Representative Policy Board
Finance Committee
South Central Connecticut Regional Water District
Via Remote Access

Monday, November 8, 2021 at 5:00 p.m.
Meeting Transcription

Tim: So we are ready to start this wonderful meeting. I call to order the Representative Policy Board Finance Committee meeting of Monday, November 8th at five o'clock. We are being recorded. We are doing this meeting on Zoom, and here we are safety moment. Tonight's safety moment is about drowsy driving, something I do frequently. I try and avoid, but it's a tough one. And some of the advice taken from this may be useful. I think Zoom is a good start for all of us on this board. So we'll see how long that lasts. And now we move into our 10 year financial model presentation. Rochelle has really put together a lot of stuff for us, and this is going to be a page turner, I know. It's heavy stuff, and we're looking forward to your presentation, Rochelle, and making it as succinct and clear as possible.

Rochelle: Okay. And I think Larry's going to start with few introductory words.

Larry: All right. So if we could, Jennifer, if you could go to the next slide, please, which gives the agenda. But this year we took a little different approach in developing the model. The base case model really is a model without any mitigating steps taken to reduce the impact of rate increases based on the capital program and financing assumptions and O&M budgets. Whereas the target 10 year model, we've taken multiple mitigation steps to ease the impact on future rate increases.

You'll notice that in the 10 year model, the capital program is higher than in prior years. And that's due to a few factors. One of them, the Whitney Dam, for instance, increased from $20 million in last year's model to $40 million this year. Compliance with the lead and copper rule is significantly higher, and that's still really only a placeholder pending the final rules and regulations from the EPA, as well as whatever grants we might receive. And the timing for that is over the 10 years. But the lead and copper rule, we had originally estimated was somewhere around $8 million. It is now probably $80 million or more based on some work that our engineering consulting firm has done.

There are also upgrades to our water treatment plants in order to ensure compliance with water quality regulations. There's other actions that we have to take for regulatory compliance. And we have two new dam projects that we'll be working on. The Prospect dam and the Pete Swamp dam. So there's a number of factors that are affecting the 10 year model this year, but in the target one, we've taken some steps to reduce the impact.

Of course, going forward each one of our rate applications will be based on the current circumstances of the time. And we'll be making decisions on the level of our capital expenditures, whether or not we increase depreciation, whether or not we use interim

financing and those kind of steps which can mitigate future rate increases. But the target 10 year model, keep in mind, is illustrative of the kind of levers that we can pull to mitigate future rate increases going forward.

So with that as background, I'll turn it over to Rochelle, who will review the base, the target models, as well as our opportunities, vulnerabilities, and she'll skip through the scenarios and the sensitivities, just to give you a feel for some of the other areas that we looked at and the next steps. So Rochelle.

Rochelle: Okay, thank you, Larry. And Jennifer, if you can go to the next page. Yes. This page. So as Larry mentioned, in the base case model, we made certain assumptions, but we didn't mitigate any of the results. So the rate stabilization fund was kept at $10 million, that's the target. So that means that we brought that fund back up to $10 million despite draws. So the good news is even the base case, every year we had enough internally generated funds in year-end disposition to reimburse the rate stabilization fund, as well as put monies into the construction fund.

The assumption on the growth fund was it would be utilized to fund the commercial billing capital project that began last year and is continuing this year. And we did leave the coverage at 114%. We did assume that the general fund would ... That $6 million, that does assume that additional monies above the target that are currently in the general fund would be actually directed to the growth fund.

The revenue we assumed 1% year over year decline. So we are still assuming that what we saw related to COVID, especially relative to residential consumption, was in fact an anomaly and that will continue to see, at least for this planning horizon, a 1% year over year decline.

And for the commercial revenue, it reflects organic growth. So that's of the existing projects only in the base case. It does reflect the July transaction and it does reflect best estimate of Well Safe. In that revenue from the July transaction and from Well Safe, you're not going to see it in the revenue line. I'll talk about this a little bit more. You're going to see that going into the construction fund to mitigate future financing and to reduce leverage.

The financing assumptions in the base case, it does include additional DWSRF projects. It's still assuming that the project completes before we get the DWSRF funding. That's the current arrangement. They're not taking us subordinated position, so the project needs to complete and then we reimburse ourselves.

