FILED
December 5, 2025
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF AMERICAN SUBURBAN UTILITIES, INC., FOR AUTHORITY TO: (1) ISSUE LONG TERM DEBT AND INCUMBER ITS ASSETS AS SECURITY FOR SUCH DEBT; (2) USE THE PROCEEDS TO REIMBURSE ITS TREASURY, REFINANCE EXISTING INDEBTEDNESS, AND CONSTRUCT CERTAIN IMPROVEMENTS; (3) INCREASE ITS RATES AND CHARGES FOR SEWER UTILITY SERVICE; AND (4) IMPLEMENT A NEW SCHEDULE OF RATES AND CHANGES APPLICABLE THERETO	**CAUSE NO. 46318**

PREFILED DIRECT TESTIMONY AND EXHIBITS OF JOHN R. SKOMP

Prefiled Direct Testimony of John R. Skomp	ASU Exhibit 28
Verified Amended Petition filed in this Cause.	ASU Exhibit 29
Financial Information prepared by Reedy Financial Group, PC	ASU Exhibit 30
October 16, 2025 Letter to Ms. Margaret A. Stull regarding Deferred Income Tax	ASU Exhibit 31
Detail of Proforma Payroll Expense	ASU Exhibit 32
Information regarding Rate Increases of Duke Energy	ASU Exhibit 33
Analysis of Account No, 733.08, Contractual Services – Legal, Administrative and General	ASU Exhibit 34
Detail of Adjustment for Change in Insurance Policies / Premiums	ASU Exhibit 35
Invoices related to Services provided as part of Cause No. 45649-U	ASU Exhibit 36

Current Financial Information on Account No. 186.06, Miscellaneous Deferred Debit, Affiliate Agreement	ASU Exhibit 37
Bids and Final Contract for Cumberland Road Sewer Project	ASU Exhibit 38

Respectfully submitted,

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ASU EXHIBIT 28

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PREFILED DIRECT TESTIMONY AND EXHIBITS

OF

JOHN R. SKOMP

ON BEHALF OF

AMERICAN SUBURBAN UTILITIES, INC.

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME.

A. My name is John R. Skomp.

Q2. MR. SKOMP, PLEASE DESCRIBE YOUR MOST RECENT PROFESSIONAL EXPERIENCE THAT IS RELEVANT TO THIS PROCEEDING.

A. During my most recent time in consulting with utility companies, I was a Partner with Crowe Horwath LLP which now goes by the name Crowe LLP ("Crowe"). Crowe was and is a certified public accounting and consulting firm and, along with its predecessor, Municipal Consultants, has been providing rate and financial consulting services to various types of utility companies since the 1960s. I worked as a part of Crowe's utility consulting business for over twenty-five years.

Q3. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS.

A. I received a bachelor's degree in business with a major in accounting and a minor in economics from Indiana University-Purdue University at Indianapolis. During my employment, I attended and made presentations at numerous seminars and conferences pertaining to accounting, utility, and rate issues. Universities, utility associations, accounting organizations, state regulatory associations, governmental entities, and other organizations sponsored these seminars.

Q4. HOW LONG WERE YOU EMPLOYED BY CROWE AND IN WHAT CAPACITIES?

A. I was employed by Crowe for over 25 years, and my responsibilities within Crowe's financial advisory practice related to utility companies included supervising and performing analysis on various utility rate engagements, fuel cost adjustment filings of electric utilities, feasibility studies, cost of service studies, cost of capital analysis, utility financial analysis, utility business valuations, asset valuation projects, and other projects related to a variety of utility issues. I worked with banks and financial institutions on both financing and investing opportunities that were presented to our clients. While at Crowe, the utility engagements that I worked on and was responsible for included water, sewer, electric, and gas utilities that were established as not-for-profit, for-profit, governmental, or quasi-governmental entities. I prefiled and gave oral testimony to the Indiana Utility Regulatory Commission ("Commission") and courts on a variety of issues over the years including, but not limited to, revenue requirements calculations, accounting methodology and related areas, utility historical and pro forma financial information, cost of capital analysis, rate structure and cost of service issues, issuance of both long and short term debt, utility operating information, utility valuations and a variety of other utility related issues.

Q5. PLEASE STATE YOUR EXPERIENCE PRIOR TO JOINING CROWE.

A. Prior to joining Crowe, I was employed in various capacities in the Accounting Division of the Commission beginning as a staff accountant, advancing to the position of Principal Water and Sewer Accountant and moving into the administrative offices where I was employed as the Commission's Comptroller. I was then employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as the Director of Utility Analysis with the responsibility for supervising the Accounting, Engineering, and Economics and Finance

Divisions. I have prepared and given testimony on behalf of the Commission, the OUCC, utility companies, and intervenors during proceedings before the Commission.

Q6. ARE YOU CURRENTLY A CERTIFIED PUBLIC ACCOUNTANT ("CPA")?

A. No, not at this time. After leaving Crowe, I maintained an active CPA license for a couple of years but I am not currently maintaining that certification. Prior to and shortly after leaving Crowe, I was a CPA licensed in the State of Indiana and was a member of the American Water Works Association, the American Institute of Certified Public Accountants, and the Indiana CPA Society. Also, prior to leaving Crowe, I had passed the Municipal Securities Rulemaking Board's ("MSRB") Series 50 Municipal Advisor Representative Pilot test which allowed me to discuss and consult on municipal bonds and financial arrangements.

Q7. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CAUSE?

A. My testimony will provide support for the relief that is being sought in this case by Petitioner, American Suburban Utilities, Inc. ("ASU," "Petitioner," or "Utility"). I am also sponsoring the Verified Amended Petition filed in this Cause, which is attached and included as part of my testimony as ASU Exhibit 29. In summary, ASU is requesting Commission approval of many areas which include:

- increasing its rates and charges in an across-the-board manner based on its current operating results, capital structure and rate base;
- establishing amortization periods for certain regulatory assets;
- returning certain plant assets and equipment to ASU's rate base which were excluded

from rate base consideration in previous Causes;

- approval of a proposed financing plan which would allow Petitioner to construct improvements to the Utility's plant and equipment; and
- preapproval of a process through which an additional rate adjustment could be implemented when the proposed improvements that are part of the requested financing in this Cause are placed in service.

In discussing Petitioner's filing, my testimony will cover many aspects of ASU's operations as well as accounting and cost of capital issues related to this rate filing. My testimony is being filed in this Cause as are the testimonies of Mr. Timothy A. Beyer, Ms. Jennifer Z. Wilson, Mr. Thomas B. Astbury and Ms. Lana Beregszazi and, as part of my preparation in this Cause, I have reviewed their testimonies and exhibits. Also, the historical, adjusted and proforma financial information of ASU are contained in the financial report prepared by Reedy Financial Group, PC ("Rate Report") which is included with my testimony as ASU Exhibit 30. The Rate Report was prepared under my direction and supervision and I am familiar with the workpapers and other supporting documents used to arrive at the analysis and conclusions contained therein.

Q8. PLEASE IDENTIFY THE EXHIBITS WHICH YOU WILL BE SPONSORING AND FOR WHICH YOU WILL BE PROVIDING TESTIMONY.

A. I am sponsoring the following attachments:

- ASU Exhibit 29 - Verified Amended Petition filed in this Cause.
- ASU Exhibit 30 – Financial Information prepared by Reedy Financial Group, PC

- ASU Exhibit 31 – October 16, 2025 Letter to Ms. Margaret A. Stull, OUCC regarding Deferred Income Tax
- ASU Exhibit 32 – Detail of Proforma Payroll Expense (to be prefiled confidentially)
- ASU Exhibit 33 – Information regarding Rate Increases of Duke Energy
- ASU Exhibit 34 – Analysis of Account No, 733.08, Contractual Services – Legal, Administrative and General
- ASU Exhibit 35 – Detail of Adjustment for Change in Insurance Policies / Premiums
- ASU Exhibit 36 – Invoices related to Services provided as part of Cause No. 45649-U
- ASU Exhibit 37 – Current Financial Information on Account No. 186.06, Miscellaneous Deferred Debit, Affiliate Agreement
- ASU Exhibit 38 – Bids and Final Contract for Cumberland Road Sewer Project

Q9. ARE YOU FAMILIAR WITH ASU'S FINANCIAL POSITION, CAPITALIZATION, BUSINESS, AND PROPERTY?

A. Yes.

II.
REQUESTED RELIEF AND HISTORY OF ASU LENDING

Q10. WHAT SPECIFIC AUTHORIZATIONS ARE BEING SOUGHT WITH REGARD TO ASU'S CURRENT OPERATIONS AND RATE BASE?

A. Again, some of the specific ASU requests would include, but not be limited to:

- An across-the-board rate increase of 26.36%;
- An amortization period of six (6) years for the cost of Petitioner's last rate case, Commission Cause No. 45649-U;
- An amortization period for the cost of Petitioner's most recent financing case, Cause No. 46017, that would correlate with the remaining term (life) of the debt;
- An amortization period of five (5) years for the costs related to Cause No. 46264; the Commission's investigation of ASU's most recent affiliate agreement;
- An amortization period of three (3) years for the estimated cost of this current rate filing, Cause No. 46318;
- The inclusion of approximately $800,000 (net of accumulated depreciation) of equipment in Petitioner's rate base which was excluded in the last rate case; and
- The inclusion in rate base of approximately $2.8 million of previously excluded construction costs related to its wastewater treatment plant projects.

