

**FILED**  
October 15, 2018  
**INDIANA UTILITY  
REGULATORY COMMISSION**

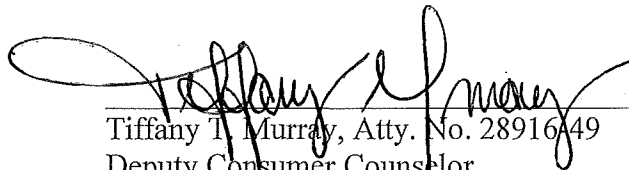
**STATE OF INDIANA**  
**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE INDIANA UTILITY) )  
REGULATORY COMMISSION'S) )  
INVESTIGATION INTO THE IMPACTS OF THE) )  
TAX CUTS AND JOBS ACT OF 2017 AND) ) CAUSE NO. 45032 S18  
POSSIBLE RATE IMPLICATIONS UNDER) )  
PHASE 2 FOR SOUTH HAVEN SEWER WORKS.) )  
INC.) )**

**SETTLEMENT TESTIMONY**  
**OF**  
**MARGARET A. STULL - PUBLIC'S EXHIBIT NO. 1-S**  
**ON BEHALF OF THE**  
**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**OCTOBER 15, 2018**

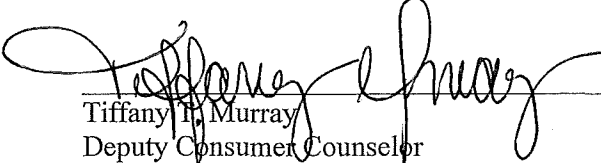
Respectfully Submitted,

  
\_\_\_\_\_  
Tiffany T. Murray, Atty. No. 2891649  
Deputy Consumer Counselor

**CERTIFICATE OF SERVICE**

This is to certify that a copy of the foregoing *Office of Utility Consumer Counselor Settlement Testimony of Margaret A. Stull* has been served upon the following counsel of record in the captioned proceeding by electronic service on October 15, 2018.

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**SETTLEMENT TESTIMONY OF OUCC WITNESS MARGARET A. STULL  
CAUSE NO. 45032 S18  
SOUTH HAVEN SEWER WORKS, INC.**

**I. INTRODUCTION**

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

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

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

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

8 **Q: What is the purpose of your settlement testimony in this subdocket?**

9 A: My testimony provides a review of the rate adjustment and ratepayer benefits  
10 achieved by the Stipulation and Settlement Agreement entered into between South  
11 Haven Sewer Works, Inc. (“South Haven” or “Respondent”) and the OUCC  
12 (collectively, the “Settling Parties”) relating to South Haven’s Phase 2 tax issues,  
13 as those are defined in the Commission’s investigation into the impacts of the Tax  
14 Cuts and Jobs Act of 2017 (“TCJA”) in Cause No. 45032-S18 (“Settlement”).

## II. PHASE 2 TAX ISSUES

1 **Q: Please describe how this Settlement timely provides Phase 2 tax benefits to**  
2 **South Haven's customers.**

3 A: At page 2, the Commission's Order issued on February 16, 2018 ("February 16  
4 Order") provides the scope of issues to be addressed in Phase 2 of the  
5 Commission's investigation:

6 Phase 2 will address all remaining issues, including (1) the amount  
7 and amortization of normalized and non-normalized excess  
8 accumulated deferred income taxes and the regulatory accounting  
9 being used by Respondents as required by the Commission's  
10 January 3, 2018 Order in this Cause for estimated impacts resulting  
11 from the Act, and (2) the timing and method for how these benefits  
12 will be realized by customers, whether directly or indirectly.

13 As such, this Settlement provides Phase 2 tax benefits to customers in two ways: 1)  
14 a surcharge credit to fully refund over twelve months the regulatory liability created  
15 by excess taxes embedded in South Haven's base rates since January 1, 2018; and  
16 2) amortization of excess accumulated deferred income taxes ("ADIT") as of  
17 December 31, 2017.

18 **Q: How does the Settlement resolve treatment of South Haven's regulatory**  
19 **liability created by embedded excess taxes?**

20 A: South Haven witness Mr. Bobby D. Estep states South Haven implemented a Phase  
21 1 rate reduction on May 16, 2018 that reflected the new 21% corporate income tax  
22 rate. (Estep Direct at 7.) The Settlement states the Settling Parties agree that South  
23 Haven's over-collected revenues for the period January 1, 2018 through May 16,  
24 2018 are \$66,641, and that such over-collected revenue will be credited to active  
25 wastewater customers through a surcharge credit over a twelve-month period to be

1 reflected in the first full billing month following a Final Order approving the  
2 Settlement Agreement.