There are several DWSRF projects that we have included in this, even in the base case. And we included those that we have a high comfort level that will get DWSRF financing, as well as a grant. We did do, and Larry talked about this and we'll talk about this a little bit more in a moment, we did you a virtually complete update of the capital improvement plan. So we did not just use the previously approved five year plan. We've been doing this now for the last few years. We use this opportunity to really update

what we really think is going to be happening over the next several years from a capital perspective. And that's a key driver of our rates. We also are assuming rate application every 18 months.

From an expenses perspective, for many of the lines we used the CBO projections that were published in July of 2021. There were some exceptions. For example, pension and medical and OPEB. So for example, for medical, we use the trend that we get from our actuaries when they look at our other post employee benefits, which is primarily the medical. For pension, we are assuming that we reach fully funded other than the annual service costs by the end of fiscal 2025. That's consistent with prior models and prior recent models and recent discussion.

And then for OPEB, even in the base model, we did increase the year over year amount put into OPEB in the year that the pension goes to fully funded. So we did adjust a little bit for that. As far as depreciation, in the base case, we kept depreciation at just the minimum million dollars for every 18 month rate increase.

If there's no questions on this page, we can go to the next page, which really shows the results of all these assumptions. So from a positive perspective, you can see that even without taking mitigating steps, that the price per gallon over this 10 year period does pretty much still remain approximately a penny over the 10 year planning horizon. As was mentioned, this does include a pretty significant increase in the capital that we're assuming in this year's model versus last year.

And when we look at the results here, basically, we said, "Well, this result is probably not acceptable." So for example, in the next rate application, not the one that was recently approved, but the subsequent one, we would have pretty significant, from a percent perspective and even from an absolute dollar perspective, pretty significant increase on probably above what we would want to be. And then we sort of have a decrease when the pension gets to fully funded, and then some still pretty significant increases. So we said, "Okay, well, this is the base." And then when we talk about the target, we're going to talk about the various steps that we can take. So we wanted to see what the results were. Basically, almost you can call it somewhat of a business as usual. Although, we have in the past also taken multiple mitigating steps, but not doing anything to particularly mitigate what the results are, because we really did want to see what the results were just based on the financing through the normal mechanisms, not making aggressive assumptions on grant financing and things like that.

So that's the result. So you could see that the next case, in particular, that we would focus on, you have percentages that are either a little over 8% or approaching 8%.

What does that look like? Jennifer, if you can go to the next page. What does it look like from what's causing those increases? And you can see by the second bar over on the, I think, it's on your left, that the capital improvement program is a key driver of what's going to happen in the subsequent case. You can see pilot even across all the years and the rate increases that are in this 10 year model. Pilots pretty uniform. Depreciation in

the base model, a million dollars, pretty uniform. O&M is not a particular driver. More so in some years than others. The year that the January 2025 case would be where the pension reaches that fully funded level. But you can see that, especially in the next case, that the capital program is a key driver of the rate changes.

So if you go to the next page. I want to spend a minute sort of talking through what our approach was. So there was a thorough review of the capital that's in this 10 year model. We actually went through ranking where projects were ranked against themselves with in the same category. So for example, technology projects were ranked against technology projects. Natural resources were ranked against natural resources. We also took the approach that you heard about last 10 year model update, looking at redundancy, risks and resilience. Annual programs were not ranked, but there was dollars in for all our continuing annual programs.

The review resulted in, just by way of comparison, that in actually an 11 year period, which is fiscal 2022 through fiscal 2032, the capital in this plan is $570 million versus last year of $426 million. Larry touched upon most of the key drivers of that change. Lead and copper rule compliance, Whitney dam. We also do have higher estimates of some of the other water treatment plant projects.

For the Derby tank project and the West River Water Treatment Plant improvement projects, we do have the incorporation of the actual bids that we got. I think everyone on this call is aware that there are supply chain challenges. And so there are some price increases. So when incorporated increases ... known increases associated with projects, there is a CIS replacement that's included in this 10 years. There was actually a replacement included in the last 10 years, but the timing has changed. And also this capital program that's incorporated into this model reflects treatment projects for future regulatory compliance.