Ms. Wilson provides information and analysis of ASU's currently outstanding long-term debt and the terms and interest rates related to that debt. Ms. Wilson also provides information about the proposed financing that Petitioner is requesting Commission approval.

My testimony will cover the historical financial information of ASU as well as the adjusted and proforma information that demonstrates the need for a rate adjustment based on its current customer base and results of operations. While Ms. Wilson will discuss the details of Petitioner's currently outstanding debt, I would note that the current debt of ASU was approved by the Commission in Cause No. 46017, Order dated October 23, 2024 ("Financing Order") and ASU's current rates and charges were approved by the Commission in Cause No. 45649-U, Order dated January 18, 2023 ("Rate Order").

After reviewing the Rate Order in early 2023, Petitioner noted a need to streamline the issues within its rate proceedings, as past cases had become entangled in multiple complex issues which were complicating the processing of the cases. This had been the case with Petitioner's prior cases and had led to a situation where the Commission, on multiple occasions and on multiple issues, ruled against ASU because the Commission believed insufficient evidence was provided to support the Utility's request. In order to provide a better opportunity to provide sufficient evidence to the Commission, ASU decided to address some areas of concern in separate Commission proceedings because some issues appeared to be "too large" to address in the middle of normal rate proceedings. For example, a great deal of time, effort and financial resources were expended in Cause No. 45649-U related to ASU's capital structure and the fact that an affiliated company held debt which the OUCC contended was all related to ASU. In lieu of going into another rate proceeding where the same or similar issues could be raised, ASU filed a financing case with the Commission on February 26, 2024 which requested authority to move approximately $10 million of debt onto the Utility's books. This was filed and the Financing Order was issued authorizing ASU to complete this transaction; in lieu of the OUCC's opposition.

While ASU may not agree with all the Commission's prior findings regarding certain areas of its operations, there was an understanding that, in many cases, the Commission was asking for more evidence on which to base its decisions. Therefore, Petitioner has worked to alleviate concerns with the amount of its deferred income taxes, calibration of meters, completion of as-built drawings, invoice detail and other areas discussed in prior Commission Orders. Also, as part of this process, ASU filed an affiliate agreement related to the leasing of its office and maintenance facilities from its owner, Mr. Scott L. Lods, which resulted in the Commission investigation in Cause No. 46264 ("Lease Case"). Petitioner saw the Commission investigation as a common-sense way to address significant issues outside of specific rate proceedings and saw that investigation as an opportunity to provide sufficient information and evidence on that specific issue. In lieu of duplicating all the time and effort to "re-present" and re-litigate this information in this Cause, ASU has petitioned the Commission to take administrative notice of Cause No. 46264 and incorporate the evidence and findings of the Lease Case into this current Cause.

One final note with regard to ASU's efforts to address as many issues as possible outside of formal rate proceedings, ASU did make a 30-Day Filing with the Commission on October 20, 2025 which related to the need for the Utility to establish a Returned Check Charge. This request was reviewed by the Commission and approved at their Conference on November 19, 2025.

III.
HISTORICAL FINANCIAL INFORMATION

Q11. PAGES 19 THROUGH 21 OF THE RATE REPORT CONTAIN THE HISTORICAL BALANCE SHEETS OF ASU FOR THE TEST YEAR AND THE

CALENDAR YEARS 2023 AND 2024. ARE THERE SPECIFIC ITEMS OF NOTE IN THE HISTORICAL BALANCE SHEETS?

A. Yes, there are a few items of specific interest. First, on Page 19, the Utility Plant in Service ("UPIS") section shows that Petitioner's total UPIS grew by approximately $2.5 million from December 31, 2023 to June 30, 2025 and the vast majority of that growth (approximately $2.2 million) was in the Collection Sewer – Gravity and Services to Customers accounts. As expected and shown on Page 21 in the Contributions in Aid of Construction ("CIAC") section, ASU's gross amount of CIAC (i.e: net of accumulated amortization) grew by a little over $1.8 million during that same time period.

Page 19 also includes the Other Long Term Assets section which is used to account for items of plant or equipment which were excluded from Petitioner's rate base in prior Causes. These items have been accounted for in separate accounts to allow for quick identification for reporting purposes. The Property Held for Future Use account in the Other Long Term Assets section is used for certain items of equipment that were excluded in the Rate Order. The Other Tangible Plant account this section is used for certain plant costs that were previously excluded from rate base. The Property Held for Future Use and Other Tangible Plant accounts will be discussed later in my testimony.

The Long Term Liabilities section of the Historical Balance Sheets, as shown on Page 20, shows that ASU did accomplish the movement of debt onto the Utility's books in 2024 as approved in the Financing Order. Page 21 shows that this transaction resulted in a significant lowering of ASU's Equity Capital, which was anticipated and discussed in the Financing Order. Implementing the transfer of debt, as approved by the Commission, has resulted in a different capital structure in this Cause than what was used as a basis for the rates and charges approved in the Rate Order.

Q12. PAGE 21 SHOWS THAT THE BALANCE OF ASU'S OTHER DEFERRED CREDITS CHANGED PRIOR TO THE END OF THE TEST YEAR. PLEASE EXPLAIN.

A. This change was the result of an intensive study by ASU to determine the actual balance of its Deferred Income Taxes ("DIT"). Following the Rate Order, ASU studied its DIT to determine the amount of DIT that should currently be recorded on its books and records, which ASU completed in early October of 2025. As a courtesy, ASU mailed a letter to Ms. Margaret A. Stull of the OUCC on October 16, 2025 to promptly provide her a summary of ASU's DIT analysis. That letter and supporting information is included in ASU Exhibit 31 which is included with my testimony.

With that brief review of the change in ASU's DIT, I would state my belief that the balance shown at the end of the test year being used in this Cause is accurate and can be relied upon by the Commission for ratemaking purposes. Going forward, Petitioner expects to recalculate the appropriate amount of DIT at the end of every tax year and make the necessary adjustments at that time.

Q13. DO PAGES 22 AND 23 OF THE RATE REPORT CONTAIN THE HISTORICAL STATEMENTS OF INCOME ("INCOME STATEMENTS") FOR ASU?

A. Yes. Those pages contain the Income Statements for the Calendar Years 2023 and 2024. However, pages 1 and 2 of the Rate Report contain the Historical Income Statement for the twelve months ended June 30, 2025 (column labeled as "FYE June 30, 2025"), the test year in this Cause. As can be seen from a comparison of the Total Operating Revenues shown on these pages, ASU is experiencing increased revenues as a result of billing unit growth and the rate increase approved in the Rate Order. After reviewing the test year financial statements and other supporting information, I believe that, when accompanied with proper adjustments, the chosen test year in this Cause is representative of the expected results of ASU's ongoing operations and can be relied upon for ratemaking purposes.

IV.
ADJUSTED FINANCIAL INFORMATION AND EXPLANATION OF ADJUSTMENTS: BASED ON CURRENT RATES AND CHARGES

Q14. DOES THE RATE REPORT CONTAIN A FORECAST OF ASU'S FINANCIAL OPERATIONS BASED ON IT OPERATING WITH ITS CURRENT RATES AND CHARGES?

A. Yes. Pages 1 and 2 of the Rate Report is the Forecasted Statement of Income at Present and Proposed Rates ("Adjusted Income Statement"). As mentioned earlier, the FYE June 30, 2025 column shows the financial results of the Utility's actual operations during the test year. The column labeled "Forecasted at Present Rates" is the estimated (forecasted) financial results of the Utility's operations assuming it continues with the currently approved rates and charges. The "Adjustments" and "Ref." columns between the "FYE June 30, 2025" and "Forecasted at Present Rates" columns detail the adjustments that Petitioner believes are appropriate. The details of Adjustments 1 through 32, which are made to adjust for the anticipated operations under present rates, are shown on pages 3 through 14 of the Rate Report.

The adjustments made to the Utility's test year financial statements, as shown on pages 3 through 14 of the Rate Report, were made with the understanding that the adjustments should be fixed, known and measurable and should represent the annual financial results of any changes that would occur within twelve (12) months of the end of the test year. I believe the adjustments made within the Rate Report fit these criteria and are representative of the Utility's ongoing operations and are sufficiently reliable for ratemaking purposes.

Q15. WHAT IS THE GENERAL PURPOSE FOR ADJUSTMENTS 1 THROUGH 5 AND 23?

A. Adjustments 1 through 5 and 23 all address the growth in ASU's number of billing units, but from different perspectives. Adjustments 1, 3 and 5 all adjust operating revenues for the growth in the number of billing units that occurred <u>during</u> the test year. These adjustments are necessary to reflect the annual operating revenues that would be anticipated given the number of units ASU billed as of June 30, 2025. Adjustment 1 is for the increase in Unmetered Residential revenues while Adjustment 3 is for Unmetered Multi-Family and Adjustment 5 is for Metered Commercial revenues. The details shown within each adjustment demonstrate the actual number of billing units at the end of each month of the test year and the expected annual revenue increase from those billings.