3 **Q: How does the Settlement address the amortization of excess ADIT?**

4 A: Excess ADIT represents the amount a utility has collected from ratepayers to pay  
5 future taxes that, as a result of the reduction in tax rates, will no longer be imposed.  
6 Essentially, ADIT represents a “loan” from ratepayers to the utility, and when the  
7 income tax rate decreases, the amount of the “loan” from ratepayers is reduced and  
8 needs to be “repaid” or returned to customers. Excess ADIT represents the amount  
9 of the “loan” to be repaid. Excess ADIT can either be protected (results from  
10 temporary federal income tax differences generated by the different book and tax  
11 depreciation rates) or unprotected (all other temporary federal income tax  
12 differences). Protected excess ADIT must be returned to ratepayers using the  
13 average rate assumption method (“ARAM”) or, if the utility does not have adequate  
14 data to apply ARAM, the “Reverse South Georgia” method may be used.  
15 Unprotected excess ADIT can be returned to ratepayers over a time period  
16 determined by the jurisdictional regulatory body.

17 With that understanding, the Settling Parties agree that as of December 31,  
18 2017, South Haven’s total protected excess ADIT balance (before gross-up) is  
19 \$693,376, and the unprotected balance (before gross-up) is (\$9,041).<sup>1</sup> The  
20 Settlement Agreement reflects that South Haven’s protected excess ADIT is to be  
21 reversed using ARAM. Based on South Haven’s utility plant records, the remaining

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<sup>1</sup> The protected excess ADIT balance is a deferred tax liability and the unprotected excess ADIT balance is a deferred tax asset.

1 useful life of its utility plant is approximately 30 years and approximates the  
2 expected amortization period for protected excess ADIT. (Attachment MAS-1.)  
3 South Haven's unprotected excess ADIT is to be amortized over a 3-year period.  
4 This results in an annual revenue reduction of \$26,021 for protected excess ADIT  
5 partially offset by an annual revenue increase of \$3,014 for unprotected excess  
6 ADIT. These calculations are accurately reflected in Settlement Agreement  
7 Attachment A.

8 **Q: Does the Settlement Agreement include any reconciliation or true-up process?**

9 A: Yes. The Settling Parties agree that South Haven will annually true-up the amount  
10 actually returned to customers as compared to the amount reflected on Settlement  
11 Agreement Attachment A. The amount of the true-up will be used in the calculation  
12 of the next year's surcharge credit.

13 **Q: Will the surcharge credit be the same each year?**

14 A: No. The surcharge credit in Year 1 will be 2.56% and includes the regulatory  
15 liability as well as the amortization of excess ADIT. Due to the different amounts  
16 to be returned over different time periods, as well as the necessity for the true-up,  
17 the amount of the surcharge credit will differ from year to year.

18 **Q: Does the Settlement Agreement anticipate compliance filings?**

19 A: Yes. The Settlement Agreement states South Haven will file a revised tariff sheet  
20 reflecting the amount of the surcharge credit percentage for each year. The first  
21 revised tariff sheet (Settlement Agreement Attachment B) will be reflected in the  
22 first full billing month following a Final Order approving the Settlement  
23 Agreement. Because of the potential for reconciliations, the Settling Parties agreed  
24 that South Haven will have until April 1 of the following year to submit the tariff

1 for the next twelve-month period. The Settling Parties have agreed to work together  
2 in advance of each compliance filing is made so that any of the OUCC's questions  
3 or concerns can be addressed before South Haven makes its April 1 compliance  
4 filing.

5 **Q: Did you validate the rate reductions shown in South Haven's revised tariffs**  
6 **included in Settlement Agreement Attachment B?**

7 A: Yes. Settlement Agreement Attachment B properly implements the revenue  
8 reductions created by the specific terms of the Settlement.

9 **Q: Do you believe the Settlement is in the public interest?**

10 A: Yes. The Settlement reflects compromises made by South Haven from the positions  
11 taken in its Phase 2 subdocket testimony, and provides a fair result for South  
12 Haven's ratepayers.

