plant repair.**

19 In your testimony, you provided a listing of  
20 various wastewater treatment plant repair projects you  
21 feel could be delayed at the district's discretion; is  
22 that correct?

23 A. I feel could possibly be delayed, as some items  
24 that would support the levelization of the annual CIRP  
25 spending.

1           **Q. Okay. So what environmental impacts or MPDS**  
2 **permit violations would result from the District's**  
3 **failure to complete the listed rehabilitation repair and**  
4 **replacement projects? Are you aware of any?**

5           A. I have not reviewed that.

6           **Q. Okay. The District is obligated to operate and**  
7 **maintain its facility to stay in compliance with its**  
8 **regulatory obligations and wastewater treatment plant**  
9 **permits; is that correct?**

10          A. That's my understanding. Yes.

11          **Q. Have you reviewed the district's asset management**  
12 **approach and prioritization process in planning these**  
13 **types of projects?**

14          A. Well, I have reviewed that before. But in this  
15 case, I was simply look at their budgeted level of  
16 capital expenditures and noted that there was a very  
17 significant increase in FY23 and 24.

18                 That seemed ripe for replanning and spreading it  
19 out up through FY26. And that can be done.

20                 The level of wastewater rate increase needed in  
21 this case would be considerably lower.

22          **Q. So based upon your review, the District really**  
23 **does not have any discretion to delay these types of**  
24 **projects due to regulatory risk, do we?**

25          A. I can't specifically say that there's a

1 requirement to do it by fiscal year 2024.

2 But based on my review, the EPA consent decree  
3 does extend beyond that date.

4 But I can't point to any specific commitment MSD  
5 has made to the EPA.

6 **Q. Okay. Thank you. So moving on to the extra  
7 strength surcharge topic.**

8 A. All right.

9 **Q. So on page -- on page 29 of your rebuttal  
10 testimony, starting on line 11.**

11 **You state MSD's capital expenditures related to  
12 BOD and TSS are primarily associated with the  
13 improvement of operating efficiency of wastewater  
14 treatment plants, because these improvements are  
15 expected to reduce the costs of waste disposal.**

16 **Is that an accurate characterization of your  
17 statement?**

18 A. It is.

19 **Q. Okay. So is it true that MSD allocated these  
20 capital costs to all of our customer classes?**

21 A. It is. But the capital costs associated  
22 specifically with the extra strengths are assumed to be  
23 a basic level for all customers.

24 And then customers that have extra strength are  
25 paying extra charges for those.



1 we're clarifying things for the record and the Rate  
2 Commission has what it needs on the various factors and  
3 criteria under the charter, which I think you're  
4 familiar with, correct?

5 A. I am. Thank you.

6 Q. Let's start on page 2 and 3 of your testimony.  
7 On the finance policy for the CIRP, you talk about how  
8 the District in the past has had 75 percent debt and 25  
9 percent PAYGO.

10 And this rate change proposal as 60 percent debt  
11 and 40 percent PAYGO.

12 But then you conclude that you believe that 70  
13 percent debt and 30 percent PAYGO is correct for this  
14 rate change proposal. Can you explain why you got to  
15 the 70/30?

16 A. Yes. A financial policy is both the PAYGO debt  
17 financing and the PAYGO financing. But it also includes  
18 a debt service coverage minimum.

19 Under the policy that this board approved in the  
20 last three rate cycles, it was 75/25 as a targeted debt  
21 and equity funding. It also has a minimum debt service  
22 coverage funding of 1.6 times.

23 As the level of imbedded debt grows for the  
24 utility, as they continue to make work-related and EPA  
25 capital expenditures, the percentage of rate revenue

1 funding needed to maintain a minimum debt service  
2 coverage ratio of 1.6 times is growing in relationship  
3 to the annual grip spend.

4 So in order to maintain that minimum debt service  
5 coverage requirement at around 1.6 times, in this case,  
6 I think the 75/25 can't be met it, because it will push  
7 the debt service coverage ration below 1.6 times.

8 So I've recommended 70/30, which actually sets it  
9 a little above 1.6 times.

10 And I think that's significant, because the  
11 combination of these two financial metrics under the old  
12 policy ensure that there's adequate debt service  
13 coverage, because that's an important factor in the  
14 credit standing of the utility.

15 It also helps establish just how much equity  
16 funding is needed on an annual basis in order to  
17 maintain that level of debt service coverage.

18 So in this case, it's grown from 75/25 in the  
19 last couple cases to what I think is appropriate in this  
20 case of 70/30.

21 I expect in the next case, because the capital  
22 expenditures appear to be levelling off, that the level  
23 of PAYGO funding will be much higher than 70 percent.

24 And the reason I would expect that is because in  
25 order to maintain the minimum debt service coverage



1 ratio, the level of PAYGO funding is going to increase  
2 from this point, because we have moved so far into the  
3 major capital expenditure program.

4 **Q. Thank you. While we're on page 3, you've got --**  
5 **page 2 actually. You're proposing to reduce amount of**  
6 **revenue the rate change proposal would bring into the**  
7 **District over the four-year period.**

8 **I'm looking at that little chart that you have.**  
9 **The District proposes to generate 69 million in**  
10 **increased revenue, and then you've got 45 million?**

11 A. I do, yeah. That's about a \$24 billion reduction  
12 by the end of the fourth year.

13 **Q. And why do you believe that that's appropriate?**

14 A. Well, there's three adjustments I made to the  
15 cost of service.

16 One, I will reverse. That is the level of  
17 interest rates. They were overstating their cost in  
18 these bonding issues.

19 I still believe that they're probably overstated  
20 there, but I think I understated it in the way I  
21 adjusted the model. I will correct that.

22 The second issue is their proposal to increase  
23 the debt service coverage minimum from 1.6 times, as  
24 it's been in the last three rate proceedings, up to 1.8  
25 times in this case unnecessarily shifts the level of

1 rate revenue funding to equity versus debt.

2 And that unnecessarily increases the revenue  
3 requirement in each of the four years over the next --  
4 in this rate cycle.

5 And second, the level of annual CIRP spending has  
6 been increasing in each of the rate cycles.

7 In this year, this cycle again has increased.  
8 But particularly, in the last two years of the four-year  
9 rate cycle, it increased by about \$70 million a year.

10 If that can be spread out over a six-year  
11 appeared instead of -- well, let me go back.

12 The CIRP annual spend over this cycle increased  
13 relative to the last cycled, but significantly the last  
14 two years of this cycle increased by about \$70 million,  
15 relative to the first two years.

16 But the year immediately following, fiscal year  
17 2024, which is in this rate cycle, the annual CIRP drops  
18 significantly and stays lower through 2030.

19 So if that \$70 million increase in CIRP funding  
20 in '23 and '24 can be spread out over '25 or '26, then  
21 you can reduce the revenue increase and rate increase  
22 you need in this case to pay for the level of CIRP  
23 funding that will be done over the next four years.

24 And significantly, if that can be accomplished,  
25 then you not only reduce the wastewater rates needed

1 over the next four years; but by spreading the level of  
2 CIRP spending out, you actually reduce the amount of the  
3 bonds that have to be sold to fund those programs when  
4 they're actually funded.

5 So I think there's benefits to customers by  
6 reducing rate increases in this case. I think there  
7 will be -- in this rate cycle, I think there will be  
8 benefits to customers and subsequent rate cycles,  
9 because more of the CIRP funding will be -- revenue  
10 funding, as opposed the issuing additional debt.

11 **Q. As Ms. Myers pointed out, though, I believe that**  
12 **one of the things that the District and the Rate**  
13 **Commission also have to consider is whether the rate**  
14 **change proposal will allow it to comply with all laws,**  
15 **including the consent decree.**

16 So my question would be, given what you know now,  
17 do you believe the rate change proposal, as you've got  
18 it here with 45 million, do you believe that that would  
19 be -- impair the District's ability to comply with the  
20 laws and regulations, including the consent decree?

21 A. Well, not sure. But I will look at that. Ms.  
22 Myers showed me a document that showed that certain  
23 incinerator projects have to be done by 2026.

24 That's two years beyond 2024. And in my  
25 modelling, I deferred a couple of projects out through

1 2026.

2 So I don't think that change would necessarily  
3 conflict with that timeline obligation of MSD.

4 She also commented on some wastewater capacity  
5 expansions and suggested there's some timeline limits on  
6 those. I'll review that to see whether or not this  
7 proposal conflicts with that.

8 If it doesn't, then I think that -- what's very  
9 significant about this is to the extent there is any  
10 flexibility in MSD's ability to time when they actually  
11 make this capital investment that they have some control  
12 over the pace.

13 And then they also have some control over the  
14 rate increases that's needed in this case.

15 And Ms. Myers has raised some important issues  
16 that I don't dispute. You have to comply with the EPA  
17 regulations.

18 But considering whether or not the MSD has timed  
19 the capital investments in a way that doesn't result in  
20 the most attractive rate structure for its customers, I  
21 think it has merit and should be explored by the Rate  
22 Commission to ensure customers don't have to pay rate  
23 increases that could be avoided by more prudent  
24 management of CIRP spending by MSD.

25 **Q. One of the other factors that the Rate Commission**

1 has to determine is whether the rate change proposal  
2 generates funds necessary for emergencies and  
3 delinquencies.

4 Do you think that your -- is it your opinion that  
5 the proposal that you're making will generate funds  
6 necessary for emergencies and delinquencies with the  
7 smaller proposed revenue increase?

8 A. Yes. With the corrections, it may be necessary  
9 for the interest rate, and I will review the CIRP  
10 funding issues. That will change the revenue position  
11 that I take with modifications.

12 But with those adjustments, the rate model I used  
13 was essentially the same as the MSD's rate model.

14 It accommodates the need for cash for the MSD.  
15 It reflects uncollectible bills by MSD, and need to pass  
16 those costs on to customers who do pay their bills.

17 It reflects the liquidity needs of the MSD to  
18 fund their operating expenses, their cash reserves to  
19 ensure that they're in compliance with the bonds, or  
20 issuing additional bonds.

21 It ensures that the debt service coverage ratio  
22 is adequate to not only meet the initial requirements  
23 for minimum debt service coverage, but also is strong  
24 enough to maintain a AA bond rating, which is MSD's  
25 current bond rating, and is what I targeted -- or I

1 accepted as a reasonable target for these financial  
2 forecasts.

3 So I believe the actual objectives -- financial  
4 objectives the MSD included in their model were not  
5 contested.

6 And with very limited changes in that model, I  
7 think there's opportunities for much lower rate  
8 increases in this case, while still providing MSD the  
9 funding needed to accommodate all the capital investment  
10 that has to be made to comply with EPA regulations.

11 But there are some soft spots that I do need to  
12 look at, based on what the MSD pointed out today --

13 **Q. So even though it will result in less revenue, it**  
14 **is still your opinion that it would be sufficient to**  
15 **cover all emergencies and delinquencies.**

16 A. The revenue is adequate under the forecast  
17 included the model.

18 The adjustments to revenue was an opportunity to  
19 reduce the debt service coverage ratio down to what has  
20 been previously approved by this board, which changes  
21 the mix of funding from debt and equity percentages that  
22 the MSD had to 40 percent.

23 Equity funding is 60 percent debt, I changed it  
24 to 30 percent equity funding and 70 percent debt. That  
25 lower the revenue requirement.

1           The increase in capital spending in the last two  
2 years for those projects, which I believe were  
3 discretionary and could be deferred for a couple of  
4 years, also reduced the revenue increase in those two  
5 years.

6           All other financial metrics in the MSD were met  
7 in this financial model.

8           **Q. You had a lot of discussions about the interest**  
9 **rates, so I don't want to -- you're going to go back and**  
10 **look at that again, it's my understanding.**

11           **But you believe the 5 percent is too high; is**  
12 **that the sum of where you are right now?**

13           A. Yeah. The 5 percent interest rate was  
14 accompanied by an assumed premium, selling the bond in  
15 the model.

16           And that premium was about 13 percent. And the  
17 net effect of that would price a bond out a little more  
18 than 4 percent.

