STATE OF INDIANA

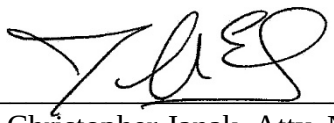
INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF COLUMBUS, INDIANA, FOR (1) AUTHORITY TO ISSUE BONDS, NOTES, OR OTHER OBLIGATIONS, (2) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE, (3) APPROVAL OF NEW SCHEDULES OF WATER RATES AND CHARGES, AND (4) AUTHORITY TO ESTABLISH AND IMPLEMENT SYSTEM DEVELOPMENT CHARGES.	**CAUSE NO. 45427**

INTERVENOR'S DIRECT TESTIMONY AND EXHIBITS

Direct Testimony and Exhibits of Ben Foley	Intervenor's Exhibit 1
Direct Testimony and Exhibits of Chris Ekrut	Intervenor's Exhibit 2

Respectfully submitted,



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Southwestern Bartholomew Water Corporation, Inc.

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF COLUMBUS, INDIANA, FOR (1) AUTHORITY TO ISSUE BONDS, NOTES, OR OTHER OBLIGATIONS, (2) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE, (3) APPROVAL OF NEW SCHEDULES OF WATER RATES AND CHARGES, AND (4) AUTHORITY TO ESTABLISH AND IMPLEMENT SYSTEM DEVELOPMENT CHARGES.	**CAUSE NO. 45427**

DIRECT TESTIMONY AND EXHIBITS

OF

BEN FOLEY

ON BEHALF OF INTERVENOR
SOUTHWESTERN BARTHOLOMEW WATER CORPORATION, INC.

1. INTRODUCTION

1. Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Ben Foley, and my business address is 210 West Third Street, Madison, Indiana 47250.

2. Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a principal in the firm of Sherman, Barber & Mullikin, Certified Public Accountants, a professional corporation.

3. Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS.

A. I graduated from Marian University (formerly Marian College) in 1996 with a Bachelor of Science degree in Accounting. I became licensed as a Certified Public Accountant in 1999 and hold memberships with the American Institute of Certified Public Accountants and Indiana State CPA Society. I joined Sherman, Barber, and Mullikin in 2006 and became a principal of the firm in 2010. I have been providing professional services to utilities since joining the firm and have participated in, supervised, and been the responsible member of our firm on engagements providing utility clientele with rate consulting, strategic planning, financial advisory, and financial statement audit, review, and compilation services.

4. Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.

A. Our firm regularly provides professional services to Indiana rural water and wastewater utilities, including a number regulated by the Indiana Regulatory Commission (Commission). I, along with other members of my firm, regularly provide services to utilities that include rate consulting, financial advisory, financial statement audits, reviews, and compilations and other related services. We also work with municipal entities and non-utility businesses providing accounting services and financial analysis. I believe all of these experiences are relevant to my testimony here and our work with Southwestern Bartholomew Water Corporation

(SBWC). My firm has served as financial advisors and rate consultants to SBWC for more than 20 years.

5. Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is two-fold. First, I will outline the accounting adjustments that I believe should be made to the proposal from the City of Columbus, Indiana (Columbus). Second, I will discuss phasing in the effect of the cost of service study (COSS) that was presented by Columbus, and adjusted by SBWC witness Mr. Ekrut, in this case.

2. ACCOUNTING ADJUSTMENTS

6. Q. DO YOU HAVE ANY ACCOUNTING ADJUSTMENTS THAT YOU BELIEVE SHOULD BE MADE TO COLUMBUS'S PROPOSAL?

A. Yes, I am proposing an adjustment be made to Columbus's proposed revenue requirement. Columbus has not reduced the annual depreciation included in its proposed revenue requirement for retirements that will occur as a result of assets that will be replaced or removed from service upon the completion of the proposed projects. However, Columbus has indicated in a discovery response to SBWC that:

> Today it is not fully known which assets will be taken out of service upon completion of the proposed projects included in the Schedule of Estimated Project Costs and Funding on page 15 of 66 of Attachment DLB-1 or the original cost and net book value as the engineering studies are in the process of being completed.

(Attachment BF-A – Columbus's Response to SBWC DR 3-6).

I believe an adjustment to depreciation expense for assets removed from service upon completion of the proposed projects would be appropriate and should be included in a true-up filing. Columbus has already acknowledged a need for a true-up related to its financing in Mr. Baldessari's pre-filed testimony. (Baldessari Direct at p. 13, ll. 14-21). I recommend that the Commission require Columbus to

file a report as part of the financing true-up identifying the assets that have been removed from service, including each asset's original cost and net book value, and removing the depreciation expense related to the removed assets from Columbus's trued-up revenue requirement.