Moving on the next page. Again, similar to what you heard last year is we are still envisioning that there's going to be larger system projects that achieve multiple objectives. There's going to be more and larger RPB project applications. And we do still believe that there will be capital efficiencies gained by bundling, by coordination, by just the project administration and management.

What you see in the graphics is what the breakout is across the traditional categories of our capital plan. And you can see that one of the biggest categories is transmission and pumping, and that is largely due to what we put into this model for the lead and copper rule. And then also perhaps to a lesser degree, but still a pretty large number, is natural resource is, and that's where the Whitney dam project is and the other dam projects that Larry mentioned.

So that just gives you a flavor for what went into the capital plan that was incorporated into this model. Again, it was pretty robust. It's going to form the basis of our fiscal 23 budgeting. So a lot of good work and cross-functional input on what we should put into the model.

So going to the next page. So what does this mean from a leverage perspective? Well, the good news is that even with this increase in capital and an increase in debt, the debt to capital ratio is still decreasing because net utility plant is still increasing by more than the outstanding debt. So that's good news. So even in this base case, we go from where we are in about 82.5 in fiscal 2022, down to about 76.6. So still an improvement. Do keep in mind that the actual ratios are really going to depend on what the asset mix is. So if there's more short-lived projects that have a shorter life that can impact what the ratio is. So it is a bit illustrative. But we do update our assumptions every year.

Unfortunately, the debt additions do exceed the principal payments. That's another thing that we look at. And with the capital improvement plan, the absolute debt level is projected to go up from about $568 million, which is our estimate for fiscal 22, to about $666 million, again, while the leverage is actually going down. Also, from a positive perspective, internally generated funds, even in the base case are about $186 million, just over the 10 year planning horizon. So we're still, based on the policy changes that have been made with depreciation and coverage in our rates, we still are able to generate pretty significant internally generated funds.

So that's really the key takeaways from the base case model. If there's not any questions I'll go into the target model. So the target model is where we actually put in multiple mitigating steps. And as it was mentioned by Larry earlier. How we actually tweak these things are definitely going to be based on what's happening at the time, like the then current circumstances.

So first on the assumptions, Race [inaudible] Fund, still at $10 million every year. Any draws go into the race legalization fund first, and then the remainder goes into the construction fund. The growth fund, similar to the base case is assumed, continue to fund that commercial billing project. However, there is also a reduction in the level of the growth fund because in this target, we did put in some non-organic growth, so that growth fund needs to be used for that. And then the other aspect that we feel it's important to point out. To get to the targeted level of the commercial revenues that are projected, it is actually highly likely that we'll have to use subordinate, subsidiary debt to fund the commercial growth that was built into this plan. So I just want to mention that.

The revenue, again, 1% year over year decline, no change there. The commercial net revenue, it does meet that $9.2 million target that we've been talking about. Again, any acquisitions or new offerings are assumed not to really be in revenue, but to come into offset rates and offset leverage by putting that money into the construction fund that we're allowed to do.

Financing differences. Here's where made some really key changes from the base case. So a key assumption that we made here in the target model is capital that's in the next case, the case that if approved would be effective in July of 2023, has pretty significant capital within that 18 month period. So to help mitigate that and knowing that in the next case after that with a pension going down and OM not being as much as a factor, we have some more room.

So what we've modeled here is that we're going to assume interim financing is going to be used to mitigate that next increase. And when we use interim subordinate financing, it actually is not funded through rates. And then it will be you rolled in into the subsequent rate case with RWA revenue bond. So that was a key assumption.

The other assumption that we made, we got a little more aggressive on what additional grants and subsidies may be available. So we actually assumed that we would get some funding through municipalities or the state from ARPA. I think you know that we're working on that. So we put a little bit in for that. For the lead and copper rule, we assume that of the monies that we have in this plan, and I should mention that at the time that we did the model, we assumed like $50 million for the letting copper rule over that 10 year period. As Larry mentioned earlier, that number was probably higher based on the latest information.

