

INDIANA-AMERICAN WATER COMPANY, INC.

IURC CAUSE NO. 45142

REBUTTAL TESTIMONY

OF

GREGORY D. SHIMANSKY

SPONSORING ATTACHMENT GDS-1R

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INTRODUCTION

1

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

3 A. My name is Gregory D. Shimansky, and my business address is 153 N. Emerson Avenue,
4 Greenwood, IN 46143.

5 **Q. Are you the same Gregory D. Shimansky who prepared Direct Testimony in this**
6 **Cause on behalf of Indiana-American Water Company, Inc. (“Indiana American,”**
7 **“IAWC” or the “Company”)?**

8 A. Yes, I am.

9 **Q. What is the purpose of your rebuttal testimony?**

10 A. The purpose of my rebuttal testimony is to respond to specific issues raised in the direct
11 testimony filed in this proceeding by Margaret A. Stull on behalf of the Indiana Office of
12 Utility Consumer Counselor (“OUCC”);; Mr. Michael P. Gorman on behalf of the Indiana-
13 American Water Company Inc. Industrial Group (“Industrials”); Mr. Gregory T.
14 Guerrettaz on behalf of the City of Crown Point (“Crown Point”); and Mr. Chris Ekrut on
15 behalf of the Towns of Schererville and Whiteland.

16 **Q. Please discuss how your testimony is organized.**

17 A. My testimony is organized into the following sections:

1 I. OVERALL SUMMARY AND CASE HISTORY

2 II. REBUTTAL OF OUCC

- 3 A. OUCC OVERALL REVENUE REQUIREMENT
4 B. ACQUISITION JOURNAL ENTRIES
5 C. DEFERRED DEPRECIATION AND POST-IN-SERVICE AFUDC
6 D. RATE BASE UPDATE PROCESS
7 E. OPERATING REVENUES
8 F. DEPRECIATION AND AMORTIZATION EXPENSE
9 G. BUSINESS TRANSFORMATION COSTS – SOP 98-01

10 III. REBUTTAL OF INDUSTRIAL GROUP

11 IV. REBUTTAL OF THE CITY OF CROWN POINT

12 V. REBUTTAL OF THE TOWNS OF SCHERERVILLE AND WHITELAND

13
14 I. OVERALL SUMMARY AND CASE HISTORY

15 **Q. Please provide a summary of the case that Indiana American has filed, docketed as**
16 **Cause No. 45142.**

17 A. Indiana American filed a Petition to request an increase to basic rates with the Indiana
18 Utility Regulatory Commission (“IURC”, or “Commission”) on September 14, 2018,
19 docketed as Cause No. 45142. Indiana American Water Company (“IAWC”, “Indiana-
20 American”, or “the Company”) filed this rate case proceeding with the IURC using a fully
21 forecasted test year in accordance with Indiana Code § 8-1-2-42.7. It had been more than
22 4 ½ years since the filing of the prior general rate case petition. As per Indiana Code § 8-
23 1-2-42.7 and the General Administrative Order 2013-5 (“GAO”) approved by the IURC
24 on July 3, 2013 that established the best practices to be followed in filing a general rate
25 increase under the new statute, the Company filed its Case-In-Chief in accordance with the

Commission’s promulgated Minimum Standard Filing Requirements (“MSFRs”) and submitted with its filing the information required by the MSFRs.

For the Step 1 increase, Indiana American requested an increase of \$18,273,669, or 8.22%, in its original filing. The request includes a return on equity of 10.8% and a weighted average cost of capital of 6.73%. For the Step 2 increase in its original filing, Indiana American requested an increase of \$20,610,808, or 8.57%. The Step 2 request includes a return on equity of 10.8% and a weighted average cost of capital of 6.82%.

The IURC held a Prehearing Conference on October 4, 2018 and issued a Prehearing Conference Order on October 24, 2018. No party had submitted any objection that there were deficiencies in our case-in-chief or that the MSFRs required additional information. In its Prehearing Conference Order, the Commission ruled that “(t)he test year for determining Petitioner's projected operating revenues, expenses, and operating income shall be the 12-month period ending April 30, 2020. The historical base period shall be the 12-month period ending December 31, 2017.” The Commission also concluded that: “The rate base cutoff shall reflect used and useful property at the end of the test year.”

Q. What are the drivers in this rate case?

A. The rates we have requested are based on our forward-looking projection as to what it will cost to provide water and wastewater service. Most of the revenue requirement requested is related to the more than \$540 million of capital expenditures made or projected to be made since our last rate case.

1 As discussed by Ms. Deborah D. Dewey, President of Indiana American, in her direct
2 testimony, it is important for any regulated utility to be able to file for rate relief to maintain
3 its ability to invest in the maintenance and improvement of the system. This must be taken
4 seriously in order to meet customers' needs and provide the best long-term service. Ms.
5 Dewey highlights this in her direct testimony on page 8: "The Company has made and
6 continues to make significant, ongoing investment to replace aging infrastructure and make
7 upgrades required by environmental regulation and prudent investment to ensure safety of
8 our customers and employees. The Company also incurs substantial operations and
9 maintenance ("O&M") expense to provide reliable and safe water and wastewater service."
10 Much of the increase in investment and O&M center around our growing customer base
11 and increased requests for underground infrastructure locates.

12 While the Company is always looking forward, this case is also about recovering costs
13 spent to strengthen our system since the last rate case. As mentioned above and according
14 to Company Witness Stacy Hoffman, the Company has invested or has plans to invest over
15 \$540 million in water and sewer facilities. The Company has received rate relief through
16 its Distribution System Improvements Charge ("DSIC") for over \$168 million in
17 improvements that will be rolled into the revenue requirement in this proceeding.

18 19 **II. REBUTTAL OF OUCC**

20 **Q. The OUCC and other intervenor witnesses propose a number of adjustments to the**
21 **Company's proposed revenue requirement. Do you agree with the proposed**
22 **adjustments?**

1 A. No. Except for certain positions that we are accepting on rebuttal,¹ we believe that the
2 original request presents the proper outcome for this case. In contrast, the OUCC's
3 proposal is unsustainable. While the OUCC has submitted schedules supporting their
4 proposal and had witnesses testify about individual adjustments they propose, the overall
5 result they seek is illogical and inconsistent with reality.

6 **Q. Why do you say that?**

7 A. The OUCC recommends a rate decrease even after Step 2. They reach this result despite:
8 (1) the primary driver of the Company's request in this case is the investment in
9 infrastructure both in the past and projected through the forward-looking test period; (2)
10 the Company's current rates are based upon the recovery of a level of O&M expense that
11 was established in a rate case filed 5 years ago (Cause No. 44450); and (3) the level of
12 O&M that was approved in Cause No. 44450 was itself almost \$7 million per year less
13 than the pro forma level used for setting rates in the prior case(Cause No. 44022). So
14 regardless of cost pressures over the last 10 years and despite the need for infrastructure
15 investment across the entire industry, the OUCC asks our rates be reduced. Such a position
16 is difficult to understand. I believe the effort that Indiana American has undertaken to
17 streamline and work as efficiently as possible is reflected in this rate case proceeding.

18 **Q. How can the OUCC reach such a result with the rate base additions that have been**
19 **made and that are projected for the forward-looking test period?**

¹ A revised revenue requirement reflecting the items accepted on rebuttal will be included in the workpapers to this rebuttal.

