

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER)
COMPANY, INC. FOR (1) APPROVAL OF)
SERVICE ENHANCEMENT IMPROVEMENT)
COSTS ASSOCIATED WITH SERVICE)
ENHANCEMENT IMPROVEMENTS UNDER IND.)
CODE § 8-1-31.7-7(2) AND APPROVE RECOVERY)
THEREOF.)

CAUSE NO. 45609 SEI-1 S1

PUBLIC'S EXHIBIT NO. 2

TESTIMONY OF MARGARET A. STULL

ON BEHALF OF


THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

January 17, 2023

OFFICIAL
EXHIBITS

Respectfully submitted,

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IURC
PUBLIC'S
EXHIBIT NO. 2-2-23
DATE 2-2-23 REPORTER JR

CERTIFICATE OF SERVICE

This is to certify that a copy of *OUCC Public's Exhibit No. 2, Testimony of Margaret A. Stull* has been served upon the following counsel of record in the captioned proceeding by electronic service on January 17, 2023.

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TESTIMONY OF OUCC WITNESS MARGARET A. STULL
CAUSE NO. 45609 SEI 1-S1
INDIANA-AMERICAN WATER COMPANY, INC.

I. INTRODUCTION

1 **Q: Please state your name and business address.**

2 A: My name is Margaret A. Stull, and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana, 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as
6 a Chief Technical Advisor in the Water/Wastewater Division. My qualifications are
7 set forth in Appendix A attached to this testimony.

8 **Q: What relief is sought in this case?**

9 A: Indiana-American Water Company, Inc. ("Petitioner" or "IAWC") filed a petition
10 with the Indiana Utility Regulatory Commission ("Commission" or "IURC")
11 pursuant to Ind. Code ch. 8-1-31.7 seeking the creation of a subdocket to consider
12 service enhancement improvement ("SEI") costs under Ind. Code §8-1-31.7-7(2)
13 and approve recovery thereof. Specifically, IAWC seeks recovery of replacement
14 SEI costs, which are service enhancement improvements that fall under the
15 definition of Ind. Code §8-1-31.7-7-(2). Ind Code §8-1-31.7-9(e) states "An eligible
16 utility is not required to seek preapproval of a plan in order to seek recovery under
17 section 12 of this chapter for eligible additions that are described in section 7(2) of
18 this chapter." Replacement SEI costs are defined as expenditures for "replacement
19 of a plant or equipment to maintain existing health, safety, or environmental
20 protection for the eligible utility's customers, employees, or the public." Further,

1 Ind. Cod §8-1-31.7-12(h) provides requirements for the recovery of replacement
2 SEI costs and requires a subdocket be created if the petition combines replacement
3 SEI costs with costs made pursuant to a pre-approved plan. In this subdocket,
4 IAWC seeks (1) to recover 80% of SEI eligible plant and equipment replacement
5 costs and (2) authority to create a regulatory asset to defer 20% of these SEI
6 replacement costs, including post-in-service carrying costs and deferred
7 depreciation, for recovery in IAWC's next general rate case.

8 **Q: What is the purpose of your testimony?**

9 A: I provide a general overview of IAWC's proposed \$0.20¹ SEI 1-S1 charge related
10 to eligible SEI replacement costs. The SEI charge proposed in this case is an
11 increase to the \$0.91¹ SEI 1 charge proposed in Cause No. 45609 SEI 1, resulting
12 in a total proposed SEI charge of \$1.11¹. I discuss the OUCC's concerns regarding
13 the inclusion of costs of removal in the calculation. I discuss IAWC's inclusion of
14 wastewater projects in its proposed water SEI 1-S1 charge and recommend these
15 projects be excluded. I also discuss the OUCC's objections to the inclusion of post-
16 in-service allowance for funds used during construction ("AFUDC") and deferred
17 depreciation costs included in the calculation of net investor supplied water SEI
18 additions for replacement investments. Eliminating costs of removal, post-in-
19 service AUDC and deferred depreciation, as well as costs for wastewater asset
20 replacements, I recommend a \$0.13¹ SEI 1-S1 charge in this Cause and a total SEI

¹ Proposed SEI charge for a 5/8" meter, the typical meter size for a residential customer.

1 charge of \$1.04.² Finally, I explain this SEI 1-S1 charge should not be billed to the
2 Lowell and Rivers' Edge customers as those customers are being charged on a
3 stand-alone basis for ratemaking purposes.

4 **Q: What review and analysis did you perform to prepare your testimony?**

5 A: I read IAWC's Petition and the testimony and attachments of (1) Stacy S. Hoffman,
6 Director of Engineering, Indiana American; (2) Gregory D. Shimansky, Director,
7 Rates and Regulatory, American Water Works Service Company, Inc.; and (3)
8 Daniel Halverstadt, Vice President of Operations, Indiana American, filed in this
9 case on November 18, 2022. I also reviewed IAWC's testimony and attachments
10 filed in Cause No. 45609 on September 3, 2021 and December 10, 2021 as well as
11 the Commission's Final Order issued on March 16, 2022. Finally, I reviewed
12 IAWC's responses to discovery questions.

13 **Q: Are you sponsoring any schedules or attachments?**

14 A: Yes. I sponsor the following attachments:

15 OUCC Attachment MAS-1

16 Schedule 1 – Calculation of SEI 1-S1 Water Revenue Requirement

17 Schedule 2 – Calculation of SEI 1-S1 Fixed Charge Rate

18 Schedule 3 – OUCC Adjustments to Net Investor Supplied SEI 1-S1
19 Replacement Costs

20 OUCC Attachment MAS-2 – IAWC response to OUCC Data Request No. 5-8 in
21 Cause No. 42351-DSIC 13

² OUCC recommended SEI charge for a 5/8" meter for eligible SEI additions in Cause No. 45609 SEI 1 is \$0.91.

1 OUCC Attachment MAS-3 – IAWC response to OUCC Data Request Nos. 5-9 and
2 5-10 in Cause No. 42351-DSIC 13

3 OUCC Attachment MAS-4 – Detailed List of Wastewater Replacement Projects

III. SEI 1-S1 CHARGE

A. IAWC Proposal

4 **Q: Does IAWC currently have a service enhancement improvement charge in**
5 **effect?**

6 A: No. In Cause No. 45609 SEI 1, IAWC proposed a \$0.91¹ SEI 1 charge related to
7 eligible SEI asset additions approved by the Commission in Cause No. 45609 under
8 its pre-approved plan, but, as of the filing of this testimony, that charge has not been
9 approved by the Commission. The OUCC recommended a \$0.91 SEI 1 charge in
10 that Cause.

11 **Q: What is IAWC proposing through this SEI 1-S1 filing?**

12 A: IAWC proposes a \$0.20 fixed monthly SEI 1-S1 charge per equivalent 5/8" meter
13 to recover 80% of all allowable costs related to the \$8,179,246 of SEI eligible
14 replacement plant and equipment costs. (Petitioner's Attachment GDS-2, Schedule
15 2). IAWC also seeks to defer the remaining 20% and recover these costs in its next
16 base rate case.

17 **Q: What amount of additional revenues is IAWC's proposed SEI 1-S1 Charge**
18 **designed to provide?**

19 A: IAWC's proposed SEI 1-S1 charge is designed to provide \$944,871 of additional
20 operating revenues, consisting of \$506,278 of additional return *on* its SEI eligible
21 investments and \$301,504 of additional return *of* its SEI eligible investments

1 consisting of depreciation expense (\$240,410) and amortization expense (\$61,094),
2 and \$137,089 of additional property tax expense.

Table 1: IAWC Proposed SEI 1-S1 Revenue Requirement

	Revenue Requirement	80% SEI 1-S1	20% Deferred
Pre-Tax Return on Additions at 7.74%	\$ 632,848	\$ 506,278	\$ 126,570
Property Taxes on Water SEI Additions	171,361	137,089	34,272
Depreciation on Water SEI Additions	300,512	240,410	60,102
Amortization of Deferred Asset	76,368	61,094	15,274
	<u>\$ 1,181,089</u>	<u>\$ 944,871</u>	<u>\$ 236,218</u>

3 **Q: Did IAWC update its capital structure and its weighted cost of capital from**
4 **Cause No. 45142?**

5 A: Yes. IAWC proposes a 7.74% pre-tax weighted cost of capital based on an October
6 31, 2022 capital structure (Petitioner's Attachment GDS-1, Schedule 13). This
7 equates to a 6.21% post-tax weighted cost of capital, slightly less than the 6.25%
8 weighted cost of capital approved in Cause No. 45142.

B. OUCC Recommendation

9 **Q: What service enhancement improvement charge do you recommend?**

10 A: I recommend a \$0.13 monthly water SEI 1-S1 charge per equivalent 5/8" meter
11 (OUCC Attachment MAS-1, Schedule 2), based on the adjustments recommended
12 by OUCC witness Carl N. Seals and in my testimony described below.

13 **Q: What amount of additional revenues does your recommended SEI 1-S1 charge**
14 **provide?**

15 A: My recommended SEI 1-S1 charge is designed to provide \$639,071 of additional
16 water operating revenues, consisting of \$292,793 of additional return *on* SEI

eligible investments, \$221,918 of additional return of SEI eligible investments (depreciation expense), and \$124,360 of additional property tax expense. As the OUCC is proposing the exclusion of post-in-service AFUDC and deferred depreciation accrued on SEI eligible replacements, no amortization expense is included.

Table 2: OUCC Recommended SEI 1-S1 Revenue Requirement

	Revenue Requirement	80% SEI 1-S1	20% Deferred
Pre-Tax Return on Additions at 7.74%	\$ 365,991	\$ 292,793	\$ 73,198
Property Taxes on Water SEI Additions	155,450	124,360	31,090
Depreciation on Water SEI Additions	277,398	221,918	55,480
Amortization of Deferred Asset	-	-	-
	<u>\$ 798,839</u>	<u>\$ 639,071</u>	<u>\$ 159,768</u>

Q: How does your recommended SEI 1-S1 charge compare to IAWC's proposal?

A: My recommended SEI 1-S1 charge is \$0.07 less (\$0.20 - \$0.13) than that proposed by IAWC, primarily due to (1) the exclusion of projects that add rather than replace water utility plant, (2) the exclusion of wastewater asset replacement costs, (3) the exclusion of costs of removal, and (4) the exclusion of post-in-service AFUDC and deferred depreciation. Table 3 compares the revenue requirement proposed by IAWC to that recommended by the OUCC.

Table 3: SEI 1-S1 Revenue Requirement Comparison

	<u>IAWC</u>	<u>OUCC</u>	<u>OUCC More (less)</u>
Water Plant Additions Subject to SEI	\$ 6,404,551	\$ 5,784,493	\$ (620,058)
Less: Water Retirements	1,086,679	1,055,923	(30,756)
Plus: Cost of Removal (less salvage)	957,650	-	(957,650)
Plus: Deferred PISCC and Depreciation	1,903,724	-	(1,903,724)
Net Investor Supplied Water SEI Additions	<u>8,179,246</u>	<u>4,728,570</u>	<u>(3,450,676)</u>
Pre-Tax Return on Additions at 7.74%	632,848	365,991	(266,857)
Property Taxes on Water SEI Additions	171,361	155,450	(15,911)
Depreciation on Water SEI Additions	300,512	277,398	(23,114)
Amortization of Deferred Asset	76,368	-	(76,368)
	<u>\$ 1,181,089</u>	<u>\$ 798,839</u>	<u>\$ (382,250)</u>
Monthly Rate per Equivalent 5/8" Meter	\$ 0.20	\$ 0.13	\$ (0.07)

1 **Q: How does your overall recommended SEI 1 charge compare to IAWC's**
2 **proposal?**

3 A: My overall recommended SEI 1 charge is \$1.04¹ (\$0.91 + \$0.13), which is \$0.07
4 less than the \$1.11¹ (\$0.91 + \$0.20) proposed by IAWC.

