

OFFICIAL
EXHIBITS

**BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF CWA AUTHORITY, INC. FOR (1))
AUTHORITY TO INCREASE ITS RATES AND)
CHARGES FOR WASTEWATER UTILITY)
SERVICE IN THREE PHASES AND APPROVAL OF)
NEW SCHEDULES OF RATES AND CHARGES)
APPLICABLE THERETO; (2) APPROVAL OF A) CAUSE NO. 45151
LOW-INCOME CUSTOMER ASSISTANCE)
PROGRAM; AND (3) APPROVAL OF CERTAIN)
CHANGES TO ITS GENERAL TERMS AND)
CONDITIONS FOR WASTEWATER SERVICE.)**

REBUTTAL TESTIMONY AND ATTACHMENTS OF

**SABINE E. KARNER,
JODI L. WHITNEY,
DAVID J. WATHEN,
PRABHA N. KUMAR and
KORLON L. KILPATRICK II**

**On
Behalf of
Petitioner,
CWA Authority, Inc.**

VOLUME II

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CAUSE NO. 45151

REBUTTAL TESTIMONY
of
SABINE E. KARNER

On
Behalf of
Petitioner,
CWA Authority, Inc.

IURC
PETITIONER'S 15
EXHIBIT NO. 5-9-19 AT
DATE REPORTER

Petitioner's Exhibit No. 15

1 **INTRODUCTION AND BACKGROUND**

2 **Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A1. My name is Sabine E. Karner. My business address is 2020 North Meridian
4 Street, Indianapolis, Indiana.

5 **Q2. ARE YOU THE SAME SABINE E. KARNER WHO PREVIOUSLY**
6 **SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING ON**
7 **BEHALF OF PETITIONER?**

8 A2. Yes, I am.

9 **Q3. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
10 **CAUSE?**

11 A3. The purpose of my rebuttal testimony is to respond to certain positions presented
12 by the Indiana Office of Utility Consumer Counselor ("OUCC") and CWA
13 Authority Industrial Group ("IG") relating to operating expenses. Failure to
14 address other aspects of the OUCC's or IG's testimony, however, does not
15 constitute my agreement with such aspects.

16 **INDUSTRIAL GROUP'S TESTIMONY**

17 **Shared Services Allocations**

18 **Q4. BRIEFLY DESCRIBE MR. GORMAN'S POSITION ON PRO FORMA**
19 **SHARED SERVICES ALLOCATIONS TO CWA.**

20 A4. Mr. Gorman contends that increasing the pro forma percentage of Shared Services
21 costs allocable to CWA to 24.69% from the test year percentage of 23.13% is
22 "illogical" and "not reasonable" because, in his view, the primary driver of the

1 increase is revenues. According to Mr. Gorman, revenues should have no bearing
2 in cost allocations.

3 **Q5. HOW DO YOU RESPOND?**

4 A5. I disagree with Mr. Gorman. I clearly explain in my testimony that certain costs
5 that cannot otherwise reasonably be assigned to a specific business unit are
6 allocated via a so-called Trust Administration driver, and that this driver is based
7 on prior year actual revenues. I also explain that Citizens has applied this
8 methodology since 2007, when the Commission *ordered* Citizens to use it.¹

9 Furthermore, Mr. Gorman mischaracterizes certain sections of my
10 testimony: At no point do I claim that the pro forma Shared Services allocations
11 are increased from the test year as a result of the pro forma revenues in this rate
12 case, as Mr. Gorman asserts.² What I did explain is that the Trust Administration
13 pro forma allocation factor uses actual 2017 revenues; further, that CWA's share
14 of the Trust Administration driver can be expected to increase annually as a result
15 of annual rate increases in CWA, and that all things considered, the pro forma
16 Shared Services allocations to CWA I proposed are lower than other reasonable
17 alternatives within the fixed, known and measurable framework.

18 **Q6. HOW SIGNIFICANT IS THE REVENUES-BASED TRUST**
19 **ADMINISTRATION DRIVER IN THE OVERALL ALLOCATION OF**
20 **SHARED SERVICES COSTS TO CWA?**

¹ Petitioner's Exhibit No. 6, page 14, Q&A No. 19.

² Michael P. Gorman, page 22, lines 3 through 5.

1 A6. The Trust Administration driver currently supports roughly one third of Shared
2 Services allocations to CWA. Conversely put, two thirds of the increased
3 allocations are *not* due to the Trust Administration driver and are therefore *not*
4 based on revenues.

