

FILED
JUN 19 2018
INDIANA UTILITY
REGULATORY COMMISSION

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INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE INDIANA)
UTILITY REGULATORY)
COMMISSION'S INVESTIGATION INTO)
THE IMPACTS OF THE TAX CUTS AND)
JOBS ACT OF 2017 AND POSSIBLE)
RATE IMPLICATIONS)
RESPONDENTS: ALL)
JURISDICTIONAL RATE-REGULATED,)
INVESTOR-OWNED UTILITIES)

CAUSE NO. 45032 S-20

IURC
~~RESPONDENTS~~ RESPONDENT'S
EXHIBIT NO. 1
DATE 10-25-18 REPORTER AT

SUBMISSION OF DIRECT TESTIMONY OF
STEVEN M. LUBERTOZZI

Community Utilities of Indiana, Inc., by counsel, hereby submits the direct testimony and
attachments of Steven M. Lubertozzi.

Respectfully submitted,



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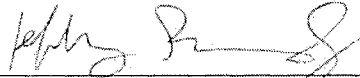
Attorney for Respondent COMMUNITY UTILITIES OF
INDIANA, INC.

CERTIFICATE OF SERVICE

The undersigned attorney hereby certifies that a copy of the foregoing has been served upon the following via electronic mail this 19th day of June, 2018 to:

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Attorney for Respondent COMMUNITY UTILITIES OF
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RESPONDENT'S EXHIBIT 1

COMMUNITY UTILITIES OF INDIANA, INC.

INDIANA UTILITY REGULATORY COMMISSION

CAUSE NO. 45032-S20

DIRECT TESTIMONY

OF

STEVEN M. LUBERTOZZI

SPONSORING RESPONDENT'S ATTACHMENTS SML-1 THROUGH SML-5

COMMUNITY UTILITIES OF INDIANA, INC.

CAUSE NO. 45032-S20

Direct Testimony of Steven M Lubertozi

INTRODUCTION AND QUALIFICATIONS

Q1. Please state your name occupation and business address.

A1. My name is Steven Lubertozi. I am the President of Community Utilities of Indiana, Inc. ("CUII" or "Company"). My business address is 2335 Sanders Road, Northbrook, IL 60062.

Q2. Please describe your duties in your current position.

A2. As President I am responsible for all aspects of the Company's business culminating in the ongoing provision of safe drinking water and environmentally responsible wastewater service to all of our customers.

Q3. Please summarize your educational and professional background.

A3. I graduated from Indiana University in 1990, and I am a Certified Public Accountant. I earned my Master of Business Administration from Northwestern University's Kellogg School of Management. I am a member of the American Institute of Certified Public Accountants. I have been employed by Utilities, Inc. since June of 2001.

Q4. Have you previously testified before the Indiana Utility Regulatory Commission ("Commission")?

A4. Yes. I have provided written and oral testimony before public utilities commissions throughout the United States, including the Indiana Utility Regulatory Commission ("Commission"), on topics ranging from cost of equity, capital structure, cost of debt,

1 acquisition adjustments, divestment strategies, appropriate levels of operations and
2 maintenance expense, parent company allocations, affiliate transactions, income taxes and
3 most every aspect of utility operations. In Indiana, I most recently testified in Cause No.
4 44724, involving the rate case. The other state commissions where I have presented
5 testimony include Florida, Illinois, Kentucky, Maryland, Nevada, New Jersey, New
6 Mexico, North Carolina and South Carolina.

7 **Q5. What is the purpose of your testimony?**

8 A5. My testimony is to respond to the Commission's order to investigate the impact of the
9 recently enacted Tax Cuts and Jobs Acts of 2017.

10 **Q6. Please summarize the Tax Cuts and Jobs Act.**

11 A6. On December 22, 2017, President Donald Trump signed into law the Tax Cuts and Jobs
12 Act of 2017 ("Tax Act"). The Tax Act can impact the Company, customers and developers
13 in three ways. First, the Tax Act reduces the corporate income tax rates from 35% to 21%.
14 Second, Contributions in Aid of Construction are now included in taxable income for tax
15 purposes, and third, bonus depreciation was eliminated. The Act also affects CUII's
16 Accumulated Deferred Income Taxes ("ADIT"). Historically, CUII calculated ADIT using
17 the 34 or 35 percent federal corporate income tax rate. However, with the Act's reduction
18 of the federal corporate income tax rate to 21%, UI's financial, accounting and tax
19 professionals remeasured CUII's ADIT balances as of December 31, 2017. This results in
20 Excess Deferred Taxes ("EDT"). These EDTs fall into two categories: (1) Protected Assets,
21 and (2) Unprotected Assets. It is the Company's understanding that IRS guidelines for
22 Protected Assets contain a specific requirement for the reversal of the amortization period
23 of the Protected Assets. However, the Unprotected Assets can be reversed or amortized

1 over any reasonable period. The reduction in tax rate, the loss of bonus depreciation, and
2 the taxability of CIAC and advances in aid of construction (“AAC”) will significantly
3 reduce future income tax deferrals. The reduction in deferred income taxes will increase
4 CUII’s rate base, and as reported by Moody’s Investor Service, the Act is “credit negative
5 for investor-owned utilities,” which is attributed to the reduction in cash flows.¹

6 **Q7. How has the Company addressed the impact of the Tax Act and its impact on**
7 **customer’s rates?**

8 A7. The three major components that impact rates include: (1) the reduction in the corporate
9 income tax expense from 35% to 21%, (2) elimination of bonus depreciation and (3) EDT.
10 On January 24, 2018, CUII received a final order in its basic rates case, Cause No. 44724.
11 While the Order itself did not directly address the impacts of the Tax Act, CUII acted
12 promptly to reflect the reduction in the corporate income tax expense from 35% to 21% as
13 part of its compliance filing made on February 23, 2018. As explained in CUII’s
14 compliance filing, CUII reduced its approved revenue requirement by \$211,506 to reflect
15 the “Phase 1” impact of the Tax Act. The elimination of bonus depreciation took effect on
16 September 27, 2017, so there were no adjustments to rate base or rates for the elimination
17 bonus depreciation. The third component, EDT is being addressed in this case, Cause
18 45032-S20.

19 **Q8. Has CUII performed a calculation of its excess accumulated deferred income taxes?**

20 A8. Yes. Respondent’s Attachments SML-1 through SML-4, which are attached to my direct
21 testimony, show the per book balance of ADIT prior to and after the effect of the Tax Act.

¹ See Moody’s Investors Services, Sector Comment - Regulated Utilities – US, January 24, 2018.

1 Additionally, these attachments indicate if the balances are protected or unprotected. On a
2 Company-wide basis, the protected EDT balance totals \$701,338 and the unprotected EDT
3 balance totals \$267,822. I am also providing a supporting workpaper that contains
4 additional supporting details, including information requested to be provided by the
5 Indiana Office of Utility Consumer Counselor in its proposed Phase 2 procedural schedule.

6 **Q9. Does the Tax Act specify how a company is to calculate the amortization of its EDT?**

7 A9. Yes. Section 13001(d) of the Tax Act precludes a taxpayer from reducing its protected
8 EDT more rapidly or to a greater extent than such would be reduced under what is referred
9 to as the Average Rate Assumption Method (“ARAM”). Under the ARAM approach, the
10 excess reserve for deferred taxes is reduced over the remaining lives of the property as used
11 in its regulated books of account which gave rise to the reserve for deferred taxes. The Tax
12 Act further permits an entity without sufficient records to calculate amortization of EDT
13 under ARAM to utilize what is referred to as the Reserve South Georgia Method. This
14 method amortizes the excess deferred taxes ratably over the remaining life of the utility’s
15 assets.

16 **Q10. Which method did the Company use to calculate EDT?**

17 A10. The Company used the Reverse South Georgia Method.

18 **Q11. Over what period should the protected EDT flow to customers?**

1 A11. The Company's analysis shows that the protected EDT should flow back to customers over
2 36 years, which is the estimated remaining life of the Company's assets.² This results in
3 an annual reduction of \$19,482 to CUII's revenue requirement.

4 **Q12. When should the protected EDT start flowing back to customers?**

5 A12. The Company believes that the amortization of the protected EDT can start flowing back
6 to customers as soon as the Commission approves the calculations and concurs with the
7 flow back period, and the amortization would continue for 36 years from the effective date
8 of the tariff.

9 **Q13. Over what period should the unprotected EDT flow to customers?**

10 A13. The Company believes that the unprotected EDT should flow back to customers over 4
11 years, which is similar to the amortization period of rate case. This results in an annual
12 reduction of \$66,956 to CUII's revenue requirement.

13 **Q14. When should the unprotected EDT start flowing back to customers?**

14 A14. The Company believes that the amortization of the unprotected EDT can start flowing back
15 to customers as soon as the Commission approves the calculations and concurs with the
16 flow back period, and the amortization would continue for 4 years from the effective date
17 of the tariff.

18 **Q15. How does the Company propose to implement the flow back of the EDT Tax Act**
19 **benefits to its customers?**

² See CUII Workpaper 1, tab "CUII Protected Analysis".

1 A15. The Company proposed tariffs that would implement the return of the protected and
2 unprotected EDT balances. I have attached the proposed tariffs as Respondent's
3 Attachment SML-5.

4 **Q16. Are there any remaining Phase 2 issues to address?**

5 A16. Yes. Per the Commission's January 3, 2018 Order in Cause No. 45032, CUII is to address
6 the disposition of the over-collected revenue beginning January 1, 2018 through the date
7 CUII's rates were modified to reflect the lower corporate tax rate. CUII implemented
8 temporary rates in Cause No. 44724 effective January 8, 2018. CUII subsequently
9 reconciled those rates to the final rates (which included the impact of the lower corporate
10 tax rate) pursuant to Indiana Code § 8-1-2-42.7(i). As explained CUII reduced its approved
11 revenue requirement by \$211,506, which is an annual amount and equates to \$579.47 per
12 day. The CUII's new rates were effective on January 8, 2018, which means any over-
13 collected revenue would have lasted seven days and been immaterial.

14 **Q17. Did the Company calculate the potential refund per customer based on the seven**
15 **days?**

16 A17. Yes, assuming a potential refund of \$579.47 per day for seven days the maximum refund
17 equals \$4,056.28, and as of May 30, 2018 CUII had 5,052 active water and wastewater
18 accounts. Therefore, each active water and wastewater customer would be due \$0.80.

19 **Q18. How does the Company propose to refund the \$0.80 to its customers?**

20 A18. The Company proposes to provide each active water and wastewater customer with a one-
21 time bill credit of \$0.80 once approved by the Commission.

22 **Q19. Does this conclude your prepared direct testimony?**

1 A19. Yes.

Twin Lakes

Co	Obj	Type	Description	12/31/2017	Reclass Excess ADIT to Reg Liab	Record DTA on Reg Liab	Final 12/31/2017
150	4367	Unprotected	ACCUM DEF INCOME TAX-FED	(10,387.06)	4,154.82	168,612.18	162,379.94
150	4369	Protected	DEF FED TAX - CIAC PRE 1987	59,923.00	(23,969.20)		35,953.80
150	4371	Protected	DEF FED TAX - TAP FEE POST 200	121,194.78	(48,477.91)		72,716.87
150	4375	Unprotected	DEF FED TAX - RATE CASE	(61,390.66)	24,556.26		(36,834.40)
150	4377	Unprotected	DEF FED TAX - DEF MAINT	(168,396.14)	67,358.45		(101,037.69)
150	4383	Unprotected	DEF FED TAX - ORGN EXP	389.09	(155.64)		233.45
150	4385	Unprotected	DEF FED TAX - BAD DEBT	1,789.14	(715.65)		1,073.49
150	4387	Protected	DEF FED TAX - DEPRECIATION	(1,689,759.06)	675,903.63		(1,013,855.43)
150	4389	Protected	DEF FED TAX - NOL	160,879.54	(64,351.81)		96,527.73

Protected Excess ADIT in Reg Liab	(539,104.71)
Gross-Up Tax on Protected	(178,467.35)
Unprotected Excess ADIT in Reg Liab	(95,198.24)
Gross-Up Tax on Unprotected	(31,514.80)
Total	<u>(844,285.10)</u>

WSC of Indiana

Co	Obj	Type	Description	12/31/2017	Reclass Excess ADIT to Reg Liab	Record DTA on Reg Liab	Final 12/31/2017
151	4367	Unprotected	ACCUM DEF INCOME TAX-FED	853.21	(341.29)	38,560.65	39,072.57
151	4369	Protected	DEF FED TAX - CIAC PRE 1987	0.00	0.00		0.00
151	4371	Protected	DEF FED TAX - TAP FEE POST 200	1,177.00	(470.80)		706.20
151	4375	Unprotected	DEF FED TAX - RATE CASE	(19,803.58)	7,921.43		(11,882.15)
151	4377	Unprotected	DEF FED TAX - DEF MAINT	(23,688.97)	9,475.58		(14,213.39)
151	4383	Unprotected	DEF FED TAX - ORGN EXP	(49,401.46)	19,760.58		(29,640.88)
151	4385	Unprotected	DEF FED TAX - BAD DEBT	555.80	(222.32)		333.48
151	4387	Protected	DEF FED TAX - DEPRECIATION	(419,854.94)	167,942.00		(251,912.94)
151	4389	Protected	DEF FED TAX - NOL	147,509.22	(59,003.69)		88,505.53

Protected Excess ADIT in Reg Liab	(108,467.51)
Gross-Up Tax on Protected	(35,907.51)
Unprotected Excess ADIT in Reg Liab	(36,593.98)
Gross-Up Tax on Unprotected	(12,114.22)
Total	<u>(193,083.22)</u>

IWSI

Co	Obj	Type	Description	12/31/2017	Reclass Excess ADIT to Reg Liab	Record DTA on Reg Liab	Final 12/31/2017
152	4367	Unprotected	ACCUM DEF INCOME TAX-FED	(15,136.05)	6,054.42	(15,747.63)	(24,829.26)
152	4369	Protected	DEF FED TAX - CIAC PRE 1987	0.00	0.00		0.00
152	4371	Protected	DEF FED TAX - TAP FEE POST 200	471.00	(188.40)		282.60
152	4375	Unprotected	DEF FED TAX - RATE CASE	527.89	(211.15)		316.74
152	4377	Unprotected	DEF FED TAX - DEF MAINT	(65,841.13)	26,336.45		(39,504.68)
152	4383	Unprotected	DEF FED TAX - ORGN EXP	(51,472.92)	20,589.17		(30,883.75)
152	4385	Unprotected	DEF FED TAX - BAD DEBT	1,295.11	(518.04)		777.07
152	4387	Protected	DEF FED TAX - DEPRECIATION	7,366.03	(2,946.42)		4,419.61
152	4389	Protected	DEF FED TAX - NOL	270,892.75	(108,357.10)		162,535.65

Protected Excess ADIT in Reg Liab	111,491.92
Gross-Up Tax on Protected	36,908.73
Unprotected Excess ADIT in Reg Liab	(52,250.85)
Gross-Up Tax on Unprotected	(17,297.33)
Total	<u>78,852.47</u>

Community Utilities of Indiana, Inc.

Co	Obj	Type	Description	12/31/2017	Reclass Excess ADIT to Reg Liab	Record DTA on Reg Liab	Final 12/31/2017
756	4367	Unprotected	ACCUM DEF INCOME TAX-FED	0.00	0.00	2,125.75	2,125.75
756	4369	Protected	DEF FED TAX - CIAC PRE 1987	0.00	0.00		0.00
756	4371	Protected	DEF FED TAX - TAP FEE POST 200	0.00	0.00		0.00
756	4375	Unprotected	DEF FED TAX - RATE CASE	(42,922.92)	17,169.17		(25,753.75)
756	4377	Unprotected	DEF FED TAX - DEF MAINT	0.00	0.00		0.00
756	4383	Unprotected	DEF FED TAX - ORGN EXP	0.00	0.00		0.00
756	4385	Unprotected	DEF FED TAX - BAD DEBT	0.00	0.00		0.00
756	4387	Protected	DEF FED TAX - DEPRECIATION	(22,911.08)	9,164.42		(13,746.66)
756	4389	Protected	DEF FED TAX - NOL	45,841.86	(18,336.74)		27,505.12

Protected Excess ADIT in Reg Liab	9,172.32
Gross-Up Tax on Protected	3,036.44
Unprotected Excess ADIT in Reg Liab	(17,169.17)
Gross-Up Tax on Unprotected	(5,683.75)
Total	<u>(10,644.16)</u>

COMMUNITY UTILITIES OF INDIANA, INC.
LAKE, PORTER, JASPER AND NEWTON COUNTIES, INDIANA

I.U.R.C. No. S-1

Revised Replacement Sheet No. 1

SCHEDULE OF RATES AND CHARGES FOR SEWAGE SERVICE
Service Territory Formally Known as Twin Lakes Utilities Inc. and Water Service Company of
Indiana
(Lake, Porter, Jasper and Newton Counties, Indiana)

Applicability
This schedule applies to all sewage disposal service rendered by Community Utilities of Indiana, Inc.

Monthly Rate for All Customers

<u>Meter Size</u>	<u>Charge*</u>
5/8" & 3/4"	\$23.52
1"	56.28
1 ¼"	89.04
1 ½"	126.18
2"	220.08
3"	504.00
4"	875.27
6"	1,989.11
Unmetered	57.57
Usage Charge (per 1,000 gallons):	\$7.58
Campground Charge per Month (for each month April-October)	\$17.63

* -- Subject to the Infrastructure Improvement Charge in the attached Appendix A.

COMMUNITY UTILITIES OF INDIANA, INC.
LAKE, PORTER, JASPER AND NEWTON COUNTIES, INDIANA

I.U.R.C. No. W-1

Revised Replacement Sheet No. 1

SCHEDULE OF RATES AND CHARGES FOR WATER SERVICE

Service Territory Formally Known as Twin Lakes Utilities Inc., Water Service Company of
Indiana, and Indiana Water Service, Inc.
(Lake, Porter, Jasper, and Newton, Counties, Indiana)

Applicability

This schedule applies to all water service rendered by Community Utilities of Indiana, Inc.

Monthly Rate for All Customers

The customer shall pay for each service connection a monthly rate which will be the sum of (A) a Base Facility Charge based on the size of the meter through which the customer receives such service, and (B) a Volume Charge based on the amount of water consumed during the monthly period. The Base Facility Charge shall also apply when the service is provided through a master meter and every individual dwelling unit is billed separately. The applicable Base Facility and Volume Charges are as follows:

A. Base Facility Charge*

<u>Meter Size</u>	<u>Charge</u>
5/8" & 3/4"	\$11.15
1"	25.11
1 1/4"	39.11
1 1/2"	48.43
2"	76.33
3"	141.56
4"	234.69
6"	467.55

B. Volume Charge**

Per 1,000 gallons	\$6.27
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Unmetered Water Service

Flat rate for unmetered public drinking fountain	\$21.21 per monthly period
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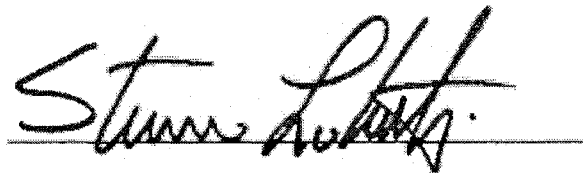
* -- Subject to the Infrastructure System Improvement Charge in the attached Appendix A

** -- Subject to the Water Tracking Factor in the attached Appendix B

Issued by: Steven M. Lubertozi, President
Pursuant to the _____, 2018, Order in IURC Cause No. 45032-S20

VERIFICATION

I, Steve Lubertozi, President for Community Utilities of Indiana, Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Steven Lubertozi", is written over a horizontal line.

Steven Lubertozi

Date: June 19, 2018