Adjustments 2 and 4 adjust operating revenues for what ASU believes to be the best estimate of growth <u>through the twelve months following the close of the test year</u>. To arrive at what ASU considers to be fixed, known and measurable growth projections, historically experienced growth information was added to known development information in order to arrive at the detail outlined in those adjustments. Many of ASU's requests in this Cause are based upon anticipated customer growth. ASU's adjustments attempt to capture a representative amount of that growth when forecasting the Utility's financial results at present rates.

Adjustment 23 details the adjusted test year amounts for a list of operating and maintenance expenses that are believed to be variable based on the number of units being served and adjusts those expenses for the increased numbers being used in the revenue adjustments. The overall result of Adjustments 1 through 5 and 23 is that operating revenues are increased by over $360,000 (Adjustments 1 through 5) which is expected to result in an increase in operating expenses of slightly more than $32,000 (Adjustment 23).

Q16. PLEASE DISCUSS ADJUSTMENTS 6 AND 7.

A. Adjustment 6 adjusts the test year payroll expense for the actual payroll rates in effect as of June 30, 2025, the end of the test year. The purpose of this adjustment is to annualize the changes to salaries and wages expense based on test year payroll information and current payroll rates in effect at the time of the filing of Petitioner's case-in-chief. Adjustment 7 makes a similar adjustment but its purpose is to reflect changes that will be fixed, known and measurable by the time Petitioner files its rebuttal testimony in this Cause. These costs are not yet fixed, known and measurable because Petitioner normally makes payroll decisions at the end of the calendar year and implements related changes at the beginning of the following calendar year. Therefore, Adjustment 7 is currently based on ASU's best estimate of the increases that will be enacted at the beginning of Calendar Year 2026 but which have not been finalized. In lieu of rushing to finalize the increases prior to the prefiling of its case-in-chief, Petitioner presents an estimate in its case-in-chief with the expectation it will update these amounts in its rebuttal testimony.

Q17. HAVE YOU INCLUDED DETAILED INFORMATION REGARDING PETITIONER'S SALARIES AND WAGES IN AN EXHIBIT WHICH IS PART OF YOUR TESTIMONY?

A. Yes, the detailed payroll information is included in ASU Exhibit 32 which ASU intends to prefile as a confidential exhibit.

Q18. PLEASE DISCUSS ADJUSTMENTS 8 AND 22.

A. Adjustment 8 is an adjustment to reflect the increased cost of employee pensions and benefits that would occur based on ASU's historical pension match and the updated cost of annual salaries and wages. Adjustment 8 uses the information from Adjustments 6 and 7 to complete the calculations shown for pro forma employee pension expense. Adjustment 22 is similar, but it adjusts for the pro forma amount of Federal Insurance Contributions Act tax that would be expected given the pro forma payroll amounts.

Q19. HAVE YOU REVIEWED MR. ASTBURY'S TESTIMONY REGARDING ASU'S PROCESSES FOR DISPOSING OF THE SLUDGE THAT IS PRODUCED DURING THE PROCESS OF TREATING WASTE AT ASU'S PLANTS?

A. Yes, I have, and I have also reviewed the evidence presented on this issue in ASU's last rate filing and the Commission's findings as stated in the Rate Order.

Q20. IN ASU'S LAST RATE CASE, THE COMMISSION AUTHORIZED $49,883 FOR SLUDE REMOVAL EXPENSE, BASED UPON A FOUR-YEAR AVERAGE. HOW DID THIS AMOUNT COMPARE TO ASU'S ACTUAL SUBSEQUENT SLUDGE REMOVAL EXPENSES?

A. This authorized amount was vastly lower than ASU's actual expenses. As shown in the following table, ASU incurred $160,116 in 2023 and $130,638 in 2024. Through the end of the test year, ASU incurred $216,905 and through November 2025 (including the amount through the end of the test year), ASU incurred $255,386

Year	Gallons of Sludge	Annual Expense	Average Cost Per Gallon
2021	1,180,470	$ 81,957	$0.0694
2022	1,801,857	157,485	0.0874
2023	1,503,633	160,116	0.1065
2024	1,428,990	130,638	0.0914
Thru November 2025	2,565969	255,386	0.0995

The Commission's Order in Cause No. 45649-U was issued on January 19, 2023 which authorized ASU to recover $49,883 per year in sludge removal cost. This resulted in ASU under-recovering in this area for the calendar years 2023, 2024 and through November of 2025 to an amount of almost $400,000 ($160,116+$130,638+$255,386-$49,883-$49,883-$49,883). The OUCC's recommended method and amount would have resulted in an even greater under-recovery. This significant under-recovery is one of the reasons I believe the OUCC and Commission's previous methods of calculation should not be used going forward.

Q21. WHAT CAUSED SUCH A SIGNIFICANT VARIANCE BETWEEN THE COMMISSION'S AVERAGE COST AND ASU'S ACTUAL 2023, 2024, AND 2025 COSTS?

A. In short, basing the sludge removal costs on an historical four-year average dollar amount did not account for certain variables that significantly impact sludge removal expenses.

Q22. WHAT IS YOUR RECOMMENDED METHODOLOGY TO ESTIMATE FUTURE SLUDE REMOVAL EXPENSES?

A. Given ASU's significant under recovery, I recommend the Commission calculate such expenses based on ASU's four year average of sludge removal costs and also account for the costs associated with the variables explained by Mr. Astbury and that I discuss below.

Q23. PLEASE EXPLAIN THE VARIABLES THAT NEED TO BE CONSIDERED WHEN CALCULATING PRO FORMA SLUDGE REMOVAL EXPENSE.

A. It should be noted that there is a significant per gallon cost difference between direct land application using ASU's own permits and transfer to Merrell Bros, Inc.'s ("Merrell") Biosolids Storage Facility. This difference can be seen on Table 1 of Mr. Ashbury's testimony and, to briefly summarize, the most recent cost is $0.0670 per gallon for land application and, per a June 27, 2025 letter from Merrell, the cost to transfer to Merrell's facility will be $0.164 per gallon. A copy of the invoices from Merrell that are used to support the information in Adjustment 9 and also support the data included in Table 1 of Mr. Astbury's testimony are included with Mr. Astbury's testimony as <u>ASU Exhibit 20</u>. This Exhibit also includes the June 27, 2025 letter from Merrell regarding price increases as well as similar letters that Merrell has sent to ASU since December 22, 2022. These letters show the history of pricing information related to the services provided by Merrell. As can be seen from the actual bills in <u>ASU Exhibit 20</u>, in addition to the per gallon costs, there are additional charges for mobilization, demobilization and testing costs for each method or site. As can be seen on Table 1 of Mr. Astbury's testimony, ASU's window for land application using its own permits is generally in the late October through December range of each year. It is ASU's desire to land apply its sludge using its own permits as much as possible since the financial savings are significant. However, as explained by Mr.

Astbury, this is not always possible. Mr. Astbury's testimony and the information on Table 1 of his testimony demonstrate the many variables at issue when trying to estimate the cost of sludge removal. Adjustment 9 in the Rate Report calculates pro forma annual sludge removal expense and gives consideration to these variables, which include application of updated costs per gallon; estimated total gallons disposed of each year; estimated percentage of land applied with ASU permits; and estimated mobilization and demobilization costs.

This proposed adjustment continues with the Commission's recommendation of using a four year window to review the appropriate level of activity in this area, but introduces other variables, as mentioned previously, to refine the results of the calculations. As there are many factors that influence the annual cost of ASU's sludge process, Petitioner has adopted the four year averaging method used by the Commission in the last rate order to normalize the parameters used to calculate the pro forma expense.

Q24. PLEASE EXPLAIN THE CALCULATIONS SHOWN WITHIN ADJUSTMENT 9 OF THE RATE REPORT.

A. Adjustment 9 begins by calculating the total gallons of sludge disposed of for the last four (4) years (approximately) beginning with January 1, 2022 and going through the most recent sludge removal that occurred in November of 2025.

The estimated disposal costs are then calculated by taking the average annual gallons of sludge disposed to Merrell's facility and the sludge disposed of by using ASU's land application permits and multiplying those amounts by the appropriate rate per gallon. After calculating the estimated disposal costs, the detail within the adjustment then estimates the annual mobilization / demobilization costs and the annual testing costs to arrive at a pro forma annual sludge removal expense. This pro forma amount represents the estimated amount that should be included in ASU's revenue requirements to allow for an appropriate amount of expense to be recovered in recurring rates and charges. The test year amount is then deducted from the pro forma amount to calculate the adjustment that is needed to the test year financial statements.

It should be noted that ASU expects to complete at least one more process of pumping and disposing of sludge in December of 2025 at the County Home Wastewater Treatment Plant. If this occurs, ASU will late-file an update to the amount shown for Total Gallons Disposed for the Calendar Year 2025. Similar to the payroll adjustment discussed earlier, ASU will make this adjustment as part of its rebuttal filing.

Q25. DO YOU BELIEVE THE FOUR-YEAR AVERAGING OF THE AMOUNT OF SLUDGE BEING GENERATED BY THE PROCESSES OF ASU'S TREATMENT PLANTS IS APPROPRIATE IN DETERMINING A PRO FORMA AMOUNT TO BE INCLUDED IN THE UTILITY'S RATES AND CHARGES?

A. Yes. The amount of sludge removed during any one year can be affected by a number of factors as explained by Mr. Astbury. The pumping of the sludge by Merrell does not produce precise information about when the resulting sludge was being generated, it merely provides information as to an approximate amount that was removed when that process could be completed. The amount of sludge processed in any given year can vary greatly because of weather, land conditions, equipment reliability, the pumping process itself and many other factors. Therefore, some type of averaging method appears to be reasonable and the four-year method used by the Commission in ASU's last case appears to produce a reasonable result in this current Cause.

Q26. PLEASE EXPLAIN ADJUSTMENTS 10 AND 11 OF THE RATE REPORT.

A. Adjustment 10 adjusts the Utility's annual cost of Purchased Power – Pumping for Duke Energy's Phase I and II rate increases. Adjustment 11 does the same for Purchased Power – Treatment. The notification of the timing of Duke Energy's rate increases is included as ASU's Exhibit 33.

Q27. WHY IS ADJUSTMENT 12 TO ACCOUNT NO. 733.08 CONTRACTUAL SERVICES – LEGAL, ADMINISTRATIVE AND GENERAL ("ACCOUNT 733.08") NECESSARY?

A. Adjustment 12 is necessary to more accurately reflect the recurring test year expense that should be reflected in Account 733.08—approximately $33,500. After the issuance of the Commission's October 23, 2024 Order in ASU's last financing Cause (Cause No. 46017), the Utility recorded the costs associated with the financing case as a deferred asset so that the costs could be appropriately amortized over the life of the debt issuances rather than recorded as a recurring operating expense. Prior to the Commission Order, many of the costs had been recorded in Account 733.08. In order to move these costs to the appropriate account (Account No. 186.05 Miscellaneous Deferred Debit: Finance Case ("Account 186.05"), an entry was made in November 2024 to debit Account 186.05 and credit the expense account, Account 733.08. This entry did not materially affect the Utility's year-end financial statements for the Calendar Years 2023 and 2024. The annual expense for Account 733.08 was approximately $35,000 for 2023 and around $60,000 for 2024.

However, as a result of using a test year that crossed over a calendar year end and included July 1, 2024 through June 30, 2025, the November 2024 entry caused the test year amount shown for expense in Account 733.08 to be ($10,480). Therefore, while the November 2024 entry was the proper and appropriate accounting, it resulted in an unusual test year total—a negative expense total—for Account 733.08. ASU analyzed the test year information in Account 733.08 and determined which of the invoices for the test year would be considered routine annual or ongoing legal services. That analysis (shown in ASU Exhibit 34 attached to my testimony) showed that the recurring test year expense that should be reflected in Account No. 733.08 would be approximately $33,500. Adjustment 12 reflects the adjustment needed to test year results in order to include the appropriate expense total in pro forma operating expenses.

Q28. PLEASE EXPLAIN ADJUSTMENT 13 AS IT RELATES TO THE ANNUAL LEASE OF THE UTILITY'S OFFICE SPACE AND MAINTENANCE FACILITIES.

A. The test year expense amount in Account No. 741.08, Rental of Building / Railroad Property, Administrative and General ("Account 741.08"), includes approximately $51,000 for the rental of ASU's office and maintenance facilities and about $2,500 for the rental of railroad property. Adjustment 13 adjusts the test year amount related to ASU's office and maintenance facilities to reflect Affiliate Contract No. 2025-1 ("Agreement") that was submitted to the Commission on March 27, 2025, and is currently being reviewed in Cause No. 46264. As part of its Petition in this current Cause, ASU requested the Commission to take administrative notice of the evidence and findings in Cause No. 46264 and that the results be incorporated into this current Cause. Given that Cause No. 46264 is ongoing, and in line with Petitioner's administrative notice request, my testimony will not revisit the basis for the Agreement or the amount contained therein. The basic premise for the administrative notice request was to avoid the duplication of effort and cost that would result by litigating this issue in both Causes. Since Cause No. 46264 is still pending, Adjustment 13 is based upon the rental amount set forth in the Agreement. This adjustment allows for the appropriate amount of rent for the space that ASU needs, currently uses, intends to lease through the Agreement, and which should be included in the customers' recurring rates and charges.

Q29. WHY IS AN ADJUSTMENT TO THE COST OF ASU'S GENERAL LIABILITY INSURANCE NEEDED, AS SHOWN IN ADJUSTMENT 14 OF THE RATE REPORT?

A. While I consider the amount of Adjustment 14 to be immaterial given the overall financial position of the Utility, I did believe this adjustment was necessary to allow the Commission to see that ASU was removing the cost of the insurance that was previously paid by the Utility, but is now the responsibility of the landlord per the Agreement. At the same time, ASU has been required to add another policy to its general liability coverage which is generally described as a pollution policy. Therefore, Adjustment 13 adds the cost of the new policy to the test year amount and reduces the test year amount for the coverage to be paid by the landlord. Again, the resulting adjustment of less than $100 should be considered immaterial to the overall proforma financial results. However, I believe it is important to see that the results of the Agreement are being reflected in this Cause. The invoice details for the amounts shown in Adjustment 14 are included with my testimony as ASU Exhibit 35.

Q30. ADJUSTMENT 15 OF THE RATE REPORT ADJUSTS TEST YEAR DEPRECIATION EXPENSE. PLEASE EXPLAIN.

A. Adjustment 15 calculates the Utility's annual proforma depreciation expense based on all utility plant and equipment currently in service. The adjustment includes amounts for two categories of expenses, prior plant costs and equipment costs, that the Commission excluded from ASU's rate base and recovery of depreciation expense in past cases. The testimonies of Mr. Astbury, Mr. Beyer, and Ms. Beregszazi address the fact that inclusion in this current Cause is both reasonable and necessary and that the continued exclusion would hamper the Utility's ability to provide efficient service to its customers.

The total amount of the prior plant costs, $2,970,535 (of which ASU seeks to recover $2,801,699), are included in Account No. 398.00 (Other Tangible Plant) and are itemized as follows:

Project Description	Balance in Account 398.00	Amount Requested for Inclusion
• CH II WWTP Project	$ 180,968	$ 180,968
• Big 3 Project	1,029,964	931,139
• CE3 Phosphorous	1,237,000	1,237,000
• Cumberland Project	46,325	46,325
• Big 3 Excess Costs	72,412	72,412
• Klondike Road Excess Costs	149,378	149,378
• CE3 Excess Costs	137,262	137,262
• Water Plant Assets	47,215	47,215

• Invoice – 2012 Lift Station	70,011	- 0 -
• Totals	$2,970,535	$2,801,699

Mr. Beyer and Ms. Beregszazi support the reasonableness of the overall costs for these items (other than for the invoice related to the 2012 lift station for which ASU does not seek recovery at this time and the Water Plant Assets that I discuss below) and the need to include them in rate base. I also note that that Mr. Beyer only supported inclusion of $931,139 of the cost of the Big 3 Project costs and, therefore, ASU is only requesting inclusion of that amount.

Q31. PLEASE PROVIDE A BRIEF HISTORY OF THE WATER PLANT ASSETS, HOW ASU IS CURRENTLY USING THESE ASSETS, ISSUES THAT COULD ARISE IF THESE ASSETS ARE EXCLUDED FROM RATE BASE, AND ASU'S PROPOSED RESOLUTION TO THESE ISSUES.

A. While these assets have been excluded from rate base and depreciation calculations in previous cases, it has left ASU's owner, Mr. Lods, in a difficult position. The Water Plant Assets are those assets that remained when ASU sold its water utility operation to Indiana-American Water Company, Inc. ("IAWC"). These Water Plant Assets provide water service (potable water) to ASU's wastewater treatment plant and the most efficient way to recognize this service is to include these assets in ASU's utility plant in service.

If the exclusion of the Water Plant Assets continues, then Mr. Lods will have difficult decisions regarding (1) how to dispose of the assets; and (2) how to obtain potable water service for the treatment plant. The total cost of the Water Plant Assets is currently recorded at the original cost (as previously shown on ASU's water utility's records) of

$47,215 and I believe the most efficient way to provide water service to the treatment plant is to allow these assets into ASU's rate base and allow ASU to operate the assets in such a way as to produce and supply their own water needs.

