Exhibit MIEC 75

Wastewater Rate Change Proceeding - 2019

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

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

RESPONSES OF INTERVENOR MISSOURI INDUSTRIAL
ENERGY CONSUMERS TO MSD'S FIRST DISCOVERY REQUESTS

Pursuant to §§ 7.280 and 7.290 of the Charter Plan of the Metropolitan St. Louis Sewer District (the "Charter Plan"), Restated Operational Rule § 3(7) and Procedural Schedule §§ 16 and 17 of the Rate Commission of the Metropolitan St. Louis Sewer District (the "Rate Commission"), the Missouri Industrial Energy Consumers ("MIEC") hereby submits the attached responses to the April 26, 2019 First Discovery Request of Metropolitan St. Louis Sewer District ("MSD") for additional information and answers regarding the Rate Change Proposal dated March 4, 2019 (the "Rate Change Proposal")

REQUEST 1: Your rebuttal testimony states that, "*It is possible that MSD may be able to issue new debt at around a 2.5% interest rate. However, it could be as high as 3%. Therefore, I recommend a more conservative estimate of the interest cost on new bond issues to be 3%, rather than the 5% proposed by MSD*" (page 14, lines 6-9). The municipal market benchmark yield curve produced by Municipal Market Data ("MMD") is generally reported based on yield. However, the underlying assumed coupon rate for MMD is 5%. Consequently, MSD's Rate Proposal assumed 5.0% to 5.5% coupon rates. When yields are lower than the assumed coupon, bond premium can be generated and serve as a component of bond proceeds in addition to the principal amount. Please clarify if your 2.5% and 3% rate assumptions relate to interest rate (i.e. coupon) or yield on the bonds? Furthermore, please provide on a by maturity basis your assumed interest rates, yields and total bond proceeds (principal plus premium) assumed to be generated in your debt financing scenarios.

RESPONSE 1: The interest rate projection was Mr. Gorman's estimate of the cost to MSD of the additional funds created by issuing new bond debt to the market. Hence, it assumes that the face value of the bonds would be equal to the bond proceeds received from the market, less the cost of issuance. MSD's rate model indicated a cost of issuance of 1.0% on the "CIRP Dashboard" tab. Mr. Gorman did not adjust this input. Hence, the cost of bonds with a 3% coupon rate, with an issuance cost of 1.0%, would be slightly above 3.0%. The impact on MSD revenue requirement caused by a 0.5% increase to the new bond interest rate is about $500,000 to $600,000 per year that would be additive over the four year rate cycle, and would increase cost by $2.4 million in FY2024 as shown below.

TABLE 1

Revenue Requirement Comparison

Input	FY2019	FY2020	FY2021 (Proposed)	FY2022 (Proposed)	FY2023 (Proposed)	FY2024 (Proposed)	Total FY21-FY24
5.0% Rate	425,619,998	437,201,686	495,290,475	497,130,001	489,569,852	516,685,601	1,998,675,929
3.0% Rate	425,619,998	436,012,939	440,651,192	449,984,451	465,238,685	485,703,415	1,841,577,744
3.5% Rate	425,619,998	436,145,324	441,224,464	451,106,892	466,968,936	488,106,996	1,847,407,288
Difference	-	132,385	573,271	1,122,441	1,730,250	2,403,581	5,829,544

Supporting workpapers are provided in response to Discovery Request No. 6.

REQUEST 2: Are you aware of any recent water/wastewater revenue bond market transactions similar to MSD's proposed issuances in terms of credit rating, size, and maturity that utilized coupons and yields similar to your assumptions? If so, please provide a list of the transactions, including the names of the issuers and the dates of the transactions.

RESPONSE 2: Yes. As an example, MSD's 2017 Series A, in the amount of $316.17 million, was issued with coupon rates ranging from 2% to 5%, but were sold at a premium to the face value of the bonds. The net interest costs of the proceeds received by MSD for this 2017 bond issue was around 3.23%. See page 42 of MSD's Comprehensive Annual Financial Report, and MSD Exhibit MSD-1, Section 7, 7.4.1 Existing Bond Summary.

See also bonds issued by Citizens Energy Group for the CWA Wastewater utility in Indianapolis, Indiana. Citizens Energy Group's 2018 Annual Financial Report outlines recent debt issues on pages 21 to 22, including $157 million in 2017. Coupon rates for CWA Wastewater's 2016 series range from 2.0% to 5.0% and the 2017 Series has a rate of 3.53%. See https://www.citizensenergygroup.com/Our-Company/News-Financials/Financials/Reports/2018-Annual-Report.pdf

REQUEST 3: Your testimony states that, "*historically AA municipal rated debt interest rates have tracked that of 30-year Treasury securities*" (page 14, lines 1-2). Please provide the specific data or benchmarks and specific historical period reviewed to come to this conclusion.

RESPONSE 3: Projections referenced by Mr. Gorman should state over the next two years, not the three years. The data used to track the comparison of AA rated municipal bond debt and 30-year Treasuries is attached as Exhibit MIEC 75A.

REQUEST 4: You state in your testimony that, "*projections of Treasury bond yields out over the next three years indicate a relatively flat interest rate curve*" (page 14, lines 3-4). Did you make any allowances for interest rate increases in your projections over that three year period? If so, how much and how much cushion for uncertainty, if any, was included? Since the three year Treasury projection extends to 2022, what informs your assumptions for interest rates beyond that? Please explain your assumptions for those rates and specify if a cushion for uncertainty of projections was included in those assumptions.

RESPONSE 4: Mr. Gorman used the high-end estimate of the AA rated municipal bond yield as a projection as a conservative estimate of current observable yields, and relatively flat yield projections over the next two years. While there is no explicit adder to reflect the possibility of increasing interest rates, the potential for increased interest rates was considered by Mr. Gorman in deriving his estimate for a conservative interest rate cost to use in the projected cost of service model.

However, as shown on the attached Exhibit MIEC 75B, economists' projections of increases to interest rates have historically been wrong. As such, current interest rates are just as likely a good estimate of market interest rates over the prevailing rate cycle as are economists' forecasts for increasing interest rates.

REQUEST 5: The schedules included in your testimony appear to show an overall decrease in capital funding in the first two years of the Rate Proposal Period (higher debt funding that is more than offset by lower PAYGO funding) that looks like it would push the balance of the construction fund to a negative balance. Did you model Construction Fund cashflows in a manner similar to Table 4-8 in the Rate Change Proposal? If so, please share your schedule or table.

RESPONSE 5: MSD's Rate Model includes the Construction Fund Cashflows on the "CIRP" tab on rows 143 to 173. My table, below, displays the data from my adjusted MSD rate model in the same manner as Table 4-8. Also see the attached model in response to Discovery Request No. 6.

TABLE 2

CIRP Financing Plan

	Projected		Projected				FY21-FY24
Wastewater Construction Fund Cashflow	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Subtotal
1. Beginning Year Balance	$ 243,361,881	$ 83,193,494	$ 56,908	$ 58,041	$ 94,542	$ 17,869	
Sources of Funds							
2. Revenue Bond Proceeds - Par Amount	-	59,240,000	167,670,000	161,910,000	191,030,000	205,790,000	$ 726,400,000
3. Revenue Bond Proceeds - Premium	-	5,270,000	20,720,000	20,010,000	23,610,000	25,430,000	89,770,000
4. Cash Financing of Construction (PAYGO)	120,000,000	121,366,036	104,916,862	101,291,343	97,758,835	100,467,975	404,435,016
5. Capitalized Internal Labor	9,903,814	10,200,928	8,758,000	9,020,740	9,291,362	9,570,103	36,640,205
6. WIFIA Draw	-	5,204,107	13,754,995	14,437,728	11,024,061	3,122,464	42,339,248
7. State Revolving Loan Proceeds	25,267,000	75,000,000	30,000,000	30,000,000	30,000,000	30,000,000	120,000,000
8. Grants & Contributions	629,397	657,040	685,899	716,027	747,480	780,317	2,929,724
9. Interest Income	5,850,000	6,870,000	7,170,000	6,930,000	7,100,000	7,480 000	28,680,000
10. *Subtotal: Available Funds*	$ 405,012,091	$ 367,001,607	$ 353,732,664	$ 344,373,879	$ 370,656,282	$ 382,658,728	$ 1,451,421,552
Uses of Funds							
11. Major Capital Improvements	$ (321,654,361)	$ (365,817,200)	$ (351,609,622)	$ (342,274,337)	$ (368,313,413)	$ (380,161,081)	$(1,442,358,453)
12. Issuance Costs	(164,236)	(1,127,500)	(2,065,000)	(2,005,000)	(2,325,000)	(2,485,000)	(8,880,000)
13. Debt Service Reserve Fund Deposits	-	-	-	-	-	-	-
14. *Subtotal: Uses of Funds*	$ (321,818,597)	$ (366,944,700)	$ (353,674,622)	$ (344,279,337)	$ (370,638,413)	$ (382,646,081)	$(1,451,238,453)
15. ***End of Year Balance***	$ 83,193,494	$ 56,908	$ 58,041	$ 94,542	$ 17,869	$ 12,647	$ 183,099

REQUEST 6: Please provide any rate model you used, including changes made to MSD's Rate Model, to develop the schedules and positions presented in your rebuttal testimony.

RESPONSE 6: See Exhibit MIEC 75C for the Rate Model used to support Mr. Gorman's Rebuttal Testimony. Exhibit MIEC 75D is a Rate Model that uses a 3.5% rate for the bond issuances and supports Table 1 from Discovery Response No. 1.

The attached Rate Model includes Schedules MPG-1, MPG-2, and MPG-4. Please see Exhibit MIEC 75E for an Excel version of Schedule MPG-3. Please see Exhibit MIEC 75F for an Excel version of Schedules MPG-5 and MPG-6.

Respectfully submitted,

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ATTORNEY FOR THE MIEC

Dated: May 6, 2019

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing was sent by electronic transmission to the following on this 6th day of May, 2019.

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