5 **Q: How does your calculation of the SEI 1-S1 charge differ from IAWC's**
6 **calculation?**

7 A: I exclude \$497,870 of projects that add rather than replace water utility plant and
8 \$122,188 of wastewater asset replacement costs from SEI plant additions. I also
9 exclude \$30,756 of retirement costs related to both projects that add rather than
10 replace water utility plant and wastewater asset replacement projects. Finally, I
11 exclude \$957,650 of removal costs, as well as \$1,903,724 of post-in-service
12 AFUDC and deferred depreciation. (See OUCC Attachment MAS-1, Schedules 1
13 and 3.)

1 **Q: Has the OUCC reviewed all the projects included in this service enhancement**
2 **improvement charge?**

3 A: Only to a limited extent. Mr. Seals evaluated the replacement SEI projects as
4 presented in his testimony. However, IAWC presented hundreds of work orders
5 representing thousands of invoices. Due to the inherent time limitation of an SEI
6 proceeding and the number of improvements, a comprehensive review by the
7 OUCC of all projects is not feasible. The OUCC only evaluated whether the
8 replacement SEI projects met the statutory SEI requirements, as stated in Mr. Seals'
9 testimony, but is not able to form an opinion as to the reasonableness or prudence
10 of all IAWC's proposed eligible SEI replacement costs in the short timeframe
11 provided. A more thorough review of the prudence of the proposed SEI 1-S1
12 additions may take place during IAWC's next base rate case.

1. **Cost of Removal**

13 **Q: What is "cost of removal"?**

14 A: According to "Accounting for Public Utilities," cost of removal means "the cost of
15 demolishing, dismantling, tearing down or otherwise removing...plant."³

16 **Q: How is cost of removal recovered from customers?**

17 A: Cost of removal is recovered from customers before these costs are actually
18 incurred by a utility. It is built into the depreciation rates a utility uses and provides
19 the utility recovery of the original cost of the asset plus the estimated cost of
20 removal, net of salvage, over the life of the asset.

³ Accounting for Public Utilities, Chapter 6 - Public Utility Depreciation, §6.03[2], page 6-7.

1 **Q: How does IAWC determine the cost of removal for replaced assets?**

2 A: Neither IAWC nor its contractors track the actual costs to remove or dismantle an
3 asset being replaced. Instead, IAWC uses the estimated cost of removal percentages
4 built into its approved depreciation rates to calculate the amount of removal costs
5 associated with an asset replacement. IAWC multiplies the total cost of the
6 replacement asset by the estimated cost of removal percentage and records this
7 amount as cost of removal in accumulated depreciation. The rest of the total
8 replacement costs are recorded to utility plant in service.

9 **Q: Why did you exclude cost of removal from the SEI 1-S1 project costs included**
10 **in this Cause?**

11 A: IAWC should be allowed to earn a return on and of the investment made in SEI 1-
12 S1 eligible project costs. But IAWC's shareholders did not provide the funds to the
13 cost of removal for these SEI eligible projects. As explained above, customers paid
14 these costs through increased depreciation expense over the life of the assets and
15 before IAWC incurred these costs. Allowing IAWC to recover these costs through
16 increased depreciation expense over the life of the assets and then allowing IAWC
17 to earn a return on these costs results in double recovery. Therefore, it is
18 unreasonable to ask customers to pay a return on funds they themselves provided
19 to IAWC.

2. **Wastewater Asset Replacements**

1 **Q: Is the SEI 1-S1 charge proposed in this Cause to be charged to IAWC water**
2 **or wastewater customers?**

3 A: The SEI 1-S1 charge proposed in this Cause will be charged to IAWC's water
4 customers. Petitioner's Attachment GDS-2 presents IAWC's proposed changes to
5 its Water Tariff to incorporate the system enhancement improvement charge rider.

6 **Q: Are both water and wastewater improvements eligible for recovery through a**
7 **service enhancement improvement charge?**

8 A: Yes. The title of Ind. Code ch. 8-1-31.7 is "Service Enhancement Improvement
9 Projects for Water and Wastewater Utilities." While either water or wastewater
10 improvements are eligible for recovery through a service enhancement
11 improvement charge, there is nothing in the statute that allows a combined water
12 and wastewater utility to recover eligible wastewater costs from its water
13 customers. Presumably, the statute intends for a utility to calculate a separate SEI
14 charge for its water and its wastewater customers and recover eligible costs
15 accordingly.

16 **Q: Did IAWC include eligible wastewater replacement costs in its proposed SEI**
17 **1-S1 charge?**

18 A: Yes. There were several wastewater projects included in Petitioner's Attachment
19 DH-1. OUCC Attachment MAS-4 includes a list of these projects, representing
20 \$122,188 of asset replacement costs. These project costs should be recovered from
21 wastewater customers, not water customers. Table 4 presents a summary of these
22 projects.