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

14 A: Yes, it does.

**APPENDIX A**

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

2 A: I graduated from the University of Houston at Clear Lake City in August 1982 with  
3 a Bachelor of Science degree in accounting. From 1982 to 1985, I held the position  
4 of Gas Pipeline Accountant at Seagull Energy in Houston, Texas. From 1985 to  
5 2001, I worked for Enron in various positions of increasing responsibility and  
6 authority. I began in gas pipeline accounting, was promoted to a position in  
7 financial reporting and planning, for both the gas pipeline group and the  
8 international group, and finally was promoted to a position providing accounting  
9 support for infrastructure projects in Central and South America. In 2002, I moved  
10 to Indiana, where I held non-utility accounting positions in Indianapolis. In August  
11 2003, I accepted my current position with the OUCC. In 2011, I was promoted to  
12 Senior Utility Analyst. In 2018, I was promoted to Chief Technical Advisor. Since  
13 joining the OUCC I have attended the National Association of Regulatory Utility  
14 Commissioners ("NARUC") Eastern Utility Rate School in Clearwater Beach,  
15 Florida, and the Institute of Public Utilities' Advanced Regulatory Studies Program  
16 in East Lansing, Michigan. I have also attended several American Water Works  
17 Association and Indiana Rural Water Association conferences. I have also attended  
18 several NARUC Sub-Committee on Accounting and Finance Spring and Fall  
19 conferences. I have participated in the National Association of State Utility  
20 Consumer Advocates ("NASUCA") Water Committee and the NASUCA Tax and



1 Accounting Committee. In March 2016 I was appointed chair of the NASUCA Tax  
2 and Accounting Committee.

3 **Q: Please describe your duties and responsibilities at the OUCC.**

4 A: I review Indiana utilities' requests for regulatory relief filed with the Commission.

5 I also prepare and present testimony based on my analyses, and make  
6 recommendations to the Commission on behalf of Indiana utility customers.

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

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

10 **Q: Have you previously testified before the Indiana Utility Regulatory**  
11 **Commission ("Commission")?**

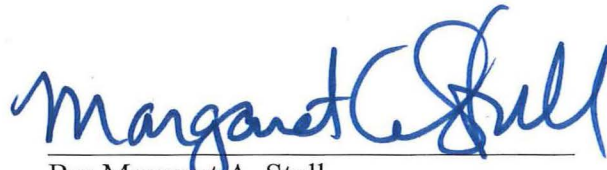
12 A: Yes. I have testified before the Commission as an accounting witness in various  
13 causes involving water, wastewater, electric, and gas utilities. I have been involved  
14 with the Commission's Investigation in Cause No. 45032 since its inception,  
15 analyzing the Tax Cuts and Jobs Act of 2017 and the effect it has on utility rates.

Aqua Indiana  
(Book Plant Values)

OTP Unit	<u>12.31.2017</u> <u>Book Cost</u>	<u>12.31.2017</u> <u>Book Reserve</u>	<u>12.31.2017</u> <u>Net Book</u>	<u>Allocate</u> <u>Shared Assets</u>	<u>Net Book After</u> <u>Allocation</u> (a)	<u>2017 Book</u> <u>Depreciation</u> (b)	<u>Remain</u> <u>Life</u> (a) / (b)
B7a- Aboitte	69,322,102	(19,954,630)	49,367,472	3,027,802	52,395,274	1,730,831	30.27
C3d - Wildwood Shores	1,265,082	(286,589)	978,493	20,341	998,834	30,773	32.46
C3e - Wymberly	3,298,056	(875,551)	2,422,505	159,736	2,582,241	85,358	30.25
C6- South Haven	18,179,503	(5,672,914)	12,506,589	911,153	13,417,742	440,785	30.44
C7- Heir	231,167	(23,722)	207,445	23,930	231,375	7,599	30.45
C8- Darlington	1,267,718	(178,295)	1,089,423	67,604	1,157,026	24,447	47.33
J1- Consumers	1,539,696	(360,962)	1,178,734	274,004	1,452,738	38,368	37.86
	95,103,323	(27,352,662)	67,750,661	4,484,570	72,235,231	2,358,161	30.63
J2- Shared IT Assets	6,748,391	(765,774)	5,982,617	(5,982,617)	-	-	
<b>Total</b>	<b>101,851,714</b>	<b>(28,118,436)</b>	<b>73,733,278</b>	<b>(1,498,047)</b>	<b>72,235,231</b>	<b>2,358,161</b>	

AFFIRMATION

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



By: Margaret A. Stull  
Cause No. 45032 S18  
Indiana Office of  
Utility Consumer Counselor



Date: