

**STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION**

**JOINT PETITION OF CROSSROADS)
UTILITIES, LLC (“CROSSROADS”) AND LMH)
UTILITIES CORP. (“LMH”) FOR APPROVAL AND)
AUTHORIZATION OF: (A) THE ACQUISITION)
BY CROSSROADS OF LMH’S WASTEWATER)
UTILITY PROPERTY (THE “LMH SYSTEM”) IN)
DEARBORN COUNTY, INDIANA PURSUANT TO)
THE PURCHASE AGREEMENT THEREFOR;) **CAUSE NO. 45833**
(B) APPROVAL OF ACCOUNTING AND RATE BASE)
TREATMENT; (C) APPROVAL OF THE APPLICATION)
OF LMH’S EXISTING RATES AND CHARGES AFTER)
CLOSING; (D) APPROVAL OF CROSSROADS’)
RULES AND REGULATIONS)
FOLLOWING CLOSING; (E) APPLICATION OF)
LMH’S DEPRECIATION ACCRUAL RATES TO SUCH)
ACQUIRED PROPERTIES; AND (F) THE APPROVAL OF)
THE TRANSFER OF LMH’S CERTIFICATE OF)
TERRITORIAL AUTHORITY TO CROSSROADS.)
CROSSROADS.)**

VERIFIED PRE-FILED DIRECT TESTIMONY OF GARY M. VERDOUW

**SUBMITTED ON BEHALF OF

CROSSROADS UTILITIES, LLC**

January 3, 2023

1 **I. WITNESS BACKGROUND**

2

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

4 A. My name is Gary M. VerDouw, and my business address is 1268 Emerald Gardens Drive,
5 Saint Peters, Missouri 63376.

6

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

8 A. I am the Owner/CEO of VerDouw Regulatory Services LLC. I am an independent rate and
9 utility regulatory consultant. I have been hired in this Cause by Crossroads Utilities, LLC
10 (“Crossroads”) to support the accounting and ratemaking treatment proposed by
11 Crossroads relative to its planned acquisition of LMH Utilities Corporation’s (“LMH”)
12 wastewater utility property.

13

14 **Q. Please summarize your educational and professional qualifications.**

15 A. I graduated from the University of Mary in Bismarck, North Dakota in 1981 with a
16 Bachelor of Science degree in Business Administration. I returned to the University of
17 Mary and completed a second major in Accounting in May of 1988. I have over 40 years
18 of utility experience, working with gas, electric, and water/wastewater utilities throughout
19 my career. I have attended the Utility Rate Seminar sponsored by the National Association
20 of Regulatory Utility Commissioners (“NARUC”) Water Committee and have participated
21 in various continuing education programs sponsored by my former employers. I am also a
22 member of the American Water Works Association, the Indiana Section AWWA, and the
23 Missouri Section AWWA.

24

1 **Q. Please outline your business experience.**

2 A. I began my employment in February of 1981 when I was hired as Reconciliation and Funds
3 Administrator for the North Dakota State Treasurer's Office. In December 1981 I was
4 hired as a Field Accountant for ANG Coal Gasification Company, which was constructing
5 North America's first commercial scale coal gasification project near Beulah, North
6 Dakota. While employed with ANG, I was promoted and brought on as the project's first
7 permanent hire for its 80-person accounting team and promoted to Accounts Payable
8 Supervisor in 1982. I was again promoted to Cash Manager in 1984, where I oversaw daily
9 cash management of over \$1.5 billion in secured debt and over \$400 million in daily cash
10 balances. In 1988 I was hired as Business Manager for Capital Electric Cooperative, Inc.,
11 which is in Bismarck, North Dakota. My responsibilities there included the supervision
12 and oversight of all accounting, finance, billing, budget, insurance, human resources, cash
13 management, rate studies, and other functions for a growing electric distribution
14 cooperative that currently serves approximately 22,000 consumers. In 2005 I accepted the
15 position of Senior Financial Analyst – Rates and Regulations with American Water Service
16 Company in their Saint Louis, Missouri office. In this role I assisted in the preparation of
17 utility filings in American Water Company's operations in the states of Indiana, Ohio,
18 Illinois, and Missouri. I was promoted to Manager of Rates and Regulation in 2008, where
19 I was responsible for all rate and regulatory issues for American Water operations in the
20 states of Indiana, Ohio, and Michigan. I was promoted to Director of Rates – Eastern
21 Division in 2011, where I was responsible for rates and rate issues for American Water
22 operations located in the states of Indiana, Ohio, Michigan, Kentucky, Tennessee, Virginia,

1 West Virginia, Maryland, and New York. In November of 2011, I was named Director of
2 Rates for American Water's newly created Central Division, where I was responsible for
3 rate and regulatory issues for American Water operations in the states of Indiana, Ohio,
4 Michigan, Kentucky, Tennessee, Illinois, Iowa, and Missouri. In 2016, I was named
5 Director of Rates and Regulatory for Indiana and Michigan American Water, where I was
6 responsible for all rate and regulatory issues for American Water operations in the states
7 of Indiana and Michigan. In 2018 I accepted the position of Director of Business Services
8 for Greenville Water in Greenville, South Carolina, the largest water utility in South
9 Carolina. In this role, I was responsible for leading fifty-eight employees serving in the
10 Billing, Customer Service, and Field Services (metering) Departments, ensuring prompt
11 billing and delivery of excellent water and customer service to Greenville Water's 185,000
12 accounts serving over 500,000 residents of the South Carolina Upstate. I retired from my
13 position at Greenville Water in April 2021, at which time I formed VerDouw Regulatory
14 Services LLC, where I am Owner/CEO. In my current role, I provide utility and regulatory
15 consulting services to various utility clients, including Crossroads Utilities, LLC.

16
17 **Q. Have you testified before any regulatory agencies with respect to regulatory matters?**

18 A. Yes. I have testified in numerous regulatory proceedings before the Indiana Utility
19 Regulatory Commission ("IURC", or "Commission"), the Public Utilities Commission of
20 Ohio, the Kentucky Public Service Commission, the Tennessee Public Utility Commission,
21 the Iowa Utilities Board, the Missouri Public Service Commission, and the Illinois

1 Commerce Commission. A list of regulatory work provided is included in **Attachment**
2 **GMV-1**.

3
4 **II. PURPOSE OF TESTIMONY**

5
6 **Q. What is the purpose of your testimony in this Cause?**

7 A. I have been engaged by Crossroads to review and support the accounting and ratemaking
8 treatment proposed by Crossroads relative to its intended purchase and acquisition of
9 LMH's wastewater utility system and associated assets. I will present the proposed journal
10 entry that would be made upon closing of the LMH acquisition. I will describe the rates
11 that will be charged following the closing. I will also describe the planned application of
12 LMH's depreciation accrual rates once the acquisition by Crossroads is complete. I will
13 also sponsor **Attachment GMV-1** through **Attachment GMV-4** in support of this
14 testimony.

15
16 **Q. Are there others that are testifying on behalf of Crossroads as well?**

17 A. Yes. June Tucker, the Chief Financial Officer for LMH, is testifying to provide background
18 on LMH, the reasons for the sale of LMH to Crossroads, and to support Commission
19 approved of the proposed transfer of the LMH utility to Crossroads. Michael Myers, who
20 is the President and Board Member of Crossroads Utilities, LLC, will provide an overview
21 of Crossroads and their technical and managerial abilities, in addition to providing an
22 overview of the Asset Purchase Agreement, cost differential and supporting appraisals,
23 necessary near-term improvements to the LMH System, and public interest considerations

1 in Crossroad’s acquisition of LMH. Zach Tucker, who is the Operations Manager for
2 Envirolink of Indiana, LLC (“Envirolink Indiana”), will testify regarding LMH’s current
3 and historic operation state. Finally, Chris Lagaly, who is Operations Manager for Indiana
4 operations for Envirolink, Inc. (“Envirolink”), will testify regarding LMH’s current
5 operation state as well as future plans for needs and improvements to LMH’s system that
6 Crossroads will be addressing relative to its acquisition of LMH.

7
8 **Q. Are you sponsoring any attachments to your testimony?**

9 A. Yes, I am sponsoring the following attachments:

10	<u>Attachment GMV-1</u>	Curriculum Vitae - Gary M. VerDouw
11	<u>Attachment GMV-2</u>	Incidental Expenses and Other Costs of Acquisition
12	<u>Attachment GMV-3</u>	Journal entry proposed for acquisition of LMH
13	<u>Attachment GMV-4</u>	Effect on Revenue of Acquiring LMH Utilities

14
15 **Q. Were all attachments prepared by you or under your direction and supervision?**

16 A. Yes.

17
18 **III. ACCOUNTING TREATMENT**

19
20 **Q. What is the original cost rate base amount proposed by Crossroads Utility, LLC
21 relative to the purchase of LMH Utilities Corporation?**

22 A. Based on the Asset Purchase Agreement that is included as **Attachment MM-8** to the
23 testimony of Crossroads witness Michael Myers, the purchase price in the agreement is

1 \$1,712,173. Assuming \$360,000 of incidental expenses and other costs of the acquisition,
2 the original cost rate base for the LMH acquisition by Crossroads would be \$ 2,072,173.

3
4 **Q. Are the total incidental expenses and other costs of acquisition totaling \$360,000 a**
5 **fixed and known total?**

6 A. Not entirely. Certain expenses, such as appraisal costs, are completed and are fully known
7 and measurable. Other incidental expenses and other costs are not yet fully completed and,
8 as such, an estimate is made for those items. The estimate of \$360,000 in incidental
9 expenses and other costs to be included in rate base is a reasonable proxy of costs to be
10 recorded in this acquisition. Upon approval and completion of this acquisition, it is
11 Crossroad's intention to book only actual incurred incidental expenses and other costs of
12 acquisition in the final journal entry to calculate rate base. I have included **Attachment**
13 **GMV-2**, which lists the total incidental expenses and other costs of acquisition by category
14 that are included with this acquisition.

15
16 **Q. Is this proposed purchase price reasonable per the statues that govern utility**
17 **acquisitions in Indiana?**

18 A. Yes, the proposed purchase price is considered reasonable under the statutes that govern
19 utility acquisition in Indiana. IC 8-1-30.3-5(c)(2) states that if the acquisition is not made
20 under IC 8-1.5-2-6.1 (acquisition of non-municipal systems, such as LMH Utilities), to the
21 extent that the purchase price does not exceed the appraised value as determined under
22 Section 5.5 of this chapter, the purchase price is considered reasonable for purposes of
23 Subsection (d) and any resulting costs differential is considered reasonable. Under IC 8-1-

1 30.3-5.5, three independent appraisers must be appointed to determine the just and true
2 value of the utility assets to be acquired. One of the three independent appraisers must be
3 a registered professional engineer; one must be a licensed real estate appraiser; and the
4 third is either an engineer or a real estate appraiser. It is the results of these three appraisals
5 that determine the just and true value of the utility assets to be acquired. In this case,
6 Crossroads secured three (3) appraisals performed by qualified and disinterested appraisers
7 as defined by IC 8-1-30.3-5.5, including one appraisal by an engineer registered under IC
8 25-31 and two appraisals performed by general appraisers licensed under IC 25-34.1-8.
9 The appraisers are disinterested as required by the statute because their fees for the
10 appraisal services were fixed before the individuals performed the appraisals; none of the
11 appraisers are employees of any party to the acquisition; none of the appraisers are state or
12 municipal or employees; and none of the appraisers have affiliated interests to the parties
13 to the acquisition. Copies of the appraisals performed are included as **Attachment MM-9**
14 to the testimony of Crossroads witness Michael Myers. The LMH System appraised at
15 approximately \$12 million according to Banning Engineering; and at \$4 million according
16 to William R. Schreiner and Lloyd W. Stoner. The proposed purchase price of \$1,712,173
17 offered by Crossroads in this Cause certainly does not exceed the appraised value, and as
18 such the purchase price is deemed reasonable.

19
20 **Q. Is the proposed price the result of an arm's length negotiation between the buyer and**
21 **seller?**

1 A. Yes, it is. The price for LMH Utilities Corporation was established through arms-length
2 negotiations between two unrelated parties and reflects an acquisition price that is
3 approximately \$2.3 million *lower* than the value of the assets as determined by two of
4 statutory required appraisal of the system assets, and \$10.4 million *lower* than the value of
5 the highest appraisal calculated for the LMH assets.

6
7 **Q. Does the purchase price include a “cost differential” as defined in IC 8-1-30.3-1?**

8 A. Yes, the purchase price for the acquisition includes a “cost differential” as that term is
9 defined in IC 8-1-30.3-1. As part of the conditions to closing under the Asset Purchase
10 Agreement, which is more fully described in Crossroads witness Michael Myer’s
11 testimony, the Joint Petitioners in this cause are seeking an Order from the Commission
12 that the full purchase price of \$1,712,173, plus incidental expenses and other costs of
13 acquisition estimated at \$360,000, including the cost differential, shall be included in
14 Crossroad’s rate base for ratemaking purposes in general rate cases. Based upon the journal
15 entry proposed in **Attachment GMV-3**, the investor-supplied original cost rate base for
16 LMH would be equal to the full purchase price plus the incidental expenses and other costs
17 of acquisition totaling \$2,072,173, which is less than the appraised value of the acquired
18 property.

19
20 **Q. Mr. VerDouw, how do you know that there is a “cost differential” as part of this
21 proposed acquisition?**

22 A. There will essentially always be a cost differential in transactions such as this acquisition
23 where the purchase price is derived from something other than original cost, as it is in the

1 case of Crossroad's proposed acquisition of LMH. Unless the purchase price is based on
2 original cost figures, there will be a difference. In this case, the acquisition price of
3 \$1,712,173 that is part of the Asset Purchase Agreement included as **Attachment MM-8**
4 in this Cause is not based on original cost figures per the books and records of LMH. As
5 such, there will be a cost differential for this transaction.