5 **Q7. WHAT CAUSES THE MAJORITY OF SHARED SERVICES**
6 **ALLOCATIONS TO CWA?**

7 A7. Shared Services allocations are based on a comprehensive framework of drivers,
8 as I explained extensively in my direct testimony.³ The majority of the costs
9 allocable to CWA are based on such drivers as the number of customers,
10 employees, computers, invoices processed, meters read, purchasing dollars
11 administered, or estimates of time spent.

12 **Q8. DO YOU BELIEVE THE TRUST ADMINISTRATION DRIVER IS STILL**
13 **AN APPROPRIATE METHOD OF ALLOCATING COSTS THAT**
14 **CANNOT OTHERWISE BE ASSIGNED?**

15 A8. Yes. Apart from the fact that Citizens was ordered to use this driver, I believe the
16 Trust Administration driver is the most beneficial to CWA. An alternative, well-
17 known allocation method for otherwise unassignable costs is the so-called
18 Massachusetts formula which utilizes a weighted average of main drivers that
19 includes utility plant in service, revenues, and direct labor. Using fiscal year 2018
20 numbers as input, CWA would receive the largest share from the use of this

³ Petitioner's Exhibit No. 6, pages 12 through 14

1 formula, one that is larger than if it were based solely on revenues, as depicted in
 2 the following table:

\$ in millions	CWA	Water	Gas	Other	Total
Original cost plant-in-service	\$3,211	\$2,114	\$759	\$418	\$6,502
Revenues	\$279	\$207	\$260	\$146	\$892
Direct-charged compensation	\$11	\$11	\$9	\$9	\$40
Plant	49%	33%	12%	6%	100%
Revenues	31%	23%	29%	17%	100%
Direct compensation	28%	27%	22%	23%	100%
Weighted Average	36%	28%	21%	15%	100%

3 Furthermore, the Massachusetts formula would produce a faster rate of
 4 growth in Shared Services allocations to CWA because it reflects proportionally
 5 ever-increasing plant in service *in addition to* annually increasing revenues as a
 6 driver. And notice that even in the Massachusetts formula, revenues are still a
 7 determining factor: far from being “illogical”, revenues are a common component
 8 in such allocations.

9 It is worth pointing out that costs which cannot reasonably be assigned
 10 through direct charges or statistics-based drivers must nonetheless still be
 11 assigned. In such cases, the use of a formula based either solely on revenues or on
 12 the multi-driver Massachusetts formula avoids arbitrariness and is still fairer than
 13 the alternative proposed by Mr. Gorman. His suggestion is to artificially cap cost
 14 allocations to Petitioner and consequently force other units served by Shared
 15 Services, most of which are also regulated utilities, to subsidize CWA – hardly
 16 equitable. Mr. Gorman may be at liberty to take such a narrow view in the
 17 proceeding immediately in front of him; I, however, must ensure the fairness of

1 Shared Services allocations to all units, not just the one that's presently in a rate
2 case.

3 **Q9. MR. GORMAN ASSERTS THAT YOU PROVIDED "NO SUPPORT" FOR**
4 **THE PRO FORMA ALLOCATION FACTORS. IS THIS A FACT?**

5 A9. No. In addition to my testimony, there are 14 pages of workpapers to support the
6 pro forma Shared Services allocation to CWA. These workpapers were made
7 available as part of the Minimum Standard Filing Requirement ("MSFR"), and
8 again in response to discovery requests for all electronic versions of workpapers.
9 In addition, I made specific reference to these workpapers in the same section of
10 my testimony that discusses the pro forma Shared Services allocation to CWA.

11 Pro forma pay adjustments

12 **Q10. MR. GORMAN ALSO FINDS FAULT WITH YOUR PRO FORMA**
13 **ADJUSTMENT FOR LABOR COSTS. PLEASE SUMMARIZE HIS**
14 **POSITION.**

15 A10. Mr. Gorman objects to the 3% pay increase that was applied to non-bargaining
16 positions in calculating pro forma wages. Instead, he recommends the use of an
17 inflationary factor to determine pay adjustments: he proposes a 2% pay increase
18 based on projected growth in the Consumer Price Index ("CPI").