19           That's about a percentage point more than what  
20 MSD paid for 2017 bond issue.

21           So the real question is, will interest rates  
22 increase over the next four years.

23           I've been in rate cases for many, many years,  
24 including the last four rate cycles for the MSD.

25           We've always been looking at increases in

1 interest rates, and we haven't seen them.

2 There's projections for increases in interest  
3 rates now. There have been every year for the last 12  
4 years.

5 More often, those projected interest rate  
6 increases have not materialized. Interest rates have  
7 stayed relatively flat.

8 But nevertheless, the MSD has to recover its  
9 actual interest costs, and that will be based on market  
10 conditions when the bonds are sold.

11 But at the same time, the overstating what those  
12 interest costs will likely be will have the effect of  
13 unnecessarily increasing wastewater rates to customers  
14 in this utility.

15 And I think that the cost to customers should be  
16 considered in formulating what an appropriate assumption  
17 is for what the interest rate will be over this  
18 four-year rate cycle.

19 **Q. And Mr. Gorman, what do you -- you obviously**  
20 **think it's going to less than what they're proposing.**

21 **What do you think the effect to MSD is, if in**  
22 **fact the interest rates will increase?**

23 **You already said we don't have any clear**  
24 **indicators. But what if instead, interest rates --**  
25 **something happens in this country where interest rates**



1 are above 5 percent, or at 5 percent?

2 What's going to going to happen to the CIRP or  
3 MSD in general, based on that assumption in this model  
4 for this rate change proposal?

5 A. Well, I'm not aware of anything that would  
6 prevent the MSD from coming in and saying, look, there's  
7 been a material change in our cost. And we need to  
8 adjust the wastewater rates approved for this docket.

9 To the extent that interest rates do increase  
10 well beyond what's reflected in the forecast, and MSD's  
11 rates are not adjusted, that would mean that their debt  
12 service coverage would be a little lower.

13 Probably not below the minimum level of 1.6 times  
14 used in the forecast; certainly well above the 1.25  
15 minimum, that would put them in default and the bond in  
16 danger.

17 So there is some flexibility in the debt service  
18 coverage level in the event that interest rates are  
19 higher than what's included in the forecast here.

20 But there's also the natural hedge for the MSD  
21 here. If their costs increase considerably, relative to  
22 what is assumed when we make these rate forecasts that  
23 threatens their financial strength, financial viability,  
24 I think -- I presume they would have the right to come  
25 in and ask the Rate Commission to consider an emergency

1 rate increase, because something beyond their control  
2 happened, which threatens the financial strength of the  
3 MSD.

4 **Q. So if interest rates in fact go up, your answer**  
5 **is that MSD would need to come back to the Rate**  
6 **Commission to do a new rate change proposal,**  
7 **essentially.**

8 A. No. I think I explained that if interest rates  
9 go up, but not significantly, then that would simply  
10 mean a lower debt service coverage would be earned  
11 relative to the forecast period.

12 But that would not harm MSD's financial integrity  
13 because rates are being set -- even at 1.6 times debt  
14 service coverage ratio, at a relatively strong financial  
15 coverage of debt obligations.

16 So that would erode the actual earned ESC  
17 relative to the target ESC. But there's a lot of  
18 breathing room in that factor.

19 My second point was, is that there's a material  
20 change in the MSD's costs relative to what's included in  
21 the rates.

22 And that material change increases their  
23 financial integrity, or financial viability; then it  
24 would seem prudent for them to seek an increase in rates  
25 to accommodate that change in costs.

1           **Q. Thank you. Let's switch to I&I for a minute. I**  
2           **think it's on page 6 of your testimony.**

3                   **You note that I&I costs are more accurately**  
4           **reflected as 50/50 as opposed to MSD's proposal of 40**  
5           **percent customer and 60 percent throughout.**

6                   **Could you please explain what supports your 50/50**  
7           **breakdown as supplied to MSD?**

8           A. Well, I believe Black and Veatch's studies would  
9           support it; your on witness's studies support --

10           **Q. Correct. I'm asking you your opinion right now.**

11           A. Well, that's part of my opinion; is the studies  
12           done by Black and Veatch supports -- reflect an I&I at a  
13           much higher ratio for customers than reflected in MSD's  
14           studies here.

15                   For other wastewater utilities, I believe it is  
16           common to have a customer component of I&I at 50 percent  
17           or even higher.

18                   And another aspect of I&I cost is, you know --  
19           the reason I&I's infiltration, the inflow of ground  
20           water and sewer water into the wastewater system so that  
21           the amount of that water collected is a direct function  
22           of the length of pipe you have to connect all your  
23           customers to the wastewater system, the number of lift  
24           stations that can get water infiltrated, the number of  
25           manhole covers that can get water infiltrate.

1           So that the number of customers on the system,  
2     the geographical distance that the utility has to  
3     install pipe in order to connect all those customers,  
4     has a big impact on the amount of the amount I&I, water  
5     -- I&I infiltration into the wastewater system.

6           It's not simply the volume of the wastewater that  
7     those customers put into the system. It's more largely  
8     driven by the length of the pipe and the number of that  
9     infrastructure I just described.

10          That's typically recognized by companies like  
11     Black and Veatch when they do studies on I&I.

12          And because of the causation of I&I, the length  
13     of pipe and those other factors, the classification of  
14     those costs is generally weighted more heavily toward a  
15     customer component and not as heavily weighted towards  
16     actual wastewater contributions to the system.

17          Because the wastewater contributions to the  
18     system really don't drive the I&I. They're just an  
19     additional cost the wastewater utility has to incur  
20     because it exists in some I&I in meeting their primary  
21     objective. And that's to treat the wastewater fluid  
22     that's put into the system.

23          **Q. Thank you. As we talked about, the Rate**  
24     **Commission has certain factors and criteria that they**  
25     **have -- that they look at and they have to determine**

1 under the charter in looking the rate change proposal.

2 And certainly, from your testimony, there's parts  
3 about the district's proposal that you disagree with.

4 But I'm going to ask you some questions, just  
5 because I'm trying to get exactly what -- you don't  
6 mention the factors and criteria in your testimony. So  
7 I just want to ask you about them.

8 A. Thank you.

9 Q. And right now, I'm asking about the District's  
10 rate change proposal.

11 So do you believe that -- do you have an opinion  
12 on whether the rate change proposal is necessary to pay  
13 interest and principal falling due on bonds issued to  
14 finance the assets with the District?

15 A. Not the rate increase proposed by MSD staff. But  
16 a rate increase is necessary, particularly in fiscal  
17 year 23 and 24.

18 Q. Do you have an opinion on whether the rate change  
19 proposal is necessary to pay for the cost of operation  
20 and maintenance?

21 A. The rate increase that I've outlined in my  
22 testimony is necessary for that. Yes.

23 Q. What about the district's rate change proposal?

24 A. I think they're -- the proposed District rate  
25 increase produces revenues that are in excess of the

1 amount of revenue needed to cover those costs.

2 **Q. And do you have an opinion on whether the rate**  
3 **change proposal provides for funds in such amounts to**  
4 **cover emergencies and anticipated delinquencies?**

5 A. Under my proposal, I believe it does. Under the  
6 District's it would also.

7 But again, I believe the District's rate change  
8 proposal creates more revenue than the District needs.

9 **Q. Okay. And is the District's rate -- well, let's**  
10 **talk about both.**

11 **The rate change proposal; do you have an opinion**  
12 **as to whether it's consistent with constitutional,**  
13 **statutory, or common law, as amended from time to time?**  
14 **And you don't have to have an opinion on those.**

15 A. As my non-lawyer opinion, I think the rates need  
16 to be adequate to maintain the financial integrity of  
17 the utility.

18 Which is what I sought to estimate in my  
19 testimony, and I believe MSD staff's level of revenue is  
20 in excess of an amount needed to maintain the financial  
21 integrity of the utility.

22 **Q. Do you have an opinion as to whether the**  
23 **District's rate change proposal enhances the District's**  
24 **ability to provide adequate sewer and drainage systems**  
25 **and facilities and related services?**

1           A. Again, I believe my revenue increase is adequate  
2 to cover that in a conservative manner.

3           And I believe MSD staff's revenue increase is in  
4 excess of the amount needed to cover those costs.

5           **Q. Do you have an opinion as to whether the**  
6 **District's rate change proposal is consistent with and**  
7 **not in violation of any covenant or provision, relating**  
8 **to any outstanding bonds or indebtedness of the**  
9 **District?**

10          A. Sorry. Can you repeat that?

11          **Q. Sure. Whether the District's rate change**  
12 **proposal is consistent with and not in violation of any**  
13 **covenant or provision relating to any outstanding bonds**  
14 **or indebtedness of the District?**

15          A. I don't believe that they're inconsistent with  
16 their debt obligations, no.

17                I believe they're inconsistent with their  
18 obligations for reasonable pricing to the customer.

19          **Q. And the next factor we've talked about a little**  
20 **bit, but I would also like to ask again.**

21                **Do you have an opinion as to whether the rate**  
22 **change proposal does not impair the ability of the**  
23 **District to comply with applicable federal or state laws**  
24 **or regulations?**

25          A. Same answer. I believe the district's revenues

1 are in excess of what they need to comply with the state  
2 laws and regulations, with the caveats that we've walked  
3 through already.

4 And I believe that the lower revenue requirement  
5 would be adequate to accommodate those obligations.

6 **Q. And then finally, do you have an opinion as to**  
7 **whether the District's rate change proposal, as they**  
8 **propose it, imposes a fair and reasonable burden on all**  
9 **classes of ratepayers?**

10 A. I do not. I believe the MSD's proposal produces  
11 an excessive rate burden on all customers.

12 And I don't believe that they're cost of service  
13 study accurately allocates costs to the various  
14 classification of functional components of wastewater  
15 service.

16 So I propose to reduce the revenue collections  
17 from the MSD that is necessary to maintain the financial  
18 integrity, and meet their capital expenditure  
19 obligations to state and federal regulatory agencies.

20 And do so in a way that will maintain their  
21 financial integrity and earn their very strong AA-rated  
22 bond rating, but do so at more reasonable prices to  
23 customers.

24 I also believe that the MSD has proposed a rate  
25 structure, which shifts too much costs to the volume



1 charge, which can create instability in the revenue  
2 collections, which I think is a bad policy for a utility  
3 that keeps taking on more debt.

4 You want stable revenue collections. So reducing  
5 the -- increasing the level of revenue collected from  
6 the volume charge and reducing the relative level from  
7 customers and fixed charges that are imposed on  
8 customers each month may have -- may create more  
9 instability and revenue collections.

10 So I think from a financial and integrity  
11 standpoint, the MSD proposed rate structure should be  
12 modified to at least have the same increase in the  
13 monthly customer charges as they do in the volume metric  
14 charges.

15 MS. STUMP: Okay. Excuse me just a minute, Mr.  
16 Chair. Prabha Kumar is one of the rate change  
17 consultants. She's got at least one question, I  
18 believe.

19 EXAMINATION

20 BY MS. KUMAR:

21 **Q. Mr. Gorman, I think to the counsel's question on**  
22 **what happened if the interest rate potentially goes**  
23 **higher.**

24 **One of the things that you mentioned was that if**  
25 **interest rates happen to go higher, then the one thing**

1 that could happen is the debt service coverage could be  
2 lower than the 1.6, but were it -- would it still be  
3 higher than the 1.25, was your statement. Was that  
4 correct? Did I capture that correctly?

5 A. Well, I don't know if I got that specific. But  
6 if you look at my schedule MPG1, page 2, I'm actually  
7 setting rates at the minimum DSC of 1.7 times, which  
8 increases over the forecast period, up to almost 1.9  
9 times.

10 So what I said was is that if interest rates are  
11 higher than what is reflected in my forecast, that will  
12 increase interest expense on new bonds; not the old  
13 bonds, because there will be contractual obligations.

14 But that increase in interest expense on the new  
15 bonds will increase operating expenses and reduce the  
16 revenue available to -- that goes -- essentially reduces  
17 operating income to the utility.

18 And that will shrink the actual earned debt  
19 service coverage ratio. And it will shrink it below  
20 what was assumed for ratemaking purposes.

21 But it would be below the 1.6 times, if rates  
22 were set based on 1.6 times. But my projection shows  
23 something a little higher than 1.7 and 1.8.

24 Q. Correct. So in the situation when if interest  
25 rates go higher than projected, then you are



1 BY MR. SCHOEDEL:

2 Q. Mr. Gorman, you stated that the interest rates --  
3 and I know it's a complicated issue with projecting  
4 interest rates. And I'm certainly not a finance person.

5 But with your experience and reviewing over the  
6 years, you mentioned that MSD's may be too high based on  
7 past experience and hard to interpret what might -- I  
8 shouldn't say interpret, but guess what the future  
9 interest rates are.

10 In your opinion, what do you think would be a  
11 more appropriate interest rate to include in their  
12 model?

13 A. Well, I need to look at that more carefully,  
14 because their model actually assumes that the coupon  
15 rate and -- it is not necessarily the cost of the bonds,  
16 because the bonds are expected to be sold at a premium.

17 But I would think that the net effect; that is  
18 the actual cost to MSD of the proceeds from the bond,  
19 which would be a combination of what the coupon cost is,  
20 and the net proceeds to MSD should produce a net cost of  
21 around 3 and a half to 4 percent.

22 Their cost right now is closer to 4 and a half  
23 percent. So I think there is some interest rate --  
24 there is an overstatement in the interest cost to the  
25 MSD in their model.



1 issue than the interest rate issue. That really helps  
2 establish the equity in debt funding of the capital  
3 program.

4 We have a rough target of 75 percent debt, 25  
5 percent equity initially. But that percentage really is  
6 ultimately going to be controlled by maintaining a  
7 minimum the debt service coverage ratio.

8 So there's two things. The debt service coverage  
9 ratio gives an idea of the financial stability of the  
10 utility, and the credit rating agencies will review.

11 So 1.6 coverage, 1.6 times debt service coverage  
12 is very, very strong coverage for a utility company of  
13 MSD's size and the stability of their revenue  
14 collections.

15 You know, other utility companies, like the one  
16 in Indiana that we talked about a little bit, they  
17 actually set rates at a 1.45 debt service coverage  
18 target on the total debt service.

19 So 1.6 has already got a lot of cushion built  
20 into it. So the need to push it up to 1.8 would be  
21 necessary if there's any threat to their bond rating,  
22 for the bond rating to express any concern on the  
23 financial strength of the utility.

24 They're not. And for that reason, I don't  
25 believe there's a need to change the financial policy

1 from a minimum of 1.6 coverage up to a 1.8 coverage, as  
2 proposed by MSD in this case.

3 **Q. If the debt service coverage were to shrink below**  
4 **1.6 and -- what level do you think the District's bond**  
5 **rating would be reduced?**

6 A. The bond rating analyst would look at the actual  
7 -- our debt service coverage ratio, look at the  
8 utility's ability to correct it.

9 So if it dipped down to a low level, as long as  
10 it's not in default range at 1.25 or less, they can  
11 issue additional bonds.

12 Then there's a remedy available to the utility to  
13 adjust their rates to increase their level of debt  
14 service coverage.

15 I would expect, based on the events that have  
16 taken place at my other utilities, that they can weather  
17 a short period where they have a much weaker debt  
18 service coverage ratio than 1.6; possibly down to 1.4 or  
19 even 1.3.

20 As long as there's the expectation from credit  
21 analysts that the utility can correct that by seeking a  
22 rate change that will ultimately strengthen that debt  
23 service coverage ratio, in a reasonably short period of  
24 time.

25 **Q. If their bond rating went below AA, what would be**

1 **the financial implications of that?**

2 A. Their new bond issues would be sold at a higher  
3 interest cost to the utility.

4 **Q. Do you have any sense of what percentage rate**  
5 **that might result in, what delta in the percentage rates**  
6 **there might be?**

7 A. Depends on the market that it occurs in. And on  
8 average, it probably would be 10 to 20 basis points.

9 But in a period of financial distress, the  
10 difference between a AA and a single A bond rating could  
11 be 50 to 70 basis points.

12 That would be a market where there's overall  
13 distress in the marketplace, and the market participants  
14 are looking for securities of higher protection, lower  
15 risk, and paying a premium for them.

16 MR. SCHOEDEL: Thank you.

17 CHAIRMAN TOENJES: Mr. Palans.

18 MR. PALANS: Thank you.

19 EXAMINATION

20 BY MR. PALANS:

21 **Q. Mr. Gorman, were you present during the**  
22 **proceedings, where testimony was educed on April 8 and**  
23 **April 9 earlier?**

24 A. I was not at that those proceedings.

25 CHAIRMAN TOENJES: Mr. Palans, could you get a



1 little closer to the microphone?

2 Q. MR. PALANS: Have you had an opportunity to  
3 review the transcript of the proceedings and testimony  
4 that was educed on April 8 and April 9?

5 A. No, I did not. I primarily focused on the  
6 testimony, discovery responses, and all the exhibits  
7 included in the MSD original filing.

8 Q. So you've not reviewed that transcript nor the  
9 evidence that was educed?

10 A. I think the evidence was included in their  
11 filing, but I have not reviewed the transcript.

12 Q. Have you had an opportunity to review the  
13 declaration of our consultant, the Rate Commission's  
14 consultant, Ms. Lemoine?

15 A. Yes.

16 Q. I'm going to start with basics to just  
17 understand. And the basics, I'm going to the beginning  
18 of your declaration, pages 2 and 3, where you summarize  
19 your findings and conclusions.

20 I want to just make this as simple as possible.  
21 You propose to reduce the revenues available to the  
22 District during the this cycle by \$24 million; am I  
23 reading that correctly?

24 A. At the end of the fourth year, that is correct.

25 Q. Then you begin to describe adjustments that you

1     **made to MSD's forecasted wastewater revenue**  
2     **requirements.**

3             **And you say that you made only three adjustments.**  
4     **Then you go on to list a paragraph with four subparts.**

5             **Identify those three adjustments that you made**  
6     **for us.**

7             A. The three adjustments include the following: I  
8     revised their model to reflect that the financial policy  
9     that's been approved by this Rate Commission, at least  
10    over the last three rate cycles, that included a funding  
11    mix of 75 percent bonds, 25 percent equity, and a  
12    minimum debt service coverage ratio of 1.6 times.

13            MSD's filing was based on a 60 percent debt, 40  
14    percent equity funding mix, and a minimum debt service  
15    coverage of 1.8 times.

16            **Q. Let me just interrupt. So that's number one.**

17            A. That's number one.

18            **Q. Okay. Number two.**

19            A. Number two is: I adjusted the interest rate on  
20    new bonds projected to be issued over the four-year rate  
21    cycle.

22            **Q. Okay. That's number two.**

23            A. Number three is: I adjusted the annual CIRP  
24    spend in fiscal year 23 and 24, and moved some of those  
25    capital projects out to FY25 and 26.

1           So that levelized the annual CIRP spending over  
2 the period FY21 through FY26.

3           **Q. I would like to just focus on two of the three**  
4 **that you mentioned; the two being interest rate and the**  
5 **CIRP scheduling.**

6           A. Okay.

7           **Q. You indicated that, with respect to interest**  
8 **rates, that you may be wrong on your estimate of the**  
9 **interest rate pricing. Did I understand your testimony**  
10 **correctly?**

11          A. Yeah. I may have understated the interest costs  
12 because of other components of the model, which I  
13 overlooked. Correct.

14          **Q. So if you were wrong on the interest rate**  
15 **reduction, your assumption would similarly be incorrect,**  
16 **correct?**

17          A. The revenue requirement adjustment would be  
18 overstated. Yes.

19          **Q. And with regard to CIRP, which was number three,**  
20 **you deferred projects that are identified CIRP projects**  
21 **during the this period; is that my understanding?**

22          A. Yeah. I deferred projects that were scheduled in  
23 the MSD projections for FY23 and 24 to FY25 and 26.

24          **Q. And I believe in response to Mr. Myers' question,**  
25 **you identified an amendment to the consent decree that**

1 was filed with the Court, and which the EPA has agreed  
2 upon; is that correct?

3 A. Yes.

4 Q. Have you ever seen that amendment to the consent  
5 decree before today?

6 A. I did not. But I would note that that amendment  
7 doesn't conflict with what I did.

8 Q. It does not conflict with what you did; that's  
9 your opinion?

10 A. Well, that's what it said.

11 Q. Well --

12 A. It said that the capital requirements for the  
13 wastewater treatment plants must be completed by 2026.

14 And that's consistent with the change in the  
15 MSD's forecast that I made.

16 Q. Are you aware of the fact that consent decree is  
17 mandated requirement under law?

18 A. I am.

19 Q. And that you are proposing that CIRP projects be  
20 spread in fiscal year fiscal 24 -- beyond that period to  
21 a future period, correct?

22 A. For the -- yes. And doing that would levelize  
23 the annual CIRP spending.

24 Q. Doesn't deferrals make those project costs  
25 increase with increased risks?

1 A. Well, if you push them out into a future period,  
2 there may be some inflationary impacts on the costs.

3 **Q. Inflationary impacts could be higher interest**  
4 **rates applicable, correct?**

5 A. Could be lower interest rates. So I don't see  
6 interest rate as a risk that, particularly, by pushing  
7 them out, would allow for more of these projects to be  
8 funded by equity because there wouldn't be such a  
9 significant need for more debt capital in FY23 and 24.

10 **Q. Are you aware of the fact that the testimony is**  
11 **that the District must spend \$600 billion in present-day**  
12 **costs to satisfy its obligations under the consent**  
13 **decree during the next 20 years?**

14 A. Yes. That consent decree, -- I haven't checked  
15 that number but, yes.

16 There is a present value cost in the consent  
17 decree that was estimated by MSD at the outset of the  
18 program that was designed to comply with the EPA consent  
19 decree.

20 **Q. And are you aware of fact -- I believe you**  
21 **testified, that interest rates have been consistently**  
22 **low for the past 10 years?**

23 A. Yes.

24 **Q. And --**

25 A. Well, yes. Around 2008, you know, there was a

1 period where municipal interest rates were higher.

2 But they've been relatively low, certainly --  
3 interest rates from a treasury and a corporate bond  
4 perspective have been low for the last 10 years.

5 There was a period where municipal rates were  
6 high, relative to corporate bonds.

7 But certainly for the last five to eight years,  
8 all interest rates, including municipals, have been  
9 relatively allow.

10 **Q. If you've reviewed the transcript from the**  
11 **proceedings on April 8 and April 9, there was a term**  
12 **used that interest rates are at historical lows. Do you**  
13 **remember that?**

14 A. I wouldn't be -- that's certainly true with  
15 respect to treasury securities.

16 **Q. Do you agree with my statement; that interest**  
17 **rates are at historical lows?**

18 A. They have been. Right now, they're -- I don't  
19 know if that's necessarily true.

20 I think treasury bond -- 30-year treasury bond  
21 has dipped back below 3 percent. But 3 percent is so.  
22 It's not historically low, but not --

23 **Q. It's low?**

24 A. Yeah. Well, it's low. But the reason it's low  
25 is because inflation is under control.

1           A 3 percent treasury bond implies a 1 percent  
2   real return and a 2 percent inflation outlook, and that  
3   type of real return and treasury bond is really not low.

4           It just indicates that we're in an environment of  
5   low interest rates.

6           **Q. And you also aware, if you read the transcript,**  
7   **that the pricing for projects, CIRP projects, are also**  
8   **at historical lows?**

9           A. Well, I didn't read the transcripts. But I  
10   didn't contest the CIRP projected costs.

11           I'm simply observing that if you can manage the  
12   pace in such a way that you levelize the annual CIRP  
13   spend, you can accomplish all the projects without much  
14   more of an increase in rates to MSD customers.

15           **Q. And you're also aware, and I think you referred**  
16   **to the fact, that the District enjoys a AA rating from**  
17   **one of the credit agencies. I think it's Standard and**  
18   **Poor's; do you recall that?**

19           A. I do.

20           **Q. And that liquidity of the District is strong at**  
21   **present?**

22           A. It is.

23           **Q. So based upon low interest rates, favorable**  
24   **pricing on CIRP, and a strong liquidity position, it's**  
25   **your position that CIRP projects should be deferred into**

1 **future periods as opposed to done at the present?**

2 A. Yes. And I would point out that all of those  
3 positive financial metrics that you just walked through,  
4 where that accomplished into financial policy that's  
5 been approved by this Commission for the last three rate  
6 cycles, there's no need to change it as MSD is proposing  
7 in this case.

8 And deferring CIRP program will not impair the  
9 financial strength of the utility.

10 It will simply spread out the cost over more  
11 years and mitigate the increased wastewater rates needed  
12 to maintain this strong financial standing of this  
13 utility and still fund all of those programs within a  
14 time period that meets their EPA and state and federal  
15 regulatory mandates.

16 But it will lower the cost to wastewater  
17 customers.

18 **Q. Doesn't these deferrals that you propose of CIRP**  
19 **projects expose to District to contingencies such as may**  
20 **be encountered with its aging infrastructure?**

21 A. There could be outages of the existing  
22 infrastructure. That's true.

23 **Q. And it would expose the District to funding or**  
24 **financing that may be highly competitive and cost more**  
25 **in future years?**



1           A. I don't think that's a real risk. I think that's  
2 an exaggeration of the system planning.

3           **Q. And do you believe that regulatory compliance, or**  
4 **changes in regulatory compliance might affect the**  
5 **contingent exposure risks of the District?**

6           A. Regulatory compliances and obligation of the  
7 utility they must comply with. Yes.

8           **Q. And are you aware of the fact that District has**  
9 **advised us that there is a declining consumption and a**  
10 **reduction of water demand and revenues, while costs for**  
11 **water services are increasing?**

12           A. I do. And that's why I propose to reject the  
13 wastewater rate design of MSD and focus instead on fixed  
14 monthly fees to the customers to reflect this fixed cost  
15 nature of MSD and stabilize that revenue collection.

16           **Q. And would you also consider inflationary risks to**  
17 **be a potential additional cost for the District?**

18           A. Inflation is a risk to the extent it increases  
19 the level of spend necessary to maintain service  
20 operations and reliability.

21           MR. PALANS: Thank you. I have no further  
22 questions.

23           CHAIRMAN TOENJES: Thank you, Mr. Palans. Any  
24 questions by any other rate commissioner at this time?  
25 Mr. Gorman, I have one question.

1 EXAMINATION

2 BY CHAIRMAN TOENJES:

3 Q. You talked about the -- well, I have a couple of  
4 questions.

5 The first one: You talked about the volume  
6 metric charge and how that created some uncertainty in  
7 your reallocation comments. Could you sort of elaborate  
8 on that a little bit?

9 A. Sure. The MSD rate design doesn't increase the  
10 fixed monthly fees to all customers by the same percent  
11 increase.

12 It's increasing the volume metric charge. The  
13 volume metric charge is based on the billable water,  
14 billing units that are measured by the water utility.

15 They are applied to the volume metric charge as  
16 they're approved by the MSD wastewater rate structure.

17 To the extent customers' volume metric use of  
18 water varies during the relevant time period, that can  
19 have an impact on the amount of revenue collected by  
20 MSD, because the rates are applied to those volume  
21 metric billing charges.

22 To the extent customers reduce consumption,  
23 volume consumption, that can reduce revenues to MSD.

24 To the extent customers install more efficient  
25 water appliances, that can reduce revenue collections to

1 MSD.

2 In contrast, of those revenue collections through  
3 the volume metric charge, it will depend on what the  
4 actual volume metric billing is collected by MSD, by  
5 water utilities within the service territory.

6 In contrast to that, the fixed monthly fees, the  
7 meter charges, and the other fixed fees in the MSD are  
8 stated on the customer bill.

9 So they're stable. The revenue collections is  
10 far more predictable.

11 And because of MSD's largely-fixed cost nature --  
12 there are some volume metric charges that vary with  
13 usage on the system.

14 But most of their capital -- most of their  
15 cost-related capital investments are in the fixed costs.

16 So stabilizing revenue collections by pricing the  
17 structure, pricing the MSD service in a way that  
18 provides more stable revenue collection will benefit the  
19 MSD and the bond orders in the MSD, because it makes  
20 their ability to meet debt service targets, it makes the  
21 ability to predict whether or not they can achieve the  
22 debt service charges in a more highly probablistic  
23 fashion.

24 Conversely, you know, when you have revenue  
25 that's dependent on volume metric billing units, which

1 can be impacted by a lot of factors, it's much less  
2 certain how much revenue the MSD will actually collect.

3 **Q. So your recommendation will be to change that**  
4 **percentage -- change that balance --**

5 A. Well, just --

6 **Q. -- more related towards a fixed rate?**

7 A. Relative to what the MSD has proposed here, yes.  
8 Their cost of service studies supports -- with it just  
9 from an I&I allocation -- supports pricing that  
10 wastewater service in a way that it imposes higher fixed  
11 charges on customers and lower volume metric charges.

12 So that's supported by both cost of service  
13 study. I think it's fair to all customers.

14 And I think it's also more prudent, given the  
15 significant debt load that the MSD has taken on, because  
16 it stabilizes revenue collection.

17 CHAIRMAN TOENJES: Any other questions by any  
18 other of the Commissioners? Thank you, Mr. Neuschafer.  
19 Thank you, Mr. Gorman.

20 Ms. Stump, are you ready to present those persons  
21 for who you filed testimony on behalf of the Rate  
22 Commission.

23 MS. STUMP: I am.

24 CHAIRMAN TOENJES: Please come forward.

25 MS. STUMP: We will start with Ms. Pam Lemoine.

1 CHAIRMAN TOENJES: Thank you. Ms. Lemoine, is  
2 the testimony you're about to give the truth, the whole  
3 truth, and nothing but the truth?

4 MS. LEMOINE: Yes.

5 CHAIRMAN TOENJES: Thank you. Ms. Myers, do you  
6 have questions for Ms. Lemoine.

7 MS. MYERS: Yes, we do. With me, I have Marion  
8 Gee and Tim Snoke, our secretary/treasurer.

9 EXAMINATION

10 BY MS. MYERS:

11 Q. Good morning.

12 A. Good morning.

13 Q. The questions we have for you are around your  
14 rebuttal testimony.

15 So I'm certain you have that with you. I'm just  
16 going to kind of walk through that.

17 On page 6 of your rebuttal testimony, you agree  
18 with and support MSD's rate proposal, seeking  
19 authorization to issue additional bonds during the  
20 period of FY21 through 24; is that correct?

21 A. Yes.

22 Q. And you also state that issuing additional bonds  
23 provides multiple benefits. Can you explain some of  
24 those benefits?

25 A. Certainly. When utilities are undertaking large

1 capital programs, there are a number of different  
2 factors to take into consideration in developing a  
3 long-term financial plan to provide the maximum benefit  
4 and the lowest cost for customers.

5 So by issuing debt, you have the ability spread  
6 costs out over the users, who will benefit from those  
7 facilities.

8 So for instance, with treatment plant expansion  
9 or something like that, if you were to cash finance it,  
10 your current customers pay that entire burden.

11 Whereas if you debt finance a portion of that, or  
12 all of that, you spread that cost over the users who  
13 benefit from that facility.

14 **Q. Okay. You also agree that MSD's proposed capital**  
15 **financing plan provides a reasonable mix of cash and**  
16 **debt financing; is that correct?**

17 A. Yes.

18 **Q. Okay. Is this a reasonable and cost-effective**  
19 **approach?**

20 A. Is the funding mix that you're speaking to?

21 **Q. Correct.**

22 A. Yes. When I reviewed the MSD proposal, I looked  
23 at the policies that were taken into consideration in  
24 developing that financial plan, in light of the  
25 commentary provided by the rating agencies in your 2017

1 rating, and the considerations they gave for affirming  
2 your ratings, as well as their comments with regard to  
3 items that could cause a decline in your rating in the  
4 future.

5 And as has been stated previously, at this point  
6 in time for the District, debt service coverage really  
7 is driving the financial plan, not the cash debt mix.

8 The cash debt mix is an outcome of achieving the  
9 debt service coverage that's required in light of the  
10 currently CIRP funding level.

11 **Q. Okay. On page 13 of your testimony, you noted --**  
12 **I'll wait until you get there -- that MSD's capital**  
13 **financing plan to finance the CIRP is a sound capital**  
14 **financing approach. What do you mean by that?**

15 A. The capital financing approach in the financial  
16 plan is showing stability in the utility's financial  
17 metrics over time.

18 So while the financial plan is showing a decline  
19 in debt service coverage, for instance, over the study  
20 period to the minimum of the 1.8 times in 2024, that  
21 rate of decline has been managed over that time period.

22 It's not jumping around, for instance. The rate  
23 increases over that time period are fairly levelized.

24 And so the overall mix shows stability over that  
25 study period.

1           **Q. Okay. And in your professional opinion in**  
2           **assuming voter authorization for additional bonds, does**  
3           **MSD proposed financing plan help minimize the impact of**  
4           **the CIRP on the wastewater rates during the FY21 through**  
5           **FY24 period?**

6           A. It appears to do so. Yes. Obviously, there are  
7 multiple ways to put together financial plans that could  
8 shift costs here or there over time.

9           But in total, the based on a 1.8 debt service  
10 coverage target, the capital program that you're facing,  
11 the financial plan seems reasonable to me.

12           **Q. Okay. And also on page 6 of lines 20 through 22,**  
13           **do you concur with the District's approach to establish**  
14           **a financial plan that allows for the debt service**  
15           **coverage of two and a half times or greater for senior**  
16           **lien bonds, and 1.8 times or greater for total debt**  
17           **coverage?**

18           A. Yes, I do. As I indicated, I reviewed the rating  
19 agency reports with regard to the 2017 rating and the  
20 commentary that they provided.

21           Each of the rating agencies have slightly  
22 different ways they go about conducting their  
23 methodology for rating debt.

24           And certainly, debt service coverage is just one  
25 of many factors that have to be looked at.



1           So it's important to look at everything in total.  
2     But in reviewing the rating agency's criteria and their  
3     commentary, 1.8 times seems reasonable to me.

4           It's higher than Standard and Poor's rating  
5     threshold of 1.6 times. But when you look at Moody's  
6     and Fitch, they are more conservative with their  
7     expectations for debt service coverage. And one of the  
8     them even indicated that they would look closely at a  
9     downgrade or a negative rating action if the debt  
10    service coverage dropped below what they were expecting  
11    to see, which they quoted as being 1.9 or so, if I  
12    recall correctly.

13           **Q. Okay. Do you agree that the escalation factors**  
14    **in debt financing assumptions MSD used to project**  
15    **operating and maintenance expenditures and debt service**  
16    **are reasonable?**

17           A. Yes.

18           **Q. Did you also conclude that MSD CIRP is**  
19    **reasonable?**

20           A. I will defer the review of the CIRP to Ms. Nicole  
21    Young, as far as the details are concerned.

22           As a rate consultant, I'm not versed in all of  
23    the details that would be necessary to evaluate each of  
24    the projects specifically.

25           I'd really defer to MSD experts in developing

1 that plan. But in my review of the consent decree and  
2 the schedules, in my review of how the costs were  
3 estimated, and my review of how the costs were either  
4 incorporated into the financial plan, as indicated in  
5 the rate proposal, adjusting for inflation, adjusting  
6 for liquidations and so forth, it appears reasonable to  
7 me.

8 **Q. Okay. Just as a follow up to that, can I draw**  
9 **your attention to page 12, line 10 through 12 of your**  
10 **testimony. That's where this question came from.**

11 **Could you just read line 10 through 12 at the**  
12 **beginning of --**

13 A. Based on your experience with other large  
14 wastewater utilities, do you have an opinion regarding  
15 the reasonableness of the District's CIRP.

16 **Q. And you answered that yes --**

17 A. Yes.

18 **Q. -- correct? Okay. Thank you. You agree with**  
19 **MSD that the proposed rates outlined in the rate**  
20 **proposal will achieve adequate fund balances to provide**  
21 **for any unanticipated expenditures or emergencies during**  
22 **the proposed rate cycle?**

23 A. Based on my review of the rate proposal, and more  
24 specifically, the rate model, the details therein, the  
25 rate projections appear to project sufficient fund

1 balances over the study period.

2 **Q. Okay. On page 7 -- back on page 7 of your**  
3 **rebuttal testimony, starting with line 6, you recommend**  
4 **that MSD increase its rates during the FY21 through FY24**  
5 **to avoid a potential spike in rates in FY25; is that**  
6 **correct?**

7 A. That's correct.

8 **Q. Okay. The rate increases shown for FY25 are for**  
9 **illustrative purposes only.**

10 A. That's correct.

11 **Q. And you also understand that these rates are not**  
12 **the proposed rates on which the Rate Commission is**  
13 **issuing anything in this rate proposal.**

14 A. That is correct. The rate study period is  
15 through 2024.

16 But it's always important to look at a longer  
17 term -- longer period, particularly the year or two  
18 subsequent, to be knowledgeable about what the potential  
19 implications might be down the road of decisions that  
20 are be being made for this rate proposal period.

21 **Q. So given your knowledge of the district's history**  
22 **of the projected rate increases beyond the proposed**  
23 **four-year rate cycle being less than expected, would you**  
24 **agree that it would be fair and reasonable to increase**  
25 **rates in the current four-year cycle to mitigate a**

1     **potential spike in 2025?**

2           A. I do. I think that, in the past, it is true that  
3     costs have been lower than anticipated, which have  
4     allowed the rates for this current rate period to be  
5     lower than what had previously been projected in the  
6     prior rate period.

7           However, at this point in time, we are looking at  
8     low interest rates. There's been testimony that the  
9     bids are come in lower than even budgeted. So we're in  
10    a very favorable time period.

11           So I think there is a risk of assuming that that  
12    trend will continue to become even more apparent in the  
13    future.

14           In fact, I think there's probably a risk -- more  
15    of a risk at this point in time the other way; that  
16    three or four years from now, interest rates could be --  
17    or inflation rates could be higher, the construction  
18    industry could be in a different position, where bids  
19    are coming in higher.

20           So I really don't agree that you can extrapolate  
21    the fact that we came in lower this time, that that  
22    would happen again in the future. It's a risk.

23           MS. MYERS: That complete our questions. Thank  
24    you.

25           CHAIRMAN TOENJES: Thank you, Ms. Myers. Mr.

1 Neuschafer, do you have questions for Ms. Lemoine?

2 MR. NEUSCHAFFER: I do.

3 EXAMINATION

4 BY MR. NEUSCHAFFER:

5 Q. Good morning.

6 A. Good morning.

7 Q. Looking at your testimony I want to talk about  
8 the ratio of debt to cash financing, question 23.

9 Actually, to begin, you indicate that 25 to 30  
10 percent is -- of the ratio of a debt to dash financing  
11 is an industry-accepted best practice, and is in  
12 practice with other utilities.

13 A. That is correct.

14 Q. Okay. Yet this proposal, you identify that MSD  
15 is calling for cash financing of 37 percent.

16 A. On average for this rate period, that's correct.

17 Q. Okay. And your testimony is that 37 percent is  
18 consistent with the industry accepted-best practice and  
19 practice of other utilities of 25 to 30 percent?

20 A. That is a target and an industry practice,  
21 correct.

22 But again, as I mention earlier, the debt cash  
23 mix that is targeted is not a standalone policy that can  
24 be achieved in a vacuum.

25 It's a function of a utility's outstanding debt,

1 and the impact that debt service coverage has on revenue  
2 that's generated to meet that debt service coverage  
3 level, as well as the size of the capital program.

4 So if the capital program changes, all things  
5 being equal, that cash generated will result in a  
6 different percentage, just from the basic math.

7 **Q. Okay. I guess I'm having trouble understanding**  
8 **-- using your testimony, using the numbers provided in**  
9 **your testimony, how 37 percent is consistent with 25.**

10 **I understand that can change. But I don't**  
11 **understand how a number that is anywhere from 25 to 50**  
12 **percent higher than the range that is best practice is**  
13 **consistent with that range?**

14 A. Because based on the District's outstanding debt  
15 and debt service coverage requirement of 1. -- or the  
16 target goal of 1.8 times, that generates revenue  
17 sufficient to, in this rate period, cash finance 37  
18 percent on average.

19 Over time again, it's your -- the debt service  
20 coverage provides cash for cash finance capital; that's  
21 your numerator.

22 Your CIRP is your denominator. So as those two  
23 -- as that changes, that percentage will change.

24 Because the District is heavily debt burdened  
25 right now due to the consent decree and the requirements

1 thereunder, that debt service coverage does provide for  
2 additional cash financing that is, right now, on a  
3 percentage basis, more than what we see on average for  
4 the industry.

5 **Q. Okay. I believe you just spoke a bit about**  
6 **establishing a series of revenue increases in '21**  
7 **through '24 that are slightly higher than those**  
8 **proposed.**

9 **Is that your testimony; that you think MSD should**  
10 **consider that approach?**

11 A. Correct. In order to mitigate what could  
12 potentially be a spike of two times that level that  
13 we're looking at now in 2025.

14 **Q. Did you consider any alternatives, like spreading**  
15 **out the projects to the extent possible under, you know,**  
16 **applicable law or consent orders, over a greater period**  
17 **of time?**

18 A. I did not look at moving out capital projects,  
19 because the capital projects are predominantly consent  
20 decree-related and regulatory-driven.

21 And again, not being an engineer that's focused  
22 on that, would not be in my position to be making  
23 decisions on projects building out.

24 **Q. Okay. So just to be clear, I'm not talking about**  
25 **not doing the projects. I'm talking about timing of**

1 **projects.**

2 A. Correct.

3 **Q. Okay. And you don't have an opinion on that; or**  
4 **you haven't looked at that issue.**

5 A. No. I think that there are a lot of risks -- or  
6 a lot of things that need to be taken into consideration  
7 in developing a schedule for capital projects.

8 Certainly, costs and trying to levelize costs is  
9 one of them. Meeting schedule projects in the consent  
10 decree is obviously critical. And then the regulatory  
11 requirement for the incinerator project that's required  
12 a date certain.

13 And you don't want to postpone those projects out  
14 to the deadline, because then you run a great risk if  
15 thing that happens, as far as weather, or ability to  
16 obtain contractors, or whatever the case may be, you  
17 don't want to run the risk in missing those deadlines.  
18 So you need to have a cushion there as well.

19 There are also considerations that capital  
20 project managers take into consideration is the  
21 sequencing of certain projects.

22 So on the asset management side, oftentimes  
23 projects need to be sequenced in a certain way.

24 And so you can't move one out without moving  
25 another. And so there are a lot of different



1 considerations that are really beyond the scope of my  
2 expertise.

3 **Q. Okay. So did you -- you didn't, if I'm**  
4 **understanding, you didn't really look at the timing of**  
5 **projects.**

6 **Did you look at any other methods to address rate**  
7 **increases, other than just higher revenues?**

8 A. Again, in an addressing this question, that was  
9 the point of the question; was that with slightly higher  
10 revenue increases in this study period, that spike in  
11 2025 could be mitigated.

12 MR. NEUSCHAFFER: Okay. That's all I've got.  
13 Thank you.

14 CHAIRMAN TOENJES: Thank you, Mr. Neuschafer.  
15 Ms. Stump, do you have further questions for Ms.  
16 Lemoine.

17 MS. STUMP: Just going to ask her a real quick  
18 question.

19 EXAMINATION

20 BY MS. STUMP:

21 **Q. So Ms. Lemoine, in your interchange with Mr.**  
22 **Neuschafer about the CIRP, is it correct, though, that**  
23 **Ms. Young did look at the -- in more detail, the CIRP**  
24 **and the timing of the projects?**

25 A. Yes.

1 Q. So if he has additional questions, he could ask  
2 those of her --

3 A. Correct.

4 Q. -- when she testifies? Thank you. I think that  
5 we -- I mean, I will have an opportunity in surrebuttal  
6 to discuss what your thoughts are and what your opinions  
7 are on Mr. Gorman's testimony.

8 We can do that in the surrebuttal phase. But I  
9 guess I just want to give you an opportunity, since he  
10 brought it up.

11 When I was asking him about the I&I percentage,  
12 and he referred to -- he was relying on Black and  
13 Veatch. And would you like to comment on that at all?

14 A. The report that he referenced is not a report  
15 that I personally developed myself, but I am familiar  
16 with it.

17 And it evaluated different methodologies for  
18 determining an estimate for how to allocate I&I between  
19 customer and volume.

20 And I would refer to Ms. Prabha Kumar, who will  
21 be testifying soon, related to her testimony with  
22 regards to I&I as well from her perspective.

23 But there is there's no specific hard engineered  
24 way to determine an allocation of I&I. That's why we  
25 see a range in the industry.



1 contribute to the cost of the debt service, correct?

2 A. That's correct.

3 Q. And you state that this proposed capital  
4 financing, which is 37 percent cash funding of CIRP, is  
5 consistent with similar financial best practices used by  
6 other peer wastewater facilities, and it provides a  
7 reasonable mix of cash and debt financing, correct?

8 A. Correct.

9 Q. And the proposal allows the debt service coverage  
10 of 2.5 times or greater for senior lien bonds, and 1.8  
11 or greater for total debt coverage, right?

12 A. That's correct.

13 Q. You go on to say on page 7, paragraph 6, that  
14 while there are gradual annual revenue adjustments  
15 presented through fiscal 24, the District's long-term  
16 projection is outlined in MSD number 57 and the  
17 District's rate model, which is MSD 52, indicate a much  
18 higher revenue increase in fiscal 25. Is that your  
19 testimony?

20 A. Yes.

21 Q. And on pages 11 and 12, question 20. You  
22 indicate that during the current rate cycle of fiscal 21  
23 through 24, there are almost 1.6 billion in total CIRP  
24 needs, and almost 30 million in routine cap ex, right?

25 A. Yes.

1 Q. In fact, the District projects that its CIRP  
2 needs for fiscal 25 to 28 are expected to be \$873  
3 million, and substantial capital spending remains after  
4 fiscal 28 to comply with the consent decree, right?

5 A. Correct.

6 Q. And that consent decree is not going to expire  
7 for another 20 years, through 2039; is that correct?

8 A. I believe that's the date. Yes.

9 Q. And how much capital spending is required after  
10 fiscal 28, if you know?

11 A. I could not state off the top of my head  
12 accurately.

13 Q. But we know that the cost of compliance through  
14 the duration of the consent decree, 20 years from now,  
15 is roughly 600 billion -- I'm sorry, \$6 billion in  
16 today's dollars?

17 A. It's substantial. Yes.

18 Q. At the beginning of fiscal 25, as I understand  
19 your testimony, the District is projecting a potential  
20 rate increase of 7.2 percent to maintain its minimum  
21 policy level; is that right?

22 A. Correct.

23 Q. And this is nearly double the indicated rate  
24 increases for the current rate cycle, correct?

25 A. Correct.

1           **Q. And is this projected rate increase projected to**  
2           **continue in later fiscal years after fiscal 25?**

3           A. No. As I recall, it drops back down.

4           **Q. And it's your testimony that this type and**  
5           **magnitude of higher rate increase right at the beginning**  
6           **of the next cycle may cause -- and I'm quoting, bill**  
7           **impact volatility, correct?**

8           A. Correct.

9           **Q. What do you mean when you say, it may cause bill**  
10          **impact volatility?**

11          A. It would result in customers seeing a much larger  
12          percentage increase in their bills in that year than  
13          would be necessary if the rates were adjusted to  
14          eliminate that spike.

15          **Q. And this is going to impact both mom-and-pop**  
16          **consumer ratepayers, as well as high-volume user**  
17          **ratepayers, correct?**

18          A. That's correct. Particularly being in the first  
19          year. With MSD's rate proposal, they conduct the cost  
20          of service analysis and establish rates based on cost of  
21          service in year one.