1 A. They ignore hundreds of millions of dollars of rate base solely for the reason that the OUCC
2 does not believe the Company included all of the detail in its case-in-chief that the OUCC
3 would have liked to have seen. As explained by Indiana American Witness Stacy Hoffman,
4 the Commission has promulgated rules (which I have already mentioned and which are
5 known as the Minimum Standard Filing Requirements) detailing what information is to be
6 included in the Company's case-in-chief for rate base. One of the Commission's stated
7 purposes in promulgating those rules was to reduce disputes. As such they detail very
8 specific information that utilities are to include in order to file a complete case-in-chief.
9 Those rules also provide the OUCC an opportunity to object that more information was
10 required than has been submitted, with that objection coming prior to the prehearing
11 conference so that when the schedule is established at the prehearing conference those
12 disputes can be resolved and the rate case determined on its merits. They failed to do so.
13 What the OUCC has done is exactly what the MSFRs indicate they are intended to
14 eliminate: instead of resolving disputes up front over the information that was supplied, the
15 OUCC is avoiding the merits of our request by ignoring vast chunks of rate base for no
16 substantive reason. More importantly, Mr. Hoffman provides specific expert testimony
17 refuting the claims of the OUCC witness and demonstrates that the existing and proposed
18 rate base of IAWC is reasonable and prudent to continue providing our customers with safe
19 and adequate service.

20 Q. **Are there other significant differences in the OUCC's presentation?**

1 A. Yes. The OUCC recommends a Return on Equity (“ROE”) significantly lower than the
2 ROE proposed by the Company. Company Witness Ann Bulkley will address the OUCC
3 proposal on ROE in detail.

4 The Company’s rebuttal testimony will show that a number of the positions taken by the
5 OUCC and other intervenors in developing their proposed revenue requirement are
6 unwarranted and will not produce a revenue requirement that is just and reasonable.

7 **A. OUCC OVERALL REVENUE REQUIREMENT**

8 **Q. Please explain your understanding of the content and purpose of the first section of**
9 **OUCC Witness Stull’s testimony, pages 3-12.**

10 A. In Section II. OVERALL REVENUE REQUIREMENT, Witness Stull recaps the
11 Company’s testimony on overall Revenue Requirement and attempts to put into
12 perspective the revenue request as it relates to prior approvals. She attempts to explain the
13 reasoning behind the Company proposing an increase on its water customers but not its
14 20,000 wastewater customers and illustrates the impact on rates, as we had shown in our
15 direct testimony. She includes her opinion of the Low-Income Proposal and its specific
16 recovery and lastly presents the overall summary level Revenue Requirement that OUCC
17 proposes.

18
19 **Q. How does the authorized revenue requirement that the OUCC proposes compare to**
20 **what the Company proposed?**

1 A. In the September 14, 2018 submitted Case-In-Chief, Indiana-American Water proposed a
2 Revenue Requirement of \$240,456,852 for April 2019 Step One, representing a
3 \$18,273,669 increase to adjusted Base Period 2017 revenues of \$222,193,183. This
4 compares to the OUCC proposed Revenue Requirement of \$200,528,940 for April 2019
5 Step One that represents a \$22,220,187 decrease to adjusted Base Period 2017 revenues of
6 \$222,749,127. OUCC's proposal is \$39,927,912 below the Company's revenue proposal.

7 For April 2020 Step Two, the Company proposed a \$20,610,808 increase in authorized
8 revenues to \$261,067,660. This represents a 17.5% increase from Base Period 2017, or a
9 compound annual growth rate of 8.4%. OUCC proposed a \$6,161,581 increase in
10 authorized revenues to \$206,690,521 for April 2020 Step Two but due to the large decrease
11 in Step One revenues proposed, this represents a 7.2% reduction from Base Period 2017,
12 or a compound annual decrease of 3.7%.

13 **Q. What are the primary drivers in the difference in the two proposals?**

14 A. While there are many factors included in these variances, it seems that most of the variance
15 in proposed revenue requirement is driven by a difference in capital expenditures (this will
16 be addressed in the rebuttal testimony of Company Witness Stacy Hoffman), an OUCC
17 proposed ROE of 8.5% versus a Company proposed ROE of 10.8% (this will be addressed
18 in the rebuttal testimony of Witness Ann Bulkley), and the different proposed treatments
19 of the tax effects of the Tax Cuts and Jobs Act of 2017 (this will be addressed in the rebuttal
20 testimony of John Wilde). Other issues and variances will be addressed in the various other
21 rebuttal testimonies put forth by the Company.

1 **Q. Does Ms. Stull provide tables for comparing the Step One and Step Two Revenue**
2 **Requirements?**

3 A. Yes, she does. She provides an overall revenue comparison, a Step One comparison, and a
4 Step Two comparison on pages 10, 11, and 12, respectively.

5 **Q. Do you agree with these tables?**

6 A. No. As I noted above, there is a considerable gap between the Company's and OUCC's
7 on capital additions, rate of return and tax policy. There are a few limited areas where the
8 Company accepts certain minor OUCC positions, or accepts their positions in part. As
9 described in the rebuttal testimony of Company Witness Nikole Bowen, the Company
10 agrees with the OUCC's method of calculating its updates for bad debt/uncollectible
11 expense, the IURC fees, and the gross receipts tax expense. However, OUCC applied these
12 percentages to their forecasted revenue, whereas they should apply them to the level of
13 revenue ultimately adopted in this case.

14 **B. ACQUISITION JOURNAL ENTRIES**

15 **Q. What is Ms. Stull's proposal with respect to the journal entry recording the Merom,**
16 **Yankeetown, and Russiaville acquisitions?**

17 A. She proposes to change the approved journal entry for each of these acquisitions to reflect
18 the mechanics of the journal entry that was approved for the Charlestown acquisition in
19 Cause No. 44976.

20 **Q. What are the mechanics of the journal entry that was approved in Charlestown?**

1 A. In the Charlestown acquisition, Ms. Stull proposed a journal entry that would record gross
2 original cost as equal to the purchase price plus transaction costs paid by Indiana American.
3 In this fashion, there would be no accumulated depreciation or contributions in aid of
4 construction to be reflected in the journal entry.

5 **Q. Prior to Ms. Stull's testimony in Charlestown, had the OUCC ever previously argued**
6 **that this is how an acquisition should be recorded?**

7 A. No. Our records indicate Charlestown was the first occasion when Ms. Stull or the OUCC
8 had made such a proposal.

9 **Q. Is she correct that in Charlestown, the "Commission agreed with the OUCC and**
10 **ordered Indiana American to record the purchase price as the value of utility plant**
11 **in service." (Public's Ex. No. 1, p. 39, lines 14-16)?**

12 A. No. As I indicated, Charlestown was the first occasion when Ms. Stull had made this
13 proposal. The Company had previously received approval of the acquisition of the
14 Georgetown system in Cause No. 44915 and its proposed journal entry for the Georgetown
15 system was different than what Ms. Stull proposed for Charlestown. While the net original
16 cost was equal to the purchase price plus transaction costs, the Company proposed to record
17 accumulated depreciation such that gross original cost was higher by the depreciation
18 offset. When Ms. Stull filed her testimony in Georgetown, she did not oppose this
19 treatment and the Commission's final order in Georgetown at page 18 approved the
20 Company's proposal. But when the OUCC filed its testimony in Charlestown, Ms. Stull

1 made her new proposal. On rebuttal, the Company accepted her proposal. Mr. VerDouw
2 testified as follows:

3 **Q. Does this make a difference for net original cost rate base**
4 **purposes?**

5 A. No. Both of us have presented a journal entry that would record
6 \$13,583,711 as net original cost rate base. Ms. Stull arrives at this
7 figure by recording gross utility plant in service equal to the
8 purchase price plus transaction costs and no accumulated
9 depreciation. My journal entry records the gross utility plant in
10 service as equal to the replacement cost as new and then subtracts
11 accumulated depreciation to produce a net equal to the purchase
12 price plus transaction costs.

