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INDIANA UTILITY
REGULATORY COMMISSION

INDIANA-AMERICAN WATER COMPANY, INC.

DIRECT TESTIMONY
OF
JENNIFER M.B. GRISHAM

March 31, 2023

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INTRODUCTION

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Q. Please state your name and business address.

A. My name is Jennifer M.B. Grisham, and my business address is 1 Water Street, Camden, NJ 08102.

Q. By whom are you employed and in what capacity?

A. I am employed by American Water Works Service Company, Inc. (“Service Company” or “AWWSC”) as Senior Manager of Regulatory Services. Service Company is a wholly owned subsidiary of American Water Works Company, Inc. (“American Water”) that provides services to Indiana-American Water Company, Inc. (“INAWC”, “Indiana-American” or “Company”) and its affiliates.

Q. Please summarize your educational background and work experience.

A. I received a Bachelor of Science degree in Business Administration from University of Maryland, College Park, and a Master’s in Business Administration from George Washington University. I have been employed by Service Company since April 2021 in my current role. Prior to my employment with Service Company, I worked as an Associate for a global consulting firm, followed by Pepco Holdings, an electric utility under the parent company Exelon. I joined Pepco Holdings’ Regulatory Affairs department in 2008 as a Senior Analyst. Over the next 12 years, I held various principal and managerial positions within the Rates, Asset Management and Strategic Initiatives departments.

1 **Q. What are your current employment responsibilities?**

2 A. My duties consist of preparing, assisting, and reviewing regulatory filings and related
3 activities for regulated subsidiaries of American Water. My responsibilities and my team's
4 responsibilities include the preparation of written testimony, exhibits, and work papers in
5 support of rate applications and other regulatory filings as well as responses to data requests
6 for Indiana-American.

7 **Q. Have you previously testified before any regulatory commissions?**

8 A. Yes. I have provided testimony to the Missouri Public Service Commission and the New
9 Jersey Board of Public Utilities.

10 **Q. What is the purpose of your Direct Testimony in this proceeding?**

11 A. The purpose of my Direct Testimony is to sponsor and testify in support of INAWC
12 expense levels in several areas. I will discuss the level of operations and maintenance
13 ("O&M") expenses as well as the Company's pro forma adjustments associated with labor
14 and labor-related, pension, other post-employment benefits ("OPEBs"), Service Company
15 expense, contract services, and uncollectible expenses, and taxes other than income and
16 property.

17 **Q. Please identify the exhibits you will be sponsoring and for which you will be providing**
18 **testimony.**

19 A. I am sponsoring the following schedules and supporting workpapers associated with
20 INAWC Financial Exhibits OPER OM 5 through OM 11, OM 21 and OTX2-OTX5.

1 **Q. Were each of the INAWC Financial Exhibits OPER Schedules OM 5 through OM 11**
2 **and OM 21 prepared by you or under your supervision?**

3 A. Yes.

4 **Q. What were the sources of the data used to prepare the aforementioned schedules?**

5 A. The data used to prepare these schedules was obtained from the books of account and
6 business records of the Company.

7 **Q. Do you consider this data to be reliable and of a type that is normally used and relied**
8 **on in your business for such purposes?**

9 A. Yes.

10 **Q. Do these schedules accurately summarize such data and the results of analysis using**
11 **such data?**

12 A. Yes.

13 **Q. Please describe the Company's process to calculate its pro forma expense levels in this**
14 **case.**

15 A. For this proceeding, the Company has employed a future test year of the 12 months ending
16 April 30, 2025. To determine the future test year expense, the Company first began with a
17 historical base period of the twelve months ended September 30, 2022. Our pro forma level
18 of expense was developed starting with the historical base period and updating to include
19 forecasted activity levels or adjustments based on an inflation factor through the verifiable
20 link period (October 1, 2022 through April 30, 2024) and projecting the activity levels and
21 inflation trends through April 2025 to obtain representative expenses for the forecasted test
22 year. These adjustments are based on Company experience, projected activity levels,

1 average historical expense levels and/or an inflation factor to determine the relevant
2 expense level for each respective period.