22                 With that larger revenue increase required, in  
23          addition to any potential adjustments to cost of service  
24          in that year, could even further impact certain  
25          customers, depending on how that cost of service study

1 turns out.

2 Q. You were present during the testimony that was  
3 educed on April 8 and April 9 last month; were you not?

4 A. Yes.

5 Q. And you heard the testimony of the witnesses,  
6 recognizing that the District faces mandatory compliance  
7 with the consent decree?

8 A. Yes.

9 Q. And the District has an aging sewer system  
10 infrastructure?

11 A. Yes.

12 Q. And the District currently experiences a  
13 favorable financial position and favorable liquidity  
14 position?

15 A. Yes.

16 Q. That these are times of historically low interest  
17 rates?

18 A. Yes.

19 Q. And that the District confirms that it has  
20 experienced historically favorable competitive bid  
21 pricing on certain CIRP projects, correct?

22 A. Yes.

23 Q. Given all these factors and current conditions,  
24 what can the District do to avoid or mitigate this bill  
25 impact volatility, or smooth the bill volatility, which

1 **is projected to occur at the beginning of fiscal 25?**

2 A. The primary action would be -- as I stated in my  
3 testimony, would be to slightly adjust the revenue  
4 increases in this rate proposal period to allow for a  
5 levelization of those increases over time.

6 **Q. And this would be an increase, which would be**  
7 **slightly higher than those proposed?**

8 A. It would require slightly higher rate increases  
9 in one or more of these -- the years of this rate  
10 proposal. Yes.

11 **Q. And you believe that these can be increased**  
12 **within a range of reasonableness?**

13 A. Yes.

14 **Q. Do you have an opinion as to what would be a**  
15 **reasonable amount for that increase?**

16 A. I do not have the specific numbers here today.  
17 But I can provide that in surrebuttal testimony.

18 **Q. Given the favorable conditions that we now have**  
19 **-- by favorable conditions, I'm including low interest**  
20 **rates, low CIRP pricing and so forth.**

21 **Should the District take advantage of this**  
22 **additional debt financing as well during the this cycle,**  
23 **and thereby perform more CIRP projects than those which**  
24 **are currently scheduled?**

25 A. I don't know that I would recommend that. There



1 are a lot of additional factors that one has to take  
2 into consideration, including, you know, contractor  
3 capacity, the capacity of MSD's staff to manage a large  
4 program and more projects.

5 I will say also that the District has experienced  
6 significant double-digit rate increases for many years.  
7 I think that there is rate fatigue in the community.

8 And so the ability to continue to move forward in  
9 a meaningful way with the consent decree, based on the  
10 outcome of the second material amendment to the consent  
11 decree, while moderating rate increases as much as  
12 possible is recommended.

13 **Q. So is it your testimony that the District has an**  
14 **opportunity to adopt a pragmatic approach to establish a**  
15 **series of revenue increases during this rate cycle,**  
16 **which are moderate and reasonable in amount?**

17 A. Correct.

18 **Q. Will such an approach help to moderate or smooth**  
19 **the level the annual rate increases are projected**  
20 **through fiscal 24, as well as mitigate the anticipated**  
21 **spike in the revenue increase in fiscal 25 and**  
22 **thereafter?**

23 A. Yes.

24 **Q. In this suggested revenue increase, during the**  
25 **current rate cycle, is this consistent with Ms. Kumar's**

1 testimony of her declaration where she states, quote, to  
2 mitigate any potential rate shock on surcharge  
3 customers, the District should consider phasing in to  
4 cost of service over at least a two-year time period.

5 The District should also consider increasing all  
6 rates, including surcharge rates, during fiscal 22  
7 through 24, based on an across-the-board increase  
8 approach, close quote. Do you agree with that  
9 statement?

10 A. That is correct.

11 Q. You were present today and had the opportunity to  
12 hear Mr. Gorman's testimony?

13 A. Yes.

14 Q. Can you tell me if you agree with his testimony?  
15 I'm not holding you to specifics at all.

16 We don't need to embellish there. What strikes  
17 you as being good or bad?

18 A. I was going to say, there were a number of  
19 different topics that were addressed in his testimony.

20 Again, as we've spoken about, the debt cash  
21 financing mix and debt service coverage.

22 One of the comments I would make with regard to  
23 adhering to historic -- past policy for the current rate  
24 cycle, I would suggest that it's always important to  
25 look at current conditions and current rating agency

1 expectations.

2 That rating agency expectations in the past may  
3 not be the rating agency expectations of today.

4 And as you review the rating agency reports, it's  
5 clear that there is an expectation that, given the high  
6 level of debt that MSD holds now and is anticipated to  
7 increase in the future, that there is an expectation  
8 collectively among the three rating agencies for debt  
9 service coverage that is higher than the 1.6 times.

10 In addition, the Moody's median report -- which  
11 is an exhibit, I don't recall the number -- the current  
12 median debt service coverage for water and wastewater  
13 utilities right now is closer to 1.9 times as well.

14 So the policy of 1.8 is in line with stated  
15 objectives at the rating agencies, as well as current  
16 medians.

17 **Q. Mr. Gorman's testimony is that he would extract**  
18 **\$24 million of revenue from the District during this**  
19 **rate cycle, this next rate cycle.**

20 **Do you agree with the concept of extracting \$24**  
21 **million in revenue from the District during this cycle?**

22 A. So what he's proposing were a series of  
23 adjustments that would reduce the revenue requirement,  
24 which reduces the increase in revenue to MSD.

25 So I would pose it in a little bit of a different

1 manner. He's stated that he acknowledges that his  
2 assumed interest rate for future debt is too low. That  
3 is the biggest driver of that \$24 million.

4 In looking at the rate model that he provided in  
5 response to the discovery request, it appears to me --  
6 it's difficult because of the nature and the way  
7 adjustments were made to that model. It's a little  
8 difficult for me to say with all certainty.

9 But in looking at the -- pardon me while I find  
10 it real quick.

11 In looking at his testimony, MPG1, comparing the  
12 revenue requirement for the MSD proposal in the MIEC  
13 adjusted proposal, at the bottom shows that the  
14 projected debt service coverage -- his projected debt  
15 service coverage is also not reaching 1.6 times. It's  
16 not substantially different than the MSD proposal.

17 **Q. Mr. Gorman is incorrect on the cost of funds --**  
18 **interest rates increase, his premise is flawed; is it**  
19 **not?**

20 A. Correct.

21 **Q. And if Mr. Gorman is incorrect on the ability to**  
22 **extend the CIRP projects, defer CIRP projects which are**  
23 **required under the consent decree, his proposal is**  
24 **flawed; is it not?**

25 A. Correct.

1 MR. PALANS: Thank you. I have no further  
2 questions.

3 CHAIRMAN TOENJES: Thank you Mr. Palans. Any  
4 further questions for Ms. Lemoine?

5 Hearing none. Thank you, Ms. Lemoine. Ms.  
6 Stump, do you have any additional witnesses?

7 MS. STUMP: I do. Ms. Prabha Kumar.

8 CHAIRMAN TOENJES: Ms. Kumar, is the testimony  
9 you're about to give the truth, the whole truth, and  
10 nothing butt the truth?

11 MS. KUMAR: It is.

12 CHAIRMAN TOENJES: Does any member of the Rate  
13 Commission have questions for Ms. Kumar at this time?

14 Hearing none, Ms. Myers do you have questions for  
15 Ms. Kumar on behalf of the District?

16 MS. MYERS: Yes we do.

17 EXAMINATION

18 BY MS. MYERS:

19 **Q. Okay. The questions that we have are around your**  
20 **rebuttal testimony.**

21 **So starting off on page 6, line 11, you state**  
22 **that MSD's rate proposal is fair and reasonable on all**  
23 **classes of ratepayers; is that correct?**

24 A. That is correct.

25 **Q. In your rebuttal testimony, you recommend phasing**

1 in the cost of service over at least a two-year period,  
2 correct?

3 A. That is correct. For the surcharge customers.

4 Q. So if MSD were to phase in the cost of service,  
5 is it your opinion that other MSD customers not subject  
6 to the extra surcharge rate should subsidize the revenue  
7 lost from phasing in the surcharge rate?

8 A. That would be the eventual impact of your  
9 subsidized -- if you are phasing in for a class of  
10 customer, all things being equal, then that class of  
11 customers temporarily would take on that impact.

12 Q. So do you believe that that is fair and  
13 reasonable for those customers?

14 A. From the point of view of practical ratemaking,  
15 creating an impact on a class of customers, while from a  
16 cost of service perspective may be necessary, it does  
17 pose a practical problem in terms of the level of  
18 increase somebody can absorb.

19 But in that context of practical ratemaking, it  
20 is a common practice in the industry to have a phase-in  
21 approach.

22 Q. Okay. Are you aware that the existing extra  
23 strength surcharge rates charged over the period of FY18  
24 through FY20 do not cover the actual cost of service?

25 A. Yes.

1           Q.   Okay.  So page 7 on your rebuttal testimony,  
2   starting with line 14.

3           You indicate that it is not clear to you which  
4   specific section of the CDM report the District used to  
5   attribute the allocation factors for infiltration and  
6   inflow of 40 percent to customers and 60 percent volume  
7   components.

8           Are you aware that this information was provided  
9   in Exhibit MSD65C?

10          A.  Yes.  The report was referenced.  But what I'm  
11   really saying there is that when you look at the CDM  
12   report, there are lots of numbers and lots of tables,  
13   and there are about eight or nine scenarios that the CDM  
14   report has.

15          And if you look at just the tables in the report,  
16   every scenario has an assumption already built into the  
17   table.  But those assumptions are not explained at all.

18          And also in the CDM report, it doesn't draw a  
19   specific conclusion to say after all the analysis, this  
20   should be the percentage for I&I.

21          And the second thing I want to point out in the  
22   CDM report that we got, there are pages missing in the  
23   report.

24          And that also, for example, section 4.3; while  
25   it's listed in table of the contents, that was not there

1 as the last section in that report. They're both not  
2 there, and in-between pages are missing.

3 **Q. So is that what you meant by it wasn't clear how**  
4 **we came to our conclusion?**

5 A. Yeah. What I'm saying is that the specific  
6 section, the specific recommendation in the report is  
7 not really clearly cited in the -- in saying that the  
8 60/40 use that that was really referring to the  
9 testimony from Mr. Bill Stannard when I was making it.

10 **Q. On page 7 of your testimony, and page 8 -- so**  
11 **it's page 7, lines 22, 23; and page 8, lines 1 and 2.**

12 **You indicate that the 40 percent customer and 60**  
13 **percent volume allocation factors used in this proposal**  
14 **to allocate I&I tends to allocate more I&I costs to the**  
15 **volume component than the example guidelines provided in**  
16 **the WEF manual of practice, number 27.**

17 **Isn't it true that this manual provides for**  
18 **illustrative purposes only and is not intended to**  
19 **reflect a standard that can be applied to just any**  
20 **entity?**

21 A. That is correct. We are not saying that it is a  
22 standard, and that's why we clearly use the words that  
23 this is as an example guideline.

24 However, it is an industry guideline and an  
25 industry-accepted practice manual.



1           **Q. Okay. So what do you mean by it's an industry**  
2           **standard guideline?**

3           A. The standard -- again, I'm not an attorney, so  
4 I'm going to say the standard is really like a  
5 stipulation.

6           Saying that, okay -- these are for example. If  
7 you want to convert gallons to a number, to another  
8 measure that are standards, you can use a conversion  
9 factor to specifically stimulate the standards.

10           Here, what the manual says is that it's  
11 qualitatively explains what infiltrates and in-flow is  
12 there, and the impact of infiltration and in-flow.

13           And then it gives guidelines to say that these  
14 are the guidelines -- in an illustrative example, it  
15 gives the guidelines of 66 percent for customer and the  
16 37 percent for volume.

17           And so that's really what we mean. But in the  
18 absence of any detailed engineering study, these  
19 guidelines are used in practical ratemaking, because  
20 ratemaking is not always a precise science.

21           But in the absence of actual data, there are  
22 guidelines that are used as a basis.

23           **Q. So it was used for illustrative purposes.**

24           A. In the manual, it's used for illustrative  
25 purposes. But in the industry, in the absence of very

1 detailed and reliable data, these guidelines are used as  
2 a basis.

3 Q. Okay. I'm going to hand you MIEC Exhibit 73.  
4 I'm assume you don't have that with you.

5 A. I have -- actually, I do have it.

6 Q. I'm sorry. I shouldn't have made that  
7 assumption. Will you please identify that document?

8 A. This is the rebuttal testimony of Mr. Michael  
9 Gorman.

10 Q. Okay. And would you turn to page 26 of that  
11 document. Have you reviewed table 5 on page 26?

12 A. Yes. I've seen this.

13 Q. So is table 5 titled, I&I Allocation Basis Used  
14 By Other Utilities?

15 A. That is correct.

16 Q. Is it correct that line 2 of that table states  
17 that Kansas City, Missouri I&I allocation is 40 percent  
18 to customers and 60 percent to volume?

19 A. That is correct.

20 Q. Would you agree that Kansas City, Missouri is  
21 more similar to St. Louis in terms of geographic  
22 proximity, having both a combined and separate sewer  
23 system climatic conditions, and geographic size than the  
24 other cities shown in that table?

25 A. I can't attest to that level of specificity. But

1 I can say, yes, Kansas City has the geographic proximity  
2 and does have combined sewer systems.

3 And obviously, Kansas City is different from --  
4 in terms of geographic location, is different from some  
5 of the other utilities listed in table 5.

6 MS. MYERS: Okay. That concludes our questions.  
7 Thank you.

8 CHAIRMAN TOENJES: Thank you, Ms. Myers. Mr.  
9 Neuschafer do you have questions for Ms. Kumar.

10 MR. NEUSCHAFER: I do.

11 CHAIRMAN TOENJES: Please come forward.

12 EXAMINATION

13 BY MR. NEUSCHAFER:

14 Q. Good morning.

15 A. Good morning.

16 Q. I would like to go to your testimony. Let's go  
17 to question 9, in which you opine about the fairness and  
18 reasonableness of the District rate proposal.

19 If you recall, Ms. Myers asked you about one  
20 sentence in this answer, where you said that the  
21 District's rate proposal can be considered to be fair  
22 and reasonable; is that correct?

23 A. That is correct.

24 Q. In fact, it appears that your conclusion was  
25 that, first, overall it can be considered fair and

1 reasonable; is that correct?

2 A. Yes. I'm saying that it is fair and reasonable,  
3 but there are practical considerations that the District  
4 can also use in setting rates.

5 Q. And then you identified a number of these  
6 practical considerations in your answer to this  
7 question, including long-term resiliency, mitigation of  
8 future rate volatility, fair allocation of cost to  
9 classes that not only align with the industry-accepted  
10 practices, but also doesn't impose undue burden on  
11 customers classes, and a fair levels of revenue  
12 increases from customer classes during the rate period;  
13 is that correct?

14 A. Correct.

15 Q. And then you end with, the District's proposal  
16 could better reflect these other considerations; is that  
17 correct?

18 A. Correct.

19 Q. Thank you. I would like to then move over to the  
20 infiltration and in-flow discussion that I believe was  
21 at question 11.

22 I'm trying not to ask the same questions we've  
23 already got here. So please bear with me just a bit.

24 So just to be clear, your testimony is that the  
25 40 percent customer/60 percent volume tends to allocate

1 more I&I cost to volume component than more commonly  
2 seen in other utilities, many other utilities, and in  
3 the example guidelines that were discussed.

4 A. Correct.

5 Q. Do you have a recommended I&I allocation, based  
6 on your knowledge of the MSD system?

7 A. It's not a specific number that I'm specifically  
8 recommending here.

9 But what I'm saying is, again, when you look at  
10 the number of utilities, and even when you look at --  
11 again, the overall guidelines, but really if you look at  
12 the utilities, generally you find that there's  
13 allocation more leaning towards the number of customers  
14 a because the numbers of customers has an influencing  
15 role in the I&I.

16 And so it's not only just volume. And that was  
17 the point we were trying to make here.

18 Q. Sure. And I believe you referenced the CDM  
19 report --

20 A. Correct.

21 Q. -- in your responses to Ms. Myer's questions.  
22 And I'm not -- are you familiar with the statement in  
23 the original rate proposal, MSD Exhibit 1, that says,  
24 there are no known changes in the system that would  
25 significantly change the assumptions in that report --

1 A. Yes.

2 Q. -- leading to a 60/40 split?

3 A. I remember that statement.

4 Q. Do you agree with that statement; that there have  
5 been no changes between 2005 and 2019 that would  
6 necessitate a change to the I&I allocation?

7 A. That was actually one of our concerns; that the  
8 passage of time is significant between 2005 and the CDM  
9 report was prepared in 2019.

10 And during that passage of time, things do  
11 change. The number of -- the service could be changed,  
12 and the service area, in terms of number of connections  
13 that could have come into the system.

14 And of course, on the flipside, the controls that  
15 are being done in terms of capture.

16 So all we are saying is that, yes, that is a big  
17 passage of time. And therefore, to just cite a report  
18 that was done in 2005 -- and especially when that report  
19 also has some of the issues, where there are a lot of  
20 assumptions that went into the report, which are not  
21 clearly stated, whether the assumptions are not from  
22 numbers that we see plugged in.

23 And again, as I said before, the pages were  
24 missing. So it was a concern that the 60/40 is being  
25 used, because it was cited in a CDM report from 2005.

1           Q.   Okay.   One final question.   Again, at the end of  
2   page 7 of your testimony and the beginning of page 8,  
3   we've talked about this a couple times already.

4           You reference what is commonly seen in many other  
5   utilities.   Can you provide some examples of what other  
6   utilities, and perhaps also their I&I rates that they  
7   use?

8           A.   From my experience and judgment -- and again, we  
9   did municipalities, because not many municipalities  
10   really have a significant study done, and it is a costly  
11   study to do.

12           Generally, the guidelines are that 66 percent/37  
13   percent.   Or for example, in Citizens Energy, where they  
14   had a similar kind of study done, but more recent -- it  
15   was not as old as the 2005 CDM study -- where they  
16   looked at multiple types of allocation parameters.

17           We analyzed six different types.   And the --  
18   there, we did get an average from those analysis, and it  
19   turned out to be 75 percent for customer and 25 percent  
20   for volume.   And that is also a midwestern utility.

21           So those are some of the examples.   So  
22   oftentimes, even in the exhibit that was referenced  
23   before in my testimony and questions, there are more  
24   that are leaning towards a little more towards volume  
25   than leaning more towards number of customers in I&I

1 allocation.

2 **Q. And that was Citizens Energy you said?**

3 A. Citizens Energy.

4 **Q. And that is in?**

5 A. Indianapolis.

6 MR. NEUSCHAFFER: Indianapolis. Okay. Thank you.

7 CHAIRMAN TOENJES: Thank you, Mr. Neuschafer.

8 Ms. Stump, do you have questions for Ms. Kumar.

9 EXAMINATION

10 BY MS. STUMP:

11 **Q. I would ask for Ms. Kumar to just restate what**  
12 **she just what said on the percentages.**

13 A. In the context of the Citizens Energy Group,  
14 where we did do a study, and part of the study there, we  
15 evaluated six different approaches to determining what  
16 the I&I application would be.

17 And sort of what showed was that in that study,  
18 75 percent of the allocation was to customers, and 25  
19 percent of the allocation was to volume. So it was a  
20 75/25 kind of an issue.

21 CHAIRMAN TOENJES: Thank you. Is there a --

22 MS. STUMP: I think we're good.

23 CHAIRMAN TOENJES: Thank you, Ms. Stump. Do any  
24 of the rate commissioners have questions for Ms. Kumar?  
25 Mr. Stein.



1 MR. STEIN: Thank you, Mr. Chairman.

2 EXAMINATION

3 BY MR. STEIN:

4 Q. Ms. Kumar, I would like to talk about two things.  
5 First of all, the I&I issue.

6 In the cross-examination, it was pointed out that  
7 Kansas City has a 40/60 split.

8 In that same table, on page 26 of Mr. Gorman's  
9 testimony, does it not show that St. Joseph, Missouri,  
10 has a 60/40 split?

11 A. Correct.

12 Q. And is St. Joseph not in the same geographical  
13 area as St. Louis?

14 A. It is.

15 Q. And is it not maybe 80 miles from Kansas City?

16 A. I would -- subject to tests, I would --

17 Q. Okay.

18 A. -- indicate that.

19 Q. So it would appear that there is a reasonable  
20 spread of potentially reasonable splits on I&I?

21 A. Correct. It really -- there's a very reasonable  
22 difference.

23 Q. In past testimony and past rate cases, I believe  
24 MSD has stated over and over that it has the fourth  
25 largest collection system in the country.

1           A. I'm aware.

2           **Q. More miles of sewer than all but three other**  
3           **sewer systems in the country.**

4                   And would you agree that the length or the extent  
5           of collection systems has an a direct impact on  
6           potential I&I?

7           A. Correct. I mean, the spread of the collection  
8           system, the number of connections, the number of  
9           manholes, all of those do have an influential role in  
10          the I&I.

11          **Q. So that would argue for a higher emphasis on**  
12          **customer versus volume?**

13          A. That could be a potential opportunity for the I&I  
14          leaning more towards customers than just volume.

15          **Q. I would like to switch now and talk about the**  
16          **issue of extra strength surcharges, that I think you**  
17          **addressed.**

18                   And if I may paraphrase what you said, your  
19          opinion is that it would be more appropriate to phase  
20          those charges in rather than increase them all in one  
21          year?

22          A. Correct. That's a consideration that could play  
23          a role here.

24          **Q. Would you agree that the typical extra strength**  
25          **wastewater discharger has options to reduce those**

1 **charges?**

2 **Such as, number one, instituting projects or**  
3 **process changes to reduce those discharges of BOD and**  
4 **suspended solids?**

5 A. They do.

6 **Q. Could they also reduce production at that site to**  
7 **do the same thing?**

8 A. Subject to what their business is and the nature  
9 of their business.

10 **Q. Could they close their facility to eliminate**  
11 **those charges?**

12 A. Again, not knowing what the facilities are and  
13 what the specific circumstances are, I would not be able  
14 to say whether they could close the facility.

15 But there may be things that are under their  
16 control.

17 **Q. If they instituted any of those options, would**  
18 **that not result in stranded investment on the part of**  
19 **the District for handling those extra strength**  
20 **components?**

21 A. Again, depending on the level of what they do,  
22 yes. The District always has fixed costs in what they  
23 design the facility for.

24 But again, this is not just one consideration.  
25 There are multiple considerations, including

1 environmental considerations of being a good steward  
2 when you're operating a business in that environment.

3 **Q. But for sake of argument, if those -- if a**  
4 **discharger reduced or eliminated its discharges, and**  
5 **there were stranded investment in terms of equipment or**  
6 **facilities that the District no longer needed, who would**  
7 **bear the fixed costs for that stranded investment?**

8 A. It would be the entire system users.

9 MR. STEIN: Thank you.

10 CHAIRMAN TOENJES: Thank you, Mr. Stein. Do any  
11 other rate commissioners have questions for Ms. Kumar?  
12 Mr. Goss.

13 MR. GOSS: I just have one question about the I&I  
14 assumptions.

15 EXAMINATION

16 BY MR. GOSS:

17 **Q. If you use Mr. Gorman's assumptions as opposed to**  
18 **MSD's assumptions on I&I allocations, what does that do**  
19 **to MSD's rate? How does it change? Do you know?**

20 A. We haven't run the analysis. We can certainly  
21 run it and have it in the rebuttal -- surrebuttal  
22 testimony.