7. Q. HAVE YOU IDENTIFIED FURTHER ISSUES WITH COLUMBUS'S DEPRECIATION EXPENSE CALCULATIONS?

A. Yes. Columbus's response to SBWC DR 3-6 acknowledges several inaccuracies in Columbus's depreciation schedules. Specifically, the response recognizes that Columbus does not know the original cost and net book value of wells #3 and #4a, which (along with a possible third, unidentified well) will be taken out of service as a result of the proposed projects. (Attachment BF-A). Columbus also acknowledges uncertainty about the age and net book value of water lines to be replaced, stating: "The water lines anticipated to be replace are about 100 years old and the net book value is likely zero as they are likely to be fully depreciated." (*Id.*). It is clear from these responses that Columbus does not know with specificity the age, original cost, or net book value of many of their aged assets.

Given that Columbus' proposed annual depreciation expense appears to be based on the original cost of its assets without regard for the age of the asset, its accumulated depreciation, or its net book value, these inaccuracies and unknowns result in an overstated proposed annual depreciation expense that fails to adhere to the ratemaking standard of fixed, known, and measurable. $234,364 of Columbus' proposed annual depreciation expense is based on $11,718,223 of assets placed in service more than 40 years ago according to the asset listing provided in response to SBWC DR 3-1. (Attachment BF-B). A single asset (Asset 3-100, with an original cost of $7,795,959 and described only as "WATER LINES PREV YRS") results in $155,919 of overstated depreciation expense. (*Id.*).

I recommend that assets without an adequate description and age, should be removed from Columbus's depreciation expense calculation in acknowledgment of

those records falling short of the standard of fixed, known, and measurable. I further recommend that the Commission require Columbus to provide adequate supporting documentation for assets with acquisition dates prior to 1980 that Columbus believes are still in service at the time of the true-up filing.

8. Q. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS REGARDING THE ADJUSTMENTS YOU EXPLAINED ABOVE?

A. Yes, I do. The significant inaccuracies and lack of detail present within Columbus' depreciation schedule call into question Columbus's depreciation expense calculation as a whole and raises the question of whether Columbus should develop and fund through rates an extensions and replacements program rather than requesting depreciation expense. Therefore, I recommend that the Commission order Columbus to submit in its next base rates case either (1) a depreciation study with adequate supporting information for each depreciated asset or (2) a comparison of its proposed depreciation expense with a reasonable extensions and replacements program, so that the Commission may determine which is a more appropriate method of recovery.

I also recommend that the Commission order Columbus to segregate the funds recovered for depreciation expense in a separate depreciation fund and report to the Commission annually the activity of the annual additions to plant funded through rates to assure that the revenues obtained through the depreciation expense revenue requirement are used for their intended purpose, which is the replacement of the depreciated assets. Without appropriate monitoring, I am concerned that a double recovery issue will exist if Columbus borrows funds to replace assets for which it has already recovered depreciation expense.

3. PHASE-IN COST OF SERVICE

9. Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING THE IMPLEMENTATION OF THE CITY'S COSS RESULTS?

A. Yes, I do. Due to the disproportionate impact and potential rate shock on the intervenor, SBWC, and its customers, I recommend that the allocation percentages in SBWC's COSS be gradually phased in over several rate cases beginning with the COSS allocations proposed by Mr. Ekrut in his direct testimony.

10. Q. CAN YOU PLEASE EXPLAIN THE RATEMAKING CONCEPT OF GRADUALISM.

A. The concept of gradualism is a factor a rate consultant must consider when moving a utility's rate classes toward cost-based rates. The concept, as it has generally been employed by the Commission, is that utilities should move their rate classes toward cost-based rates to the extent practicable, while mitigating rate shock or sudden, large changes in rates.

11. Q. HOW HAS THE COMMISSION TYPICALLY EMPLOYED THE CONCEPT OF GRADUALISM?

A. The Commission pursues the policy of eliminating interclass subsidization on a gradual basis so as to avoid inordinate rate increases to any one class of customers. In addition, the Commission recognizes that the degree or level of subsidy or excess provided by any class of customer may change from one year to the next depending on levels of consumption associated with weather conditions, economic conditions, or general demand for water. If rate subsidies are not eliminated in a gradual manner, an inordinately large reduction of subsidy in one rate case could, in fact, require a reduction in subsidy excess in the opposite direction in a subsequent rate case.

12. Q. ARE THERE ANY FACTORS THAT YOU THINK MAKE CONSIDERATION OF THE CONCEPT OF GRADUALISM ESPECIALLY IMPORTANT IN THIS CASE?

A. Yes. First, Columbus has not requested an increase in its rates since 1992, which is quite a long time compared to most regulated utilities. Since its last rate case, Columbus's expenses and costs to provide utility service have risen substantially without any coincident rate increases. Therefore, Columbus is seeking a substantial rate increase in this case. For some customers, such as SBWC, rates would more than double if Columbus's proposal was accepted.

SBWC is a wholesale customer and resells the water it purchases from Columbus to SBWC's mostly residential customer base. Because SBWC purchases water from Columbus based on the demand of its customers, SBWC is not able to mitigate its rate increases by using less water like Columbus's other retail customers can, and a rate increase of this magnitude will require SBWC to raise its own customer's rates, which creates a pass-through effect. Further, changes in SBWC's customer's usage patterns can, independent of any action by SBWC, create exactly the type of subsidization swing that the Commission is concerned about. These facts merit a gradual approach to increasing SBWC's cost of service allocation percentage over Columbus's next few rate cases.

13. Q. ARE THERE OTHER FACTORS UNIQUE TO THIS CASE TO CONSIDER?

A. Yes. First, we are currently in the midst of the global COVID-19 virus pandemic, which has drastically changed the lives and businesses of residential, commercial, and industrial customers, including, for some, having a significant, negative economic impact. Simply put, this is not the best time for any utility, or business, to be raising its rates or prices, especially such a dramatic increase as Columbus is requesting here.

According to Columbus's November 30, 2020 report to the Commission in its COVID investigation case (Cause No. 45380), in August 2020, Columbus had 1,053 customers with delinquent balances who would have been subject to disconnection had a moratorium not been in effect. As of its November report, that number had decreased to 634. Similarly, SBWC's number of past due accounts have more than doubled during 2020 to date, and while SBWC represents one wholesale customer to Columbus, approximately 3,100 residential customers account for more than 98% of SWBC's annual metered water revenue. So while I do not disagree with Columbus's need for additional revenues to properly operate its water utility, it is important to mitigate the required rate increases to customers, including SBWC's 3,100 residential customers, as much as possible until this pandemic has passed.

14. Q. WHAT OTHER FACTORS DO YOU BELIEVE ARE RELEVANT?

A. The Water Purchase Contract between Columbus and SBWC, which is attached to Mr. Ekrut's testimony, contains provisions that allow Columbus to annex parts of SBWC's service territory and customers at any time, without SBWC's permission. (Intervenor's Exh. 2, Attachment CDE-D). In this event, Columbus would acquire SBWC's rights to serve, customers, and utility plant in the annexed area, and would only be required to reimburse SBWC for six years (or ten years depending on the percentage of SBWC's customer base impacted) of average lost revenue from the annexed customers. Further, despite this provision, SBWC has a minimum purchase requirement under the contract. These provisions place an increased risk on SBWC compared to Columbus's retail customers and create the possibility that SBWC's cost of service may differ significantly from rate case to rate case, which merits a gradual approach to changing SBWC's COSS allocation percentage.

15. Q. HASN'T COLUMBUS ALREADY ATTEMPTED TO MITIGATE THE RATE INCREASE BY PROPOSING A THREE-PHASE INCREASE?

A. Yes, but phasing-in rates does not address the rate shock to SBWC of the significant change in its cost of service allocation percentage, which should be even larger than Columbus calculated in its case-in-chief. SBWC witness Mr. Ekrut's testimony discusses an error in the cost of service study calculations performed by Columbus witness Mr. Baldessari, which I believe will also be discussed by OUCC witness, Mr. Mierzwa. This error is adverse to SBWC and causes an increase in the allocation of Columbus's revenue requirement to SBWC in this case, resulting in a further 8.6% increase in SBWC's cost of service allocation. Considering this error, and even if Mr. Ekrut's other proposed changes to the cost of service study are accepted, SBWC would be faced with a Phase 1 rate increase of 98% and a total increase of 145.9%. The concept of gradualism dictates that this large shift in cost of service allocation and wholesale rates should be implemented gradually over this and Columbus's next several rate cases. Mr. Ekrut in his direct testimony provides a recommended COS allocation that incorporates a more gradual approach to moving Columbus's customers to true cost of service. (Intervenor's Exh. 2, pp. 27-28).

4. CONCLUSION

16. Q. WHAT ARE YOUR RECOMMENDATIONS?

A. First, I recommend that the Commission require Columbus to file a report as part of its financing true-up in under this Cause identifying the assets that have been removed from service, including each asset's original cost and net book value, and removing the depreciation expense related to the removed assets from Columbus's trued-up revenue requirement.

Second, I recommend that assets without an adequate description of their age, original cost, and net book value be removed from Columbus's depreciation

expense calculation because the depreciation expense falls short of the fixed, known, and measurable standard. I also recommend that the Commission require Columbus to file a report with its financing true-up that provides adequate supporting documentation, including the age of the asset, its original cost and net book value, and its accumulated and remaining depreciation, for assets with acquisition dates prior to 1980 that Columbus believes are still in service at the time of the true-up filing.

Third, I recommend that the Commission require Columbus to submit in its next base rates case either (1) a depreciation study with adequate supporting information for each depreciated asset or (2) a comparison of its proposed depreciation expense with a reasonable extensions and replacements program, so that the Commission may determine which is a more appropriate method of recovery.

Fourth, I recommend that the Commission require Columbus to segregate funds recovered for depreciation expense in a separate depreciation fund and report to the Commission annually the activity of the annual additions to plant funded through rates to assure that the revenues obtained through the depreciation expense revenue requirement are used for their intended purpose, which is the replacement of the depreciated assets.

Fifth, I recommend that the allocation percentages in SBWC's COSS be gradually phased in over several rate cases beginning with the COSS allocations proposed by Mr. Ekrut in his direct testimony.

17. Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

VERIFICATION

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

Ben Foley

Ben Foley

Signature: Ben Foley (Dec 11, 2020 13:45 EST)

Email: bfoley@sbmcpas.com

CERTIFICATE OF SERVICE

I certify that on December 11, 2020, this document was electronically filed with the Indiana Utility Regulatory Commission and was served electronically on the parties below:

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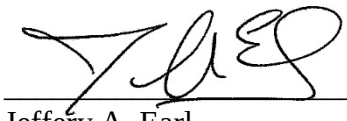

Jeffery A. Earl

SBWC DR 3-6

DATA REQUEST

City of Columbus, Indiana
Cause No. 45427

Information Requested:

Please provide an estimate of the original cost and net book value as of December 31, 2019, of the assets expected to be taken out of service upon the completion of the proposed projects included in the Schedule of Estimated Project Costs and Funding on page 15 of 66 of Attachment DLB-1. Please provide asset description and summarize by asset code if possible.

Information Provided:

Today it is not fully known which assets will be taken out of service upon completion of the proposed projects included in the Schedule of Estimated Project Costs and Funding on page 15 of 66 of Attachment DLB-1 or the original cost and net book value as the engineering studies are in the process of being completed.

Water Storage Tanks - Depending on the results of the engineering studies there may not be any water storage tanks taken out of service as a result of the proposed projects.

Booster Stations – The GRW Boundary Review from Exhibit SD-3 (page 8 table) identifies two alternatives that address booster stations. It is likely that both of the existing booster stations will be taken out of service. Subject to further engineering review, at least one will be replaced with a new, above ground booster station.

Water Main Projects - GRW Engineers identified a list of water line projects to be replaced but the final line replacement projects will depend on the results of the final engineering studies, available revenues and other capital needs. As such the original costs and net book value of the water lines to be replaced are not known at this time. The water lines anticipated to be replaced are about 100 years old and the net book is likely zero as they are likely to be fully depreciated.

Wells #3 and #4A will be taken out of service as a result of the proposed projects. There may be one other water well taken out of service depending on the results of the final engineering study, but it is not yet fully known if it will be taken out of service. The original costs and net book values are not known.

Date: 12/8/2020 Columbus City Utilities Page: 1
Time: 3:56:48 PM
Asset List by Master Asset ID
Ranges:
Master Asset: First to Last
Asset ID: First to Last
Description: First to Last
Asset Type: First to Last
Property Type: First to Last
Structure ID: WATER to WATER
Quantity: First to Last
Class ID: First to Last
Acquire Date: First to Last
Location ID: First to Last
Sorted By: Master Asset ID
Include: Status: Active
Master Asset ID

Asset ID	Asset Description	Acquisition Cost	Acq. Date	Physical Loc.
(None)				
12-100	FILTRATION/CONTROL BLDG	$102,535.81	1/1/1957	WP1
13-100	UNDERGROUND RESERVOIR	$54,262.52	1/1/1957	WP1
3-100	WATER LINES PREV YRS	$7,795,959.47	1/1/1957	WL
36-100	WELL HOUSE 2	$1,368.72	1/1/1957	1W02
39-100	WELL HOUSE 5	$1,140.60	1/1/1957	1W05
40-100	WELL HOUSE 6	$1,368.72	1/1/1957	1W06
45-100	WELL 2	$14,645.25	1/1/1957	1W02
48-100	WELL 5	$11,588.85	1/1/1957	1W05
49-100	WELL 6	$13,371.75	1/1/1957	1W06
11-100	UNDERGROUND WATER TANK	$108,948.83	1/1/1962	WP1
16-100	CHAIN LINK FENCE	$1,291.50	1/1/1962	WP1
35-100	WELL PIT 8	$892.03	1/1/1965	1W08
44-100	WELL 8	$20,848.50	1/1/1965	1W08
15-100	SIDEWALKS	$570.00	1/1/1966	WP1
42-100	WELL 7	$21,648.60	1/1/1966	1W07
43-100	# 9 WELL	$19,939.50	1/1/1966	1W09
10-100	PUMP BUILDING	$1,655.88	1/1/1967	WP1
33-100	WELL9 ADDITION	$1,009.29	1/1/1967	1W09
17-100	CENTRIFUGAL PUMP	$394,876.00	1/1/1972	WP1
65-100	46 EAST TANK # 2	$143,328.00	1/1/1972	T02
115-100	CRANE WITH HOIST	$5,180.00	1/1/1973	WP2
117-100	CENTRIFUGAL PUMP #1 HSP	$30,000.00	1/1/1973	WP1
118-100	CENTRIFUGAL PUMP #2 HSP	$20,836.50	1/1/1973	WP1
20-100	OFFICE & FILTRATION BLDG	$994,344.16	1/1/1973	WP2
21-100	CLEARWELL	$743,132.25	1/1/1973	WP2
22-100	BACKWASH LAGOON	$162,130.00	1/1/1973	WP2
24-100	CONCRETE BLOCK WALL	$10,921.68	1/1/1973	WP2
25-100	CHAIN LINK FENCE/LAGOONS	$5,278.05	1/1/1973	WP2
26-100	PROCESS PIPING	$113,451.15	1/1/1973	WP2
51-100	WELL PIT 1	$1,359.82	1/1/1973	2W02
52-100	WELL PIT 2	$1,359.82	1/1/1973	2W02
54-100	WELL PIT 4	$1,359.82	1/1/1973	1W04
58-100	WELL 2	$36,322.00	1/1/1973	1W02
60-100	WELL 4	$28,892.50	1/1/1973	2W04
203-100	CALIBRATED TANK	$457.30	1/1/1974	SCDIS
204-100	CALIBRATED TANK	$277.28	1/1/1974	SCDIS
200-100	METER BENCH	$774.50	1/1/1975	SCDIS
14-100	CHAIN LINK FENCE	$1,938.75	1/1/1976	WP1
197-100	METER BENCH	$1,764.39	1/1/1977	SCDIS
4-100	BLDG ADDITION	$93,466.27	1/1/1978	WP1
5-100	CLARIFIER EFFLUENT PUMP PIT	$8,121.09	1/1/1978	WP1
6-100	RAW WATER DETENTION TANK	$74,574.14	1/1/1978	WP1
64-100	WALESBORO TANK # 3	$249,108.00	1/1/1978	T03
7-100	CLARIFIER TANK	$47,947.95	1/1/1978	WP1
73-100	CENTRIFUGAL BLOWER	$10,112.00	1/1/1978	WP1
74-100	STEEL FILTER TANK (1-4)	$233,159.00	1/1/1978	WP1
77-100	CABLE HOIST	$8,087.72	1/1/1978	WP1
8-100	WASTE SLUDGE PIT	$1,949.70	1/1/1978	WP1
9-100	HOLDING TANK	$120,248.86	1/1/1978	WP1
159-100	ACETYLENE TORCH UNIT	$418.44	1/1/1979	WP2
	Total	$11,718,222.96		