

INDIANA-AMERICAN WATER COMPANY, INC.

DIRECT TESTIMONY
OF
MANUEL CIFUENTES, JR.

March 31, 2023

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OF
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INTRODUCTION

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Q. Please state your name and business address.

A. My name is Manuel Cifuentes, Jr. My business address is 727 Craig Road, Saint Louis, Missouri 63141.

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

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

Q. Please summarize your educational background and work experience.

A. I received a Bachelor of Science in Public Accountancy from the City University of New York at Brooklyn College in 2006. I am a Certified Public Accountant licensed in the State of New York, and I am a Chartered Global Management Accountant. From 1999 to 2003, I served as a Sergeant on active duty in the United States Army. From 2006 to 2016, I held various roles of progressive accounting responsibility within the financial services industry, primarily related to statutory financial and reporting and U.S. generally accepted accounting principles (“U.S. GAAP”) reporting. From 2016 to 2019, I was employed by Southern Company Gas, a company engaged in the natural gas industry, as a Manager, Regulatory Reporting. From 2019 to 2020, I was employed by a global wireless telecommunications company as a Senior Accounting Manager. From 2020 to 2021, I was

1 employed as a Utility Rate Case Consultant supporting Vectren Corporation, a wholly
2 owned subsidiary of CenterPoint Energy, an energy company engaged in the natural gas
3 and electric businesses. Most recently, I was employed by Liberty Utilities, a regulated
4 water, wastewater, natural gas, and electric company initially as a Senior Analyst, Rates
5 and Regulatory Affairs for Arizona and Texas before being promoted to Manager, Rates
6 and Regulatory Affairs with responsibility for leading and executing the regulatory strategy
7 in Georgia. In October 2022, I began my employment with the Service Company within
8 Regulatory Services.

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

10 A. My duties consist of preparing, assisting, and reviewing regulatory filings and related
11 activities for all the regulated subsidiaries of American Water. My responsibilities include
12 preparation of written testimony, exhibits, and workpapers in support of rate applications
13 and other regulatory filings as well as responses to data requests for the regulated
14 subsidiaries of American Water and its regulated utility affiliates.

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

16 A. Yes. I have provided testimony before the Arizona Corporation Commission on behalf of
17 Liberty Utilities in Docket No. SW-04316-21-0325. This is my first opportunity to submit
18 testimony before the Indiana Utility Regulatory Commission (“IURC” or “Commission”).

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

20 A. The purpose of my Direct Testimony is to support and explain the Company’s level of
21 expenses in several areas as well as the Company’s pro forma adjustments associated with
22 production costs, and several other operational expenses.

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

3 A. I am sponsoring the following schedules and supporting workpapers associated with
4 INAWC Financial Exhibits OPER OM1 through OM4, OM12 through OM20, OM22,
5 OM24, OM25, and OTX1.

6 **Q. Were these schedules of the INAWC Financial Exhibits prepared by you or under**
7 **your supervision?**

8 A. Yes.

9 **Q. What were the sources of the data used to prepare these schedules?**

10 A. The data contained in the schedules I am sponsoring was obtained or derived from the
11 books and records of INAWC.

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

14 A. Yes.

15 **Q. Do these schedules of the INAWC Financial Exhibits accurately summarize such data**
16 **and the results of analysis using such data?**

17 A. Yes, they do.

18 **Q. What methodology did the Company use in calculating its pro forma expense levels**
19 **in this case?**

20 A. The Company employed a future test year. In general, the Company is filing this case
21 using a historical base period that is the twelve months ended September 30, 2022. Our

1 pro forma level of expense is derived using (a) the historical base period, updated to include
2 projected changes, adjusted based on Company experience, (b) forecasted activity levels
3 or levels adjusted based on an inflation factor for the verifiable link period (October 1,
4 2022 through April 30, 2024) and then (c) those activity levels, forecasted prices and
5 inflation trended through the future test year (May 1, 2024 to April 30, 2025) to obtain
6 representative expenses for the forecasted test year. The process employed a bottom-up
7 approach to the development of the pro forma expense levels that involves inputs and
8 several factors from the operational management team to build operating and maintenance
9 (“O&M”) expenses that are reasonably predicted to occur during the verifiable link period
10 and the future test year. As will be discussed in more detail within my testimony, in order
11 to obtain representative levels of expenses that can vary, INAWC used a three (3) year
12 average of Company experience for pro forma expense adjustments for maintenance
13 service & supplies, and uncollectibles. The Company forecasted chemical costs based on
14 annualized data points for usage and pricing levels. To gauge other cost increases, INAWC
15 used and applied a three (3) year average of historical inflation based on expense category.
16 Inflation was applied to the following pro forma expense adjustments: Waste Disposal,
17 Building Maintenance and Supplies, Telecommunication, Postage, Office Supplies,
18 Employee Related Expense, Miscellaneous Expense, Rent, Transportation, Customer
19 Accounting, and Maintenance Supplies & Services.

20 **Q. Please describe the inflation factors the Company is proposing.**

21 A. The Company used unique and specific inflation factors developed for each O&M category
22 that aligns with the United States (U.S.) Bureau of Labor Statistics (the “BLS”) by specific
23 measure category and type of cost to recognize the impact of inflation on the Company’s

1 expenses for the verifiable link period and through the future test year. The inflationary
2 factors used in this proceeding were based on a three (3) year average (September 2020,
3 September 2021, and September 2022) of the annual change in inflation for each respective
4 O&M category. The inflationary factors are representative of specific cost changes and
5 known inflationary pressures recently experienced in the economy. It is necessary to
6 account for the effects of inflation on INAWC's O&M expenses based on the Consumer
7 Price Index¹ (CPI) as calculated by the BLS through the end of the future test year since
8 this is a reasonable proxy for expected cost increases based on actual experience and/or
9 likely to occur in the economy. The schedule can be found in the file entitled
10 Inflation_Workpaper_BLS.

11 **Q. Has the Company utilized an inflation factor in the past?**

12 A. Yes. In its last general rate case, Cause No. 45142, the Company proposed and included
13 inflationary factors in the development of the forecasted expenses.

14 **Q. Can you provide an overview of the Company's O&M expense levels?**

15 A. The Company has been generally successful in controlling O&M expenses over the past
16 decade. In 2022, the Company's O&M expense per customer was approximately the same
17 as it was in 2013. However, as described by Company witnesses Kari C. Britto and Thomas
18 G. O'Drain, new challenges now require increased O&M spending. INAWC is seeking
19 recovery of approximately \$100 million in O&M expense for Step 1, and approximately

¹ The Consumer Price Index (CPI) and the gross domestic product (GDP) price index and implicit price deflator are measures of inflation in the U.S. economy. The CPI measures price changes in goods and services purchased out of pocket by urban consumers, whereas the GDP price index and implicit price deflator measure price changes in goods and services purchased by consumers, businesses, government, and foreigners, but not importers. Source: United States Bureau of Labor Statistics. <https://www.bls.gov/opub/mlr/2016/article/comparing-the-cpi-with-the-gdp-price-index-and-gdp-implicit-price-deflator.htm>

1 \$106 million in O&M expense for both Step 2 and Step 3 in this Cause, respectively. These
2 expenses are addressed in more detail in the remainder of my testimony as well as in the
3 testimony of Company Witness Jennifer M. B. Grisham.

4 **PRODUCTION COSTS**

5 **Q. Please describe which operating expenses are considered production costs.**

6 A. Production costs are expenses incurred to provide water and wastewater services to our
7 customers, and that vary depending on the volume of water provided or wastewater
8 processed. These costs include purchased water, fuel and power, chemicals, and waste
9 disposal.

10 **Q. Please explain the impact of system delivery on production costs.**

11 A. System delivery is the amount of treated water that the Company's treatment plants
12 produce. Water sales as well as other factors impact the amount of water produced by the
13 plants, which in turn impacts expenses associated with treating and distributing that water.
14 As discussed by Company's Witness Chuck Rea, INAWC has proposed pro forma revenue
15 adjustments related to declining usage and customer growth and has calculated associated
16 pro forma system delivery. INAWC used the same level of system delivery in its pro
17 forma fuel and power, and chemicals production related expenses.

18 **Purchased Water**

19 **Q. Please describe the purchased water expense.**

20 A. The purchased water expense includes the costs for purchasing water from other utilities.
21 The Company purchases water from two (2) vendors, Boonville Utilities and Ramsey
22 Water Company. The Company used the current rate (unit price) per 1,000 gallons at

1 September 2022 for each vendor. The monthly forecasted usage was based on the historic
2 base year period usage for each vendor. The current rate (unit price) and monthly usage
3 was applied for both Boonville Utilities and Ramsey Water Company through April 2025.
4 The verifiable link period expense and future test year expense can be found in INAWC
5 Financial Exhibits OPER Schedule OM1 within the Exhibit Tab. The schedule can be
6 found in the file entitled INAWC 2023 Rate Case –Purchased Water.

7 **Fuel and Power**

8 **Q. Please describe the fuel and power expense.**

9 A. Fuel and power expense is composed of costs associated with treating, pumping, and
10 distributing water and collecting and treating wastewater. INAWC’s power expense is
11 primarily composed of electricity cost. In order to determine the appropriate expense level,
12 the Company used actual power invoices by vendor(s) for the historic base period. An
13 adjustment was then made to annualize the monthly expense incorporating the two (2)
14 systems of Claypool and Sunset Village/Bushman Lake. The second adjustment
15 annualizes the impact of the approved rate increases for 2021 through 2023 for Richmond
16 Power and Light and Rush Shelby Energy. The third adjustment incorporates the projected
17 rate increases for 2024 through 2025 for our area electric and natural gas providers
18 (vendors) incurred in delivering energy which is reflected within the file entitled INAWC
19 2023 Rate Case –Fuel and Power on the Workpaper 2 Tab. At the time of preparing this
20 filing, INAWC is aware that Northern Indiana Public Service Company LLC (“NIPSCO”)
21 has a pending rate case (Cause No. 45772), and the outcome is unknown as of this filing.
22 There is also a pending case involving Duke Energy Indiana, LLC in Cause No. 45253,
23 which is not resolved as of the filing of this case. The Company expects to update its

1 purchased power expense to reflect the final outcome of these proceedings as well as any
2 other known increases from other area electric and natural gas providers. The Company's
3 2022 actual system delivery is then applied to the pro forma expense by vendor in order to
4 calculate the power expense per 1,000 gallons. The expense per 1,000 gallons is then
5 applied to the Company's forecasted system delivery for each respective period. The
6 approved and anticipated rate increases for Richmond Power and Light of 1.1%, Rush
7 Shelby Energy of 1.00%, and INAWC's other area electric and natural gas providers
8 (vendors) were applied to derive the forecasted expense levels for 2023 through 2025. A
9 listing of utility providers (vendors) is reflected within the file entitled INAWC 2023 Rate
10 Case –Fuel and Power on the Workpaper 2 Tab. The fuel and power expense can be found
11 in INAWC Financial Exhibits OPER Schedule OM2 within the Exhibit Tab. The schedule
12 can be found in the file entitled INAWC 2023 Rate Case –Fuel and Power.

13 **Chemicals**

14 **Q. Please describe the chemicals expense.**

15 A. The Company uses chemicals for both water and wastewater treatment to bring chemical
16 and biological contaminants within the levels prescribed by the United States
17 Environmental Protection Agency ("EPA") in accordance with the Safe Drinking Water
18 Act and the Clean Water Act. Chemicals are also utilized to remove turbidity (cloudiness)
19 of the water and to address any remaining taste or odor issues, and for wastewater
20 treatment. Water conditions can vary seasonally or due to other external factors, which
21 impacts chemical usage and expense levels. In order to calculate the appropriate level of
22 expense for water, the Company used the historical base period as a starting point then (a)
23 adjusted based on projected changes foreseen to occur, (b) developed the forecasted level

1 of expense by annualizing both the usage and pricing levels based on the full calendar years
2 of 2023, 2024, and 2025, (c) to obtain a representative level of pro forma of expense to be
3 used in this proceeding. The dramatic price increases for chemicals and their recent
4 volatility is addressed by Company Witness O'Drain. INAWC used recent cost per
5 chemical pricing forecasts and applied those costs to the respective period's usage per
6 month to calculate the total expense for chemicals. Additionally, chemical expenses
7 related to the systems of Claypool and Sunset Village/Bushman Lake were included in the
8 expense forecast. At the time of this filing, the Company noticed a de minimis change in
9 system delivery primarily attributable to an update (refresh) for chemicals expense and the
10 related files which the Company plans on updating during the course of this proceeding.
11 The verifiable link period expense and future test year expense can be found in INAWC
12 Financial Exhibits OPER Schedule OM3 within the Exhibit Tab. The schedule can be
13 found in the file entitled INAWC 2023 Rate Case –Chemicals.

14 **Waste Disposal**

15 **Q. Please describe the waste disposal expense.**

16 A. The Company incurs waste disposal costs as a result of the need to properly dispose of
17 sludge and other by-products resulting from water and wastewater treatment process. The
18 Company incurs monthly charges in some areas for waste removal, while others are
19 incurred as a result of periodic cleaning of lagoons based on cycles that range from 12 to
20 480 months. The cleaning schedule is based on the amount of waste and the size of the
21 lagoon, consistent with EPA standards. Waste disposal expense is accrued monthly, based
22 on the monthly expense plus periodic adjustments for changes in expense forecasts.
23 INAWC developed the forecasted expense amounts based on the historic base period ended

1 September 30, 2022, and then adjusted based on Company experience, to obtain the
2 forecasted level of expense for the verifiable link period through the future test year.
3 Additionally, expense for the acquisition of Claypool was included in the expense forecast.
4 Lastly, an inflation factor of 4.85% as derived from the U.S. BLS based on a three (3) year
5 average of annual change was utilized in the development of the forecasted expenses which
6 can be found in the file entitled Inflation_Workpaper_BLS. The verifiable link period
7 expense and future test year expense can be found in INAWC Financial Exhibits OPER
8 Schedule OM4 within the Exhibit Tab. The schedule can be found in the file entitled
9 INAWC 2023 Rate Case – Waste Disposal.

10 **OTHER OPERATING EXPENSES**

11 **Q. Please describe the expenses which are considered other operating expense.**

12 A. The “Other Operating Expense” category includes Building Maintenance and Services
13 expense, Telecommunication expenses, Postage, Printing and Stationery expenses, Office
14 Supplies and Services expenses, Advertising & Marketing expenses, Employee Related
15 Expense Travel & Entertainment, Miscellaneous expenses, Rent expenses, Transportation
16 expenses, Customer Accounting expenses, Insurance Other Than Group, Maintenance
17 Service and Supplies expense, and Property Tax expense. My testimony will address each
18 category separately, below.

19 **Building Maintenance and Services**

20 **Q. Please describe the operating expenses related to building maintenance and services**
21 **expense and how they were forecasted.**

22 A. The operating expense for building maintenance and services includes the cost of
23 electricity, heating, janitorial services, building security, and trash and water and

1 wastewater services. In order to determine the appropriate expense level, the Company
2 calculated the forecasted expense for the verifiable link period through the test year ending
3 April 30, 2025, by starting with the historic base period ended September 30, 2022, and
4 adjusting for any removal of miscoded expenses and reclassifications of expenses not
5 specific to this expense category. To that number, we applied an inflationary factor of
6 3.70% as derived from the U.S. BLS based on a three (3) year average of annual change to
7 develop the forecasted expenses which can be found in the file entitled
8 Inflation_Workpaper_BLS. The verifiable link period expense and future test year expense
9 can be found in INAWC Financial Exhibits OPER Schedule OM12 within the Exhibit Tab.
10 The schedule can be found in the file entitled INAWC 2023 Rate Case – Building
11 Maintenance and Services.

12 **Telecommunication**

13 **Q. Please describe the operating expenses and adjustments related to**
14 **telecommunications expense.**

15 A. The operating expense for telecommunications expense includes those expenses associated
16 with the office phone services, wireless services and other data lines used by the Company.
17 The Company calculated the forecasted expense for the verifiable link period through the
18 test year ending April 30, 2025, by starting with the historic base period ended September
19 30, 2022 expense and applying the inflation factor of 5.05% as derived from the U.S. BLS
20 based on a three (3) year average of annual change to calculate the forecasted expenses
21 which can be found in the file entitled Inflation_Workpaper_BLS. The verifiable link
22 period expense and future test year expense can be found in INAWC Financial Exhibits

1 OPER Schedule OM13 within the Exhibit Tab. The schedule can be found in the file
2 entitled INAWC 2023 Rate Case – Telecommunications Expense.

3 **Postage, Printing and Stationery**

4 **Q. Please describe the operating expenses and adjustments related to postage, printing
5 and stationery expense.**

6 A. The operating expense for postage and printing is inclusive of expenses related to various
7 shipping and mailings and postage expense. In order to calculate the verifiable link period
8 expense and future test year expense the Company used the historic base period ended
9 September 30, 2022, which is then adjusted for any removal of miscoded invoices, adjusted
10 for any accrual reversals, and updated postage rates. Lastly, an inflationary factor of 3.84%
11 as derived from the U.S. BLS based on a three (3) year average of annual change was
12 utilized in the development of the forecasted expenses which can be found in the file
13 entitled Inflation_Workpaper_BLS. Refer to INAWC Financial Exhibits OPER Schedule
14 OM14 within the Exhibit Tab. The schedule can be found in the file entitled INAWC 2023
15 Rate Case – Postage, Printing, & Stationery.

16 **Office Supplies and Services**

17 **Q. Please describe the operating expenses and adjustments related to office supplies and
18 services expense.**

19 A. The operating expense for office supply and services includes those expenses related to
20 software licenses, bank fees, and other various office supplies. In order to calculate the
21 forecasted expense, the Company first removed any accrued expense and any non-
22 reoccurring items. The Company then took the remaining expense items and applied the
23 inflation factor of 6.76% as derived from the U.S. BLS based on a three (3) year average

1 of annual change to calculate the forecasted expenses which can be found in the file entitled
2 Inflation_Workpaper_BLS. The verifiable link period expense and future test year expense
3 can be found in INAWC Financial Exhibits OPER Schedule OM15 within the Exhibit Tab.
4 The schedule can be found in the file entitled INAWC 2023 Rate Case –Office Supplies &
5 Services.

6 **Advertising & Marketing**

7 **Q. Please describe the operating expenses and adjustments related to advertising &**
8 **marketing expense.**

9 A. There was one (1) adjustment made to reclassify an amount to the appropriate expense
10 category. As such, the balance through the verifiable link period and the future test year
11 was zero as referenced in INAWC Financial Exhibits OPER Schedule OM16 within the
12 Exhibit Tab. The schedule can be found in the file entitled INAWC 2023 Rate Case –
13 Advertising & Marketing.

14 **Employee Related**

15 **Q. Please describe the operating expenses and adjustments related to employee related**
16 **expense.**

17 A. Employee related expenses include those expenses associated with employee travel and
18 relocation expense. In order to calculate the forecasted expense, the Company made a
19 number of adjustments to the historic base period ended September 30, 2022. First,
20 adjustments were made to remove any one-time/non-reoccurring expense. Secondly, the
21 Company took the remaining expense items and applied the inflation factor of 5.05% as
22 derived from the U.S. BLS based on a three (3) year average of annual change to calculate
23 the forecasted expenses which can be found in the file entitled Inflation_Workpaper_BLS.

1 The verifiable link period expense and future test year expense can be found in INAWC
2 Financial Exhibits OPER Schedule OM17 within the Exhibit Tab. The schedule can be
3 found in the file entitled INAWC 2023 Rate Case –Employee Related Expense Travel &
4 Entertainment.

5 **Miscellaneous Expense**

6 **Q. Please describe the operating expenses and adjustments related to miscellaneous**
7 **expense.**

8 A. The operating expense described as miscellaneous expense includes expenses for
9 charitable contributions, penalties and membership dues, lobbying, community relations,
10 as well as other miscellaneous expenses, such as lab supplies, and customer education
11 expenses. In order to calculate the forecasted expense, the Company started with the
12 historic base period ended September 30, 2022. The miscellaneous expense adjustment
13 then removes expenses for non-recoverable items such as charitable contributions,
14 lobbying, penalties, and membership dues. The Company made two (2) adjustments to
15 reflect the reclassification of certain expense items that were categorized in other expense
16 line items. The Company then took the remaining expense items and applied the inflation
17 factor of 5.05% as derived from the U.S. BLS based on a three (3) year average of annual
18 change to calculate the forecasted expenses which can be found in the file entitled
19 Inflation_Workpaper_BLS. The verifiable link period expense and future test year expense
20 can be found in INAWC Financial Exhibits OPER Schedule OM18 within the Exhibit Tab.
21 The schedule can be found in the file entitled INAWC 2023 Rate Case –Miscellaneous
22 Expense.

1 **Rent**

2 **Q. Please describe the operating expenses and adjustments related to rent expense.**

3 A. INAWC incurs expense for rental costs associated with copier machines and other
4 miscellaneous items, as well as office space, easements, and various well locations. The
5 Company first normalized these expenses by adding and removing license fees where
6 applicable by vendor. Additionally, the monthly lease, monthly operating, and annual costs
7 for the INAWC's corporate headquarters in Greenwood, Indiana are included in the
8 expense. This corporate office expense is then allocated between Water and Wastewater
9 based on an allocation factor derived from customer counts. Lastly, applicable expenses
10 were inflated using an inflation factor of 3.94% as derived from the U.S. BLS based on a
11 three (3) year average of annual change, which can be found in the file entitled
12 Inflation_Workpaper_BLS. The verifiable link period expense and future test year rent
13 expense can be found in INAWC Financial Exhibits OPER Schedule OM19 within the
14 Exhibit Tab. This schedule can be found in the file entitled INAWC 2023 Rate Case –
15 Rents.

16 **Transportation**

17 **Q. Please describe the operating expenses and adjustments related to transportation**
18 **expense.**

19 A. Transportation expense includes vehicle operation and maintenance, and fuel costs. In
20 order to calculate the forecasted transportation expense, the Company made a number of
21 adjustments to the historic base period ended September 30, 2022. First, adjustments were
22 made to the fleet expense for administrative fees charged by the Company's third-party
23 vendor, and maintenance fees, based on the number of vehicles. Second, an inflation factor

1 of 4.63% as derived from the U.S. BLS based on a three (3) year average of annual change
2 was applied to fuel and gasoline expense, maintenance charges, and other miscellaneous
3 charges, transportation purchases, and mileage reimbursement expense which can be found
4 in the file entitled Inflation_Workpaper_BLS. Third, expense associated with the
5 acquisition of the Claypool system was included in the expense forecast. The verifiable
6 link period expense and future test year expense can be found in INAWC Financial
7 Exhibits OPER Schedule OM20 within the Exhibit Tab. The schedule can be found in the
8 file entitled INAWC 2023 Rate Case – Transportation.

9 **Customer Accounting**

10 **Q. Please describe the operating expenses and adjustments related to customer**
11 **accounting expense.**

12 A. The Company incurs operating expenses for customer accounting that include costs related
13 to lock box fees for payment collection and bank fees. In order to calculate the appropriate
14 forecasted expense level, the Company started with the historic base period ended
15 September 30, 2022, which was then adjusted for the removal of one (1) time non-
16 occurring items and the inclusion of credit card fees (which is discussed in greater detail
17 by Company witness Shimansky). The Company then applied an inflationary factor of
18 2.75% as derived from the U.S. BLS based on a three (3) year average annual change to
19 calculate the forecasted expenses which can be found in the file entitled
20 Inflation_Workpaper_BLS. Expense for the systems of Claypool and Sunset
21 Village/Bushman Lake systems were included in the expense forecast. The verifiable link
22 period expense and future test year expense can be found in INAWC Financial Exhibits

1 OPER Schedule OM22 within the Exhibit Tab. The schedule can be found in the file
2 entitled INAWC 2023 Rate Case –Customer Accounting.

3 **Insurance Other Than Group (IOTG)**

4 **Q. Please describe the operating expenses and adjustments related to insurance other**
5 **than group expense.**

6 A. INAWC incurs costs related to several types of insurance, including Auto Liability,
7 General Liability, Worker’s Compensation, and Property. These insurance costs are
8 referred to as insurance other than group (“IOTG”). The Company’s General Liability,
9 Auto Liability and Workers Compensation premiums are based upon a combination of loss
10 experience (50%) and exposure (50% estimated annual revenue and payroll). Exposure
11 for Auto Liability uses estimated annual revenue, payroll and number of vehicles. The loss
12 experience is based upon a five (5) year average of historical loss experience. The five (5)
13 year average is used to smooth out losses to the extent that INAWC suffers an anomalous
14 year of claims experience. This is consistent with the commercial insurance market
15 underwriting practice.