23 But what it would do is when you allocate a  
24 little more cost to the customer, meaning doing 40 to  
25 customer and 60 to volume, or 50 to customer and 50 to

1 volume, including the fixed charges portion of the rate  
2 structure, and then it would reduce the volume rate and  
3 rate structure, all else being equal.

4 **Q. Okay. But I would like to see that run, because**  
5 **what I try -- what I'm trying to do is understand with**  
6 **all the technical testimony, do I care?**

7 **Because if it's not going to affect in a material**  
8 **way the rate that's being proposed, I don't.**

9 **If it does, then that's a different story. So**  
10 **that would be helpful to me.**

11 A. Sure.

12 CHAIRMAN TOENJES: Do any other rate  
13 commissioners have questions for Ms. Kumar? Hearing  
14 none Ms. Kumar, thank you. I suggest with take a break  
15 until 11:55, at which time we will resume.

16 (WHEREUPON, A BRIEF RECESS WAS TAKEN)

17 CHAIRMAN TOENJES: All right. Being 11:55, Ms.  
18 Stump, do you have any additional witnesses?

19 MS. STUMP: I do. Ms. Nicole young.

20 CHAIRMAN TOENJES: Ms. Young is the testimony  
21 you're about to give the truth, the whole truth, and  
22 nothing butt the truth?

23 MS. YOUNG: It is.

24 CHAIRMAN TOENJES: Do any of the rate  
25 commissioners have any questions for Ms. Young?



1 MS. MYERS: That concludes my questions. Thank  
2 you.

3 CHAIRMAN TOENJES: Thank you, Ms. Myers. Mr.  
4 Neuschafer, do you have questions for Ms. Young.

5 MR. NEUSCHAFER: I do.

6 EXAMINATION

7 BY MR. NEUSCHAFER:

8 **Q. How are you?**

9 A. Good. You?

10 **Q. Good. So your testimony, I believe you just**  
11 **summarized it with Ms. Myers.**

12 **Basically on two point; the projects identified**  
13 **are appropriate, right?**

14 A. Yes.

15 **Q. Okay. And that the cost estimates were completed**  
16 **in accordance with common practice; is that correct?**

17 A. Yes.

18 **Q. Did you -- anywhere in your testimony, analyze or**  
19 **provide any opinion on the timing of projects? Whether**  
20 **the timing selected by MSD is appropriate.**

21 A. I did review the consent decree. And my  
22 understanding of the MAC regulations for the  
23 incinerator, they do seem appropriate. Yes.

24 **Q. Okay. Is that in your written testimony?**

25 A. No.

1           Q.   Okay.  You that actually just related to the  
2   fluidized bed?

3           A.   Sure.

4           Q.   What about -- you said that it's accurate.  Is  
5   there an obligation to complete it during or prior to  
6   2024?

7           A.   Based on the consent decree, yes.

8           Q.   Okay.  Do you recall the testimony earlier where  
9   the second amendment was referenced that said it needed  
10  to be completed by 2026?

11          A.   If -- okay.

12          Q.   Okay.  What about the timing of the other consent  
13  decree required projects?

14                 Did you analyze whether MSD has the appropriate  
15  timing schedule, based on the consent decree  
16  requirements?

17          A.   I did look at the critical milestones in the  
18  consent decree, you know, some of them have specific bid  
19  years.

20                 All of them have dates for achievement for full  
21  operation.  We did evaluate those.  I did evaluate  
22  those.

23          Q.   Did you provide any analysis of that in your  
24  testimony?

25          A.   Not in my written testimony.  No.



1           **Q. Did you prepare a memorandum or any other notes**  
2 **relating to the timing of projects?**

3           A. I did not.

4           **Q. Okay. Let's talk about cost estimates. You said**  
5 **they were completed in accordance with common practice.**

6                   **And I believe you explained to Ms. Myers that you**  
7 **looked at the scope of work and general estimates; is**  
8 **that correct?**

9           A. Yes.

10           **Q. Can you explain more as to what you considered to**  
11 **determine that the cost estimates are in accordance with**  
12 **common practice?**

13           A. Looking at the scope of work for the projects and  
14 the size and magnitude of them, looking at the costs,  
15 they seem appropriate to me.

16           **Q. Did you look at individual projects?**

17           A. I did.

18           **Q. And did you look at the cost documentation for**  
19 **individual projects?**

20           A. I looked at what was provided by the District.

21           **Q. In the record?**

22           A. Yes.

23           **Q. Where in the record did you find this**  
24 **information?**

25           A. In the CIRP.

1 Q. And that included backup cost documentation, or  
2 did that include MSD's conclusions as what the estimated  
3 costs were?

4 A. Based on the conclusions.

5 Q. Okay. So you didn't review any of the underlying  
6 documentation --

7 A. That's correct.

8 Q. -- you just reviewed MSD's conclusion of the  
9 estimated costs.

10 A. I reviewed what was submitted by the District.  
11 That is correct.

12 Q. So then how do we know that the cost estimates  
13 were completed in accordance with common practice if all  
14 you saw with the number associated with the proposed  
15 projects?

16 A. We have not dug into the underlying cost.

17 Q. Okay. So then how do you know -- or how can you  
18 testify that the cost estimates were completed in  
19 accordance with common practice?

20 A. It's based on my knowledge of the District and  
21 the way that they do cost estimate.

22 Q. So you're taking the District's word for it?

23 A. Not taking the District's word for it. But it's  
24 my understanding, based on my experience.

25 Q. What experience is that?

1 A. 20 years working with the District.

2 Q. Okay. You work with a company called Lion CSG?

3 A. I do.

4 Q. Are they a current contractor of MSD?

5 A. We are.

6 Q. Do you intend to -- does Lion CSG intend to bid  
7 on projects that might be completed pursuant to the  
8 CIRP?

9 A. We do.

10 Q. Have you -- well, you talked about your 20 years  
11 of experience.

12 Have you analyzed a capital spend program of this  
13 size and duration in the past?

14 A. I have.

15 Q. And who was that for?

16 A. MSD.

17 Q. MSD. Okay. Any program other than MSD's -- an  
18 MSD program?

19 A. Yes. I've done rate work for American Bottoms.  
20 I've done analysis for a number of clients.

21 I would have to go back and honestly look at my  
22 résumé over the 20 years to give you a full list.

23 Q. And those -- I guess I want to be clear, those  
24 are capital spend programs that involve spending  
25 billions of dollars on system upgrades?







1           **Q. Ms. Young, a few questions about the CIRP. May I**  
2 **presume that you have read and familiarized yourself**  
3 **with this extensive list of projects?**

4           A. I have.

5           **Q. Can you tell me what percentage, by dollar, is**  
6 **driven by the consent decree versus other needs?**

7           A. Yes. Sorry. I do have this in one of my  
8 spreadsheets somewhere. It appears to be about 77  
9 percent.

10          **Q. Is consent decree?**

11          A. Consent-decree driven.

12          **Q. So if my math is still good, that says 23 percent**  
13 **is non-consent decree, and there is some leeway,**  
14 **potentially, in the timing of those projects; is that**  
15 **correct?**

16          A. In the remainder?

17          **Q. Yes.**

18          A. There are two other buckets of projects -- well,  
19 actually three.

20                 But another portion of that is the incinerator  
21 projects and sludge transfer, which is an additional 19  
22 percent.

23                 Those are driven by regulations that have target  
24 dates. And then there are another 3 percent that are  
25 driven by BDS permit requirements.

1 Q. If my math is correct, that says that 99 percent  
2 of what's in the CIRP, you have to do?

3 A. That's correct.

4 Q. Okay. Just a couple questions here, just picking  
5 some things out here at random.

6 On page 4 of the CIRP project list, Bissell Point  
7 treatment plant. Prepare sluice gates and components of  
8 concrete: 2.4 million.

9 Is that required by the consent decree or any  
10 other MPDS gas obligations?

11 A. Sorry. Could you state that again?

12 Q. Project 12548.

13 A. That project is about -- what I can say about  
14 that is the sluice gates and concrete structures are  
15 critical to providing treatment at Bissell.

16 And if that treatment isn't provided, MPDS  
17 permits cannot be met.

18 Q. Let's go down to the next project, 12566, Bissell  
19 Point trickling filter media replacement: \$23.2  
20 million.

21 Are you aware that aeration facilities have been  
22 mothballed that could potentially take those trickling  
23 filters offline with no problems in meeting the MPDS  
24 permit?

25 A. I am aware of that. And an evaluation had been



1 done previously by the District to look at the  
2 electrical costs of running those aeration systems.

3 And it was determined that the trickling filters  
4 were more efficient from an energy standpoint.

5 Q. No question as to the energy efficiency. But the  
6 capital project could be postponed with a hit to the  
7 energy cost, and a potential benefit resulting from  
8 postponing that capital expenditure.

9 It's no different than my car. If I have a  
10 10-year-old car, and I would like to replace it with a  
11 new one, but I'm looking at \$30,000 to do that.

12 But maybe I can get by with a \$500 tune-up and a  
13 couple new tires for \$400.

14 So if I don't have the cash on hand right now,  
15 and the financing doesn't look appropriate, I can get a  
16 couple -- a little more time out of that car.

17 I'm saying here, if we looked farther at this  
18 CIRP list, could we not identify projects that could be  
19 pushed back?

20 I'm not saying five or 10 years, or eliminate it;  
21 but pushed back further in time that we could spread the  
22 cost out and reduce some of the rate shock?

23 A. I will say specific to the Bissell plant, the  
24 aeration systems that you're mentioning, unfortunately,  
25 have been out of service and have deteriorated to the

1 point that they are no longer able to be put back in  
2 service.

3 **Q. Are you certain of that?**

4 A. Yes. I would be happy to visit the Bissell plant  
5 with you sometime.

6 MR. STEIN: Thank you very much.

7 CHAIRMAN TOENJES: Thank you, Mr. Stein. Further  
8 questions for Ms. Young? Thank you, Ms. Young.

9 Are there any other matters before the Rate  
10 Commission this morning?

11 I would like to thank Mr. Neuschafer and MIEC for  
12 all their hard work and helping the Rate Commission  
13 understand various aspects of the proposal.

14 I would like to thank Ms. Lemoine and the team,  
15 and Ms. Young and Ms. Kumar for their hard work in  
16 helping the rate commissioners understand aspects of the  
17 proposal.

18 And hearing no other matters, we will adjourn  
19 until 9:00 a.m. on June the 20th, 2019. Mr. Stein.

20 MR. STEIN: Do we not have public hearings coming  
21 up?

22 CHAIRMAN TOENJES: Mr. Brockmann, would you care  
23 to talk about the public hearing?

24 MR. BROCKMANN: We have one next Tuesday. I  
25 don't know the location, but I will be there.

1           CHAIRMAN TOENJES: So there will be a public  
2 hearing at the county library on Music Road on May 14th.

3           MR. BROCKMANN: Another one on May 22, another  
4 one on June 4. And then we'll be here, and then  
5 following that, June 27, July 10, July 24.

6           CHAIRMAN TOENJES: As any good public relations  
7 chair would be. Do we have a motion to adjourn?

8           MS. CROYLE: I have a question.

9           CHAIRMAN TOENJES: Ms. Croyle.

10          MS. CROYLE: Will the MSD information be on the  
11 website before the meeting? So those of us that are  
12 attending can see it ahead of time.

13          MR. HOELSCHER: The information that is being  
14 presented? Sean, is that a plan or not? We'll make  
15 sure it gets up by late in the day Monday.

16          MS. CROYLE: Monday or Tuesday would be fine.

17          MR. HOELSCHER: We'll make sure it goes up before  
18 we have.

19          MS. CROYLE: It's nice to see ahead of time and  
20 download it and have it be able to look at it. Thank  
21 you.

22          CHAIRMAN TOENJES: Any other matters? I think I  
23 heard a motion to adjourn somewhere down here.

24          MR. STEIN: Motion to adjourn.

25          CHAIRMAN TOENJES: Is there a second?

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MR. BROCKMANN: Second.  
CHAIRMAN TOENJES: All in favor.  
(THOSE VOTING IN FAVOR ANNOUNCED AYE)  
CHAIRMAN TOENJES: Opposed? Thank you.



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