In the past, Mr. Lods has allowed ASU to operate using the Water Plant Assets, even though they had been excluded from rate base. Mr. Lods's decision to provide free use of these assets in the past should not be taken as an indication of his intention to continue to subsidize customer rates by continuing this practice. In reviewing possible options to remedy this situation, ASU has briefly discussed the possibility of:

- Constructing a connection to IAWC and eliminating the need for the Water Plant Assets;
- Divesting the excluded Water Plant Assets to another entity and allowing them to form a regulated water utility which would then provide water service to the treatment plant as the newly created utility's only customer; or
- Requesting that the Commission include the Water Plant Assets in ASU's current operations so that ASU can supply their own water needs.

It is important to understand what is meant by these options were "briefly discussed." In discussing the possible options, the fact that the total cost of these assets is a little more than $47,000 weighed greatly in the consideration of how to proceed. While formal bids regarding the cost of constructing a connection to IAWC were not solicited, it is understood that the cost of construction, when added to the monthly service costs, would not be the lowest cost solution. Also, if another regulated utility were to be formed, it was noted that the regulatory and organizational costs would, in all likelihood, be far in excess of the current investment in the Water Plant Assets. Any cost of forming the new utility would then be incorporated into the rates to be charged to the treatment plant and passed onto ASU's customers. This option is not reasonable in providing efficient service to ASU's customers. Therefore, ASU is requesting inclusion of the Water Plant Assets in rate base and any other calculations of rates and charges in this current Cause. This will allow ASU to continue to produce and supply its own water needs.

Q32. AS YOU MENTIONED EARLIER, ADJUSTMENT 15 ALSO CONTAINS ANOTHER CATEGORY OF PREVIOUSLY EXCLUDED ITEMS RELATED TO EQUIPMENT COSTS. PLEASE EXPLAIN THE NEED FOR THAT CATEGORY TO BE INCLUDED IN ASU'S RATE BASE.

A. Adjustment 15 sets forth the fourteen (14) pieces of previously excluded equipment that ASU seeks to include in its rate base. On pages 26 through 28 of the Rate Order, the Commission discussed the various testimonies from the Parties regarding items that the OUCC described as Construction Equipment. Page 26 recounts that "... Ms. Stull explained that most of the equipment the OUCC recommends removing is either heavy equipment typically used in construction projects or specialized equipment that would not be used on a regular basis." The Rate Order also states the Commission's general belief that the evidence provided by ASU was not sufficient to allow this equipment to be included in rate base in that Cause. After reviewing the Rate Order in early 2023 and reviewing the evidence provided in that Cause, ASU's management decided to continue allowing employees to use the equipment at that time and to work to provide the

Commission with a better foundation of evidence in the next rate case. While Petitioner did divest some of the excluded equipment, it was and is believed that divesting all the equipment would cause harm to employee morale, the Utility's ability to provide reliable service to customers and, in the end, result in much higher rates.

ASU requests the Commission consider the inclusion of the previously excluded equipment in because the utility's evidence in the current Cause provides a clearer and more detailed description of ASU's need for this equipment and the benefits it provides ASU's customers than what was provided in ASU's last rate case. For example, ASU's evidence in the current Cause shows that these items are typically used by even smaller sewer utilities and are needed to efficiently provide service to customers. Additionally, ASU requested that Mr. Astbury review its operations and with particular attention to how ASU uses the excluded equipment. Mr. Astbury was asked to provide an opinion on whether it is reasonable for a utility the size of ASU to have these types of assets in its inventory. As discussed in Mr. Astbury's testimony, it is his belief that the inclusion of this equipment in Petitioner's rate base is both necessary and reasonable.

Q33. THE RATE ORDER DISCUSSES THE OUCC'S AND COMMISSION'S CONCERN THAT ASU SHOULD HAVE SOME TYPE OF TRACKING SYSTEM TO DOCUMENT WHEN AND WHERE EACH PIECE OF EQUIPMENT IS USED. HAS ASU BEGUN KEEPING A LOG OF WHERE EACH PIECE OF EQUIPMENT IS BEING USED ON A DAILY BASIS?

A. No, but it is not that ASU is ignoring or defying the Commission's Order or making light of the concern. However, this is not something that is typically done by companies with multiple pieces of equipment and it is even difficult to understand how to implement such a tracking system. Some equipment is kept at the maintenance facility, some at the Carriage Estates plant and some at the County Home plant. Some pieces of equipment will move to different locations while others may be expected to remain at one location. Some equipment is used for short amounts of time each day while others may be used for longer amounts of time, but not as often. The possible options for implementing an even semi-accurate tracking system are all very cumbersome and would require ASU to hire additional personnel. For example, some options include:

- Hire a person to be in the office ("Equipment Manager") (in lieu of one Equipment Manager at each location) to record the employees' use of each piece of equipment. When employees use equipment, they would need to call the office and let the Equipment Manger know the logistics of what is being done and how long the equipment will be or was used.
- Use time logs / timesheets attached to each piece of equipment which the employees could use to record the equipment's use. The Equipment Manager could then gather these daily, record the usage, and clarify any information that is missing.
- Develop a database entry system through which employees return to the office early before the end of their shift to record what equipment they used, for what and for how long. This would require the purchase of computer equipment and the establishment of procedures and training of personnel. While this may eliminate the need for an Equipment Manager, it would either result in the need to hire additional personnel or

the understanding that the productivity of field employees would be reduced as they took on more administrative tasks. Someone would then need to assemble reports from the data collected.

- Affix an electronic tracker to each piece of equipment which could identify its location, however, how it is being used at that location would need to be determined by the Equipment Manager.

Bottom line is that any attempt to record this type of detailed information would be cumbersome and expensive. Also, the information in and of itself would not be a clear determination of "need." If a large excavator was required to move trench boxes once per day for a total of ninety (90) minutes per week (i.e., less than four percent of a forty-hour work week); is that reasonable to justify having a large excavator. That would probably be an issue open for interpretation, investigation and litigation. Also, any comparison of owned equipment to estimated rental costs would <u>not</u> be based on the actual amount of time a piece of equipment is used, it would be based on the amount of time it is available to use onsite (i.e., used for ninety minutes versus available for forty hours).

Such tracking procedures could negatively impact employee retention as field employees are not going to want to go through hoops to simply use the equipment they need to effectively perform their duties. This could lead to job dissatisfaction and higher employee turnover. Also, despite ASU training and policies, if field workers are required to record every use of equipment, they may substitute more inefficient ways of performing a task to avoid the "paperwork" related to using the right equipment. Information related to ASU's employees' estimates of time for equipment use was presented by Mr. Andrew A.

Mix in Cause No. 45649-U and is reiterated by Mr. Astbury in this current Cause. I believe it is reasonable to use employee estimates and rely on management decisions when determining the most effective equipment to have in a company's inventory to productively perform the required duties.

Q34. IF THE EQUIPMENT WERE TO CONTINUE TO BE EXCLUDED FROM RATE BASE IN THIS CURRENT CAUSE, WOULD ASU'S EMPLOYEES STILL HAVE ACCESS TO ITS USE?

A. Again, this is another place where ASU's owner is in a difficult position and the fact that he has agreed to subsidize the customers' rates by allowing the use of excluded assets in the past should not be deemed as an indication that it will continue in the future. While there is a financial impact to this matter, there is also a liability issue that ASU and its owner have with regard to allowing employees to use equipment that the OUCC and the Commission (two State of Indiana agencies) have determined are not needed by the Utility. If the Commission were to again determine that ASU does not require the use of this equipment, ASU will need to look at other options. ASU has not fully analyzed all those other options because, as stated earlier, it is believed that a better presentation of the evidence in this Cause will resolve many of the prior issues.

Q35. YOUR EARLIER TESTIMONY MENTIONS THAT PAGE 26 OF THE RATE ORDER RECOUNTS THAT "... MS. STULL EXPLAINED THAT MOST OF THE EQUIPMENT THE OUCC RECOMMENDS REMOVING IS EITHER HEAVY EQUIPMENT TYPICALLY USED IN CONSTRUCTION PROJECTS OR SPECIALIZED EQUIPMENT THAT WOULD NOT BE USED ON A REGULAR

BASIS." DO YOU AGREE WITH THIS STATEMENT?

A. No. First, I believe my prior discussion and Mr. Astbury's testimony cover the concern about the frequency of the equipment's use. The statement regarding the equipment being heavy and could be used in construction projects is probably correct, to a certain extent; however, ASU needs the equipment. For example, trenching work, including the moving of heavy trench boxes, would take larger equipment to accomplish this safely. Also, deeper sewer line repairs would require larger equipment. I would note that none of the OUCC witnesses made site visits to any of ASU locations during the last rate case and; therefore, the OUCC's opinion regarding the nature of this equipment was provided without ever viewing or examining the actual equipment.

As far as the equipment being specialized, I understand that a Camera Truck is very specialized; however, much of that specialization is geared towards the sewer industry. The hose pusher is specialized in repairing hoses, which are commonly used in the sewer industry, and the trencher specializes in digging trenches, which is a very common practice when working on underground facilities such as sewers. Drum rollers and different types of landscape rakes are not quite as specialized to the sewer industry, but they do perform very specific functions to the backfilling and finishing of the final grade after repairs. This is a very important task for safety and customer service.

Also, having proper equipment on hand for repairs and some construction projects provides other benefits that are understood but, sometimes hard to measure. For example, having the ability, expertise and equipment to perform repair work and construct some projects on its own puts ASU in a better position to negotiate reasonable costs with outside vendors. This is often hard to measure but, there is one example of this advantage where the monetary benefit was clear. In September and October of 2019, Petitioner solicited bids for the Cumberland Road Sewer Project. The following bids were received for the project:

- Sub-Surface of Indiana, Inc. $1,815,292
- Atlas Excavating, Inc. ("Atlas") 1,665,209
- F&K Construction, Inc. 2,261,535

A copy of each of these bids is contained in ASU Exhibit 38 which is included with my testimony. Also contained in ASU Exhibit 38 is the actual contract that ASU signed with Atlas for $1,300,000; an amount over $365,000 lower than their bid amount. As part of negotiating the final contract price, ASU informed Atlas that the cost would need to be lower or ASU would perform the work itself. I believe Atlas understood ASU's capacities and Mr. Lods's expertise and experience in this area. In the end, in order to be awarded the project, Atlas agreed to lower the final contract cost to $1,300,000 which resulted in a substantial savings to ASU and its customers.

Q36. DO YOU BELIEVE IT IS REASONABLE FOR THE COMMISSION TO INCLUDE THE PRIOR PLANT COSTS AND THE EQUIPMENT COSTS IN THE DETERMINATION OF ASU'S DEPRECIATION EXPENSE, RATE BASE, AND ANY OTHER AREAS BEING CONSIDERED IN THIS CAUSE?

A. Yes, I do as this equipment provides multiple benefits to ASU, its employees and its customers / ratepayers. Adjustment 15 reflects their inclusion for the calculation of proforma depreciation expense. Pages 16 and 17 of the Rate Report also demonstrate the results of including the cost of all assets being used to serve the Utility's customers in the calculation of Petitioner's rate base.

Q37. PLEASE EXPLAIN ADJUSTMENT 16.

A. Adjustment 16 is made to adjust the amortization of contributions in aid of construction ("CIAC") to the pro forma level.

Q38. PLEASE EXPLAIN ADJUSTMENTS 17, 18, 19 AND 20.

A. These adjustments are related to the amortization of the costs that resulted in ASU's regulatory assets as shown on the Historical Balance Sheets. ASU currently has five (5) regulatory assets recorded in its books as follows:

- Account No. 186.03 Regulatory Asset, US 52 Fix
- Account No. 186.04 Small U Filing
- Account No. 186.05 Finance Case
- Account No. 186.06 Affiliate Case
- Account No. 186.07 2025 Rate Case

These accounts are either currently being amortized on ASU's financial records or will begin being amortized when the annual expense is included in the approved rates and charges. Also, the unamortized balances of the regulatory assets as of the end of the test year are included in Petitioner's rate base calculations shown on Pages 16 and 17 of the Rate Report.

Account No. 186.03 related to the US 52 Fix was addressed in the Rate Order and the test year amount for that item is consistent with a calculation of a pro forma amount. Therefore, no adjustment is necessary for that account. However, the other deferred asset accounts require adjustments to arrive at the appropriate pro forma expense amounts that should be included within the calculation of Petitioner's rates and charges.

Q39. WITH REGARD TO THE ACCOUNT DESIGNATED AS THE "SMALL U FILING," PLEASE DESCRIBE THE COSTS THAT WERE ASSOCIATED WITH PETITIONER'S LAST RATE CASE, COMMISSION CAUSE NO. 45649-U, AND ASU'S PROPOSED AMORTIZATION PERIOD FOR THOSE COSTS.

A. On page 52 of the Rate Order, the Commission granted ASU's request to defer consideration of the recovery of its rate case expense in that Cause. While granting the request to defer consideration of the recovery, the Commission also made it clear that "… approval of ASU's deferral request is not an assurance of cost recovery." The previous rate case was filed under the Commission's Small Utility Filing procedures but, as noted in the Rate Order, the processing of the case was not typical of Small Utility Filings. Page 52 of the Commission's Order reads as follows:

> "**v. <u>Deferral of Rate Case Expense.</u>** ASU requested deferral authority for rate case expense. ASU noted that it had anticipated minimal expense based on the nature of a small utility filing. However, this proceeding included an evidentiary hearing and multiple pre-hearing motions, something that does not typically occur with a small utility filing. In this instance, the Commission finds it is reasonable and appropriate to grant ASU deferral authority for rate case expense incurred in this proceeding. However, approval of ASU's deferral request is not an assurance of cost recovery."

While the Commission noted that evidentiary hearings and multiple pre-hearing motions were not typically found in Small Utility Filings, I would further note that the discovery process was atypical and contributed to the increased cost of the filing. From my experience, a Small Utility Filing would normally be conducted using an informal discovery process that would streamline communication between the Parties and help reduce the overall costs. Specifically, as part of this Small Utility Filing, ASU received twenty-four (24) separate data requests containing over four hundred (400) questions, many containing multiple sub-parts. The data requests themselves are over 65 pages when printing the questions back-to-back. Such requests consumed a vast amount of resources. Indeed, ASU received data requests even while preparing its rebuttal testimony and preparing for the scheduled hearing. As can be seen from the prior rate case invoices which are included as ASU Exhibit 36, ASU incurred a great deal of expense in preparing the rebuttal in Cause No. 45649-U and in the process of preparing for and participating in the scheduled hearings. Again, the level of time and effort in these areas was not typical of Small Utility Filings.

In addition to an atypical formal discovery process, another area that resulted in increased cost is the fact that there were no settlement discussions and the Cause was fully litigated.

My review of the processes used in the previous case is not meant as a criticism of the Parties involved. It is provided to help understand how the costs of a Small Utility Filing became higher than expected. The processes and structure of a rate application can have an incredible influence on the final amount of rate case expense.

Q40. CAN YOU PROVIDE THE DETAILS OF ASU'S COSTS ASSOCIATED WITH ITS LAST RATE CASE?

A. Yes. After the Commission approved ASU's request to defer consideration of the amortization of the rate case expense, ASU created a Miscellaneous Deferred Debit on its Balance Sheet to record and hold the costs until further determination of the Commission. That account is shown on ASU's Balance Sheet as Account No. 186.04 and the amounts that make up that total account balance include invoices from the following:

Reedy Financial Group, PC	$56,041
BCS Management Inc.	14,089
John Skomp	43,112
Thieme, Adair & Riley CPAS	2,720
Barnes & Thornburgh LLP	339,710
Total Deferred Rate Case Expense	$455,672

Q41. PLEASE EXPLAIN THE ROLE OF EACH COMPANY AS IT PERTAINS TO CAUSE NO. 45649-U.

A. Reedy Financial Group, PC, specifically Ms. Katelyn Shafer, worked with ASU to prepare the initial filing in the Cause and prepare the financial data supporting many of the schedules and exhibits. Some additional areas where Ms. Shafer's services included responding to data requests; analyzing additional financial information requested by the OUCC; reviewing and detailing the OUCC filings; analyzing the financial effects of specific ratemaking issues or policies; preparing and supporting rebuttal testimony; attending hearings as needed; and help in preparing post-hearing filings.

BCS Management Inc. ("BCS") was retained by ASU to generally review the Utility's operations, including management practices, in order to provide assistance in evaluating the testimony of the OUCC witnesses. Individuals from BCS were prepared to provide rebuttal testimony or, as ended up being the case in Cause No. 45649-U, simply help in evaluating OUCC testimony and reviewing the rebuttal testimony of ASU witnesses on specific issues. BCS also helped in preparation for hearings and in post-hearing filings.

Thieme, Adair & Riley CPAS assisted in evaluating the OUCC's positions related to tax issues, reviewed financial statements and related issues raised in the OUCC filings or data requests.

The services I provided during the course of Cause No. 45649-U included reviewing OUCC testimony to determine possible options for settlement; developing information to prepare appropriate rebuttal testimony if settlement was not forthcoming; assistance on accounting and rate related issues; preparation of rebuttal testimony; assistance on post-hearing filings; and other matters related to discovery responses, Commission filings and any other regulatory issues.

Barnes & Thornburg LLP provided the legal analysis and services that were required as part of Cause No. 45649-U. As mentioned earlier, ASU filed under the Commission's Small Utility Filing procedures which ASU had hoped would reduce the need for some legal services. However, the formal discovery process and the need to litigate rather than settle the case resulted in the need for a great deal of legal effort.

Q42. WHAT AMORTIZATION PERIOD DO YOU BELIEVE IS APPROPRIATE FOR THESE RATE CASE EXPENSES?

A. It is anticipated that ASU will be filing rate cases on a three-year cycle and I believe it is appropriate to amortize the expenses of Cause No. 45649-U over two rate cases; the current Cause and the next anticipated rate case in three years. Therefore, I recommend a six-year amortization period for the prior rate case expenses. This would allow ASU to recover the expenses over a reasonable timeframe while not burdening current customers with the full amortization of expenses related to two cases at the same time. The amortization of these expenses would begin in the same month as the first phase of the new rates and charges from this current Cause were implemented (i.e., the amortization would begin at the same time as the rates were implemented allowing for the recovery).