13
14 **Q. Do you accept her proposal?**

15 A. Yes. It will result in less depreciation expense being recorded
16 because depreciation expense is calculated based upon the gross
17 amount of utility plant, not the net. This will in turn produce a lower
18 revenue requirement after the acquisition. Because the net original
19 cost rate base is correct, her journal entry is consistent with the
20 statute and is reasonable. I have revised the proposed accounting
21 entry as suggested by Ms. Stull and have attached it to my testimony
22 as Attachment GMV-R1.

23 Rebuttal Testimony of Gary VerDouw, p. 6.

24 Mr. VerDouw then went on to note that because the Georgetown acquisition had not yet
25 closed, the Company was planning to use this same approach to record the Georgetown
26 acquisition, even though it was inconsistent with the evidence presented in that Cause. Mr.
27 VerDouw testified: "Since the Georgetown acquisition had not closed as of the filing of
28 the OUCC's testimony, Indiana American will work with the OUCC and IURC and will
29 suggest that the closing entry for Georgetown be reflected in the same manner as suggested
30 by Ms. Stull in the Charlestown acquisition. Assuming there is no disagreement, we will
31 reflect Ms. Stull's suggestion in that acquisition as well."

1 In other words, Ms. Stull did not raise this issue in her testimony with respect to the
2 Georgetown acquisition; she did raise it in Charlestown. The Company accepted her
3 proposal in Charlestown and voluntarily offered that it would reflect this treatment in the
4 Georgetown acquisition after it had closed, assuming there was no objection from the
5 OUCC or the Commission. It was not the OUCC that suggested this treatment for
6 Georgetown. It was instead the Company, who took an idea presented by the OUCC in
7 Charlestown and proposed to reflect it in recording the closing on the Georgetown
8 acquisition.

9 **Q. Ms. Stull now wants to use that same treatment for Merom, Yankeetown, and**
10 **Russiaville acquisitions. Is she correct?**

11 A. No. These three acquisitions were prior to the amendments to IC 8-1-30.3 which
12 authorized the flexibility in the journal entry that the Commission approved in
13 Charlestown. And in one of these cases, the Commission specifically ruled that the journal
14 entry recording an acquisition must be pursuant to the Uniform System of Accounts and
15 rejected a settlement agreement term providing for a different journal entry. In other words,
16 Ms. Stull is now asking that we revise the journal entry that was specifically required by
17 the Commission order and therefore would result in violation of that order.

18 **Q. In which case is she advocating you violate a Commission order?**

19 A. In Russiaville, we had a settlement agreement that addressed the journal entry. The
20 Commission rejected that portion of the settlement. Specifically, the Commission found:

1 Second, the Parties' proposed accounting and journal entries are
2 inconsistent with the Commission's rule under 170 IAC 6-2, which adopted
3 the NARUC Uniform System of Accounts ("USoA") for Class A water
4 utilities and includes accounting instructions for utility asset purchases.
5 Accounting Instruction 21 requires the acquiring utility to record the assets
6 at original cost along with the corresponding accumulated depreciation and
7 CIAC amounts that are recorded on the acquired entities' books and records.
8 Any difference between the purchase price and the net book value should
9 be recorded as an acquisition adjustment, which the Parties did not do in
10 this Cause.

11 So while Ms. Stull is critical that the journal entry for an already-closed transaction did not
12 reflect Ms. Stull's new proposal made in the Charlestown acquisition, had we done what
13 Ms. Stull is now recommending, we would have been in violation of the Commission's
14 order.

15 **Q. Does Ms. Stull show the financial impact of her assumptions?**

16 A. The financial impact of what she is proposing does not affect net original cost rate base; it
17 only affects the level of Utility Plant in Service ("UPIS") and UPIS offsets (accumulated
18 depreciation and/or contributions in aid of construction) by the same amount. On Table 11
19 of page 27, Ms. Stull proposes a reduction in Step One UPIS of \$3,361,283, that she
20 describes as a "Correction to UPIS amounts recorded for various asset acquisitions –
21 Merom, Yankeetown, Russiaville, and ASU" (ASU is not included in the above discussion
22 but is included on this line item in Table 11). Further, on Table 16 of page 40, she shows
23 the Step One UPIS for the three acquisitions (not including ASU) and the associated
24 accumulated depreciation claiming that these numbers, totaling \$3,253,992, representing
25 the incorrectly grossed up utility plant in service.

26 **Q. Is there anywhere else Ms. Stull discusses the financial impact to her assumptions?**

1 A. Yes, also on page 48. Ms. Stull proposes an adjustment to contribution in aid of
2 construction ("CIAC") for the Russiaville acquisition. She contends that no amount should
3 have been recorded and instead \$384,000 of associated CIAC should have been netted
4 against utility plant in service.

5 **Q. Do you agree with the financial adjustment Ms. Stull proposes?**

6 A. No. For all of the reasons listed above, we have shown that Utility Plant in Service and its
7 corresponding Accumulated Depreciation has not been incorrectly recorded; they were
8 recorded as authorized by (indeed in one case, as specifically directed by) the Commission.
9 Therefore, Ms. Stull's adjustments are shown to be incorrect and would lower UPIS and
10 depreciation expense unnecessarily.

11
12 **C. DEFERRED DEPRECIATION AND POST-IN-SERVICE AFUDC**

13 **Q. Did OUCC Witness Stull have an opinion on your deferred depreciation proposal for**
14 **Richmond, Muncie, and Noblesville?**

15 A. Yes, she did.

16 **Q. What did she propose?**

17 A. Ms. Stull does not accept my proposal to record deferred depreciation of post-in-service
18 AFUDC on the grounds that such a proposal must have Commission authority before being
19 included.

1 **Q. Do you agree?**

2 A. I agree with Ms. Stull's position that approval to defer the depreciation expense and
3 continue to accrue post-in-service AFUDC is necessary. This only becomes an issue in
4 Step 2 rates, because the deferrals and accruals relate to major projects in this case. We
5 will be seeking the required authority later this year, and the Commission will have decided
6 that case long before Step 2 rates are filed. If this proposal is approved before Step 2 rates
7 go into effect, then her position on this issue would be moot.

8 **D. RATE BASE UPDATE PROCESS**

9 **Q. Did OUCC Witness Stull recommend changes to the way rate base is approved in**
10 **Step 1 and Step 2?**

11 A. Yes. Ms. Stull proposes that in order to include rate base in either Step 1 or Step 2 the
12 company should update the Step 1 and Step 2 rate base figures on April 30, 2019 and April
13 30, 2020, respectively, rather than have them included simply as a projection in this case.

14 **Q. Did Ms. Stull suggest other requirements in order for the rate base to be approved in**
15 **Step 1 and Step 2?**

16 A. Yes. Ms. Stull goes into great detail to propose new policy on what would need to be
17 included when the Company files for Step 1 and Step 2 rate base recovery. In particular,
18 she proposes extra reporting requirements for deferred taxes, and updated and detailed
19 information of utility plant in service for not just major projects but for recurring
20 investments as well.

1 **Q. Do you agree with Ms. Stull's new process?**

2 A. No, I do not. The process she lays out would create a new burden on the Commission, the
3 parties, and the Company's ability to timely get recovery of investments. In my opinion,
4 the benefit of having a future test year rate case is that a regulated utility can lay out its
5 plans for the future to get timely recovery and authorized revenues that more closely
6 resemble the revenues needed in that future period. In doing so, certain costs need to be
7 forecasted and with any forecast, there will be variances. The rate case itself is the place
8 where those forecasts should be presented, defended, and decided upon. I recognize that
9 this Commission requires a demonstration of what has actually been placed in service prior
10 to the implementation of rates. We plan to submit a certification of the actual rate base,
11 including additions and retirements, as of both the beginning and end of the test year. So
12 long as our actual net original cost rate base is within the projected level, then there is no
13 need for further proceedings.

14 **Q. Will Ms. Stull's proposal as you understand it in her testimony increase visibility or**
15 **provide due process, as she contends?**

16 A. No. I explained above, the Commission and intervenors already have Company workpapers
17 and access to discovery that provides all the visibility they need to reach a just and
18 reasonable outcome of this case. There is approximately five months' time between the
19 filing of the case-in-chief in this docket and hearings. There is another approximately nine
20 days of hearings scheduled. That provides significant time for due process. Adding this
21 extra burden and layer of process accompanying the implementation of rates will not
22 improve the information in the case.

1 **Q. Do you agree with Ms. Stull's proposed cap on utility plant in service or total rate**
2 **base?**

3 A. Under our proposal, it is capped at the level that we have forecasted. We will file our actual
4 net original cost rate base information similar to what was done in Cause No. 44450, both
5 at the beginning and the end of the test year. So long as the actual net original cost rate
6 base does not exceed the approved forecasted net original cost rate base, then the Step 1
7 and Step 2 rates should be approved based upon the actuals. If however we are to be subject
8 to the second and third rounds of discovery and potentially hearings as suggested by Ms.
9 Stull to review the actual net original cost rate base, then we should not be limited to the
10 forecasted net original cost rate base.

11
12 **E. OPERATING REVENUES**

13 **Q. Do you agree with Ms. Stull's proposed reduction to forecasted operating revenues**
14 **related to DSIC-11?**

15 A. No. Ms. Stull proposes forecasted operating revenues be reduced by \$933,834 to represent
16 the revenues from DSIC-11. The DSIC-11 proceeding approved a revenue requirement of
17 \$17,626,142 to be collected from ratepayers. The Company's new forecast for those
18 revenues, based on projected depreciation, tax and return, is \$18,579,976. That difference
19 of \$933,834 is what Ms. Stull proposes as a reduction. I disagree with this proposed
20 reduction. While I do not disagree with the numbers presented nor do I disagree that DSIC-
21 11 did approve \$17.6 million to be collected, I do disagree that that difference in projection-

1 to-authorized be carried forward. The DSIC-11 decision was established to determine what
2 ratepayers should pay in the period between those assets going in to service and the
3 Company's next opportunity to recover them in base rates. That opportunity is now, in this
4 proceeding. These assets should be rolled into base rates just like other assets based on
5 actuals and forecasted returns with no adjustment to revenues based on prior assumptions
6 that changed due to actual events. If the forecasted revenues were below the DSIC-11
7 approved authorized revenue requirement levels, I do not believe the OUCC would be
8 proposing an increase in authorized revenues. The same logic should apply here.

9 **F. DEPRECIATION AND AMORTIZATION EXPENSE**

10 **Q. Does the OUCC propose a different level of depreciation expense than the Company?**

11 A. Yes. The difference between the OUCC's proposed depreciation expense and the
12 Company's proposed level is due almost entirely to the OUCC's proposed reductions to
13 UPIS. Ms. Stull's testimony explaining the difference between using composite rates and
14 rates by account only relates to the assets the OUCC proposes to disallow. As I noted above,
15 Mr. Hoffman demonstrates that the OUCC's witness errs significantly in his various
16 proposals to disregard just, reasonable and necessary plant additions.

17 **Q. Please address the OUCC's position on amortization expense?**

18 A. Witness Bowen is responding to some of the differences related to amortization expense.
19 I wish to respond to Ms. Stull's testimony concerning Comprehensive Planning Studies
20 ("CPS").

21 **Q. What is Ms. Stull's position concerning CPSs?**

1 A. The witness only tells part of the story. As Mr. Hoffman explains, in Cause No. 40703,
2 the Commission ruled that CPS should be capitalized as a part of rate base. Seven years
3 later, in Cause No. 42520, that position was reversed, and the Commission ruled that the
4 cost of CPS should be expensed unless it related to a specific construction project. In fact,
5 the Order (which she cites) specifically states: “*We direct Petitioner for all future costs*
6 *associated with tank inspections and comprehensive planning to expense these costs as*
7 *they occur.*” P. 19 (emphasis added). As a result of that order, we have forecasted the
8 level of expense to be incurred for CPS during the forward looking test year and included
9 it. Ms. Stull seeks a different treatment than the order she cites – she no longer wants the
10 costs expensed as they occur but rather she wants the expenses to be deferred and
11 amortized. In fact, she admits this at page 76 of her testimony where she says
12 “Comprehensive planning studies should not be expensed as incurred.” That is directly
13 contrary to the language I just quoted from the Commission’s order she cites in support of
14 her position. Then, she eliminates completely the forecasted level of CPS expense during
15 the test year and instead based her amortization on the expense that was incurred during
16 the period 2014-2017. She offers no explanation for why she simply eliminated the
17 forecasted CPS expense from this amortization, and she also includes no expense in her
18 calculation for the additional CPSs that Mr. Parks claims Indiana American should pursue.

19 **Q. What should the result be?**

20 A. You cannot have it both ways, as Ms. Stull proposes. Either these costs are to be capitalized
21 and included in rate base, as was approved in Cause No. 40703, or they are to be expensed
22 as incurred as ordered in Cause No. 42520. We have multiple operations, and in any
23 particular year we may pursue none or more than one CPS. To cherry pick four years of

1 expense, ignore the projected expense, and ignore the additional expense that other OUCC
2 witnesses are requesting be incurred is unreasonable. Since there was no testimony
3 claiming the projected expense during the forward looking test year is unreasonable, the
4 Commission should use the Company's projection and reject Ms. Stull's proposed
5 amortization. If instead the Commission believes that these costs should be deferred and
6 amortized, then the Commission should return to its original treatment of these costs, which
7 is to include them in rate base.

8 **G. BUSINESS TRANSFORMATION COSTS – SOP 98-01**

9 **Q. Please summarize the Business Transformation (“BT”) program and costs?**

10 A. The Company's Business Transformation (“BT”) program encompassed the development
11 and system-wide deployment of new, integrated information technology systems and the
12 process of implementing the new systems. The BT technology systems replaced legacy
13 technology systems that had become antiquated.

14 **Q. Please summarize the Business Transformation (“BT”) costs referred to in this case**
15 **as “SOP 98-01” costs?**

16 A. BT SOP 98-01 was a guidance document that is now codified as ASC 350-40. “BT SOP
17 98-01 costs” is simply shorthand for the costs associated with the Business Transformation
18 Comprehensive Planning Study, the development and delivery of BT training materials,
19 data conversion costs, and post implementation stabilization costs.

20 **Q. Are all of the Company's BT costs prudently incurred costs?**

1 A. Yes, no party disputes that all of the Company's BT technology costs are prudently
2 incurred costs of service.

3 **Q. Please summarize the Company's recommended ratemaking treatment for IAWC's**
4 **BT costs, including the BT SOP 98-1 costs.**

5 A. The Company requests that all BT expenditures, including the BT SOP 98-1 costs, be
6 recognized to have created assets (current expenditure with a future benefit), that the
7 Company be permitted to capitalize those costs and that the amortization of those costs
8 follow the depreciation methodology of the underlying assets and the updated depreciation
9 study approved in Cause No. 44992.

10 **Q. Please summarize OUCC's recommended ratemaking treatment for IAWC's BT**
11 **costs, including the BT SOP 98-1 costs.**

12 A. OUCC agrees with the Company that the majority of BT expenditures were incurred to
13 create assets, that the Company capitalize those costs, and that the amortization of those
14 costs should follow the depreciation methodology of the underlying assets and the updated
15 depreciation study approved in Cause No. 44992. OUCC witness Stull further recommends
16 that the Company be authorized to defer recovery of the BT SOP 98-1 costs, however, she
17 recommends depriving the Company the opportunity to recover the carrying costs on the
18 deferred cost recovery of those expenditures. I will address why it is appropriate for the
19 Company to recover those carrying costs, in other words, why it is appropriate to include
20 the unamortized regulatory asset balance of BT SOP 98-1 costs in rate base. Company
21 witness Nikole Bowen addresses in her rebuttal testimony OUCC witness Malan's

recommended adjustments to the miscellaneous expense, including the amortization expense for BT SOP 98-1 training and data conversion costs.

Q. What are OUCC's reasons for excluding the BT SOP 98-1 costs from rate base?

A. OUCC witness Stull asserts that the SOP 98-1 costs are inappropriate for inclusion in rate base because they do not represent an asset that is used and useful in the provision of utility service under IC 8-1-2-6. (Public's Exhibit No. 1, Cause No. 45142, Page 43, lines 1-5.). Witness Stull further argues that Financial Accounting Standards Board Statement of Position 98-1 (SOP 98-1) requires that training and data conversion costs, as well as costs incurred in a project's preliminary stage, should not be capitalized. (Public's Exhibit No. 1, Cause No. 45142, Page 41, lines 17-23 to 42, lines 1-6.).

Q. Are witness Stull's reasons for excluding these costs from rate base valid?

A. No, witness Stull's reasons for excluding these costs from rate base are not valid. The Indiana law that witness Stull references indicates otherwise, and her analysis of Generally Accepted Accounting Principles ("GAAP") and its implications for capitalization of these costs is incomplete.

Q. Please explain why these expenditures were used to create assets that are used and useful in the provision of utility service and appropriate for rate base treatment under Indiana Code 8-1-2-6?

A. An asset is an economic resource that is expected to provide benefits to a business. An asset has three vital characteristics: (1) future probable economic benefit; (2) control by the entity; and (3) results from a prior event or transaction. The planning, data conversion, training deployment, and stabilization costs invested in the Business Transformation

1 program and recorded as SOP 98-01 assets were critical to bringing the Business
2 Transformation investment to its current state of efficiency. Indeed, the efficient and
3 economic operation of the Company on behalf of its customers would be difficult to
4 achieve without the exhaustive planning, conversion, and deployment investments made
5 by the Company.

6 OUCC is not proposing that Indiana American not be allowed to recover its BT SOP 98-1
7 costs. (Public's Exhibit No. 1, Cause No. 45142, Page 43 of 87, lines 6-9.). OUCC, in fact,
8 recommends that the Company be required to amortize cost recovery over ten years, but
9 seeks to deprive the Company of the opportunity to earn the carrying (financing) costs for
10 those expenditures over that same period. OUCC's cost recovery recommendation,
11 therefore, accepts the fact that BT SOP 98-1 costs constitute a regulatory *asset* and that the
12 asset is used and useful. Indeed, Indiana Code 8-1-2-6 discusses the method by which the
13 Commission values property and states that the Commission may do so by giving "weight
14 to the reasonable costs of bringing the property to its then state of efficiency." And that is
15 precisely what the BT SOP 98-1 expenditures accomplished.

16 **Q. Can you discuss the second reason you find Ms. Stull's recommendation**
17 **inappropriate?**

18 A. Witness Stull's analysis of GAAP is incomplete. The basis for the Commission to approve
19 SOP 98-01 costs in rate base can be found in GAAP ASC 980 (formerly known as SFAS
20 71):

21 Guidance in other Codification Topics that applies to entities in general
22 also applies to regulated entities. However, entities subject to this Topic

1 shall apply it instead of any conflicting provisions of other parts of the
2 Codification. For example, a regulator might authorize a regulated
3 entity to incur a major research and development cost because the cost
4 is expected to benefit future customers. The regulator might also direct
5 that cost to be capitalized and amortized as an allowable cost over the
6 period of expected benefit. If the criteria of paragraph 980-340-25-1 are
7 met, the entity shall capitalize that cost even though Subtopic 730-10
8 requires such costs to be charged to income currently. That Subtopic
9 shall still apply to accounting for other research and development costs
10 of the regulated entity, as shall the disclosure requirements of that
11 Subtopic.

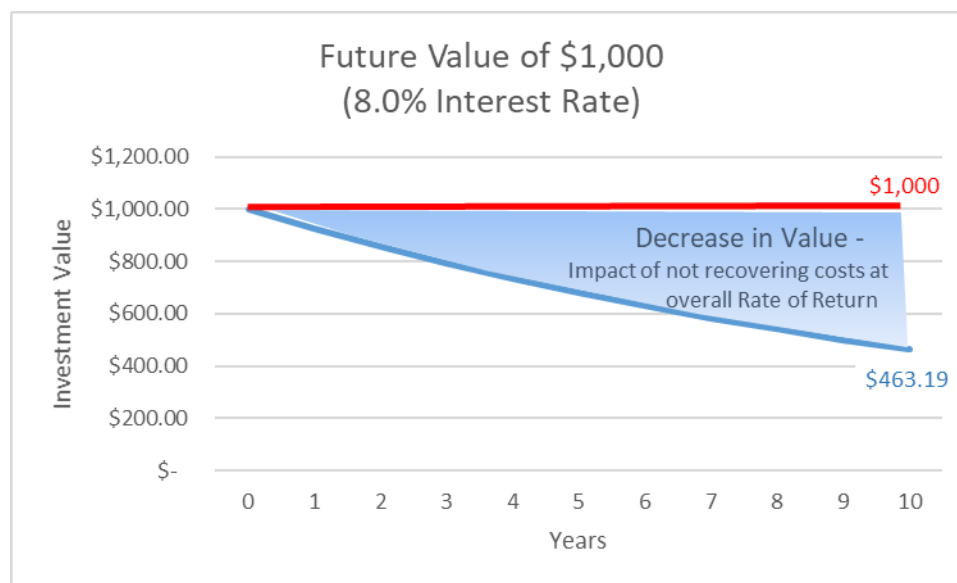
12 ASC 980-10-15-5.

13 Accounting Standards codification 980 provides the accounting standard to be used by
14 public utilities when strictly following other Accounting Standards Codification (ASC)
15 guidance does not meet the intent of certain accounting transactions that will benefit and
16 be charged against future periods. ASC 980 is one of accounting tools that public utilities
17 use to match public utility accounting to utility industry and regulatory standards. Public
18 utilities in the state of Indiana and throughout the United States have traditionally
19 capitalized these types of costs, which, without the application of ASC 980 (formerly FAS
20 71), would not be capitalized, whether on software or other capital activities. The critical
21 thing to remember is that, under the provisions of ASC 980, the Commission is entirely
22 within its regulatory power to decide that all of the Business Transformation costs,
23 including SOP 98-1 expenditures should, in fact, be capitalized and that decision will be
24 recognized as appropriate accounting in accordance with GAAP.

