

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF JACKSON COUNTY WATER)	
UTILITY, INC., FOR AUTHORITY TO ISSUE)	CAUSE NO. 44986
LONG TERM DEBT AND CHANGES TO ITS)	
RATES, CHARGES AND TARIFF)	

PREFILED DIRECT TESTIMONY OF

EARL L. RIDLEN, III

PHASE II

ON BEHALF OF JACKSON COUNTY WATER UTILITY, INC

**PREFILED DIRECT TESTIMONY OF
EARL L. RIDLEN, III; PHASE II
ON BEHALF OF JACKSON COUNTY WATER UTILITY, INC.**

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

2 A. My name is Earl L. Ridlen, III; my business address is 1776 North Meridian,
3 Suite 500, Indianapolis, Indiana 46202.

4 2. **Q. What is your occupation?**

5 A. I am a certified public accountant specializing in public utility matters.

6 3. **Q. Are you affiliated with any accounting or financial advisory firms?**

7 A. Yes I am. I am currently affiliated with LWG CPA's and Advisors ("LWG")
8 where I serve as the managing Partner.

9 4. **Q. On whose behalf are you appearing and offering testimony?**

10 A. The Petitioner, Jackson County Water Utility Inc.

11 5. **Q. Would you please describe your educational background and professional
12 qualifications which you deem relevant to the testimony you offer here?**

13 A. I hold a Bachelor of Arts degree from Franklin College with a major in
14 accounting. I was employed by various accounting firms prior to working with
15 LWG. My professional work has included auditing, advice on tax issues, advice
16 on financing, and other projects typically performed by certified public
17 accountants and financial advisors. To date I have represented numerous utilities
18 throughout the Midwest. I am a member of the Indiana CPA Society, the
19 American Institute of Certified Public Accountants, and I am a Director on the
20 Board for the National Society of Accountants for Cooperatives.

1 6. **Q. Have you previously offered testimony in this Cause?**

2 A. Yes, I offered testimony in Phase I of this Cause.

3 7. **Q. What was Phase I?**

4 A. Phase I was the portion of this Cause which authorized Petitioner to issue long
5 term debt.

6 8. **Q. Did the Petition, which initiated this Cause, describe these two phases?**

7 A. Yes.

8 9. **Q. Did the Commission's Order in Phase I authorize the filing of this Phase II?**

9 A. Yes it did.

10 10. **Q. Has the Petitioner completed the long term debt financing?**

11 A. Petitioner is in the process of closing on the Commission authorized debt with the
12 Indiana Finance Authority's State Revolving Fund ("SRF"). We expect to close
13 by the end of August 2018.

14 11. **Q. Mr. Ridlen what do you expect the final terms of the SRF debt will be at the
15 closing?**

16 A. Based on discussions with the professionals representing the SRF, we expect to
17 borrow \$6,680,000; for a loan term of 35 years; at an average interest rate of
18 2.300%. The final terms will be set just before closing.

19 12. **Q. Will the Petitioner file information on the actual terms following closing?**

20 A. Yes it will. Further I believe that information can be filed in this Cause within 30
21 days following the closing, which should be well before the Indiana Office of
22 Utility Consumer Counselor (OUCC) or Intervenor Brown County Water
23 (Intervenor) would file in this Phase II.

1 13. Q. For purposes of the revenue requirement that you have filed in this Phase II,
2 what terms for the borrowing from SRF did you use?

3 A. I used the principal amount of \$6,680,000 borrowed over a period of 35 years at
4 an average interest rate of 2.300%.

5 14. Q. Mr. Ridlen these terms appear different from that previously authorized by
6 the Commission. Is that accurate?

7 A. Yes, they are lower. The Commission will recall that in Phase I, it authorized the
8 Petitioner to borrow up to \$7,500,000; for a period no greater than 35 years, at an
9 average interest rate of 2.80%. Based on very good bids and discussions we have
10 had with SRF, I have reduced the amount to be borrowed to \$6,680,000. For the
11 interest rate, I have used an interest rate which should not be exceeded by the time
12 Petitioner closes.

13 15. Q. Is Petitioner requesting to reduce its authority granted in Phase I by the
14 revenue requirement you have now filed?

15 A. No. Petitioner is simply recognizing that it has new information since Phase I.

16 16. Q. Mr. Ridlen, how do you propose to true up the revenue requirement
17 following closing with SRF?

18 A. I suggest that the true up occur as part of Petitioner's Rebuttal filing on November
19 28, 2018. This will allow the Petitioner to incorporate any positions of the OUCC
20 and/or Brown County Water with which the Petitioner agrees in that revenue
21 requirement. The filing of an update in the rebuttal testimony will also afford the
22 Commission an opportunity to consider the actual terms of the SRF loan and the

1 impact of that loan on the Petitioner's revenue requirement in the final Phase II
2 Order in this Cause.

3 17. **Q. What if the closing with SRF is delayed until after Petitioner's Rebuttal?**

4 A. I would recommend that Petitioner file a true up related to the borrowing as soon
5 as possible, but no later than 30 days after closing, if the SRF closing is delayed
6 beyond Petitioner's Rebuttal filing.

7 18. **Q. Mr. Ridlen, did you or your firm review the books and records of the**
8 **Petitioner prior to the filing of this Phase II base rate increase?**

9 A. Yes, we performed an audit of Petitioner's books and records for the calendar
10 year ended December 31, 2017. Thus the starting point for this Phase II filing
11 were those audited results.

12 19. **Q. Does Petitioner need to increase its rates in this Phase II proceeding?**

13 A. Yes it does. It should increase its base rates by at least 5.73% in order to provide
14 sufficient new revenue.

15 20. **Q. Have you prepared or caused to be prepared any rate report or accounting**
16 **schedules which reflect the conclusions you have drawn relative to an**
17 **increase in current rates?**

18 A. Yes. Attached as Exhibit ELR-1 is that rate report with accompanying accounting
19 schedules which support my conclusions that Petitioner should increase its rates
20 to provide sufficient revenue to meet its expected operating expenses occurring by
21 December 31, 2018

1 21. Q. Please identify the specific exhibits and schedules included in ELR-1 on
2 which your testimony focuses?

3 A. My testimony will focus on Exhibits A, B, C, D, E, F, and G, and the related
4 Schedules B-1, B-2, C-1, C-2, E-1, E-2, E-3, E-4 and E-5 included in Exhibit
5 ELR-1.

6 22. Q. Can you please explain what is included in Exhibits A and B, and the related
7 Schedules B-1 and B-2?

8 A. Yes. Exhibit A and B show the audited Comparative Balance Sheets and
9 Statements of Revenue for the Petitioner. This historical information, without
10 adjustment, is presented as of December 31, 2017 and 2016. The twelve months
11 ended December 31, 2017, is the test year described in our Petition and approved
12 by the Commission's Order in Phase I of February 21, 2018. The books and
13 records of Petitioner are kept in accordance with the uniform system of accounts
14 as prescribed by the National Association of Regulatory Utility Commissioners.
15 This uniform system of accounts conforms in all material respects with generally
16 accepted accounting principles as applied to rate regulated utilities. The books and
17 records are the representations of the management of the Petitioner, and are the
18 starting point for our fixed, known, and measurable accounting adjustments.
19 Schedules B-1 and B-2 are the supporting details for the major Statements of
20 Revenue elements.

21 23. Q. Mr. Ridlen, please explain what is included in Exhibit C.

22 A. Exhibit C presents the "Pro-forma Statement of Revenue." It reflects the results of
23 operations under differing assumptions. The column titled "Twelve Months

Ended 12/31/2017,” reflects the actual per book results of Petitioner’s operations for the test year. The column titled “Pro-Forma Present Rates,” reflects the result of operations after adjustments for all fixed, known and measurable elements. The column titled “Pro-Forma Proposed Rates,” reflects the projected result of operations based upon a recommended increase of approximately 5.73%. The “Adjustments” reflected on Exhibit C are detailed in Schedules C-1 and C-2.

24. **Q. Please describe the adjustments contained in Schedule C-1?**

A. Schedule C-1 shows the fixed known and measurable adjustments required to bring the operating revenues and expenses from test year totals to pro-forma present totals. **Adjustments Nos. 2, 3, and 4** are comprised of several adjustments to “Operating Revenues.”

Adjustment No. 2 is normalizing the operating revenue of the Petitioner based on the increase in customers in the test year, by increasing the revenue included in the test year in the amount \$5,248. This represents an increase of 131 bills.

Adjustment No. 3 is decreasing the revenue included in the test year by (\$3,557) to remove non-recurring revenues related to the sale of scrap metal.

Adjustment No. 4 is increasing annual revenue for projected customer growth by \$69,816 from new projects. The amount is the average yearly revenue growth over the next five years based upon the best known projections of customers who will be hooking on to the system. The average number of added bills from new projects is expected to be 1,743 per year over the next five years.

Adjustments Nos. 1, 5, 6, 7 8, 9, 10, and 11 are comprised of several adjustments to "Operating Expenses.”

1 **Adjustment No. 1** is increasing depreciation expense by \$128,100 for the
2 additional plant placed into service.

3 **Adjustment No. 5** is increasing operating expenses by \$13,833 representing the
4 amortization of the estimated rate case expenses of \$69,163. This is the amount
5 of rate case expenses not funded by debt as well as prior remaining unamortized
6 expense. These amounts will be amortized over a 5 year period.

7 **Adjustment No. 6** increasing operating expenses associated with the IDEM fee
8 by \$217 to account for the increase in customers in the test year.

9 **Adjustment No. 7** is increasing operating expenses associated with the payroll
10 expense by \$41,634. This increase is made up of two separate components
11 influencing the payroll of the Petitioner. First, the Petitioner has hired an
12 additional employee in 2018. This resulted in an increase of \$35,360. The
13 second component of the adjustment is increasing payroll for the payroll increase
14 to be applied in 2018. This component amounted to a \$6,274 increase in
15 operating expenses, and was based upon the increased wages which will occur in
16 calendar year 2018.