6
7 **Q. Are you able to calculate the "cost differential" for this acquisition?**

8 A. Although the statues included in IC 8-1-30.3-1 through IC 8-1-30.3-6 define "cost
9 differential", the calculation is not required for the Commission to grant the relief sought
10 by Joint Petitioners in this Cause. In the case of LMH, there are multiple ways to calculate
11 the cost differential for this acquisition. For instance, if data from LMH's IURC Annual
12 Report for Investor-Owned Wastewater for the year ended December 31, 2021, is used,
13 LMH's Total Net Utility Plant (Rate Base) as shown on Page F-1(a) is \$3,813,826. The
14 difference between the original cost rate base requested in this Petition (\$2,072,173) and
15 the Rate Base included in LMH's Annual Report to the Commission as of December 31,
16 2021 (\$3,813,826) is -\$1,741,653, which could be considered the amount of the "cost
17 differential" (in this case, a negative cost differential) in this acquisition. Even though
18 LMH is showing this net asset total on their books, the IURC disallowed the recovery of
19 various assets in LMH's rate case docketed as Cause No. 43431. In LMH's most recent
20 rate case docketed as Cause No. 45307-U and approved on July 29, 2020, the IURC
21 approved an original cost rate base as of December 31, 2018, of \$1,180,507. The difference
22 between the original cost rate base requested in this Petition (\$2,072,173) and the Rate

1 Base approved in LMH rate case docketed as Cause No. 45307-U (\$1,180,507) is
2 \$891,666, which could be considered the amount of the “cost differential” in this
3 acquisition. Although the actual calculation of any cost differential is not required by
4 statute, I believe the calculation of a cost differential of \$891,666 using the approved
5 original cost rate base in Cause No. 45307-U would be most appropriate to use.
6

7 **Q. Is the Commission’s ability to grant the relief sought by the Joint Petitioners in this**
8 **Cause affected by the fact that there is no one definitive way to calculate the “cost**
9 **differential” based upon the records available with respect to LMH Utilities?**

10 A. No. The fact that the “cost differential” could be calculated in various ways shows that an
11 accurate calculation of any cost differential could be disputed. All that is required is that
12 there *be* a “cost differential”, not that the precise amount of that cost differential be
13 calculated or otherwise known. The only requirement that even mentions the “cost
14 differential” is Section 30.3-5(d)(8), which requires that the cost differential be added to
15 the utility company’s rate base to be amortized as an addition to expense over a reasonable
16 time with corresponding reductions in the rate base. I will explain below how that will be
17 accomplished.
18

19 **Q. Is the cost differential, no matter how it is calculated, reasonable?**

20 A. IC 8-1-30.3-5(b) provides that there is a rebuttable presumption that a cost differential is
21 reasonable to the extent the purchase price does not exceed the appraised value as
22 determined under IC 8-1-30.3-5.5. As shown in the testimony of Crossroads witness

1 Michael Myers, the purchase price for LMH Utilities Corporation was established though
2 negotiations between two unrelated parties and reflects an acquisition price that is
3 approximately \$2.3 million *lower* than the value of the assets as determined by two of
4 statutory required appraisal of the system assets, and \$10.4 million *lower* than the value of
5 the highest appraisal calculated for the LMH assets.

6
7 **Q. How are you proposing to address the “cost differential” in this acquisition?**

8 A. For purposes of this acquisition, Crossroads is proposing to reflect a total original cost rate
9 base of \$2,072,173. Crossroads intends to book this acquisition via the journal entry
10 proposed in **Attachment GMV-3** by reflecting the Cost Approach Summary – Wastewater
11 Utility System valuation included on Page 25 of the Schreiner Valuation Resources, LLC
12 Appraisal Report prepared for LMH Utilities, reduced on a pro-rata basis to reflect the
13 proposed acquisition price plus the estimated transaction costs. The assumption will be
14 made that the “cost differential” will be included as part of each of the asset categories
15 reflected in the journal entry proposed in **Attachment GMV-3** on a pro-rated basis.

16
17 **Q. With that journal entry, how will the cost differential you have described be
18 amortized?**

19 A. With this journal entry proposed for Crossroad’s acquisition of LMH, the allocation of the
20 full purchase price (including the cost differential) plus incidental expenses and other costs
21 of the acquisition in a reasonable manner among appropriate utility plant in service
22 accounts. As a result, the cost differential will be “amortized” and charged to expense over

1 a reasonable period of time with corresponding changes to rate base through depreciation
2 expense calculated pursuant the depreciation accrual rates in currently in place and to
3 remain in place at Crossroads.

4
5 **Q. Mr. VerDouw, you state above that Attachment GMV-3 was derived by reflecting the**
6 **asset values by asset category as recommended by the appraisal, reduced on a pro-**
7 **rata basis to reflect the reduced purchase price plus the estimated transaction costs.**
8 **Would there be other ways to calculate the journal entry to record the proposed**
9 **acquisition by Crossroads Utilities?**

10 A. Yes, there would be. Crossroads could start the journal entry calculation by reducing
11 LMH's existing booked plant assets on a ratable bases to arrive at the total. However, as I
12 discussed above in determining the cost differential, LMH has several assets on its books
13 and records that are not recognized by the Commission when determining authorized rate
14 base. As such, it would be difficult to determine which assets should be included in the
15 journal entry that transfers those assets to Crossroads upon the completion of the
16 acquisition. As part of the appraisal process, Banning Engineering conducted a very
17 thorough review of the assets currently in place and serving the customers of LMH, and
18 was able to break down assets not only by category but by age, count, length of pipe, etc.
19 in determining their appraised value of the LMH system. The Cost Approach Summary
20 reflected on Page 25 of Schreiner Valuation Resources, LLC gives the best breakdown of
21 the plant assets, as determined by the appraisers, of the plant assets that are in place and
22 are used and useful in providing service to the current LMH customer base. By using the

1 asset totals for LMH as determined by Banning Engineering and Schreiner Valuations
2 Resources, LLC, reduced on a pro-rata basis to reflect the proposed acquisition price plus
3 the estimated transaction costs to be paid by Crossroads, the journal entry included as
4 **Attachment GMV-3** represents a very fair and accurate version of the assets in place that
5 will be serving the customers of Crossroads Utilities, LLC upon completion of this
6 acquisition.

7
8 **Q. Has a journal entry for a utility acquisition been prepared in this manner in any**
9 **previous Indiana water and/or wastewater acquisitions?**

10 A. Yes. Indiana American Water Company used a similar method of journal entry preparation
11 in its acquisition of Wastewater One, LLC in Cause No. 45461, which was approved by
12 the Commission on June 2, 2021. In that case, Indiana American purchased Wastewater
13 One for a price of \$420,000. The appraised value of Wastewater One was \$950,000.
14 Indiana American prepared its journal entry by reflecting the asset values by asset category
15 as recommended in the appraisal, reduced on a pro-rata basis to reflect the reduced
16 purchase price plus the estimated transaction costs. I have used a similar process in
17 preparing the proposed journal entry for Crossroad's proposed acquisition of LMH
18 Utilities, as shown in **Attachment GMV-3**.

19
20 **Q. What standard do you believe should apply in determining when Crossroad's**
21 **proposed ratemaking treatment should be available?**

22 A. The accounting and ratemaking treatment as reflected in the proposed journal entry
23 conforms to the treatment to be granted under IC 8-1-30.3-5(d) where all the factors set

1 forth in the sections are met. Crossroads witness Michael Myers describes in his direct
2 testimony how the acquisition of LMH Utilities satisfies each of the statutory elements
3 except for two, which I am addressing (amortization of the cost differential and impact on
4 LMH/Crossroads rates). Under IC 8-1-30.3-5(f), if the Commission makes the required
5 findings, the resulting Order is to authorize Crossroads “to make accounting entries
6 recording the acquisition that reflect (1) the full purchase price; (2) incidental expenses;
7 and (3) other costs of acquisition; as the original cost of the utility plant in service being
8 acquired, allocated in a reasonable manner among appropriate utility plant in service
9 accounts.” As a result, Crossroads proposes to record the net original cost of the LMH
10 system in the manner reflected in the proposed journal entry shown in **Attachment GMV-**
11 **3.**

IV. DEPRECIATION

15 **Q. What is Crossroads proposing with respect to depreciation accrual rates?**

16 A. Currently, all LMH depreciable assets are using a composite depreciation accrual rate of
17 2.5% per year, or a 40 year depreciation rate. Crossroads is proposing that the LMH assets
18 continued to be depreciated at the composite rate of 2.5% per year for all depreciable asset
19 categories.

V. WASTEWATER RATES

1 **Q. Does Crossroads propose to maintain the current LMH Utilities rates at this time?**

2 A. Yes. Crossroads is not proposing any change to current LMH Utilities rates at this time.
3 It is Crossroad's intent to leave the existing LMH rates as-is until a future rate case is filed
4 and approved.

5
6 **Q. IC 8-1-30.3-5(d)(7) discusses future rate increases and the effects of the acquisition on
7 future rates to acquired utility customers. Mr. VerDouw, can you address the effect
8 on future LMH rates as a result of this proposed acquisition?**

9 A. Yes, I can. IC 8-1-30.3-5(d)(7) discusses rates charged in acquisitions as follows:

10 **IC 8-1-30.3-5(d)(7):** The rates charged by the utility company will not
11 increase unreasonably in future general rate cases solely as a result of
12 acquiring the utility property from the offered utility. For purposes of this
13 subdivision, the rates and charges will not increase unreasonably in future
14 general rate cases so long as the net original cost proposed to be recorded
15 under subsection (f) is not greater than two percent (2%) of the acquiring
16 utility's net original cost rate base as determined in the acquiring utility's
17 most recent general rate case, plus any adjustments to the rate base under [IC](#)
18 [8-1-31](#) and [IC 8-1-31.7](#) that have occurred after the rate case. If the amount
19 proposed to be recorded under subsection (f) is greater than two percent
20 (2%) of the acquiring utility's net original cost rate base as determined in
21 the acquiring utility's most recent general rate case, plus any adjustments to
22 the rate base under [IC 8-1-31](#) and [IC 8-1-31.7](#) that have occurred after the
23 rate case, the commission shall proceed to determine whether the rates
24 charged by the utility company will increase unreasonably in future general
25 rate cases solely as a result of acquiring the utility property from the offered
26 utility and, in making the determination, may consider evidence of:

- 27 (A) the anticipated dollar value increase; and
28 (B) the increase as a percentage of the average bill.
29

30 **Q. IC 8-1-30.3-5(d)(7) states "For purposes of this subdivision, rates and charges will not
31 increase unreasonably in future general rate cases so long as the net original cost
32 proposed to be recorded under subsection (f) is not greater than two percent (2%) of**

1 **the acquiring utility's net original cost rate base as determined in the acquiring**
2 **utility's most recent general rate case, plus any adjustments to the rate base under [IC](#)**
3 **[8-1-31](#) and [IC 8-1-31.7](#) that have occurred after the rate case. Can the two percent**
4 **(2%) threshold be met by Crossroads in this proceeding?**

- 5 A. No, it cannot be met by Crossroads. The LMH acquisition is Crossroad Utilities' first
6 acquisition in Indiana and is the only water/wastewater utility in the state of Indiana owned
7 by Crossroads. Two percent of the proposed rate base for Crossroads after its acquisition
8 of LMH would be \$41,443, which is calculated by taking the acquisition price and
9 incidentals and other costs of acquisition of \$2,072,173 times two percent (2%).
10 **Attachment GMV-4** shows data taken from the Commission's Final Order in LMH's most
11 recent rate case, docketed as Cause No. 45307 and approved by the IURC on July 29, 2020.
12 In that case, an original cost rate base of \$1,180,507 was approved, resulting in total
13 approved operating revenues of \$800,574 and net operating income of \$83,934 as shown
14 in Column A. Column B shows the same results but adjusts original cost rate base to reflect
15 the total acquisition cost only of \$1,712,173. Line 11 of Column B of **Attachment GMV-**
16 **4** shows that using \$1,712,173 as the original cost rate base total would require an
17 additional revenue increase \$50,655, or 6.33%. which is \$9,222 more than the two percent
18 of rate base total of \$41,443. Under this scenario, a typical LMH/Crossroads customer
19 using 6,000 gallons per month would experience an increase of \$3.46 per month from
20 \$54.63 to \$58.09, or 6.33%. Column C of **Attachment GMV-4** adjusts the data shown in
21 Column A to reflect an original cost rate base of the acquisition cost of \$1,712,173 plus
22 Incidental Expenses and Other Costs of Acquisition of \$360,000, or a total original cost

1 rate base of \$2,072,173. Line 11 of Column C of **Attachment GMV-4** shows that an
2 original cost rate base of \$2,072,173 would require an additional revenue increase \$84,953,
3 or 10.61%. This total is \$43,510 more than the two percent of rate base total of \$41,443.
4 A typical LMH/Crossroads customer using 6,000 gallons per month under this scenario
5 would experience an increase of \$5.80 per month from \$54.63 to \$60.43, or 10.61%.

6
7 Further, Crossroads Utilities has done an engineering study that shows two capital projects
8 totaling \$1,223,500 would be completed within the first year of acquisition. If those
9 projects totaling \$1,223,500 were to be completed as planned, and Crossroads were to file
10 for an increase in rates and include the first year capital projects in its filing, Crossroads
11 would be filing for authorization of original cost rate base of \$3,295,673, as shown on Line
12 4 of Column D of **Attachment GMV-4**. If the IURC were to approve an initial rate
13 increase for Crossroads Utilities with an approved original cost rate base of \$3,295,673,
14 assuming all other lines items included in **Attachment GMV-4** were representative of
15 items included in that filing, Crossroads would receive a rate increase of \$201,520, or
16 25.17%, as shown on Lines 11 and 12 of Column D of **Attachment GMV-4**. This total is
17 \$160,077 more than the two percent of rate base total of \$41,443. A typical
18 LMH/Crossroads customer using 6,000 gallons per month under this scenario would
19 experience an increase of \$13.75 per month from \$54.63 to \$68.38, or 25.17%.

20

1 Based on the assumptions shown in **Attachment GMV-4**, the original cost rate base two
2 percent threshold established in IC 8-1-30.3-5(d)(7) cannot be met by Crossroads under
3 these scenarios.

4
5 **Q. What does IC 8-1-30.3-5(d)(7) go on to say if the two percent original cost rate base**
6 **threshold is not met?**

7 A. IC 8-1-30.3-5(d)(7) further states “*If the amount proposed to be recorded under subsection*
8 *(f) is greater than two percent (2%) of the acquiring utility's net original cost rate base as*
9 *determined in the acquiring utility's most recent general rate case, plus any adjustments to*
10 *the rate base under [IC 8-1-31](#) and [IC 8-1-31.7](#) that have occurred after the rate case, the*
11 *commission shall proceed to determine whether the rates charged by the utility company*
12 *will increase unreasonably in future general rate cases solely as a result of acquiring the*
13 *utility property from the offered utility and, in making the determination, may consider*
14 *evidence of:*

15 *(A) the anticipated dollar value increase; and*

16 *(B) the increase as a percentage of the average bill.”*

17
18 **Q. Mr. VerDouw, do you feel that any rate increase passed on to LMH/Crossroads**
19 **customers because of the proposed Crossroads acquisition would be considered**
20 **reasonable?**

21 A. I do. The negotiations between LMH and Crossroads, as detailed in the testimony of
22 Crossroads witness Michael Myers, led to a purchase price that was arrived at based on
23 mutual discussions professionals regarding LMH’s assets, their value, the condition of the

1 LMH System, and the rate base and rates approved by the Commission in LMH's last base
2 rate proceeding. The sales price that is included in the Asset Purchase Agreement reflects
3 the results of negotiations that, for one, was designed to have as small of an impact on rates
4 as possible. The acquisition of LMH by Crossroads reflects a purchase price of
5 approximately \$1,286 per existing LMH account in service, which is by far the lowest per
6 customer purchase price seen in Indiana water/wastewater acquisition cases since 2009, as
7 shown in the information included as part of the appraisal performed by Schreiner
8 Valuation Resources LLC in this Cause. The price to be paid by Crossroads for LMH
9 assets reflects an acquisition price that is approximately \$2.3 million *lower* than the value
10 of the assets as determined by two of statutory required appraisal of the system assets, and
11 \$10.4 million *lower* than the value of the highest appraisal calculated for the LMH assets.
12 Undoubtedly, a purchase price of \$4 million or more would result in a larger increase for
13 LMH customers, regardless of which utility purchased them. As shown above, Crossroads
14 could complete the acquisition of LMH for \$1.7 million, incur \$360,000 in incidental
15 expenses and other costs of acquisition, and complete \$1,223,500 in first year capital costs,
16 and still have more than \$700,000 less in original cost rate base had the lowest appraisal
17 costs of \$4 million (and not including any incidental expenses and other costs of
18 acquisition) been used for this acquisition. LMH witness June Tucker states in her
19 testimony that the operation of LMH requires 24/7 attention and is time-intensive, and that
20 LMH's owners are ready to transfer LMH to a new, responsible utility operator.
21 Crossroads has the knowledge and experience to operate a system such as LMH's in a
22 professional and efficient manner. The negotiations between LMH and Crossroads reflects

1 a price that has the least effect possible on LMH current rates. As such, I feel any rate
2 increase passed on to LMH customers because of the proposed Crossroads acquisition
3 would be considered reasonable.

4


5 **Q. Does this conclude your testimony?**

6 A. Yes, it does.

VERIFICATION

I hereby verify that the foregoing testimony is true and accurate to the best of my knowledge and belief.

DATED: 12/15/2022

By: 

GARY M. VERDOUW

REGULATORY TESTIMONY PROVIDED

Illinois:

- 2005 – Illinois American Water Company, Initial Qualified Infrastructure Plant (“QIP”) filing.
- 2005 – Illinois American Water Company, Purchased Water and Sewer Reconciliation.
- 2006 – Illinois American Water Company, Purchased Water and Sewer Reconciliation.

Indiana:

- 2006 – Indiana American Water Company, Distribution System Infrastructure Charge (“DSIC”), Cause Number 42351-DSIC-3.
- 2006 – Indiana American Water Company, Rate Case, Cause Number 43187.
- 2007 – Indiana American Water Company, City of Merrillville, Indiana Fire Protection Surcharge, Cause No. 43398.
- 2008 – Indiana American Water Company, DSIC, Cause Number 42351-DSIC-4.
- 2008 – Indiana American Water Company, City of Winchester, Indiana Fire Protection Surcharge, Cause No. 43605.
- 2008 – Indiana American Water Company, City of Gary, Indiana Fire Protection Surcharge, Cause No. 43583.
- 2009 – Indiana American Water Company, Approval of Post In-Service AFUDC and Deferred Depreciation, Cause No. 43639.
- 2009 – Indiana American Water Company, DSIC, Cause Number 42351-DSIC-5.
- 2009 – Indiana American Water Company, Rate Case, Cause Number 43680.
- 2009 – Indiana American Water Company, Financing Case, Cause Number 43767.
- 2010 – Indiana American Water Company, City of Muncie, Indiana Fire Protection Surcharge, Cause No. 43843.
- 2010 – Indiana American Water Company, DSIC, Cause Number 42351-DSIC-6.
- 2011 – Indiana American Water Company, Approval of Post In-Service AFUDC and Deferred Depreciation, Cause No. 43991.
- 2011 – Indiana American Water Company, Rate Case, Cause Number 44022.
- 2014 – Indiana American Water Company, Rate Case, Cause Number 44450.
- 2015 – Indiana American Water Company, Financing Case, Cause Number 44682.
- 2015 – Indiana American Water Company, Russiaville, Indiana Acquisition, Cause Number 44584.
- 2015 – Indiana American Water Company, American Suburban Acquisition, Cause Number 44592.
- 2015 – Indiana American Water Company, City of West Lafayette, Indiana Fire Protection Surcharge, Filing No. 3399.
- 2016 – Indiana American Water Company, DSIC, Cause Number 42351-DSIC-9.
- 2017 – Indiana American Water Company, DSIC, Cause Number 42351-DSIC-10.
- 2017 – Indiana American Water Company, Town of Georgetown, Indiana Acquisition, Cause Number 44915.
- 2017 – Indiana American Water Company, Town of Charlestown, Indiana Acquisition, Cause Number 44976.
- 2017 – Indiana American Water Company, Depreciation Rate Study, Cause Number 44992.
- 2017 – Indiana American Water Company, City of Seymour, Indiana Fire Protection Surcharge, Filing No. 3520.
- 2018 – Indiana American Water Company, DSIC, Cause No. 42351-DSIC-11.
- 2018 – Indiana American Water Company, Town of Lake Station, Indiana Acquisition, Cause Number 45041.
- 2018 – Indiana American Water Company, Customer Owned Lead Service Line Replacement Program Approval, Cause Number 45043.

GARY M. VERDOUW

REGULATORY TESTIMONY PROVIDED**Indiana (Continued):**

- 2018 – Indiana American Water Company, Town of Sheridan, Indiana Acquisition, Cause Number 45050.
- 2021 – Jackson County Regional Sewage District/Seymour Municipal Sanitation Services, Wholesale Cost of Service Review, Cause No. 45548.
- 2022 – Aqua Indiana, Inc., Approval of Service Improvement Project, Post-In-Service AFUDC and Deferred Depreciation on Service Improvement Project Assets, Cause No. 45675.
- 2022 – Lakes of the Four Seasons Property Owner’s Association, testimony in opposition to rate increase proposed by Community Utilities of Indiana, Inc., Cause No. 45651.
- 2022 – Fountaintown Gas Company, Inc., Rate Case – responsible for preparation of small utility rate case filing; no testimony provided. Cause No. 45802-U.

Iowa:

- 2013 – Iowa American Water Company, Rate Case, Docket Number RPU-13-0002.

Kentucky:

- 2012 – Kentucky American Water Company, Rate Case, Docket Number 2012-00520.

Michigan:

- 2012 – Michigan American Water Company, Rate Increase (not regulated; no testimony provided).
- 2014 – Michigan American Water Company, Rate Increase (not regulated; no testimony provided).
- 2016 – Michigan American Water Company, Rate Increase (not regulated; no testimony provided).

Missouri:

- 2015 – Missouri American Water Company, Rate Case, Case Number WE-2015-0301.
- 2015 – Missouri American Water Company, Rate Case, Case Number WE-2015-0302.

Ohio:

- 2006 – Ohio American Water Company, Rate Case, Docket Number 06-433-WS-AIR.
- 2007 – Ohio American Water Company, Rate Case, Docket Number 07-1112-WS-AIR.
- 2009 – Ohio American Water Company, System Infrastructure Improvement Charge (“SIIC”), Docket Number 09-92-WW-SIC.
- 2009 – Ohio American Water Company, Rate Case, Docket Number 09-0391-WS-AIR.
- 2011 – Ohio American Water Company, System Infrastructure Improvement Charge (“SIIC”), Docket Number 11-151-WW-SIC.
- 2011 – Ohio American Water Company, Rate Case, Docket Number 11-4161-WS-AIR.

Tennessee:

- 2012 - Tennessee American Water Company, Rate Case, Docket Number 12-00049.
- 2013 - Tennessee American Water Company, Alternative Regulatory Mechanism Filing, Docket Number 13-00130.