However, there could also be more additional grant funding. So for this model, we assume 25% of the lead and copper rule dollars that we put in would be subsidized. Just a rough assumption. But we put that in. We also put in that we would be successful with at least one of our projects that we submitted through Congressional Directed Spending through Senator Murphy's office. The good news on that is that has progressed to the next step. So we put that in as well. So again, just more, not overly aggressive, but definitely more aggressive in our assumptions than in the base case. And we also put in estimates for refinancing. So those were key differences, and those are all levers that we can definitely pull.

We did not change the O&M expenses, other than we did put into the target that when we get to fully funded on the pension, that is an opportunity to increase depreciation, which will help us in the long run. So in the target model, we did go up to $1.5 million in the January 2025 case and in the July of 2026 case, because that's sort of the one time opportunity to do that. So your O&M goes down and you have more leeway, even with existing rates to increase the depreciation.

So what are the results of this target model? So I think you would agree it looks better. So price per gallon still remains about a penny over of the 10 years. However, you can see both in absolute dollars and in percentages, we've really mitigated the increases that you saw in the base, especially in the next rate application. And again, we did focus more on the near term because there's many things that can change by the time we get to the 10th year of the model. And you can also see, we sort of smoothed out the increases in the case that would be effective if approved in July of 2023 and also in January of 2025.

Overall increases are less than 7% except in the fiscal 2028 case. And honestly, we didn't spend a lot of time trying to work on that particular case. It's still pretty far out. And as I mentioned, things can change. And a key thing is that recommendation that the approach is really based on what the then current circumstances are. So how much should the interim financing? How much should we change [crosstalk] if those are all

going to be based on what we're faced with as we work through upcoming budgets, as well as upcoming rate applications.

Tim: Rochelle, I had a question, if I may.

Rochelle: Yes.

Tim: If we are looking on this page at the average customer bill in dollars across the 10 years represented, basically that's $728.56 in the first column, is roughly a $60 average water bill. Is that correct? Am I interpreting that correctly? If you'd divide that by 12, is that accurate? Is that the average?

Rochelle: Yeah, for an average residential customer.

Tim: Okay. So when we go to the end at $1083.89, it's roughly $90. I don't know what level of inflation that is over 10 years. But I guess my question is, when do we ever get to actually get a price of water for what really it's worth? Maybe that's a bad question to ask in a regulatory environment, but with all the pressures on any utility and organization, certainly the electric companies don't give a rip about that. They're going to be raising somebody's price fourfold in January. If you're a commercial account and you don't have a private distributor of electricity, you're going to get your price quadrupled according to Eversource. That's not forever, but it's a supply chain thing, as they say. I just don't understand the model based on that penny a gallon sort of thing as a sustainable model for us. I guess we're not supposed to profit. But could you explain that a little better? [crosstalk] The same question 10 times.

Rochelle: I think the price per gallon within this 10 year stays pretty much still rounds to about a penny, although it's getting [crosstalk] by the 10th year. And I think what you're going to see is I think it would be naive to assume that there's not going to continually be price increases. Price increases because of the aging infrastructure. What we've been doing, and we have some, I think unique challenges like with depreciation not being in rates. At least historically. And some things like that that we're working through. We have some other challenges that we're really trying to balance the impact on the customer with financial stability.

So in this modeling, we're either meeting our coverage or have funds to do that while we're still generating internal funds. So other than the depreciation situation, it's not like we're not getting recovery on the cost. It is though the costs are increasing and the capital requirements are increasing. And I think there are levers that we can pull to help mitigate that for our customer. And that's really what this target case is about.

Tim: Yeah. And I think that's responsible. It's just with the lead and copper rule and all these unknowables and then the vast expense associated with it, and you think it'll even be more. It's just, I just don't understand how that doesn't play into the regulators' sensitivities.

Larry: This is Larry. Of course, this is just a model that-

Tim: Right. I understand.

Larry: What we know now. And we're honestly trying to make sure that we are investing what needs to be invested in the system so that the cost of water truly reflects what it is costing us to invest in it and produce that water. So we are trying to be accurate. And quite frankly, some of the steps that have been taken over the past 12 years has actually helped us reflect the true cost of water by some of the changes that we've made in the financial model of the organization.

Tim: I appreciate that, Larry.

Brian: This is how Brian. When we project this forward, though, as showing this to various consumers, are we going to be in trouble presenting this? Because to me, it seems like we are increasing our rates at what is likely to be higher than the rate of inflation. Or am I missing that?

Rochelle: I think it ... [crosstalk]. Do you want to-

Larry: Yeah, I'll take a shot at it and then Rochelle can back me up here. But yeah, we are going to be higher than the rate of inflation, Brian. And the reason for that is, is one, we have some built in factors that we have to take into account. One of those is the depreciation, which is a million dollars per rate case. At least a million dollars per rate case. And then the coverage, which adds additional upward pressure to the rate. There's kind of a floor that we have to meet regardless of what we need to do. And the rest of this really reflects the investment that we have to make in the organization.

Brian: No, no, no. I understand that. I'm just saying, in terms of presenting this to consumers, how are they going to take that type of a rate increase?

Rochelle: So I think a couple of things. We don't share the model, generally, with our customer [inaudible], but I would also say we're not the only water utility that is going to have increases that are more than the [inaudible]. We've actually seen that. And I just went through an update for our preliminary official statement that we're working on, and you can see that water companies are definitely increasing rates by more than inflation. I mean, there's aging infrastructure, there's other escalating costs. And then there's the additional factors that Larry mentioned that we're faced with. So we're not unusual from that perspective.

Brian: Okay.

Larry: And Brian, we are taking steps to mitigate. That's why this target rate case is so important is because we have taken all the steps that we know right now that we can take to mitigate future rate increases.

Brian: Understood.

Larry: So that's how you explain to consumers what we've done. Even though nobody likes an increase in the price of anything, but water has been so underinvested for decades and we have taken steps to mitigate the rate increase while investing what we feel is necessary.

Rochelle: Okay. Jennifer, if you move on to the next page. So here, I'll just mention that this looks a little bit different than what you saw in the base case. You could actually see that burnt orange or reddish bar in the July of 2023 case. It's approved. That's the time [inaudible]. There's not as much of an impact from debt service. And that's primarily because of the interim financing assumption we made.

You can see that the January of 2025 bar is about the same size now as the July of 2023, and that's because the idea is when O&M is not as significant a contributor when the pension gets to fully funded, we can roll that interim financing in. So it just reflects some more of the levers that we can pull to at least try to mitigate the impacts and try to balance the financial stability with the customer impact. And that's really what we're trying to portray here.

If you go to the next page. Here we pay a lot of attention to leverage. The rating agencies are definitely looking at our leverage. So in this target model, the leverage is about three and a half percent lower than the base case. It actually is still a little high, but it goes down as 73.1. Again, what that really is going to be is really going to depend on what the mix of the assets are and the exact amount of the debt. Here, again, net utility plant is increasing by more than the outstanding debt. Debt addition still exceeds payments. However, the outstanding debt is considerably lower than what it was in the base case. So in the base case, in that last year, we were about $666 million. In this case, we're down to like $632 million. So an impact, and you can see that in the leverage.

Tim: Who do we assume for the cost of debt, for its increase? I mean, what's your benchmark price over 10 years for debt costs?

Rochelle: We actually got information from Acacia and we put in like a [inaudible] basis. They're our financial advisor. So starting with what we assumed in the existing rate application, the one that was just approved, we're going up 50 basis points a year, capped out at 6%.

Tim: Six percent, which is probably high.

Rochelle: Yeah. But yeah, it goes up each year. So it's only in like the last year that it would be at that level.

Tim: With the total. Okay. Thank you.

Rochelle: Also, the internally generated funds in this model are approximately $211 million and $34 million. Our transfers into the construction fund during that 10 year planning

horizon. So in the target model, this is where we're putting in ... Subsidies that we get will help fund reduce leverage and help fund the financing, the transfers that would come in from commercial enterprises. Hitting its target will be going into the construction fund. That's what we modeled here. And that's actually another key assumption about being at that $9.2 million target by the end of fiscal 25 and having that monies available to put into the construction fund to mitigate water rates. So that, again, this is sort of an illustrative, pulling the levers that we have to balance the financial stability with a customer.

And Jennifer, if you can go to go to the next page. We just want to go through opportunities and vulnerabilities. And most of these can go in either direction. So we talked about regulatory requirements. The lead and copper rule is a great example of that. Some other regulations can also impact our cost. Supply chain in pricing of supplies in our capital projects. That's a factor. We've already seen some input. I think our impact, it's yet to be seen if that's going to level off. Hopefully it will. That's something we're going to have to watch closely. With DWSRF, if the grants are a higher percentage, that's going to help. If we can do even more DWSRF than what we built in, that is also an opportunity.

I think you were questioning earlier what interest rate we used him. And that's something, actually, on the financing side, if their interest rates are lower, we'll pass that on to the rate payers. So we'll have to monitor that. Right now, although the interest rates are low, it's actually depressing our investment earnings. So it has good and a bad impact. We'll also look at refinancing. We'll continue to look at that. Right now, with the current guidelines and laws, we still can't do taxable advanced refunding, but we have done and will continue to look at, taxable advanced refinancing. We're, actually as we speak, pursuing forward delivery, which would be tax exempt. Then as we get more out into the future, just the yield curve should allow us to have opportunities for additional refinancing. So we'll be continuing to look at refinancing. And the target, we only built in a relatively small assumption about how much debt service we go down with refinancing.

Grants and American Rescue Plan. That's an opportunity and vulnerability. We built in some. We didn't build in a very significant amount, but still definitely well above what we put into the base case. We're also looking at Water Infrastructure Finance and Innovation Act, that's WIFIA. That's all a loan, but it is a lower cost loan than even DWSRF. We did not model WIFIA financing in either of these, or any of the models, but we're definitely looking at that. And right now we're pursuing that as a possibility for the project.

Operating expenses, I think they can go and need their direction. We've made assumptions even since the July CBO that we use as the basis. The inflation projections have actually increased, not decreased. So we're definitely going to have to keep our eye on that. From a revenue perspective, we'll have to watch the conversion of monthly billing. And from an ongoing basis, what it will do to our cash collections. And that could most probably be a positive impact because we are assuming that once we go to

monthly billing, although it's not modeled here, that we will get at least a small increase in the conversion of our billing to cash with the lower monthly bills.

The commercial net income and its timing, both a risk. Both an opportunity and a vulnerability. Timing also comes into play. When we model this, we don't really need to wait till the end of each fiscal year to move money in from the commercial into the construction fund. So that's something as that area grows that we'll be watching. Just generally, the percent of bills collected can be a positive or a negative. Our overall bill consumption, I mentioned earlier, we are assuming over this 10 years that there still is a 1% year over year defined and we'll have to watch that. But I think right now, that's a good planning assumption for this 10 year horizon. And possibly some opportunities with wholesale water revenue and interconnection. So again, most of these things can be either an opportunity or a vulnerability, but we just wanted to highlight some of the key things that we feel that we need to watch closely.

Tim: Rochelle, if I may. The WIFIA money, I don't remember that term. Is that's something that popped up with COVID relief and that sort of thing? Or is that just unrelated? Just [crosstalk]

Rochelle: No, it's actually, it's not associated with COVID. It's been around for a little while, but we learned some things, I would say in the last year, about WIFIA and how it works. We learned the we could combine projects. So they have a very high threshold. Off the top of my head, don't quote me exactly to it. But a project needs to be like $25 million.

But we learned that we could combine projects, even though the dam, which is the project that we submitted for WIFIA meets that criteria. This is something that in the past we thought hardly any projects would qualify for. But now that we know we can combine projects, we can definitely look at it more closely. WIFIA, we also learned that the application fee, which is pretty high, I mean, there is a application fee. It could be finance with WIFIA money, and the rates are even lower than DWSRF, at least right now they are based on how they do them. So we learned more about how this program works. So we're thinking it really is a possibility for us that we didn't think in the past.

Tim: But we have applied for it once you said, at least?

Rochelle: The first time is very recently. We put in a letter of interest for the Whitney Dam, and we just get word back that we were selected to go to the next step. The next step is an application.

Tim: Oh, okay.

Rochelle: We now have to put in an application. They seem really good to work with, so that's really positive. It's under EPA, but it's out of ... Sorry, at the federal level. So it looks pretty promising.

Tim: Oh, good. Okay. Thank you for that.

Rochelle: Okay. If we go on the next page. So we did even do other scenarios. As we put our different levers in and things, you could, [inaudible], who works on the model in particular with me, we could probably run multiple, multiple models, because you look at a model and then you want to maybe tweak it a little bit. But we did look at a few other scenarios and I think because of the focus on capital, we did a few different scenarios, just looking at capital.

So one of the scenarios was, there's an additional one time expense or additional capital [inaudible] of $30 million and it spans 24 and 25. So looking at that, off the target case, it would actually, the rate increase would be over 7%, even the target case. And the last year of the model, the rate would be about $15 higher. And the debt to capital ratio is higher.

Scenario four was, we looked at about a 10% capital increase beginning in fiscal 2024. And that, off the target, added about $25. And just keeping in mind that if you look at last year's model versus this year's model, the increase is actually more than 10%. So I think just looking at what the scenarios are and how they may impact things is hopeful. And the debt to capital where ratio goes up about 1%.

Off the base case, if you add $30 million, it's the second highest rate of all the scenarios. The debt to capital ratio is 5% higher than the target scenario. Similar result in adding 10%. So I really wanted to see if there continues to be increases in capital, either from a one-time, non-recurring perspective or over all the years that are in the model, how that might impact rates.

We also looked at a couple other scenarios. So we also did the target scenario, but where it excludes what we put in for the new non-organic growth. So this would be where we didn't include money's coming in, let's say from acquisitions that we're looking at.

So this was the second lowest rate. And the debt to capital ratio was 2% less than the base. It does include the one transaction that we did. It still did include Well Safe, but it [inaudible] include the rest of activities and transactions that we need to do to get to our target.

And what we actually did to build up the target, we actually ran multiple scenarios so we could see how each one was impacting the base and where we ended up. So when we actually built this up, we actually did these steps individually. So the first step, we just added the interim financing. And then we added the increase in depreciation to time it with the pension reaching fully funded. Then we incorporated the grants and then we incorporated refinancing. So we could look to see what each of these levers was doing to the rates and other financial measures. And that's actually, we built it up to get to the target.

If you go to the next page. This is what the rates look like at the end of the 10 years. Now, one thing you have to keep in mind is even though the rates all look pretty close

and we've seen that dynamic, I think in all the models that we've done, because the fundamentals don't really change all that much from model to model. But the other thing that you have to look at is not just what the rate is in the last year, because even though that last year might be pretty close in the base case models, the customers are paying those higher rates for a 10 year period. That's generally true for all the models.

The details of each of the models is actually in the appendix. I wasn't planning on going through all the details, but they are there for you to see. And I think if the perspective here is the scenarios really do help inform the decisions and recommendations, you can look at what the results are, think about what steps you can take to achieve certain goals and mitigate the impact on the customer. It was mentioned a few times that you'd modify your approach or what management recommendations are based on the then current circumstances. And there's nothing that precludes us from in aspects that are in all these alternative scenarios. So we can do that as well. And I think it's definitely about balancing the rate impact on the customers with financial stability of our [inaudible].

Go to the next page. This is really the next steps in the conclusion. So we would continue to focus on the execution of our strategic plan. That includes mitigating debt service with grants, pursuing refinancing, pursuing alternative financing, revenue enhancement. That's with commercial enterprises, but it's also with cash collections as well as potentially wholesale. Continue prudent cost management, process efficiencies, innovative approaches. Asset management is also a key focus. And as well, continuing to evaluate the O&M and capital spending levels.

So as we look forward, we are just about beginning our fiscal 2023 budget process. We'll be looking at and monitoring that budget versus our pending rate application. That includes the year of fiscal 23 and what our model assumptions are so we can assess how that budget is going to impact our pending application as well as our model assumptions, whether it's favorable or not favorable, what steps that we may need to take. And then also incorporating our fiscal 2022 results into our fiscal 23 budgeting cycle. And then definitely very important, continue to communicate with all our stakeholders.

I think with that, I'll open it up for any additional questions or comments.

Tim: Thank you, Rochelle.

Rochelle: Thanks. If you think of anything subsequently or you have a question, just let us know.

Tim: So are you going to go into more detail with the 10 year base model, which is the other presentation on this?

Rochelle: I wasn't planning to, unless there's any specific question [crosstalk]

Tim: I just had one question. As a percentage of the operating budget currently I realize you can't play this out over the 10 years, but what is our debt service cost as a percentage to everything?

Rochelle: I don't have it on a percent basis.

Tony: Sorry. [inaudible]

Rochelle: It's slightly less than O&M.

Tony: Okay.

Rochelle: It's little less than 50/50 between O&M and debt service. I don't know if that answers the question. Actually, in the model ...

Tim: Yeah. I saw numbers. I just was curious here. It's hard for me to do percentages.

Rochelle: Yeah, I can calculate it for you. In fiscal 22, our debt service is ... the actual payments, 43 9 on 117. So a little less than 40%.

Tim: Yeah. It's just a monumental number.

Rochelle: [crosstalk] coverage.

Tim: Okay. Well I guess we're worse than the MasterCard, Visa commercials. [inaudible]. Forget about it.

Rochelle: I mean, we pay principle all the time, but [crosstalk] projecting increase in the debt.

Tim: Right. Obviously. Okay. Thanks. Okay. So I guess we are moving along in our agenda. I don't think there are any more questions. So we'd be moving along to the approval of the minutes for the October 4th, 2021 meeting. We got our meetings in our packets. I assume everyone's had a chance to read them.

Brian: I'm going to drop off now, having seen the presentation.

Tim: Okay. Thank you. Thank you, Brian.

Greg: [inaudible] thank you for letting us-

Tim: Okay.

Joe: Thanks, Rochelle, that was a great presentation.

Rochelle: Thank you. [crosstalk]

Tim: Okay. So we lost a few people. Okay. Pictures got bigger. So I'll entertain a motion for approval of the October 4th minutes.

Jamie: I'll make a motion. [crosstalk]

Tim: Thank you, Mr. [inaudible]. Thank you so much, Jamie. Any discussion? All those in favor of the minutes is presented.

Jamie: Aye.

Vin: Aye.

Tim: Okay. Motion carries unanimously of those voting and present. Our next big task is to set the calendar year 2022 regular meeting dates. It's a draft, so I think it's fair enough if someone has something come up after they've taken a deeper dive into this. I guess it's reasonable to do so. But Jennifer, I guess everyone's looked at the important dates and what had to be moved, with any kind of holidays religious or otherwise.

Jennifer: Yes, they were double checked. Triple checked.

Tim: And no 50 year anniversary dates for anybody or anything like that.

Charles: Tim, the discussion that Mario was bringing up last month regarding the timing and ...

Tim: Oh, that they need to put together to ... They were going to move the ... That's a good point.

Charles: The fourth one, does it make any sense? Do they need it for the finance committee? Or is there not the same level of work that's got to be done?

Rochelle: As far as posting it?

Tim: Yeah, that's probably Larry could weigh in and Rochelle, I guess on that. We were moving the primary meeting to affect their capacity to do a better job and get it done in more time. Do we play a role in that just staying with these dates in these formats?

Rochelle: So it would be available because it goes to the authority before it goes to the finance committee. So, an impact to your finance committee dates.

Tim: It's not a problem for you? It's not hurting or helping. It's just what it is, as far as you're concerned?

Charles: Staying with these dates doesn't affect the staff at this point then.

Tim: Okay. That's the way it sounds, Charles. Okay, good. Good call though. That was good. That was good. Okay. Well I guess I'll take a motion to approve it and then if something

should come up, we can obviously meet that as it comes or whatever at our next meeting. We got a motion-

Jamie: [crosstalk] motion.

Tim: Thank you, Jamie. Got a second.

Charles: I'll second.

Tim: Thank you Charles. All those in favor?

Group: Aye.

Tim: Aye. Okay. Motion carries. And I believe that may bring us to new business. Not aware of any. Does anyone have some new business for the group? Okay. Seeing none, other than this reminder before we go for June adjournment, is our next meeting is December 13th, 2021 at five o'clock. And I'll ask for a motion to adjourn. [crosstalk] All in favor.

Tony: Second.

Jamie: Aye.

Tim: We're out of here. That's great. [crosstalk]. Thank you very much. [crosstalk].