25 **Q. What are the concerns with OUCC's recommendation to defer the BT SOP 98-1 cost**
26 **recovery over ten years and to deprive the Company the opportunity to earn the**
27 **carrying (financing) costs for those expenditures over that same period?**

1 A. Utilities are increasingly looking to employ additional software capabilities that will enable
2 them to better monitor their systems, compile and utilize customer/system data, and better
3 integrate manage their systems and serve their customers through the aggregation and
4 analysis of information. If this Commission were to determine, as witness Stull
5 recommends, that planning, data conversion, training development, and stabilization costs
6 for a public utility company's foundational information technology systems are not
7 necessary capital investments, what message will it be sending public utility companies to
8 adequately invest in these assets in order to optimize their future economic benefit or bring
9 that Company's property to its current state of efficiency?

10 The graph below shows the diminution of value of \$1000 over 10 years at an 8% discount
11 rate.



12
13 If the Commission does as OUCC suggests and requires the Company to amortize cost
14 recovery over ten years, but deprives the Company the opportunity to recover the very real

1 carrying costs on those expenditures over the same period, the result is punitive and akin
2 to disallowing a significant portion of a valid expense. Having recognized that the expense
3 should be recovered for ratemaking purposes, OUCC recommendation to permit only a
4 partial recovery of that expense is flatly inconsistent with its recognition that the expense
5 is recoverable. In addition, such ratemaking treatment would be inconsistent with how
6 regulatory Commissions across the country treat these costs and would discourage the
7 development and deployment of information technology systems by Indiana utilities.

8 **Q. Does this conclude your rebuttal on the OUCC's testimony?**

9 A. Yes.

10 11 **III. REBUTTAL OF INDUSTRIAL GROUP**

12 **Q. In preparation for this rebuttal testimony, did you also review the Direct Testimony**
13 **and Attachments of Michael P. Gorman on behalf of the Industrial Group?**

14 A. Yes, I have reviewed that testimony.

15 **Q. What testimony from Mr. Gorman will you be rebutting?**

16 A. Mr. Gorman addresses the Tax Cuts and Jobs Act ("TCJA") adjustment as it relates to the
17 Cost of Service. He proposes using the \$71.1 million estimate and amortizing it over 41.5
18 years. Converting that to Revenue Requirement would produce a reduction of \$2.36
19 million per year. Mr. John Wilde will respond to this proposal. Then, he recommends the
20 income tax reduction from January 3, 2018 through July 31, 2018 be amortized as a credit

1 over two years. I will discuss this proposal below. Two issues that I will address here: 1.)
2 a correction of the Table shown on Page 3 of his testimony; and 2.) the proper use of the
3 deferred liability.

4 **Q. What is your objection to Mr. Gorman's Table 1?**

5 A. Mr. Gorman presents at Table 1 what he has described as his "recommended overall
6 adjustments to IAWC's claimed revenue deficiency." As originally filed, this table was
7 inaccurate and presented a misleading view of the Industrial Group's position. As
8 corrected, there still remains one inaccuracy.

9 **Q. What was inaccurate and misleading about the original Table 1?**

10 A. The first line of Table 1 showed Indiana American's claimed revenue deficiency for Steps
11 1 and 2. These were drawn from IAWC Financial Exhibit REVREQ, Schedule REVREQ1.
12 The Step 1 deficiency is based upon the pro forma results of operation for the year
13 commencing April 1, 2019 and the rate base as of that same date. The Step 2 deficiency
14 then builds on the level produced by the requested Step 1 increase and adds the incremental
15 deficiency associated with the rate base to be added during the forward looking test year.
16 Mr. Gorman's presentation for Step 1 fairly presented the Industrial Group's position. For
17 almost all of the Step 2 adjustments, however, he had double counted the effect of the
18 Industrial Group's position. For instance, line item 2 is Labor Expense, where the
19 Industrial Group has proposed an adjustment to the Company's proposed Proforma Labor
20 Expense, which is \$2.2 million lower. That \$2.2 million difference would offset our
21 requested adjustment deficiency in Step 1. It is not an additional \$2.2 million in Step 2,

1 however. The Company's revenue deficiency for Step 2 that he showed in his original
2 Table 1 is the incremental revenue deficiency and is only related to the Step 2 adjustments.
3 When Mr. Gorman repeated the same Labor Expense adjustment as an offset to the Step 2
4 deficiency, he was double counting it. He did this for practically every adjustment he
5 identifies. His corrected Table 1 corrected these double-counting errors.

6 **Q. You mentioned there is still an issue with the corrected Table 1. What is it?**

7 A. Mr. Gorman is proposing to return the deferred liability resulting from the Commission's
8 January 3 Order in Cause No. 45032 over a two-year period. As was presented in Cause
9 No. 45032-S4, it is the Company's proposal to use the deferred liability to fund customer-
10 owned lead service line replacements. If the Company's proposal were rejected and the
11 amount were to be used as an offset to the revenue requirements as Mr. Gorman proposes,
12 the entire amount would be eliminated after a two-year period. This would presumably be
13 accomplished through a 24-month bill credit that would expire automatically. To present
14 the Industrial Group's position accurately, Mr. Gorman would need to show a third column
15 that I will call "Step 3," which would show an increase to the Industrial Group's position
16 of \$2.9 million.

17 **Q. Do you agree with his proposal to credit customers with the deferred liability over a**
18 **two-year period?**

19 A. No, I do not.

20 **Q. Please elaborate.**

1 A. Among the many issues addressed in the TCJA, the corporate tax rate was reduced from
2 35% to 21% beginning January 1, 2018. Indiana-American, through its previous rate case
3 (Cause 44450), was authorized to collect authorized revenues which included recovery of
4 taxes at the 35% rate, the rate in effect at that time of the final order on Cause 44450. In
5 compliance with the TCJA, Indiana-American reduced its corporate tax rate to 21% on
6 January 1, 2018. On January 3, 2018, an order came out directing Indiana-American to
7 “apply regulatory accounting treatment, such as the use of regulatory assets and regulatory
8 liabilities, for all estimated impacts resulting from the act.”² Indiana-American complied
9 with that order and began recording the difference in the tax rates to a regulatory liability.
10 Rates were adjusted on August 1, 2018 for the new tax rates, thereby ceasing the deferral
11 to be booked to the account as of that date. The amount in that liability account currently
12 is \$5.822 million.

13 As I proposed in my rebuttal testimony in Cause No. 45032 S4 Phase 2, I believe it is in
14 the best interest of ratepayers that Indiana-American not refund this balance at this time
15 but rather use it to fund the acceleration of the lead service line replacement program. Using
16 the funds in this proposed way will provide a zero-cost capital source for the lead line
17 replacements. Returning the money as suggested by Mr. Gorman would provide a short-
18 term benefit to ratepayers at the expense of future rates.

19 **Q. How would future rates be affected by returning this balance to ratepayers today?**

20 A. Simple. First, during the two year period of the bill credit Mr. Gorman proposes, rates
21 would decrease; however at the expiration of the credit, rates would automatically increase

² Cause No. 45032, approved January 3, 2018. Ordering paragraph 2.

1 by the same amount. When the Company expends the capital needed to replace lead service
2 lines, it will finance with debt and equity, each with a corresponding cost. Borrowing
3 money to pay for the lead line program comes with borrowing costs and interest rates that
4 need to paid to the lender. Likewise, using Company equity also comes with a cost.
5 Whatever the source of the capital, investors expect a return of and a return on their capital.
6 In regulatory terms, we call this funding the cost of capital. In this proceeding, Indiana-
7 American is proposing a cost of capital of 6.82%. In other words, when Indiana-American
8 begins the lead service line replacement program and spends capital dollars, rates will need
9 to recover the cost of capital. If the Company can use the already collected funds from the
10 TCJA, there would be no need to apply the cost of capital to it. The entire \$5.822 million
11 can be used without borrowing of any kind to fund the first portion of the lead service
12 lines.³ By virtue of not having to pay rates recovering the return of and the return on the
13 capital invested in the lead service line replacement program, the ratepayers are in a better
14 position by not receiving the refund over a two year period, as suggested by Mr. Gorman.

15 **Q. Are there other issues with this proposal?**

16 A. Two things come to mind as potential problems with this proposal in addition to what I
17 describe above. First, Mr. Gorman provides no rationale for why he proposes to return the
18 money over two years or even why two years would be appropriate. He does not even
19 provide a reason why it should be returned at all versus being used to fund the lead service
20 line replacements. I believe that our proposal to use the funds to reduce ratepayer cost in

³ In response to discovery in Cause No. 45032 S4, request OUCC 08-001, Indiana-American puts forth various hypothetical scenarios using this liability to accelerate the lead service line replacement program. See Attachment GDS-1R, which consists of the Company's response to OUCC data request 08-001 in Cause No. 45032 S4.

1 the future makes more sense. Second, returning the funds in the near term only to raise
2 rates to cover the lead line replacements in the future will only serve to “yo-yo” rates and
3 confuse ratepayers. The funds collected were approved and authorized by the Commission
4 in the last rate case and thus were properly collected, as I pointed out in my rebuttal in
5 Cause 45032 S4. Returning the funds in this proceeding to collect them again in a future
6 rate case or DSIC runs the risk of confusing and annoying ratepayers. Besides, some
7 ratepayers that were here when the funds were collected may not still be in our service
8 territory and likewise there may be new customers that were not around when the funds
9 were collected. To try to return the funds at this point will not accomplish the goal of
10 making customers whole as implied by Mr. Gorman’s proposal.

11 **Q. Is there anything else you would like to add to this rebuttal?**

12 A. Yes. In the event that the Commission were to agree with Mr. Gorman’s proposal, Indiana-
13 American proposes one clarification to the way this money is returned. Any return of the
14 funds should be done through a bill credit reflected in our tariff with an expiration date two
15 years after approval. After the second year, the bill credit tariff would automatically expire
16 without the need for filing additional tariffs.

17 **Q. Does this conclude your rebuttal on Mr. Gorman’s testimony?**

18 A. Yes.

19 **IV. REBUTTAL OF THE CITY OF CROWN POINT**

20 **Q. In preparation for this rebuttal testimony, did you also review the Direct Testimony**
21 **of William Steven Seelye and of Gregory T. Guerrettaz on behalf of Crown Point?**

1 A. Yes, I have reviewed that testimony.

2 **Q. Which portion of City of Crown Point testimony will you be addressing?**

3 A. Witness Guerrettaz provides testimony whereby he recommends a reduction in proposed
4 rates and return on equity. Ms. Bulkley addresses most of this issue. In addressing fairness
5 of rate increases and the return on equity, Mr. Guerrettaz describes the risk exposures of
6 Indiana-American and the measures the Company takes to change rates. This is the section
7 I will address below.

8 **Q. Which portion of this testimony are you rebutting?**

9 A. On page 20 and 21 of Mr. Guerrettaz's testimony, he posits that Indiana-American uses the
10 timing of rate cases, both in duration and in frequency, in order to "increase the chances
11 that its revenue component for budgeted expenses and capital additions will foster the
12 opportunity to bolster current and future profits above authorized returns."⁴ He uses as
13 background support that the Company has pursued a rate case about every two years. Mr.
14 Guerrettaz goes on to assume that the Company could file a new base rate case before its
15 forecasted test year is even complete. I would like to challenge both of these assertions.

16 **Q. What are your thoughts on these timing assumptions?**

17 A. Mr. Guerrettaz is wrong.

18 **Q. Please explain.**

⁴ Crown Point's Exhibit 1 – Direct Testimony of Gregory T. Guerrettaz in Cause 45142, at page 20 line 24 to Page 21 line 2.

1 A. The current proceeding, Cause 45142, was filed on September 14, 2018, nearly five years
2 after the prior case was filed. The prior rate case for Indiana-American (Cause 44450) was
3 filed in December 2013 and a decision was issued on January 28, 2015. The rate case
4 before that (Cause 44022), was filed on May 2, 2011, and the final order was issued on
5 June 6, 2012. After May 2, 2011 to September 14, 2018, a period of more than 7 years,
6 Indiana American has filed two rate case petitions. In other words, using history as a guide,
7 a rate case is filed on average every three and a half years.

8 In my opinion, three and a half years is not equivalent to “about every two years”. Three
9 and a half years is a reasonable time between rate cases in my opinion. In fact, I understand
10 the Commission has a duty to review rates of every public utility at least once every four
11 years. This does not represent the gaming of the system as alleged by Mr. Guerrettaz. In
12 those three and a half years, the company would in theory have no increase in recovery for
13 O&M expenses even if cost and wage inflation were to go up. Filing a rate case over that
14 interval seems to me to be a reasonable request. Besides, Mr. Guerrettaz makes no tie to
15 the frequency of filed rate cases and his claim that it increases the Company’s chances to
16 “bolster profits”, making his testimony on this point baseless.

17 **Q. What about Mr. Guerrettaz’s claim that the Company could file a new base rate case**
18 **before its forecasted test year is even complete?**

19 A. Technically we could, but we have given nothing to indicate that we plan to do so. The
20 test year period for this immediate proceeding is the 12-months prior to April 30, 2020.
21 This would mean the Company would be filing another rate case within the next 15 months.

1 Nowhere in this case has Indiana-American taken a position on filing within the next 15
2 months and the assumption that the Company would do that is unfounded.

3 **Q. Can you address Mr. Guerrettaz's recommendation for a phase in approach to any**
4 **rate increase in this proceeding?**

5 A. Yes. Mr. Guerrettaz suggests that "any rate increase that results from this proceeding,
6 should be phased in over 4 years."⁵ However, nowhere else in Mr. Guerrettaz's testimony
7 is there a defense of this position nor a rationale for suggesting it despite the claim that he
8 would address it later in testimony. As such, the Commission should give no weighting to
9 this phased in request and outright deny this proposal.

10 **Q. Does this conclude your rebuttal to Crown Point's testimony?**

11 A. Yes.

12 **V. REBUTTAL OF THE TOWNS OF SCHERERVILLE AND WHITE LAND**

13 **Q. In preparation for this rebuttal testimony, did you also review the Direct Testimony**
14 **of Chris Ekrut on behalf of the Towns of Schererville and Whiteland?**

15 A. Yes, I have reviewed that testimony.

16 **Q. Which portion of Mr. Ekrut's testimony will you be addressing?**

17 A. Witness Ekrut provides recommendations for adjustments to revenue requirements due to
18 Company acquisitions and pending acquisitions. I will p show that the case in chief

⁵ Id., at Page 8, line 4.

adequately and correctly assigns cost of Company business to all customers. The section of testimony I will be addressing is titled “6. Adjustments to Revenue Requirements” beginning on page 34 of Witness Ekrut’s testimony.

Q. Please summarize Witness Ekrut’s testimony in this section as you understand it.

A. Witness Ekrut points out various scenarios where he believes increases in cost of service should not be passed on to Sales For Resale (SFR) customers. The testimony points to the Charlestown acquisition and the fact that the order was protested as reason to hold its cost out of this case. Further, the testimony claims that acquisitions that do not have direct impact on SFR customers should be excluded from the allocations to SFR customers, both acquisition costs and any adjustments to costs associated. Lastly, Witness Ekrut proposes because the Company’s lead service line replacement proposal (Cause No. 45043) is pending an appeal, all adjustments related to it should be removed from this case as well.