19 **Q11. WHAT IS YOUR RESPONSE?**

20 A11. Mr. Gorman's proposal is off base. First, the 3% pay increase I had recommended
21 is in line with expectations by a variety of sources. Even the briefest of internet
22 searches would have produced evidence on this point, if my experience with
23 company practices and reasonably well-informed projection of upcoming pay

1 adjustments didn't make enough of a case for Mr. Gorman. Second, the CPI has
2 no apparent correlation to the amount of pay increases awarded historically,
3 making it an inappropriate indicator of future pay increases.

4 **Q12. DO YOU HAVE ANY EVIDENCE SUPPORTING YOUR ARGUMENTS?**

5 A12. Yes. In Attachment SEK-R1, I provide internet-search page prints from two
6 sources, one of which provides a table of six different surveys reflecting an
7 average 3% salary budget increase for 2019. In addition, in Confidential
8 Attachment SEK-R2 I provide pages from a copyrighted survey purchased by
9 Citizens,⁴ reflecting various pertinent categories that also project an average 3%
10 increase, as well as graphs that illustrate there is no historical correlation between
11 CPI and pay increases.

12 **Q13. WHAT ARE YOUR RECOMMENDATIONS CONCERNING MR.**
13 **GORMAN'S PROPOSALS REGARDING SHARED SERVICES**
14 **ALLOCATIONS AND SALARY PAY INCREASES?**

15 A13. I recommend Mr. Gorman's proposals be rejected in their entirety as unfair and
16 unsound.

17 **OUCC'S TESTIMONY**

18 **Non-Labor Operating Expense Adjustments**

19 **Q14. THE OUCC'S WITNESS MR. COREY PROPOSES THREE INDIVIDUAL**
20 **ADJUSTMENTS TO DISALLOW CERTAIN OPERATING EXPENSES.**
21 **HOW DO YOU RESPOND?**

⁴ Permission was obtained from the copyright owner to provide the excerpted survey data in this proceeding.

1 A14. Mr. Corey's proposals should be rejected. I lay out the reasons below.

2 One of the adjustments Mr. Corey proposed concerns what he considers
3 "excessive" membership dues. He conjectures that CWA paid for three individual
4 memberships to the National Association of Clean Water Agencies ("NACWA")
5 rather than economize with one membership for the entire utility. However, the
6 dues in question represent one single dues membership that was charged to three
7 different cost centers for internal tracking purposes. Attachment SEK-R3 contains
8 a copy of the NACWA dues statement and an excerpt of the general ledger lines
9 reflecting the three cost centers (task numbers) to which the dues were charged.
10 As is apparent on the NACWA invoice, dues are charged based on population
11 served and do not represent individual memberships.

12 Another adjustment Mr. Corey proposed is the disallowance of \$104,619
13 of net storm water costs. The storm water system is owned by the City of
14 Indianapolis and CWA does not have the financial responsibility for its repairs
15 and maintenance: I agree. However, when Mr. Corey identified these transactions
16 he picked up only one side and did not include offsetting transactions which bring
17 the true net for storm water costs to a *credit* to expense of \$10,080. As a result, his
18 proposed disallowance would subtract costs from operating expenses that aren't
19 included in the first place. Attachment SEK-R4 provides the detail transactions
20 identified by Mr. Corey, plus those he missed, and shows that the sum total of all
21 relevant costs does in fact net to a credit to expense. I explain further below why I
22 am not advocating to add this amount to the revenue requirement.

1 Last, Mr. Corey stipulates the removal of a \$7,000 fine paid to the Indiana
2 Department of Environmental Management ("IDEM") related to a violation of
3 emissions standards with the explanation that such costs should not be included in
4 operating expenses. I ordinarily would have removed even this small amount
5 during preparation of pro forma adjustments to minimize contention, but I had
6 overlooked it among the more than 38,000 non-labor operating expense
7 transactions in the test year. However, combining this amount with the correct net
8 adjustment for storm water expenses would represent an add-back to pro forma
9 operating expenses of \$3,080, an increase of 0.004% to operating expenses and
10 far less yet to the total pro forma revenue requirement. Given the de minimis
11 nature of the individual transactions, let alone the sum total of both, I recommend
12 no adjustment be made for either and that Mr. Corey's proposals be rejected.