3 **LABOR AND LABOR RELATED EXPENSE**

4 **Q. Please describe INAWC's labor and labor related expense.**

5 A. There are three classifications of employees at INAWC: collective bargaining unit
6 ("CBU") hourly employees, non-collective bargaining unit ("Non-CBU") hourly
7 employees, and exempt/salaried employees. CBU employees receive market based total
8 compensation that includes components of base pay, overtime pay, and in some cases, shift
9 pay, and are eligible for performance pay. Non-CBU hourly employees receive market
10 based total compensation that includes base pay, overtime pay, and are eligible for
11 performance pay. Exempt employees receive market based total compensation that
12 includes base pay and are eligible for performance pay. Therefore, market based total
13 compensation for each classification of employees includes fixed pay (base pay) and some
14 form(s) of variable pay (e.g., overtime, shift pay and meals, or performance pay). Labor
15 related expenses include payroll tax, pension expense, OPEBs, group insurance, 401k
16 benefits, defined contribution plan benefits, retiree medical expense, and employee stock
17 purchase plan. I discuss pension expense and OPEBs later in my testimony.

18 **Q. Please describe the methodology for calculating labor and labor-related expense.**

19 A. The pro forma salaries and wages expense was calculated on a position-by-position basis,
20 based on 408 full-time positions. Initially, the 12 months ended September 30, 2022 labor
21 hours for each full-time position, were analyzed and adjusted to reflect a normal level of
22 labor hours (2,080 hours as discussed below). The total hours for all positions were then

1 multiplied by the position's actual individual wage rate as of September 30, 2022 for non-
2 CBU and exempt positions and contractual wage rates for CBU positions, to determine a
3 pro forma labor cost as of April 30, 2024. Additionally, these hours were then adjusted
4 using a three-year average salary increase for non-CBU and exempt employees, and
5 contractual wage rates for CBU employees, to determine the on-going level of annual
6 expense as of April 30, 2025. For CBU employees that did not have a contractual wage
7 rate through 2025, a three-year average wage increase was calculated and applied.

8 Furthermore, because some labor and labor-related costs are charged to capital projects and
9 programs, a capitalization percentage is used to assist in calculating net expense. Labor and
10 labor-related costs are multiplied by a capitalization percentage to derive capitalized
11 dollars. The capitalized dollars were then deducted from the total cost to derive O&M labor
12 and related expense. The capitalization percentage is based on the three-year average of
13 dollars charged by position to O&M versus capital. This eliminates from expenses those
14 labor and labor related costs associated with capital projects and programs, which are
15 appropriately charged to those capital projects.

16 **Salaries and Wages**

17 **Q. Please explain how the various components of salaries and wages were calculated.**

18 A. As explained in more detail below, salaries and wages expense is composed of our total
19 market-based compensation that includes four components: 1) base pay, 2) overtime
20 expense, 3) wage premiums and meals required by collective bargaining agreement
21 ("CBA") and 4) annual and long-term performance compensation for eligible employees.

1 Additional information regarding each component is provided below and the summary of
2 this adjustment can be found on OM 5.

- 3 • Base Pay – In order to calculate the base pay, the per hour wage levels as of
4 September 30, 2022, were applied to 2,080 hours, for hourly non-CBU and
5 exempt employees respectively, for each full-time position and then were added
6 together. Wages for CBU employees were also applied to 2,080 hours but were
7 based on the CBA wage rates effective as of September 30, 2022. If a contract
8 rate has not been negotiated through 2025, an hourly rate was calculated using
9 a three-year average increase for each CBU. Non-CBU and exempt employees’
10 wage rates were based on actual rates effective on March 31, 2022, to derive
11 the September 2022 level of expense. To calculate the expense for the future
12 test year, the applicable per hour wages or salaries for each CBU that does not
13 extend through 2025, non-CBU, and exempt position were adjusted using a
14 three-year average increase percentage.
- 15 • Overtime – The second component of the labor expense is overtime expense.
16 Overtime was calculated based on a three-year average of actual overtime
17 dollars by position from the 12 months ended September 30, 2020, 2021, and
18 2022. The average overtime dollars were divided by the average actual regular
19 labor dollars to determine an overtime percentage. This percentage was then
20 applied to the base wages for the period ended September 30, 2022, to calculate
21 the wages through the verifiable link period and future test year to calculate
22 overtime dollars for April 30, 2024 and April 30, 2025.