Q. Do you agree with these adjustments and exclusions?

A. No, I do not.

Q. Why do you disagree with the proposal to remove costs associated with the Charlestown acquisition and the Lead Service Line Plan?

A. On pages 35, 36 and 41 of the testimony, Witness Ekrut’s reasoning to removing the costs is based on one issue. That issue is that the Commission’s decisions approving the acquisition and the plan are on appeal making the inclusion of costs speculative. It is my understanding that when a Commission order is appealed, the order is considered to be in

1 effect and deemed reasonable unless the Court on appeal directs otherwise. So Mr. Ekrut's
2 position is inconsistent with that concept. Further, at least with respect to Charlestown,
3 since the testimony of Witness Ekrut was filed on December 21, 2018, the Court of Appeals
4 of Indiana affirmed the Commission ruling approving the acquisition of Charlestown. On
5 December 31, 2018 in Court of Appeals Case No. 18A-EX-844, the Commission's Order
6 was affirmed. Because of this affirmation, Witness Ekrut can no longer claim that the
7 acquisition in question is "extremely speculative" and therefore the arguments against
8 including the costs and adjustments are no longer valid.

9 **Q. Do you have other concerns with his proposal to exclude the costs associated with the**
10 **Lead Service Line Replacements ("LSLR") plan?**

11 A. Yes. The LSLR program was approved by the Commission through Cause No. 45043. It
12 has been subsequently appealed, but the appeal is not addressed to the recovery of costs
13 but contract language. Mr. Ekrut states that these costs should not be included because if
14 the appeal is approved, further Commission action would be needed. The only action
15 needed would be for the Commission to decide the contract language issue raised by the
16 OUCC on appeal. What Mr. Ekrut fails to explain is that if LSLR costs are removed from
17 this case and appeal does not result in any changes to the approved plan, further
18 Commission action would be needed to provide for the recovery that he seeks to exclude
19 temporarily. Therefore, in this proceeding, the Commission should acknowledge the LSLR
20 program as approved in Cause No. 45043 and reject Mr. Ekrut's proposal to remove the
21 associated costs from our proposal.

22 **Q. Are there other acquisitions that Witness Ekrut takes issue with including?**

1 A. Yes, Witness Ekrut also proposes that acquisition costs specific to Sheridan and
2 Georgetown be removed from the allocation of cost to SFR customers in this rate case
3 request and follows that by saying that all costs for Sheridan and Georgetown should be
4 adjusted out of the allocation to SFR customers. Mr. Ekrut uses three reasons for this
5 opinion. One, he claims that the acquisitions themselves are done for the purpose of
6 benefitting shareholders and not SFR customers which means SFR customers should not
7 have to pay for them. Second, he claims that the assets associated with these acquisitions
8 are not “used and useful” for the SFR class and as such they should not have to pay the
9 associated revenue requirement. Lastly, the acquisitions could create costs that increase
10 the revenue requirement on all ratepayers while not adding enough paying customers
11 themselves to offset the increase.

12 **Q. Can you explain why his proposal is wrong?**

13 A. Witness Kerry Heid is responding to the appropriateness of single tariff pricing and how
14 Mr. Ekrut’s request is inconsistent with that. I wish to respond to his testimony concerning
15 assigning costs of acquisitions to shareholders.

16 **Q. He testifies that it would be “more appropriate” if acquisition costs were borne by**
17 **shareholders. (p. 37). What is your response?**

18 A. This position is inconsistent with the statute and the orders approving these acquisitions.
19 IC 8-1-30.3-5(c) directs that the Commission “shall approve” the acquisition if it finds
20 certain enumerated facts. Then IC 8-1-30.3-5(g) directs that if the Commission approves
21 the acquisition, it “shall” approve the journal entry that reflects the full purchase price in

1 the original cost of utility plant. The Orders issued by the Commission approving the
2 Georgetown, Sheridan and Charlestown acquisitions follow this language. Regardless
3 what Mr. Ekrut may believe to be “more appropriate,” these decisions have already been
4 made.

5 **Q. What is your opinion of Mr. Ekrut’s conclusion based on Legislative preference to**
6 **regionalize costs?**

7 A. Based on my reading of his testimony, Mr. Ekrut is of the opinion that the Indiana statute
8 encouraging regionalization and spreading costs over a larger customer base is not
9 applicable here. Mr. Ekrut feels that in this particular instance, regionalization amounts to
10 subsidization and that the SFR customers would be charged with paying more of the retail
11 customer’s costs. Just because Mr. Ekrut does not like the policy put forth by the Indiana
12 General Assembly does not mean this Commission should ignore it. Regionalization is the
13 expressed aim of the General Assembly statute and the Commission should give no weight
14 to Mr. Ekrut’s conclusion that SFR customers should not pay for enhancements to our
15 system.


16 A.

17 **Q. Does this conclude your rebuttal testimony?**

18 A. Yes.

VERIFICATION

I, Gregory D. Shimansky, Director, Rates and Regulatory for American Water Works Service Company, Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.



Gregory D. Shimansky

Date: 1-17-19

OUCG 08-001

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

On page 4 of his testimony Mr. Shimansky states “Whether it is called ‘acceleration’ or not, the proposal directly yields a number of replacements that, but for the application of the deferred dollars, may not occur until capital is made available for those replacements.”

- a. Is Indiana American asserting it does not have the necessary capital available to conduct its lead line replacement program?
- b. How much available capital will Respondent have each of the next three years to fund its lead line replacement program?
- c. If Respondent is not granted its proposed request in this cause, will it discontinue its lead line replacement program? Please explain.

Information Provided:

a-c. No. The OUCG has been seemingly confused about the Company’s proposal in this case throughout this phase. The Company will use a hypothetical example to explain its proposal, which will address most of the questions in this set of data requests.

Assume the Company plans during the early years of the lead service line plan to replace customer-owned lead service lines at a level which falls in the middle of its proposed range: 3,000 lines per year at an estimated cost of \$10,500,000. Now assume two different scenarios, which will bracket the range of what could occur under the Company’s proposal with respect to the regulatory liability. The first scenario is that the Company is truly able to replace more lines in Year 1 of the plan equal to the number of lines replaced with the deferred liability. Scenario 2 is that the Company is unable, for whatever reason, to replace more lines in Year 1 and instead simply replaces the 3,000 per year.

Under Scenario 1, instead of replacing 3,000 lines at an estimated cost of \$10,500,000, the Company now is able to replace 4,500 lines. The cost of replacing 4,500 lines is \$15,750,000, but only \$9,928,112 would be reflected in rate base and included in the DSIC (mathematically, the \$15,750,000 line cost less the July 2018 deferred balance of \$5,821,888 is the \$9,928,112 that would be reflected in rate base). Further, the Company is 6 months ahead of its planned schedule, but the customers see no further increase in their rates from the more expedited schedule. This is because the Company has used the deferred liability as the first source of capital to replace lines.

Under Scenario 2, the Company still replaces 3,000 lines at a cost of \$10,500,000, but only \$4,678,112 is included in rate base and the DSIC. This is because the first 1,500 of the lines have been replaced with the deferred liability.

Compare both of these scenarios now to what would occur without the Company's proposal. The Company still could replace either 4,500 lines in year 1 at a cost of \$15,750,000 or 3,000 lines in year 1 at a cost of \$10,500,000. Both these scenarios are within the range set forth in the approved plan. But without the deferred liability, the Company would need to use investor-supplied capital to replace these lines. The DSIC effect from lead service line replacements would be nearly 60% greater without the deferred liability in scenario 1 and nearly 125% greater in scenario 2.