Table 4: Summary of Wastewater Projects

Description	Project #	Plant Additions	Retirements	Net Additions	Depreciation Expense	Property Tax
Microscope to analyze samp aera tan	R10-72Q1.22-P-0003	\$ (1,670)	\$ -	\$ (1,670)	\$ (111)	\$ (45)
Repl muff monst@raw wtr influent RW	R10-72Q1.21-P-0002	(75,073)	(8,096)	(66,977)	(3,077)	(1,808)
Riley WW Electrical upgrade/replace	R10-72Q1.20-P-0005	(12,845)	(1,180)	(11,665)	(366)	(315)
Repl Hydromatic pump RWW Lagoon lif	R10-72Q1.20-P-0007	(9,461)	(304)	(9,157)	(361)	(247)
Riley WW Repl Gear Box om Clarifier	R10-72Q1.20-P-0006	(8,632)	(781)	(7,851)	(184)	(212)
Repl Teledyne Isco 5800 reffridge RW	R10-72Q1.21-P-0008	(7,278)	(736)	(6,542)	(156)	(177)
Rpl backup lift stat pump Frye Rd-R	R10-72Q1.21-P-0004	(7,229)	(13,896)	6,667	(782)	180
		<u>\$ (122,188)</u>	<u>\$ (24,993)</u>	<u>\$ (97,195)</u>	<u>\$ (5,037)</u>	<u>\$ (2,624)</u>

3. Post-in-Service AFUDC and Deferred Depreciation

1 **Q: What do the “deferred PISCC and depreciation” costs included in the**
2 **calculation of net investor supplied water SEI additions represent?**

3 **A:** These costs represent post-in-service AFUDC (both debt and equity) and deferred
4 depreciation accrued for each eligible SEI 1-S1 project included in the SEI charge
5 proposed in this Cause. The accrual of these costs began when the asset was placed
6 in service and continues until depreciation expense is approved to be included for
7 recovery in rates. IAWC indicates this treatment is in accordance with the Final
8 Order in Cause No. 45609. (See Petitioner’s Exhibit No. 1, Direct Testimony of
9 Gregory Shimansky, page 12, lines 5-12.)

10 **Q: Do you agree that this treatment was authorized in the Final Order in Cause**
11 **No. 45609?**

12 **A:** The Final Order in Cause No. 45609 authorized this treatment for the SEI eligible
13 additions to plant and equipment that were included in the plan approved by the
14 Commission in that Cause. However, IAWC did not request this treatment for the
15 SEI eligible asset replacements that are the subject of this case nor did the
16 Commission authorize any such treatment in Cause No. 45609. This treatment was
17 not requested in the Petition filed in this Cause either.

1 **Q: Do you consider this treatment to be appropriate for the SEI eligible asset**
2 **replacements that are the subject of this case?**

3 A: No. To defer these costs for future recovery, a utility must first request and receive
4 approval from the Commission. IAWC has neither requested this treatment for SEI
5 eligible asset replacements nor has the Commission approved such treatment.

6 **Q: Are there other reasons why this treatment is inappropriate in this case?**

7 A: Yes. This treatment is generally reserved for major projects that could result in
8 material earnings erosion for a utility. While arguably this may have been true for
9 the planned SEI eligible additions in SEI 1, I do not consider that to be true for the
10 SEI eligible replacement projects included in this Cause. The projects included in
11 this case have asset addition costs ranging from \$484 (Project #R10-70Q1.22-P-
12 0016) to \$348,122 (Project #R10-75Q1.19-P-0016), with all projects averaging
13 \$29,514 (\$6,404,551 / 217).

14 **Q: Does the SEI statute (Ind. Code §8-1-31.7) allow deferral of these costs for**
15 **future rate recovery?**

16 A: No. The SEI statute allows deferral of these costs on the 20% of project costs that
17 are deferred as a regulatory asset. The statute doesn't state specifically when the
18 deferral of these costs begins, but arguably they would begin accruing once the
19 regulatory asset has been established through a Commission order. But the SEI
20 statute makes no reference to including these types of deferred costs as part of the
21 80% of project costs recovered through an SEI charge.

22 **Q: Do you have any concerns regarding IAWC's calculation of deferred**
23 **depreciation and post-in-service AFUDC for SEI eligible asset replacements?**

24 A: Yes. The amount of deferred costs reflected for SEI eligible asset replacements is
25 out of proportion to the amount of costs on which these deferrals were calculated.

1 The deferred amount of \$1,903,724 is 29.72% of the \$6,404,551 of asset additions
2 in this category. In comparison, the deferred amount of \$1,699,931 is only 3.77%
3 of the \$45,051,785 of planned asset additions. It doesn't make sense that the amount
4 of deferred costs for the approximate \$6.5 million of asset replacements is nearly
5 the same as the deferred costs for the \$45.0 million of planned asset additions.

Table 5: Summary of Deferred Costs

	<u>Additions</u>	<u>Deferred Depreciation</u>	<u>Deferred PISCC</u>	<u>Total Deferred</u>	<u>Deferred as % of Additions</u>
Pre-Approved Projects:					
Mooreville Filtration 580004	\$ 21,660,651	\$ 608,398	\$ 258,757	\$ 867,156	4.00%
Southern Filter 750014	2,668,685	137,694	49,193	186,887	7.00%
Charleston Filtration 750020	13,033,278	295,995	101,321	397,316	3.05%
Northwest Borman Park 900049	7,689,171	194,548	54,025	248,572	3.23%
Subtotal Pre-Approved	<u>\$ 45,051,785</u>	<u>\$ 1,236,635</u>	<u>\$ 463,296</u>	<u>\$ 1,699,931</u>	3.77%
Asset Replacements	\$ 6,404,551	\$ 409,991	\$ 1,493,733	\$ 1,903,724	29.72%
Workpaper GDS-2	\$ 2,441,846	\$ 119,417	\$ 1,077,398	\$ 1,196,815	49.01%
Workpaper GDS-3	4,002,506	240,127	382,321	622,448	15.55%
Workpaper GDS-4	302,562	50,446	34,015	84,461	27.92%
	<u>\$ 6,746,914</u>	<u>\$ 409,990</u>	<u>\$ 1,493,734</u>	<u>\$ 1,903,724</u>	

6 **Q: Did you review the workpapers provided to support these calculations?**

7 A: Yes. My review of the workpapers provided to support these amounts reveals that
8 there are anomalies in the calculations. The amount of deferred costs for certain
9 replacement projects exceeded the amount of replacement costs incurred for that
10 project. A sample of these anomalies are provided in Table 6 below. It is not entirely
11 clear what is driving the errors in the calculations for these replacement projects.⁴

⁴ The replacements projects listed in Table 6 were included in Petitioner's Workpaper GDS-2.

Table 6: Replacement Projects with Anomalous Deferred Costs

Project Number	Additions	Deferred PISCC			PISCC as % of Additions
		Debt	Equity	Total	
R10-70Q1.20-P-0019	\$ 26,701	\$ 11,845	\$ 25,639	\$ 37,484	140.38%
R10-70Q1.20-P-0023	11,761	5,217	11,294	16,511	140.39%
R10-85Q1.20-P-0010	7,573	7,130	15,434	22,564	297.95%
R10-85Q1.20-P-0009	10,549	9,932	21,499	31,431	297.95%
R10-90Q1.20-P-0029	44,895	22,392	48,470	70,862	157.84%
R10-90Q1.20-P-0034	65,876	22,392	48,470	70,862	107.57%
R10-01L6.20-P-0012	15,902	17,062	36,933	53,995	339.55%
R10-01L6.20-P-0017	7,640	17,062	36,933	53,995	706.74%
R10-90Q1.20-P-0023	17,378	17,062	36,933	53,995	310.71%
R10-90Q1.20-P-0042	4,994	17,062	36,933	53,995	1081.20%
R10-90Q1.20-P-0060	7,169	17,062	36,933	53,995	753.17%

1 **Q: What do you recommend regarding the inclusion of post-in-service AFUDC**
2 **and deferred depreciation costs in the calculation of the SEI 1-S1 charge?**

3 **A:** I recommend these costs be excluded from the calculation of the SEI 1-S1 charge.
4 These costs have not been authorized by the Commission and the nature of these
5 SEI eligible replacement projects do not merit the treatment proposed by IAWC.
6 Finally, the amount of these deferred costs is clearly overstated and should be
7 disallowed.

IV. FORMER TOWN OF LOWELL CUSTOMERS

8 **Q: When did IAWC begin serving former customers of the Town of Lowell?**

9 **A:** The Commission approved the acquisition of the Lowell water system on December
10 22, 2021 in Cause No. 45550. IAWC finalized the acquisition and submitted its
11 compliance tariff filing on December 29, 2021.

1 **Q: In Cause No. 45550, did IAWC propose to charge the acquired Lowell**
2 **customers IAWC's currently authorized tariff?**

3 A: No. IAWC requested and received Commission approval to continue charging
4 these customers the monthly recurring water rates that the Town of Lowell set and
5 that were in effect prior to the acquisition.

6 **Q: Were the Lowell customers included in IAWC's determination of equivalent**
7 **meters used to calculate its proposed SEI charge?**

8 A: Yes, I believe so. IAWC's determination of equivalent meters in Petitioner's
9 Attachment GDS-2, Schedule 2, was based on the customer count as of October 31,
10 2022, which is after IAWC acquired the Lowell system. I could find no testimonial
11 discussion or schedule references indicating the Lowell customers were excluded
12 from the calculation of equivalent meters. Therefore, I believe those customers are
13 included in the calculation and IAWC intends to bill the SEI 1-S1 charge to them.

14 **Q: Should Lowell customers be billed an SEI charge?**

15 A: No. In the Commission's order in Cause No. 45550, the Commission accepted
16 IAWC's proposal "to maintain the Lowell System as a stand-alone operation for
17 ratemaking purposes." (December 22, 2021, Final Order in Cause No. 45550, page
18 19, emphasis added.) So long as the former Lowell system is maintained "as a
19 stand-alone operation for ratemaking purposes," Lowell customers should not be
20 charged any water rates or charges other than the rates that were in effect at the
21 time they were acquired by IAWC. More to the point, it would be inconsistent with
22 the maintenance of the Lowell System on a stand-alone basis for ratemaking
23 purposes to also impose the SEI charge on the customers connected to that system.
24 Moreover, these customers are already paying significantly higher rates.

1 **Q: Are Lowell customers charged a distribution system improvement charge?**

2 A: No. For the reasons stated above Lowell customers are not charged a distribution
3 system improvement charge. In response to OUCC Data Request No. 5-8 in Cause
4 No. 42351-DSIC13, IAWC stated "No. Monthly rates and charges charged to
5 Lowell customers are those shown on Third Revised Page 3a of 10 and Second
6 Revised Page 6a of 10 of the Tariff filed December 29, 2022 and do not include a
7 DSIC charge." (OUCC Attachment MAS-2).

8 **Q: Are there other IAWC customers that should not be billed the SEI charge?**

9 A: Yes. IAWC also requested and received authorization in the Rivers' Edge
10 acquisition (Cause No. 45461) to continue charging the monthly recurring water
11 rates and charges that were in effect prior to that acquisition. As with Lowell, the
12 rates charged by Rivers' Edge were greater than the rates IAWC was currently
13 authorized to charge.

14 **Q: Are Rivers' Edge customers being charged distribution system improvement**
15 **charge?**

16 A: No. In response to OUCC Data Request Nos. 5-9 and 5-10 in Cause No. 42351-
17 DSIC13, IAWC indicated it is not charging the Rivers' Edge customers a
18 distribution system improvement charge (OUCC Attachment MAS-3).

19 **Q: Do any of the SEI 1-S1 eligible additions included in this Cause represent**
20 **improvements to either the Lowell or Rivers' Edge water systems?**

21 A: No. None of the SEI 1-S1 eligible additions included in this Cause were
22 improvements made to either the Lowell or Rivers' Edge water systems.

1 **Q: Will IAWC charge either the Lowell or Rivers' Edge customers its proposed**
2 **SEI 1-S1 charge?**

3 A: There is nothing in IAWC's testimony in this Cause to indicate that it will not
4 charge the SEI 1-S1 charge to its Lowell and Rivers' Edge customers, therefore, I
5 believe IAWC intends to charge the SEI 1-S1 to these customers.

V. CONCLUSION

6 **Q: Please summarize your recommendations to the Commission.**

7 A: I recommend the Commission approve a \$0.13 SEI 1-S1 charge per month per 5/8"
8 equivalent meter and apply that charge in accordance with my testimony above.
9 This is an increase to IAWC's SEI charge approved in Cause No. 45609 SEI 1.
10 Based on the OUCC's recommendations in Cause No. 45609 SEI 1, the OUCC
11 recommends an overall service enhancement improvement charge of \$1.04 (\$0.91
12 + \$0.13).

13 **Q: Does this conclude your testimony?**

14 A: Yes.

APPENDIX A - QUALIFICATIONS

1 **Q: Please describe your educational background and experience.**

2 A: I graduated from the University of Houston at Clear Lake City in August 1982 with
3 a Bachelor of Science degree in accounting. From 1982 to 1985, I held the position
4 of Gas Pipeline Accountant at Seagull Energy in Houston, Texas. From 1985 to
5 2001, I worked for Enron in various positions of increasing responsibility and
6 authority. I began in gas pipeline accounting, was promoted to a position in
7 financial reporting and planning, for both the gas pipeline group and the
8 international group, and finally was promoted to a position providing accounting
9 support for infrastructure projects in Central and South America. In 2002, I moved
10 to Indiana, where I held non-utility accounting positions in Indianapolis. In August
11 2003, I accepted my current position with the OUCC. In 2011, I was promoted to
12 Senior Utility Analyst. Since joining the OUCC I have attended the National
13 Association of Regulatory Utility Commissioners ("NARUC") Eastern Utility Rate
14 School in Clearwater Beach, Florida, and the Institute of Public Utilities' Advanced
15 Regulatory Studies Program in East Lansing, Michigan. I have also attended several
16 American Water Works Association and Indiana Rural Water Association
17 conferences as well as the National Association of Utility Consumer Advocates
18 ("NASUCA") Water Committee Forums. I am an active member of the NASUCA
19 Water Committee and the NASUCA Tax and Accounting Committee. I served as
20 chair for the Tax and Accounting Committee from 2016 – 2021.

1 **Q: Have you held any professional licenses?**

2 A: Yes. I passed the CPA exam in 1984 and was licensed as a CPA in the State of
3 Texas until I moved to Indiana in 2002.

4 **Q: Have you previously testified before the Indiana Utility Regulatory**
5 **Commission?**

6 A: Yes. I have testified before the Commission as an accounting witness in various
7 cases involving water, wastewater, electric, and gas utilities.

AFFIRMATION

I affirm the representations I made in the foregoing testimony are true to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, appearing to read "Margaret A. Stull".

By: Margaret A. Stull
Cause No. 45609 SEI-1 S1
Office of Utility Consumer Counselor (OUCC)

Date: January 17, 2023

Indiana-American Water Company
Cause No. 45609 SEI 1-S1
Service Enhancement Improvement Charge
Calculation of SEI 1-S1 Water Revenue Requirement

Line Number	Description	Eligible for Property Taxes	IAWC	OUCC	OUCC More (less)
1	Water Plant Replacements Subject to SEI 1-S1	Schedule 3 *	\$ 6,404,551	\$ 5,784,493	\$ (620,058)
2	Less: Water Retirements	Schedule 3 *	1,086,679	1,055,923	(30,756)
3	Plus: Cost of Removal		957,650	-	(957,650)
4	Plus: PISCC, Deferred Depreciation, Deferred Property Tax Reg Asset		1,903,724	-	(1,903,724)
5	Net Investor Supplied Water SEI Additions	Line 1 - Line 2 + Line 3 + Line 4	<u>\$ 8,179,246</u>	<u>\$ 4,728,570</u>	<u>\$ (3,450,676)</u>
6					
7	Pre-Tax Rate of Return	Per Petitioner	7.74%	7.74%	
8	Pre-Tax Return on Additions	Line 6 x Line 8	\$ 632,848	\$ 365,991	\$ (266,857)
9					
10	Property Taxes on Water SEI Additions	Schedule 3	171,361	155,450	(15,911)
11					
12	Depreciation on Water SEI Additions	Schedule 3	300,512	277,398	(23,114)
13	Amortization of Deferred Asset		76,368	-	(76,368)
14			<u>376,880</u>	<u>277,398</u>	<u>(99,482)</u>
15					
16	Total SEI 1-S1 Revenues to Determine SEI 1-S1 Per Meter Rate	Line 8 + Line 10 + Line 14	<u>\$ 1,181,089</u>	<u>\$ 798,839</u>	<u>\$ (382,250)</u>

Indiana-American Water Company
Cause No. 45609 SEI 1-S1
Calculation of SEI 1-S1 Charge
Calculation of SEI Fixed Charge Rate Based on Meter Size
Using Meter Billing Units for the Twelve Months Ended October 31, 2022

	Replacements		
	IAWC	OUCG	OUCG More (Less)
1 SEI Revenue (Per Line 17 of Attachment MAS-1, Schedule 1):	\$ 1,181,089	\$ 798,839	\$ (382,250)
2 80% of the Revenue Rider, with 20% being held in a Regulatory Asset	\$ 944,871	\$ 639,071	\$ (305,800)
3 Monthly Rate per Equivalent 5/8" Meter (Total Revenue/Total Meter Equivalents):	\$ 0.20	\$ 0.13	\$ (0.07)

Line	Meter Size	Meter Billing Units by Meter Size For the 12 Months Ended 10/31/2022	AWWA Equivalent Meter Flow- Based Ratio	Meter Equivalents	Annualized SEI Revenue	Monthly SEI Charge
4	5/8"	3,590,811	1.0	3,590,811	\$ 473,408	\$ 0.13
5	3/4"	4,829	1.5	7,244	955	0.20
6	1"	131,703	2.5	329,259	43,409	0.33
7	1 1/2"	17,069	5.0	85,347	11,252	0.66
8	2"	68,506	8.0	548,048	72,254	1.05
9	3"	5,872	15.0	88,087	11,613	1.98
10	4"	3,366	25.0	84,156	11,095	3.30
11	6"	1,546	50.0	77,283	10,189	6.59
12	8"	348	80.0	27,806	3,666	10.55
13	10"	72	130.0	9,337	1,231	17.14
14	12"	0	215.0	0	-	28.35
15	Total	3,824,123		4,847,376	\$ 639,072	
16						
17						
18	20% of the Revenue Rider being held in a Regulatory Asset (Line 1 - Line 2)				\$ 159,768	

Note: The American Water Works Association (AWWA) standard Equivalent Meter Flow-Based Ratio is used as the basis for calculation. For example, the safe operating capacity of a 5/8 inch meter is 20 gallons per minute, which is used as the base rate of 1.0. In contrast to this, a two-inch meter has a safe operating capacity of 160 gallons per minute. Thus, on a continuity basis, a two-inch meter is the equivalent of eight 5/8-inch meters, and thus the equivalent flow ratio for a two-inch meter is 8.0.

Indiana-American Water Company
Cause No. 45609 SEI 1-S1
Service Enhancement Improvement Charge
OUCG Adjustments to Net Investor Supplied SEI 1-S1 Additions

Line Number	Description	Project #	Replacement Costs			Depreciation Expense ⁽¹⁾	Property Tax ⁽²⁾
			Plant Additions	Retirements	Net Additions		
1	IAWC Proposed		\$ 6,404,551	\$ 1,086,679	\$ 5,317,872	\$ 300,512	\$ 171,361
2	Less: Non-Replacement Projects						
3	New Hydrant Auto Flusher	R10-50Q1.22-P-0022	(2,760)	-	(2,760)	(110)	(75)
4	Water Salesman Bollards	R10-47Q1.22-P-0004	(2,045)	-	(2,045)	(66)	(55)
5	Rapid Mix Motor	R10-90Q1.21-P-0027	(9,950)	-	(9,950)	(224)	(269)
6	Charlestown Plant Electrical	R10-75Q1.19-P-0003	(262,249)	(1,056)	(261,193)	(9,874)	(7,052)
7	2nd Lab Renovation	R10-15Q1.21-P-0007	(141,790)	-	(141,790)	(5,317)	(3,828)
8	HS Building Improvement	R10-25Q1.21-P-0002	(43,322)	(4,596)	(38,726)	(1,543)	(1,046)
9	Win High Service Project	R10-25Q1.20-P-0010	(35,754)	(111)	(35,643)	(943)	(962)
10			<u>(497,870)</u>	<u>(5,763)</u>	<u>(492,107)</u>	<u>(18,077)</u>	<u>(13,287)</u>
11	Less: Non-Water Replacement Projects						
12	Microscope to analyze samp aera tan	R10-72Q1.22-P-0003	(1,670)	-	(1,670)	(111)	(45)
13	Repl muff monst@raw wtr influent RW	R10-72Q1.21-P-0002	(75,073)	(8,096)	(66,977)	(3,077)	(1,808)
14	Riley WW Electrical upgrade/replace	R10-72Q1.20-P-0005	(12,845)	(1,180)	(11,665)	(366)	(315)
15	Repl Hydromatic pump RWW Lagoon lif	R10-72Q1.20-P-0007	(9,461)	(304)	(9,157)	(361)	(247)
16	Riley WW Repl Gear Box om Clarifier	R10-72Q1.20-P-0006	(8,632)	(781)	(7,851)	(184)	(212)
17	Repl Teledyne Isco 5800 refridge RW	R10-72Q1.21-P-0008	(7,278)	(736)	(6,542)	(156)	(177)
18	Rpl backup lift stat pump Frye Rd-R	R10-72Q1.21-P-0004	(7,229)	(13,896)	6,667	(782)	180
19			<u>(122,188)</u>	<u>(24,993)</u>	<u>(97,195)</u>	<u>(5,037)</u>	<u>(2,624)</u>
21							
22	OUCG Recommended		<u>\$ 5,784,493</u>	<u>\$ 1,055,923</u>	<u>\$ 4,728,570</u>	<u>\$ 277,398</u>	<u>\$ 155,450</u>
23							

⁽¹⁾ See Petitioner's Attachment GDS-1, Schedule 11.

⁽²⁾ Net Additions times 2.70% per Petitioner's Attachment GDS-1, Schedule 9.

OUCG DR 5-8

DATA REQUEST
Indiana-American Water Company, Inc.

Cause No. 42351 DSIC-13

Information Requested:

Are Town of Lowell water customers billed the DSIC-12 charge listed on Appendix A?
Please explain.

Objection:

Petitioner objects to the Request on the grounds and to the extent it solicits documents or information already in the public domain which are accessible to the OUCG.

Information Provided:

Subject to and without waiver of the foregoing objections, Petitioner responds as follows:

No. Monthly rates and charges charged to Lowell customers are those shown on Third Revised Page 3a of 10 and Second Revised Page 6a of 10 of the Tariff filed December 29, 2021 and do not include a DSIC charge.

OUCG DR 5-9

DATA REQUEST
Indiana-American Water Company, Inc.

Cause No. 42351 DSIC-13

Information Requested:

Is Petitioner charging Rivers' Edge water customers a monthly customer charge, \$15.47 for a 5/8" meter per page 3 of 10 of its Third Revised Tariff filed on December 29, 2021? Please explain.

Objection:

Petitioner objects to the Request on the grounds and to the extent it solicits documents or information already in the public domain which are accessible to the OUCG.

Information Provided:

Subject to and without waiver of the foregoing objections, Petitioner responds as follows:

No. Pursuant to the Commission's Order in Cause No. 45461 dated June 2, 2021, Ordering Paragraph 3, the rates and charges then in effect for customers of River's Edge rates were adopted at the time of the acquisition. The \$15.47 meter charge was not part of those rates.

OUCG DR 5-10

DATA REQUEST
Indiana-American Water Company, Inc.

Cause No. 42351 DSIC-13

Information Requested:

Are Rivers' Edge water customers billed the DSIC-12 charge listed on Appendix A? Please explain.

Objection:

Petitioner objects to the Request on the grounds and to the extent it solicits documents or information already in the public domain which are accessible to the OUCG.

Information Provided:

Subject to and without waiver of the foregoing objections, Petitioner responds as follows: No. Pursuant to the Commission's Order in Cause No. 45461 dated June 2, 2021, Ordering Paragraph 3, the rates and charges then in effect for customers of River's Edge rates were adopted at the time of the acquisition and did not include the DSIC-12 charge.

Number	Project Number	District	Project Description	In-Service Date	Additions	Cost of Removals	Salvage	Retirement	CIAC	Total Net	Long description of all work performed under the WBS	Environmental or Safety	Health, Safety, or Environmental Protection Maintained by the Improvement	Anticipated Outcome if Improvement Delayed or Not Completed	Benefits of completing the work
18	R10-72Q1.22-P-0003	Riley WW	Microscope to analyze samp aera tan	5/27/2022	\$1,670	\$0	\$0	\$0	\$0	\$1,670	Added compound microscope to the Riley WWTP Lab to analyze the microorganisms in the mixed liquor for plant process	Environmental	Without the proper microbes, the TSS, BODs, and NH3 permitted limits could be exceeded and would be out of compliance with the NPDES permit.	Monitoring "bug" counts allows the operator to make changes or show issues starting to occur in the treatment process	Operator makes adjustments and changes to keep plant in compliance
124	R10-72Q1.21-P-0002	Riley WW	Repl muffl monst@raw vtr Influent RW	8/30/2021	\$75,079	\$7,608	\$0	(\$8,096)	\$0	\$74,585	Replaced two Muffin Monsters; includes materials, labor and crane to move the equipment	Environmental	Aeration loses its food source when returns line becomes clogged, which will cause TSS, NH3, BOD limits to fall out of compliance with the NPDES permitted limits	Existing Muffin Monsters were aged and not working properly, causing clogging issues in the plant	Improved raw Influent
125	R10-72Q1.20-P-0005	Riley WW	Riley WW Electrical upgrade/replace	5/26/2021	\$12,845	\$1,266	\$0	(\$1,180)	\$0	\$12,932	Replaced three panel tubs and one surge suppressor	Environmental and Safety	Plant cannot fully operate without reliable power; aged electrical components pose safety concern	Power supply failure	Reliable power source
126	R10-72Q1.20-P-0007	Riley WW	Repl Hydromatic pump RWW Lagoon lif	12/29/2020	\$9,461	\$964	\$0	(\$304)	\$0	\$10,121	Replaced lagoon lift station pump	Environmental	Basins would reach their max limit during rain events, causing overflows in the collections system and at the plant; Plant would surpass max flow design, which would cause inadequate treatment and not be in compliance with NPDES permit limits	Pump failure; inability to move water to head of plant	Ability to use lift station
127	R10-72Q1.20-P-0006	Riley WW	Riley WW Repl Gear Box on Clarifier	12/29/2020	\$8,632	\$865	\$0	(\$781)	\$0	\$8,717	Replaced planetary gear box on the clarifier arm	Environmental	NPDES permitted limits on TSS, NH3, BOD would be exceeded	Without clarifier arm, the plant cannot properly treat wastewater and would be out of compliance	Clarifier arm properly functioning
128	R10-72Q1.21-P-0008	Riley WW	Repl Teledyne Isco 5800 refridge RW	2/23/2022	\$7,278	\$743	\$0	(\$736)	\$0	\$7,285	Replaced refrigerated sampler	Environmental	EPA's water sampling procedure states automatic samplers must be capable of providing adequate refrigeration during the sampling period	24hr composite samples could fall out of compliance if not refrigerated properly	Staying within compliance on samples
129	R10-72Q1.21-P-0004	Riley WW	Rpl backup lift stat pump Frye Rd-R	8/3/2021	\$7,229	\$7,314	\$0	(\$13,896)	\$0	\$646	Replaced backup pump for the main lift station	Environmental	Overflows can cause fish kill, environmental damage or harm to public health	Failure of equipment will cause sewer overflows in the collections system and no flow to the wwtp	Backup lift station pump in case of pump failure
					\$122,188	\$18,761	\$0	(\$24,993)	\$0	\$115,956					