- 1 • Wage Premiums – The third component of the labor expense is the wage rate
2 premiums required by the CBAs for employees who obtain special licenses,
3 who work specific shifts, who operate backhoes, or who work scheduled
4 holidays such as Thanksgiving, Christmas, and the Fourth of July. The wage
5 premium expense is based on the 12 months ended September 30, 2022 amount
6 by employee and applied to the pro forma periods for the verifiable link period
7 and future test year.
- 8 • Meals – Compensation for meals for CBU employees during extended shifts
9 are also included in the salaries and wages expense. The 12 months ended
10 September 30, 2022 total actual amount of meal pay was included on a per
11 employee basis and applied to the verifiable link period and the future test year.
- 12 • Service Watch Pay – Indiana-American provides compensation to CBU
13 employees who stand-by for after-hours emergencies. The 12 months ended
14 September 30, 2022 total expense for service watch was included, by employee,
15 and applied to the verifiable link period and the future test year.
- 16 • Performance Pay – The fourth component of labor expense is the annual and
17 long-term performance compensation for eligible employees. Performance Pay
18 was calculated on a position-by-position basis. It was based on each position’s
19 target percent for both the Annual Performance Plan (“APP”) and Long-Term
20 Performance Plan (“LTPP”). The target percent was multiplied by each eligible
21 employee’s 2022 pro forma base salary to determine APP and LTPP. The
22 adjustments for APP and LTPP were calculated using the same methodology
23 leveraging the pro forma base salaries as of March 1, 2025.

1 This schedule can be found in the tab labeled Salaries & Wages Exh within the file entitled
2 INAWC 2023 Rate Case – Labor and Related_Public.

3 **Q. Has the Commission recognized the value of performance pay?**

4 A. Yes. The IURC recognizes the value of performance compensation plans as part of an
5 overall compensation package to attract and retain qualified personnel. Recovery of
6 performance compensation plan costs in rates has been approved when: (1) the
7 performance compensation plan is not a pure profit-sharing plan, but rather incorporates
8 operational as well as financial performance goals; (2) the performance compensation plan
9 does not result in excessive pay levels beyond what is reasonably necessary to attract and
10 retain a talented workforce; and (3) shareholders are allocated part of the cost of the
11 performance compensation program.¹

12 **Q. Does the Company's performance compensation program meet the three criteria**
13 **expressed by the Commission?**

14 A. Yes. First, the Company's performance pay program incorporates operational and
15 financial performance goals. Second, historically the Company's total direct compensation
16 (which includes performance pay) has been competitive and not above levels that are
17 needed to attract and retain the Company's workforce. Finally, shareholders are allocated
18 a part of the cost of the performance compensation program. The Company seeks only
19 100% of the target amount of performance compensation. Over the last decade, the

¹ Indiana Michigan Power Co., Cause No. 45235 (IURC 3/11/2020), pp. 61-63 (citing numerous cases).

1 Company has paid in excess of 100% of the target performance pay. The portion above
2 100% of target has been and will continue to be borne by shareholders.

3 **Group Insurance**

4 **Q. What is group insurance?**

5 A. Group insurance includes basic life insurance, short- and long-term disability insurance,
6 accidental death and disability (“AD&D”) insurance, and medical, dental, and vision
7 insurance that INAWC offers its employees.

8 **Q. How was the pro forma adjustment for the group insurance expense calculated?**

9 A. While there are several types of insurance expense that make up this calculation, the main
10 drivers are two categories: 1) basic life, short- and long-term disability, and AD&D; and
11 2) medical, dental, and vision insurance. The calculation of the pro forma expense for each
12 of these categories is further described below.

13 Basic life, short- and long-term disability and AD&D. The pro forma expense for
14 the verifiable link period and the future test year for this category, was estimated
15 based upon the 2023 plan rates with a 4.9% inflation rate based on prior claims
16 experience and usage of the benefits. The resulting plan costs and contribution rates
17 were used to calculate costs for each employee, applying any differences for CBU
18 and non-CBU employees.

19 Medical, dental, and vision insurance. This category of insurance involves a
20 Company cost net of employee contribution for medical, dental, and vision
21 insurance. The costs and contributions vary by plan type (e.g., family, employee,
22 or employee plus spouse). Costs and contributions were calculated on an individual
23 basis, considering actual employee plan selections. Pro forma expense for the

1 verifiable link period and the future test year, along with employee contributions,
2 were based on current 2023 rates and elections. The resulting plan costs and
3 contribution rates were used to calculate costs for each employee, applying any
4 differences for CBU and non-CBU employees.

5 This schedule can be found in the tab labeled Grp Ins Exh within the file entitled INAWC
6 2023 Rate Case – Labor and Related_Public. This adjustment is included within INAWC
7 Financial Exhibits OPER Schedule OM 8.

8 **Q. What steps in general has American Water taken to manage the group insurance**
9 **benefit costs?**

10 A. Group insurance is obtained for employees of INAWC and its affiliates based on benefit
11 plans administered by American Water. In order to control the costs of providing health
12 insurance to its employees, American Water has been proactive in seeking changes that
13 improve how healthcare is delivered. These efforts have included offering high-deductible
14 health plans and a telehealth option, which lower the overall cost of health insurance
15 programs. For example, instead of an office or urgent care visit, for which providers charge
16 \$100 or more, employees have the option to consult remotely with a healthcare
17 professional, at a cost to the insurer of \$59 per visit. American Water also became a
18 founding member of the Health Transformation Alliance (“HTA”) in 2016 to help achieve
19 the goal of providing higher quality care at lower cost by identifying facilities and
20 physicians that have better outcomes, using American Water’s purchasing power to keep
21 costs down, and helping every employee become a more engaged consumer.

1 **Q. What is HTA and why is it better than the traditional approach to obtaining**
2 **healthcare coverage for employees?**

3 A. HTA is a cooperative comprising 50 major corporations that have come together to drive
4 change in the healthcare system. Acting on its own, any single HTA member is unlikely
5 to change the trends in healthcare that are driving up costs. However, by working together,
6 HTA members can create more transparency to drive changes in the way healthcare is
7 delivered, and those changes can result in lower prices for prescription medicine and
8 medical services and produce better outcomes, making healthcare more affordable. To that
9 end, the HTA has developed value-driven solutions in the areas of data and analytics,
10 pharmacy and medical services and consumer engagement specifically designed to
11 improve patient care and economic value. Lastly, American Water will review current plan
12 options, and when it is possible, add additional services to its plans to drive claims down
13 and lower rates. Because the Company's health and welfare plans are self-funded, when
14 claims are lower, everyone saves. For example, in 2022, American Water added the
15 PrudentRx Copay program in partnership with CVS Caremark. This allows our active
16 employees and retirees to get any specialty medications that are on our Exclusive Specialty
17 Drug List for \$0 out-of-pocket cost to the employee and discounts to American Water.

18 **Other Employee Benefits**

19 **Q. Please describe the operating expense related to 401k benefits.**

20 A. Indiana-American incurs 401k expense when it matches employee contributions to 401k
21 retirement accounts. The matching amounts are determined by each employee's benefit
22 group or hire date. For employees whose benefit group falls into an "original" category
23 (including CBA employees hired before 2001 and non-CBA and exempt employees hired

1 before 2006), the Company matches 50% of the first 5% of the employee’s contribution
2 (for a maximum of 2.5%). For the remaining employees, the Company matches 100% of
3 the first 3%, and 50% of the next 2% of the employee’s contributions (for a maximum of
4 4%). The verifiable link period and future test year pro forma expense for 401k costs were
5 calculated for each employee based on their current or pro forma wages for each period,
6 current employee contribution levels, and the corresponding match for their benefit group.
7 This adjustment can be found in the tab labeled Other Benefits Exh within the file entitled
8 INAWC 2023 Rate Case – Labor and Related_Public. This adjustment is included within
9 INAWC Financial Exhibits OPER Schedule OM 9.

10 **Q. Please describe the adjustment to operating expenses related to the defined**
11 **contribution plan (“DCP”).**

12 A. DCP is a retirement savings program for employees not eligible for the defined benefit
13 pension program. Under the DCP, Indiana-American contributes an amount equal to 5.25%
14 of an employee’s base pay into a retirement account. The base year expense was calculated
15 using the 2022 regular time pay of each eligible employee multiplied by 5.25%. To
16 determine the verifiable link period and future test year pro forma DCP expenses the 2023
17 pro forma regular time pay of each eligible employee was multiplied by 5.25%. This
18 adjustment can be found in the tab labeled Other Benefits Exh within the file entitled
19 INAWC 2023 Rate Case – Labor and Related_Public. This adjustment is included within
20 INAWC Financial Exhibits OPER Schedule OM 9.

1 **Q. Please describe the adjustment to operating expenses related to the employee stock**
2 **purchase plan.**

3 A. The purpose of this adjustment is to annualize the Company’s expense associated with the
4 Employee Stock Purchase Plan (“ESPP”). ESPP expense relates to the 15% discount
5 enrolled employees receive on American Water stock purchases made through payroll
6 deductions. The expense was calculated based on the 2022 wages for each employee who
7 participates in the plan. The employee’s 2022 base wage, times their individual
8 contribution amount, applied to the fifteen percent discount, was used to calculate the
9 current expense. This adjustment can be found in the tab labeled Other Benefits Exh within
10 the file entitled INAWC 2023 Rate Case – Labor and Related_Public. This adjustment is
11 included within INAWC Financial Exhibits OPER Schedule OM 9.

12 **Q. Please describe the adjustment to operating expenses related to retiree medical**
13 **expense.**

14 A. CBU employees who are not eligible for OPEB are entitled to Company-provided retiree
15 medical benefits. The Company has established a trust (referred to as Voluntary Employee
16 Benefits Association, or VEBA) to fund this benefit in the amount of \$600 per eligible
17 employee. The pro forma expense was calculated based on the number of eligible positions
18 as of September 30, 2022. This adjustment can be found in the tab labeled Other Benefits
19 Exh within the file entitled INAWC 2023 Rate Case – Labor and Related_Public. This
20 adjustment is included within INAWC Financial Exhibits OPER Schedule OM 9.

21 **Q. Please describe the adjustment to other employee benefits.**

22 A. The purpose of this adjustment is to annualize the Company’s expense associated with
23 other employee benefits. These benefits include certain employee related expenses

1 associated with training, tuition reimbursement, employee rewards, and other such
2 benefits. A three-year average expense for the years ended September 30, 2020, 2021, and
3 2022 was used to determine the verifiable link period and future test year pro forma
4 adjustment. This schedule can be found in the tab labeled Other Benefits within the file
5 entitled INAWC 2023 Rate Case – Labor and Related_Public. This adjustment is included
6 within INAWC Financial Exhibits OPER Schedule OM 9.

7 **PENSION & OPEB EXPENSE**

8 **Q. Please describe the adjustment to operating expenses related to pension expense.**

9 A. Pension expense is recorded according to FASB Accounting Standards Codification Topic
10 715 or “ASC 715” (formerly Statement of Financial Accounting Standards 87). The
11 pension cost is forecasted by the Company’s professional third party actuary, Willis
12 Towers Watson. Indiana-American’s current share of the pension cost is \$983,625 in
13 service costs and \$152,382 in non-service costs for calendar year 2023. The Company’s
14 pro forma service cost and non-service cost for the twelve months ending April 30, 2025,
15 was calculated by using the 2023 value, which is determined from the most recent actuarial
16 report. The percent chargeable to expense, based on pro forma labor costs, is 58.25%
17 which is applied to the service cost. Please refer to INAWC Financial Exhibit OPER,
18 Schedule OM 6 and the workpapers that are part of the electronic file entitled INAWC
19 2023 Rate Case - Pension.

20 **Q Please describe the adjustment to operating expenses related to OPEB expense.**

21 A. OPEB expense is recorded according to FASB Accounting Standards Codification Topic
22 715 or “ASC 715” (formerly Statement of Financial Accounting Standards 106). The

1 OPEB cost is forecasted by the Company's professional third party actuary, Willis Towers
2 Watson. Indiana-American's current share of the OPEB cost is \$99,940 in service costs
3 and (\$1,808,651) in non-service costs for the calendar year 2023. The Company's pro
4 forma service cost and non-service cost for the twelve months ending April 30, 2025, was
5 calculated by using the 2023 value, which is determined from the most recent actuarial
6 report. The percent chargeable to expense, based on pro forma labor costs, is 58.25%
7 which is applied to the service cost. Please refer to INAWC Financial Exhibit OPER,
8 Schedule OM 7 and the workpapers that are part of the electronic file entitled INAWC
9 2023 Rate Case - OPEBS.

10 **Q. Is the Company proposing regulatory deferral treatment for Pension and OPEBs?**

11 A. Yes, the Company is proposing regulatory deferral treatment for Pension and OPEBs that
12 is discussed in detail in the testimony of Company Witness Gregory Shimansky.

13 **SUPPORT SERVICES**

14 **Q. Please describe the types of services INAWC obtains from the Service Company.**

15 A. The services provided by the Service Company include, among others, customer service,
16 water quality testing, innovation and environmental stewardship, human resources,
17 communications, information technology and cyber security, finance, accounting, payroll,
18 tax, legal, engineering, accounts payable, supply chain, and risk management.

19 **Q. Have there been any changes in the services provided to INAWC by the Service**
20 **Company since its last rate case?**

1 A. Yes. Beginning in 2020, several tasks were shifted from INAWC to the Service Company.
2 These services include certain postage forms, survey costs, language services, agency fees
3 and software licensing.

4 **Q. How was the level of expense for support services determined for this proceeding?**

5 A. INAWC's proposed support services expense incorporates the expense level for the
6 historical base year, the link period, as well as projected changes through the future test
7 year. The summary of this adjustment can be found on INAWC Financial Exhibits OPER
8 Schedule OM 10. From the historical base year, the Company included adjustments to
9 account for an increase in the compensation and related expense portion for Service
10 Company employees, annualizing the base pay increase effective March 2023 at 3%, then
11 the three-year average merit increase (based on 2021, 2022 and 2023) of 3.14% applied to
12 non-CBA employees. For CBA employees, the actual contract rate increases were applied
13 to derive the pro forma compensation and related expense levels.

14 Adjustments were also made to eliminate severance expense, to normalize pension and
15 OPEB costs to reflect the actual expense for 2023, and to reflect the movement of
16 employees between the Company and the Service Company. Additional adjustments were
17 made for depreciation, interest associated with capital leases and travel expense. The
18 Company removed certain expenses or one-time costs from its requested pro forma
19 expense, including but not limited to charitable contributions/donations, advertising, legal
20 settlements, severances, employee relocation costs, injuries and damages, penalties, and
21 the early lease termination of the Alton Service Center.² Finally, the Company utilized an

² The lease for the customer service center in Alton, IL ended in July 2022 with employees working remotely thereafter.

1 industry-related 2.5% annual inflation factor using Bureau of Labor Statistics (“BLS”) data
2 to determine expenses through the future test year.

3 **CONTRACT SERVICES**

4 **Q. Please describe the operating expenses related to contract services.**

5 A. INAWC’s contracted services expense includes costs associated with a variety of tasks and
6 services performed by contracted third parties. Examples include, among other things,
7 costs related to accounting fees, audit and legal fees (not associated with rate case
8 proceedings), landscaping, excavating, and janitorial services. To determine the expense
9 level for the future test year, the Company began with the expense level from the historical
10 base year ended September 30, 2022. The Company then included projected monthly level
11 of work to locate and mark its facilities as discussed in the testimony of Company Witness
12 Kari C. Britto. Finally, a monthly inflation factor was applied through the end of the future
13 test year. The monthly inflation factor of .23% is based on an industry-related annual
14 inflation factor from the BLS that is discussed in the testimony of Company Witness
15 Manuel Cifuentes, Jr. The details of the contract services adjustment can be found in
16 INAWC Financial Exhibits OPER Schedule OM 11.

17 **UNCOLLECTIBLE EXPENSE**

18 **Q. Please describe the operating expense for uncollectible expense.**

19 A. Uncollectible expense is composed of net charge-offs associated with bad debt related to
20 billed revenues. Each year a portion of revenues that were billed for collection is charged
21 off due to non-payment by customers. A forecasted uncollectible percentage of revenue
22 was developed utilizing historical uncollectible dollars to revenue for the three years ended

1 2018, 2019 and 2021 to determine an average uncollectible percentage (uncollectible
2 dollars for the year ended 2020 were excluded from this calculation due to the Company-
3 wide freeze on delinquent accounts due to the COVID-19 pandemic). The percentage was
4 then applied to forecasted test year revenue to arrive at the total uncollectible account
5 expense. The uncollectible expense for the historical base year and future test year can be
6 found in Schedule OM 21.

7 **TAXES OTHER THAN INCOME**

8 **Q. Please describe the components of taxes other than income.**

9 A. INAWC's taxes other than income category includes various taxes and assessments
10 amounts identified for the base year and future test year in Schedules OTX1-OTX5. The
11 following section discusses Payroll Taxes (OTX2), Environmental Tax (OTX3), Gross
12 Receipts Tax (OTX4), and Utility Regulatory Assessment (OTX5). The expense level
13 associated with property taxes (OTX1) is discussed in the testimony of Company Witness
14 Manuel Cifuentes, Jr.

15 **Payroll Taxes**

16 **Q. Please describe the operating expenses related to payroll tax.**

17 A. Payroll tax expense is directly related to salaries and wages. Two types of taxes are
18 required to be paid in accordance with the Federal Insurance Contributions Act – Old Age
19 Survivors and Disability Insurance (“OASDI,” or more commonly “FICA”), and Hospital
20 Insurance (or more commonly “FICA Medicare”). Federal Unemployment Tax (“FUTA”)
21 and State Unemployment Tax (“SUTA”) must also be paid. Pro forma payroll taxes were
22 calculated on a position-by-position basis, using current 2022 tax rates for the historical
23 base period and 2023 tax rates for the pro forma wages for the verifiable link period ending

1 April 30, 2024, and the future test year ending April 30, 2025. The tax rates include 6.2%
2 FICA on up to \$147,000 of wages for 2022 and 6.2% FICA on up to \$160,200 of wages in
3 2023. The tax rate also includes 1.45% FICA Medicare on the first \$200,000 of wages plus
4 an added .9% on wages in excess of \$200,000, and 0.6% FUTA on the first \$7,000 in
5 wages. This schedule can be found in the tab labeled Payroll Taxes Exh within the file
6 entitled INAWC 2023 Rate Case – Labor and Related_Public. This adjustment is included
7 within INAWC Financial Exhibits OPER Schedule OTX2.

8 **Environmental Tax**

9 **Q. Please explain the adjustment for the environmental tax.**

10 A. The purpose of this adjustment is to annualize the environmental tax administered by the
11 Indiana Department of Environmental Management (“IDEM”). The environmental tax is
12 an annual fee required for active Public Water Systems, as a result of administering
13 activities of the Federal Safe Drinking Water Act, under Indiana Code § 13-18-20.5. The
14 fee outlined in the code is equivalent to \$0.95 per service connection, for those community
15 water systems with more than 400 service connections. These fees are assessed January
16 15 of each year based on the number of connections, with fees due 30 days thereafter. In
17 addition, under Indiana Code § 13-18-20-9, a separate fee is calculated for the cost of
18 processing permits for water treatment facilities under the National Pollutant Discharge
19 Elimination System (“NPDES”). This calculation is set as a base fee, plus a flow rate fee.
20 In order to determine the expense for the future test year ending April 30, 2025, INAWC
21 began with the projected service connections as of December 31, 2024 and applied the
22 current fee rate of \$0.95 per service connection. The Company then added 2022 NPDES
23 permit fee expense to determine the total projected expense level for the future test period

1 ending April 30, 2025. The future test year environmental tax expense can be found in
2 INAWC Financial Exhibits OPER Schedule OTX3. This schedule can be found in the file
3 entitled INAWC 2023 Rate Case – Environmental Tax.

4 **Gross/Utility Receipts Tax**

5 **Q. Please explain the adjustment for the gross/utility receipts tax.**

6 A. The purpose of this adjustment is to annualize the gross receipts tax expense. The gross
7 receipts tax is based on the Company revenue, less sale for resale revenue, the annual tax
8 payer deduction, and the Company’s uncollectible expense. This figure is then multiplied
9 by the tax rate of 1.4%.

10 INAWC’s base year gross receipts tax expense is approximately \$2.4 million, however the
11 State of Indiana repealed the gross receipts tax effective July 1, 2022. Therefore, the
12 Company did not calculate a pro forma test year expense for the gross receipts tax. The
13 schedule for the gross receipts tax can be found in the file entitled INAWC 2023 Rate Case
14 – Gross Receipts Tax. This adjustment is included within INAWC Financial Exhibits
15 OPER Schedule OTX4.

16 **Utility Regulatory Assessment**

17 **Q. Please explain the adjustment for the utility regulatory assessment.**

18 A. The purpose of this adjustment is to annualize the utility regulatory assessment. The pro
19 forma expense is based on the final net percentage of .001163372, calculated as a result of
20 revenues reported for the 2021 calendar year. The net percentage is applied to the
21 forecasted revenues as of April 30, 2025, twelve months pro forma present rate revenue to
22 obtain the expense level. The future test year utility regulatory assessment tax expense can


1 be found in INAWC Financial Exhibits OPER Schedule OTX5. This schedule can be
2 found in the file INAWC 2023 Rate Case - Utility Reg Assessment Tax.

3 **Q. Does this conclude your Direct Testimony?**

4 A. Yes, it does.

VERIFICATION

I, Jennifer M.B. Grisham, Senior Manager of Regulatory Services, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.


Jennifer M.B. Grisham

Date: March 28, 2023