Adjustment 18 of the Rate Report details the calculation of the adjustment that is needed to operation and maintenance expenses in order to amortize the prior rate case expenses over a six year period. I believe the Utility's pro forma operating expenses would be understated if this adjustment were not made to test year results.

Q43. PLEASE DISCUSS ASU'S OTHER REGULATORY ASSETS AND THE AMORTIZATION PERIODS RECOMMENDED FOR THOSE.

A. In addition to the regulatory asset which accounts for the cost of ASU's last rate case, Account No. 186.05 is used to record and amortize the cost of ASU's financing case; Cause No. 46017. ASU is amortizing the cost of the financing case over the life (term) of the existing debt which results in an annual amortization of slightly more than $18,000. Adjustment 17 details the calculation of the adjustment that is needed to operation and maintenance expenses in order to amortize the financing case expenses over the life (term) of the currently outstanding loans.

Q44. ARE ADJUSTMENTS BEING PROPOSED FOR THE TWO (2) REMAINING REGULATORY ASSETS?

A. Yes. First, Account No. 186.06 is used to record the cost of obtaining Commission approval of the Agreement previously discussed. The Commission investigation into the

Agreement was docketed on June 25, 2025, as Cause No. 46264. As shown in ASU Exhibit 39, the Utility incurred over $92,000 in costs through November 2025. The legal and consulting costs were required to file the Agreement with the Commission, provide needed evidence and support, respond to inquiries from the Commission's General Counsel, respond to data requests of the OUCC, review the OUCC evidence and prepare rebuttal and other expenses related to this area. Based on the current status of the case, I believe the total cost will be around $200,000 when the case is concluded. As a point of reference, this estimate is similar to the cost of the financing case and less than half the cost of the Utility's last rate case. ASU is proposing a five (5) year amortization period for these costs which would result in an annual expense of $40,000.

Adjustment No. 19 details the calculation of the adjustment that is needed to amortize the cost over a five year period. I believe the Utility's pro forma operating expenses would be understated if this adjustment were not made to test year results.

The final regulatory asset shown on ASU's Balance Sheet is Account No. 186.07 which is used to record the cost of this current rate case. Based on the time and effort that is being put into this rate and financing case, I am estimating a total cost of the current rate case of approximately $600,000. The $600,000 estimate is reasonable when considering the last rate case (a small utility filing) cost over $450,000 and the financing case (a single-issue case) cost over $180,000 to process.

I believe the $600,000 estimate for the current rate case is reasonable, however, there is a potential for the amount to be much greater. If the discovery is conducted on a formal basis as it was in Cause Nos. 45649-U and 46017 and the briefing and hearing processes are similar to what ASU has experienced in recent cases, I would expect the cost of the current rate case to be higher than $600,000 as this case contains additional issues which were not part of ASU's previous filings. The current case involves a requested two-step rate increase, a financing plan to allow for construction and other regulatory issues which were not addressed in ASU's last rate case. Adjustment 20 details the calculation of the adjustment that is needed to operation and maintenance expenses in order to amortize the expense of the current rate case over a three year period. I believe the Utility's pro forma operating expenses would be understated if this adjustment were not made to test year results.

Q45. ARE ADJUSTMENTS 21, 24 AND 25 RELATED TO THE UTILITY'S PROPERTY AND INCOME TAXES?

A. Yes. Adjustment 21 adjusts the Utility's annual property tax expense to the proforma level and removes the amount of property tax that became the responsibility of the landlord as part of the Agreement. Adjustments 24 and 25 adjust the Utility's State and Federal income tax expenses to the proforma levels based on the adjusted financial information. The State and Federal income tax calculations account for the adjusted information previously discussed and also account for the proforma amount of synchronized interest that is calculated based on Petitioner's rate base and cost of capital calculations.

Q46. WHAT IS THE BASIS FOR ADJUSTMENTS 26 THROUGH 32?

A. Adjustments 26 through 32 are based on information provided by Ms. Wilson that allows for the adjustment of the Utility's annual interest expense to account for fixed, known and measurable changes. The details of the interest expense calculations are provided in <u>ASU</u>

Exhibit 27 which is attached to Ms. Wilson's testimony. Since the Utility's current debt contains variable interest rates, the proforma amount of interest expense on each loan is used to compute the weighted average cost of debt that is applied in the capital structure. Ms. Wilson's calculations use the current or test year interest rates to compute the annual amount of interest expense as the fluctuations from month to month are not fixed or known. However, since some known changes have occurred, the test year amount shown for interest expense did require adjustment.

For example, Adjustment 26 adjusts the annual interest expense on Loan 1 to reflect a full twelve months of interest expense on that loan. Since Loans 1, 2, 3 and 5 were recorded on ASU's books during the test year, the early months of the test year did not record the monthly interest payments. Therefore, adjustment was required. Adjustment 28 makes a similar adjustment for Loan 2 as does Adjustment 29 for Loan 3 and Adjustment 31 for Loan 5.

Adjustment 27 accounts for the fact that a $750,000 principal payment was made on Loan 1 that reduced the balance that is subject to monthly interest payments. Therefore, this adjustment reduces the annual interest expense to account for that known change. Adjustment 30 and 32 then adjust the interest expense on Loans 4 and 5, respectively, to account for a fixed, known and measurable change in the going forward interest rates that apply to the principal amount of those loans.

Q47. YOU MENTIONED THAT, SINCE THE UTILITY'S CURRENT DEBT CONTAINS VARIABLE INTEREST RATES, THE PROFORMA AMOUNT OF INTEREST EXPENSE ON EACH LOAN IS USED TO COMPUTE THE

WEIGHTED AVERAGE COST OF DEBT THAT IS APPLIED IN THE CAPITAL STRUCTURE. PLEASE EXPLAIN.

A. Pages 16 and 17 of the Rate Report show the calculations of the proforma revenue requirements and the increase in current rates and charges that would be required to allow the Utility to meet those requirements on an annual basis. On Page 17, there is a calculation for the Utility's weighted average cost of debt which takes the total proforma interest expense for all the loans and divides that by the total principal balance to arrive at the weighted average cost of debt. This cost of debt is then used in the capital structure to arrive at the overall weighted average cost of capital.

Additionally, pages 16 and 17 of the Rate Report contain the proforma calculations of Petitioner's rate base, capital structure, working capital allowance and revenue conversion factor. These items are used to calculate the proposed rate increase shown at the top of page 16 which is used as the basis for Adjustments 33 through 37. Adjustment 33 increases operating revenues for the proposed rate increase while Adjustments 34 and 35 increase the amount of bad debt expense and annual Commission fee. Adjustments 36 and 37 adjust State and Federal income taxes for the increased revenues and net operating income.

Q48. HAS PETITIONER PREPARED AND PRESENTED AN EXTENSIVE STUDY ON CURRENT ECONOMIC CONDITIONS TO ARRIVE AT THE PROPOSED COST RATE FOR EQUITY CAPITAL?

A. No. That type of study and analysis has not been presented as part of Petitioner's prior rate cases and a decision was made to avoid that financial investment in this Cause as well. On page 37 of the Rate Order, the Commission came to a conclusion on Petitioner's overall cost rate of equity ("COE") by stating:

> "Therefore, based on the evidence presented and these factors, we find a 0.25% adder to the 9.50% from the COE approved in the 44676 Order to be reasonable and approve a COE of 9.75%"

Later in the Rate Order, the Commission discussed adjustments to this cost rate which related to Petitioner's heavy reliance on equity capital, which had also been addressed in prior Commission Orders. I believe this area has been addressed and resolved as part of Petitioner's financing case and the Commission's issuance of the Financing Order. Bottom line, Petitioner has been satisfied that reasonable COE rates have been determined by the Commission in the prior case without the need to invest in an extensive study of this single item.

Q49. WHAT IS YOUR RECOMMENDED COE?

A. I recommend a COE of 10.50%. I reached this determination based upon the risk factors for ASU that are different from other utility companies; even different than many in the State of Indiana. While I did not prepare a precise calculation demonstrating the exact adder for each element or characteristic of Petitioner's risk, some of the risk factors include:

- Petitioner is a sole proprietorship with a single location of operation. Petitioner's risk is not diversified over several operating locations.
- Because of that, Petitioner's risk is concentrated in the economics of a single county (Tippecanoe) and, specifically, two townships (Tippecanoe and Wabash) within that County. Petitioner's financial and operational risks are greatly affected by the economics of a very small area.

- The Utility's customer base is still relatively small which adds to the risk of investing in utility companies.
- While the current projected growth in Petitioner's service territory may help with growing the customer base, that growth will only come from a significant investment in plant and equipment. In other words, ASU's owner will be required to further invest in the Utility to operate in a manner that is needed by the service area.
- Whether this investment is via debt or equity capital, Mr. Lods (as ASU's owner) will be at risk of losing not only his investment in ASU, but also his personal assets as well. Since acquiring ASU, Mr. Lods has been required to provide his personal guarantee on all of ASU's debts while he has owned the Utility, including all of the debt currently on ASU's books. We fully expect this to be the case for any future debt issues. The requirement of personal guarantees means that Mr. Lods is not provided with the corporate protection that investors in most utility companies have. His investment carries a much greater risk.
- Because of ASU's size, the cost of regulation brings a much greater risk of under-recovering its revenue requirements than larger utilities. Petitioner is keenly aware of the fact that their cost of rate or financial filings will be similar to much larger utilities while, at the same time, being aware that the cost of those filings will be spread over a smaller number of customers. Regulatory costs result in greater financial and operational risks for smaller utilities.
- Specifically for ASU, Mr. Lods has been personally required to subsidize the Utility's

> rates and charges by allowing the use of office and maintenance facilities for which he was not compensated or not properly compensated; allowing the use of equipment that was not included in ratemaking consideration, allowing the use of needed plant that was excluded from rate base; etc. ... Therefore, while ASU's financial records may calculate a specific return on equity, the actual return on investment to the owner is much lower due to the subsidies that are being required.

In light of these and other considerations, a 10.50% cost rate for equity is reasonable.

Q50. DOES THE RATE REPORT CONTAIN A SCHEDULE OF PETITIONER'S PRESENT AND PROPOSED RATES AND CHARGES?

A. Page 18 of the Rate Report contains that schedule. The proposed rates and charges are calculated based on the required rate increase as shown within the Revenue Requirements pages. I believe the proposed rates are reasonable and competitive with other sewer utilities and will allow Petitioner to properly fund its operations and serve its customers.

V.
PETITIONER'S PROPOSAL FOR PHASE II RATE ADJUSTMENT

Q51. ARE YOU FAMILIAR WITH PETITIONER'S FINANCING REQUEST AND PROPOSED CONSTRUCTION PROJECT?

A. Yes, I have met with ASU's management to discuss these matters and I have reviewed the testimonies of Petitioner's other witnesses in this Cause; some of which provided evidence regarding these requests. From a rate analysis perspective, the bottom line is that Petitioner is requesting authority to borrow up to $22 million to expand the capacity of the County Home Wastewater Treatment Plant. This would result in an addition or increase of approximately $22 million in utility plant in service with a corresponding increase of $22 million in Petitioner's outstanding debt.

Q52. ASU REQUESTS THROUGH ITS VERIFIED AMENDED PETITION THAT THE COMMISSION ESTABLISH A PROCEDURE WHEREBY A SECOND STEP OF RATE INCREASE COULD BE IMPLEMENTED WHEN THE REQUESTED IMPROVEMENTS ARE PLACED IN SERVICE. WHAT IS PETITIONER'S PROPOSED PROCEDURE TO CALCULATE AND IMPLEMENT THIS SECOND STEP?

A. Petitioner's request for a streamlined procedure to calculate and approve an additional step of rate increase is meant as a way of reducing the overall regulatory burden / cost of its next rate adjustment. First, it is Petitioner's intention to close on the financing and secure construction bids for the project soon after receiving Commission approval of the first phase of the rate increase in this Cause. It is believed that this timing will be important as the construction needs to be completed as soon as possible to meet anticipated demand for service. Second, based on the quick timeframe for closing on the financing and obtaining bids, Petitioner believes that the evidence needed to calculate and approve the second phase of any increase will be available before the historical and adjusted financial information in the Cause would be considered stale or outdated. Therefore, with minor adjustments to the financial findings in the Commission's Order regarding the first phase of any rate increase, a second phase of rate increase could be calculated without the requirement of conducting an additional full-blown rate proceeding.

For example, if the Commission found that Petitioner's rate base for the initial rate increase was $24,413,500 (as shown on page 16 of the Rate Report) and bids were received for the new project at $22,000,000, Petitioner's rate base for the second phase of any rate increase would be calculated by adding the $22,000,000 to the Commission's finding; which would result in a phase two rate base of $46,413,500.

Also, Petitioner's actual capital structure on the day of the proposed financing was closed could be used to calculate phase two rates which would avoid the use of a hypothetical capital structure. For purpose of illustration, assume that it would result in something similar to Petitioner's current capital structure (as shown on page 17 of the Rate Report) with the addition of the new debt:

	Current	Additional Debt	New Totals	Percent of Total
Common Equity	$10,900,423		$10,900,423	23.00%
Long-Term Debt	14,270,423	$22,000,000	36,270,423	76.54
Deferred Income Taxes	217,057		217,057	.46
Totals	$25,387,903	$22,000,000	$47,387,903	100.00%

Assuming the new debt was issued at interest rates similar to the current debt, the overall weighted average cost of capital and allowable net operating income could be easily calculated as:

	Percent of Total	Cost Rate	Weighted Average
Equity Capital	23.00%	10.5000%	2.42%
Debt	76.54	5.5361	4.10
Deferred Income Tax	.46	-0-	-0-
Totals	100.00%		6.52%
Times: Phase II Rate Base			$46,413,500
Phase II Allowable Net Operating Income			$3,026,160

Depreciation Expense on New Plant	
= $22,000,000 times 2.50% (See Adjustment 15)	550,000
Property Tax on New Plant	
= $22,000,000 times 1.4912% (See Adjustment 21)	328,064

Q53. WOULD PETITIONER ENVISION ADJUSTING REVENUE PROJECTIONS FOR BILLING UNIT GROWTH?

A. Yes. To capture the revenue from any new billing units that have connected, Petitioner recommends that growth adjustments be made for the second phase of the increase in a manner similar to Adjustments 1 through 5 and 23 which were discussed earlier in my testimony. The calculation would be based on the number of billing units at a date certain and then also a projection of fixed, known and measurable growth for the twelve months following that date. Petitioner understands that growth is the driving force behind the need for plant expansion and projecting that growth will be an important part of establishing the second phase of the rate increase.

For example, if the Commission Order were issued in September 2026, the financing were closed and construction bids received by March of 2027, growth in billing units can be measured through a date certain of March 31, 2027 with anticipated growth through March 31, 2028. The number of billing units as of March 31, 2027 would be compared to the number of billing units used in the calculation of the phase one rates to arrive at adjustments similar to phase one rate Adjustments 1, 3 and 5 of the Rate Report. Adjustments similar to phase one rate Adjustments 2 and 4 would be calculated to capture the expected growth through March 31, 2028. While I understand that the growth adjustments made as part of the phase two rate adjustment would be based on anticipated revenue from the rate increase granted in phase one, I will use the actual amounts from Adjustments 1 through 5 and 23 of the Rate Report to complete the illustration of the streamlined process Petitioner has envisioned for the phase two rate calculations. Using my above example, projected growth adjustments could be incorporated as follows:

Phase Two Growth Adjustments:	
1) Unmetered Residential Units through 3/31/27	$65,439
2) Projected Unmetered Residential Unit through 3/31/28	77,111
3) Unmetered Multi-Family Units through 3/31/27	28,796
4) Projected Unmetered Multi-Family Units through 3/31/28	188,717
5) Metered Commercial Sewer through 3/31/27	1,381
Total Revenue Growth Adjustments for Phase Two	361,444
6) Adjustment for Growth in Expenses using information from Adjustment 23 of the Rate Report	$32,043

Finally, the calculation of the phase two rate adjustment would be computed as follows based on the above information:

Phase Two Allowable Net Operating Income	$3,026,160
Less: Phase One Allowable Net Operating Income	(1,860,309)
Increase in Net Operating Income Required	1,165,851
Times: Revenue Conversion Factor	1.3552
Sub-Total	1,579,961
Add: Increase in Depreciation Expense	550,000
Add: Increase in Property Taxes	328,064
Add: Increase in Expense due to Growth Adjustments	32,043
Total Revenue Increase Required	2,490,068
Divide by: Proforma Phase One Rate Revenue	
Revenue Projected from Phase One Rate Order	$7,359,748
Add: Phase Two Revenue Growth Adjustments	361,444
Total	7,721,192
Calculated Phase Two Rate Increase	32.25%

Q54. WHEN IS PETITIONER PROPOSING THAT NOTICE OF THE PHASE TWO

INCREASE BE SENT TO ASU'S CUSTOMERS?

A. ASU is envisioning a process in which Petitioner would complete the initial calculations for the phase two rates and file them with the Commission. When the filing is made with the Commission, Petitioner would also complete the legal requirements regarding customer notice. Petitioner is requesting a procedural schedule for the OUCC to complete its review of the limited information included in the phase two rate filing and a hearing schedule that would allow the Commission to issue an order prior to the completion of the construction of the improvements being proposed in this Cause. At this time, Petitioner is anticipating that the improvements should be completed in early 2028.

VI.
Conclusion

Q55. DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY?

A. Yes.

VERIFICATION

I affirm under the penalties for perjury that the foregoing testimony is true to the best of my knowledge, information, and belief.

John R. Skomp

John Skomp

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing was served upon the following by electronic mail this 5th day of December, 2025:

Indiana Office of Utility Consumer Counselor
infomgt@oucc.in.gov

J. Christopher Janak

J. Christopher Janak

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