13 **Q15. THE OUCC'S WITNESS MS. STULL PROPOSES AN ADJUSTMENT TO**
14 **A PORTION OF PAYROLL EXPENSES RELATED TO OFFICER**
15 **COMPENSATION, IMPACTING BOTH WAGES AND PAYROLL**
16 **TAXES. PLEASE COMMENT.**

17 A15. Petitioner's witnesses Ms. Whitney, Mr. Harrison, and Mr. Wathen each provide
18 rebuttal arguments to explain why Ms. Stull's recommendation to lower the
19 revenue requirement for executive compensation should be rejected. Therefore,
20 Ms. Stull's adjustments for payroll taxes also should be rejected.

1 **RECOMMENDATIONS**

2 **Q16. BASED ON THE FOREGOING, PLEASE SUMMARIZE YOUR**
3 **RECOMMENDATIONS AS A RESULT OF YOUR REBUTTAL**
4 **TESTIMONY.**

5 A16. I recommend that the Commission:

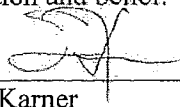
- 6 a. Reject the IG's proposed decrease to payroll expenses of \$746,321.
- 7 b. Reject the OUCC's proposed decrease to operating expenses related to:
- 8 1. Dues and memberships of \$26,070.
- 9 2. Storm water transactions of \$104,619.
- 10 3. Penalties and fines of \$7,000.
- 11 c. Based on the testimony of Petitioners' witnesses Jodi Whitney, Jeff
- 12 Harrison, and David Wathen:
- 13 1. Reject the OUCC's proposed decrease to salaries expense of \$569,503.
- 14 2. Reject the OUCC's proposed decrease to payroll taxes of \$38,612.

15 **Q17. Does this conclude your rebuttal testimony?**

16 A17. Yes, at this time.

VERIFICATION

The undersigned affirms under the penalties for perjury that the foregoing testimony is true to the best of her knowledge, information and belief.



Sabine E. Karner



Publications



US Salary Increase Budgets for 2019



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member?[Check Here \(/signin/\)](#)

Authors:

Judit Torok (/bio/index.cfm?
bioid=366)

Publication Date:

July 2018

The median 2018 actual total salary increase budgets are 3 percent across all employee groups, the same as the actual increases for the past seven years. The 2019 projected total median increase in budgets across all employee categories and industries remains at 3 percent overall. We currently project both the 2018 and 2019 inflation rates to be 2.4 percent.

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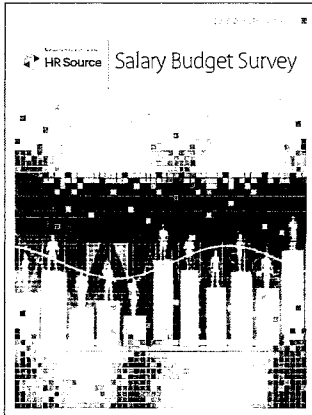
The Management Association is now ...



2019 Merit Increase Projections

By Kathryn O'Connor, PHR, SHRM-CP, CCP, GRP, Director, Compensation Services

Published December 11, 2018



For the eighth straight year, employers are holding the line on employee pay increases, with 2019 projections averaging 3%, according to multiple published survey sources.

HR Source recently released the 2018 Salary Budget Survey, which contains data from 108 participating Chicagoland member organizations. The survey reports average budgeted pay increases for the next 12-month period (including general, merit, and/or cost of living adjustments [COLA]), as well as the types of pay increase programs used. Results are segmented by employee work group and by manufacturing, non-manufacturing, and all industries combined

The survey results indicate the highest projected pay increases will be directed towards Executive/Officer roles, with an overall projection of 3.3%. Non-Union Production, Maintenance, and Service roles, in addition to Non-Exempt Clerical and Technical jobs, had the lowest projection of the employee groups, at 2.9%.

Below is a chart showing some HR Source's Salary Budget Survey highlights, compared to other national sources:

HR Source	3.0%	2.9%	2.9%	3.0%
Aon	n/a	n/a	n/a	3.1%
Mercer	n/a	n/a	n/a	2.9%
Korn Ferry Hay Group	n/a	n/a	3.0%	3.0%
Willis Towers Watson	n/a	n/a	3.0%	3.1%
WorldatWork	n/a	3.1%	3.1%	3.2%

The comparison figures above are relatively consistent and continue to reflect a conservative attitude towards base salary increases.

Interested in obtaining the full 2018 Salary Budget Survey report? The results of this survey are made available to all HR Source members by the generosity of those that participated. If you find this data of value, please consider participating in the future. Members may download the full report under the "My Surveys" link on the "Surveys" tab. If you have questions, please contact us at 800-448-4584 or at hotline@hrsource.org.

Attachment SEK-R2

The materials comprising Petitioner's Exhibit No. 15, Attachment SEK-R2 are confidential. The materials will be filed under seal upon the Commission's granting the Motion for Protective Order filed on February 21, 2019.



P.O. Box 651211
Potomac Falls, VA 20165-9174
(202) 833-2672
Federal Tax ID # 23-7088488

INVOICE

INVOICE DATE 09/15/2017
INVOICE NO. 52240

CUSTOMER NO. 0000011450
TERMS NET 30 DAYS

BILL TO: Citizens Energy Group
Jeffrey A. Willman
Vice President of Water Operations
2020 N. Meridian St.
Indianapolis, IN 46202-1306

Please pay with PO 198677

DESCRIPTION	AMOUNT
-------------	--------

Service Area Population: 903,393

FY 2018 Membership Dues (10/01/2017 - 09/30/2018) \$39,500.00

Membership Dues paid to NACWA are not tax deductible as charitable contributions. Five percent (5%) of your payment will be spent on lobbying efforts with the intent to influence legislation; and are, therefore, not deductible as a business expense.

TOTAL \$39,500.00

REMITTANCE SLIP

Citizens Energy Group
Jeffrey A. Willman
2020 N. Meridian St.
Indianapolis, IN 46202-1306

Invoice Date 09/15/2017
Customer No. 0000011450
Invoice No. 52240

FY 2018 Membership Dues (10/01/2017 - 09/30/2018) \$39,500.00

My utility's Fiscal Year is:

- ☒ October 1
☐ January 1
☐ July 1
☐ Other _____

Total Enclosed: \$39,500.00

Please remit payment and this portion of the invoice to
National Association of Clean Water Agencies
P.O. Box 651211
Potomac Falls, VA 20165-9174

Package Identifier	Package Amount	Fiscal Year	Package Description	Vendor Name	Package ID
7003-04-1001A	\$ 13,035.00	FY2018	Membership Dues (10/01/2017 - 09/30/18)	NATIONAL ASSOCIATION OF CLEAN WATER AGENCIES	52240
7002-04-1001A	\$ 13,035.00	FY2018	Membership Dues (10/01/2017 - 09/30/18)	NATIONAL ASSOCIATION OF CLEAN WATER AGENCIES	52240
7001-04-1001A	\$ 13,430.00	FY2018	Membership Dues (10/01/2017 - 09/30/18)	NATIONAL ASSOCIATION OF CLEAN WATER AGENCIES	52240

Transactions identified by OUCC:

92.7825.736053.3005.00	NOV-2017	(10,080.12)	\$45,793.01 Pymnt for Stormwater Oct - Dec 2016 Reimb Exp
92.7832.736011.3005.00	MAR-2018	(24,500.00)	Reclass Mar2018 BARBER CONSTRUCTION PO# D201992 Inv# CEG2-02 2018 Storm (MS4) Repairs
92.7832.736011.3005.00	MAR-2018	(56,531.46)	Reclass Mar2018 H & H CONSTRUCTION SERVICES, INC. PO# D202070 Inv# 18006 2018 MS4 (Storm) Repairs
92.7832.736011.3005.00	MAR-2018	24,500.00	2018 Storm (MS4) Repairs
92.7832.736011.3005.00	MAR-2018	56,531.46	2018 MS4 (Storm) Repairs
92.7832.736011.3005.00	FEB-2018	18,774.68	2018 MS4 (Storm) Repairs
92.7832.736011.3005.00	FEB-2018	99,537.50	2018 Storm Sewer (MS4) Repairs
92.7825.736021.3005.00	OCT-2017	(3,613.50)	Emergency Maintenance to storm water system
		<u>104,618.56</u>	

Additional transactions in the general ledger:

92.7832.736011.3005.00	FEB-2018	(18,774.68)	Reclass H & H Construction - PO# D202070 - INV# 18001
92.7832.736011.3005.00	FEB-2018	(99,537.50)	Reclass IRE - PO# D201529 - INV# 0118-2
92.7825.736021.3005.00	NOV-2017	3,613.50	Emergency Maintenance to storm water system
		<u>(114,698.68)</u>	

Remaining net amount: (10,080.12)