17 **Adjustment No. 8** is increasing the operating expenses associated employee
18 benefits by \$2,082. The Petitioner sponsors a defined contribution plan for its
19 employees, and currently contributes 5% of annual salary to each employee. The
20 adjustment is based upon the increased payroll as calculated in Adjustment No. 7,
21 multiplied by this annual contribution.

1 **Adjustment No. 9** is increasing the operating expenses associated with employee
2 benefits by \$15,470, to reflect the change in employee health insurance as
3 provided by the Petitioner's Insurance provider.

4 **Adjustment No. 10** is increasing the operating expenses associated with the
5 payroll taxes by \$3,185. This increase represents the impact of the employer
6 portion of payroll taxes on the increase in payroll.

7 **Adjustment No. 11** is increasing the operating expenses associated with the
8 IURC fee by \$171. This is based on the increase in operating revenues from the
9 adjustments on Schedule C-1.

10 25. **Q. Can you please describe the adjustments contained in Schedule C-2?**

11 A. Yes. Schedule C-2 shows the adjustments necessary to increase pro-forma
12 present revenues to potentially meet the revenue requirement. Adjustment A is the
13 requested increase in operating revenues related to that request. Adjustment B is
14 the resulting increase in the IURC fee for the increase in revenues.

15 26. **Q. Mr. Ridlen, what is Exhibit D and what do the various line items represent in**
16 **that Exhibit?**

17 A. Exhibit D is the Statement of Annual Cash Requirements of the Petitioner.
18 Petitioner's counsel of record has discussed with me that Petitioner's rates and
19 charges are set pursuant to Indiana Code § 8-1-2-125. This statute sets forth the
20 elements that should be considered in establishing a revenue requirement for a
21 not-for-profit utility such as the Petitioner. Line 1 represents the total of the
22 individual operating expense elements and was taken from Exhibit C at the Pro-
23 forma Proposed rate amounts. Line 2 represents the requirement for extensions

1 and replacements, and is based on projects and equipment necessary for the
2 Petitioner not covered in the recent debt obtained from the State Revolving Fund
3 (“SRF”). This amount is equal to what is currently included in the base rates of
4 the utility. Line 3 represents the tax expense which is taken from Exhibit C. Line
5 4 represents the debt service requirement and is detailed in Exhibit E. Line 5
6 represents the debt service reserve requirement as required by the individual debt
7 agreements based on a five year funding requirement, and the calculation has
8 been included as Exhibit F. Line 6 represents interest income, and is drawn
9 directly from the Petitioner’s audited books and records without adjustment. Line
10 7 represents the total of the above statutorily prescribed revenue requirement
11 elements indicating that \$3,711,197 is required. Line 8 describes the adjusted
12 current revenues of \$3,510,331 from water sales. Line 10 represents the increase
13 in the IURC fee based on these pro-forma adjustments indicating that an
14 additional \$271 is necessary. Lines 9 and 11 effectively compare the required
15 revenue to the current revenue indicating that an increase of \$201,135 is
16 necessary, which represents a 5.73% increase in adjusted pro-forma present
17 revenue.

18 27. **Q. Please describe Exhibit E?**

19 A. Exhibit E is a summary of the debt service of the outstanding debt of the
20 Petitioner, including the additional SRF Debt from Phase I of this cause. Detail of
21 the individual debt components is shown on Schedules E-1, E-2, E-3, E-4 and E-
22 5.

23 28. **Q. Please describe Exhibit F?**

1 A. Exhibit F is a summary of the debt service reserve funding requirements of the
2 Petitioner. The funding requirement, as mentioned before, is based on a 5 year
3 period pursuant to loan agreements.

4 29. **Q. Please describe Exhibit G?**

5 A. Exhibit G is the “Schedule of Present and Proposed Rates”. This Exhibit is
6 designed to show the application of the proposed rate increase on an across- the-
7 board basis to all the existing rates. I have also added a proposed Tariff which
8 shows the changes in Exhibit G as applied to the current Tariff.

9 30. **Q. Mr. Ridlen, do you believe that an increase in base rates of 5.73% is**
10 **reasonable?**

11 A. Yes I do.

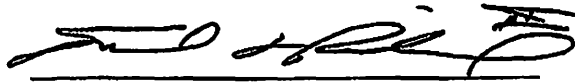
12 31. **Q. Mr. Ridlen, does this conclude your prefled direct testimony in this case?**

13 A. Yes it does.

14

VERIFICATION

I affirm under the penalties of perjury that the foregoing Pre-filed Direct Testimony is true to the best of my knowledge, information and belief as of the date here filed.

A handwritten signature in black ink, appearing to read "Earl L. Ridlen, III", written over a horizontal line.

Earl L. Ridlen, III

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing has been served upon the following counsel of record by electronic mail this 27th day of July, 2018.

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