16 **Q. Please describe the IOTG pro forma adjustments to operating expenses.**

17 A. The majority of the Company’s IOTG premiums renew on January 1 of each year
18 (Directors & Officers Liability insurance renews in May of each year, Crime, Employment,
19 Fiduciary, Lawyers and Travel insurance renews in April each year). Development of the
20 pro forma expense begins with the annualization of the current renewal insurance policy
21 premiums. The Company then calculated the forecasted expense for the verifiable link
22 period through the test year ending April 30, 2025, by applying specific policy escalation
23 factors on the policy amounts for each policy category from 2022 to 2025 along with the

1 annualized amounts at the time of each policy renewal, respectively. The Worker's
2 Compensation premiums are multiplied by the total company labor capitalization rate of
3 41.75% to eliminate the portion of that cost not charged to operating expenses. IOTG
4 expenses for Claypool and Sunset Village/Bushman Lake systems are also included. The
5 costs of the policy premiums are allocated between water and wastewater based on the
6 allocation percentage. The future test year insurance IOTG expense can be found in
7 INAWC Financial Exhibits OPER Schedule OM24 within the Exhibit Tab. This schedule
8 can be found in the file entitled IN 2023 Rate Case – Insurance Other than Group.

9 **Maintenance Service and Supplies**

10 **Q. Please describe the operating expenses and adjustments related to maintenance**
11 **service and supplies expense.**

12 A. The operating expenses associated with maintenance supplies and services are those
13 expenses associated with maintenance cost for the general operation of the business, plant
14 maintenance, hydrant painting expense, main break expense, and well cleanings. In order
15 to determine the appropriate expense level, the Company calculated an adjustment to
16 normalize the maintenance service and supplies expenses using a three (3) year average for
17 the calendar years 2020 through 2022. INAWC then computed the average for all three
18 (3) years and made an adjustment to the expenses in the forecasted period. An inflationary
19 factor of 3.70% as derived from the U.S. BLS based on a three (3) year average annual
20 change was utilized in the development of the forecasted expenses which can be found in
21 the file entitled Inflation_Workpaper_BLS. The verifiable link period expense and future
22 test year expense can be found in INAWC Financial Exhibits OPER Schedule OM25

1 within the Exhibit Tab. The schedule can be found in the file entitled INAWC 2023 Rate
2 Case –Maintenance Supplies and Services.

3 **TAXES OTHER THAN INCOME**

4 **Property Taxes**

5 **Q. Please describe the expenses related to property tax expense.**

6 A. Property taxes are administered and collected by local governments such as counties, cities,
7 townships, libraries, and fire districts. Property taxes are allocated to each taxpayer
8 proportionately according to the value of the taxpayer’s property. A property assessment
9 is conducted each year by the county assessor, which is then audited, and appropriate
10 deductions are applied. Once the assessment is completed and the property tax rate
11 calculated, a property tax bill is generated. Property Tax assessments are developed in
12 Indiana for utility companies’ personal property and real property based on the individual
13 company’s federal tax basis. The return is submitted to the Department of Local
14 Government Finance and they review and approve the assessment. That assessment is
15 distributed based on gross book cost in each tax district. The county assessor will value
16 the real property of the utility annually and issue bills for both the personal property and
17 real estate. Property tax assessments are based on the prior year ending property values
18 based on the federal tax basis for utilities. The property tax values from the base period
19 ended September 30, 2022, will be assessed in 2023 and payable in 2024. INAWC operates
20 under an accrual accounting method and therefore begins accruing the 2024 payable
21 expense in 2023 when the assessment is completed. To calculate the forecasted property
22 tax, the Company calculated the five (5) year weighted average of assessed values for 2017-
23 2021 adjusted for granted Personal Property assessment obsolescence claims, divided by

1 the UPIS basis amounts for 2016-2020 to determine the ratio of assessment value to UPIS
2 by real and personal property. The actual property tax rate was calculated by dividing
3 property taxes paid in 2022 based on 2021 assessed values by 2021 assessed value. The
4 five (5) year weighted average ratio of assessed value to UPIS was multiplied by the
5 forecasted UPIS to forecast assessed value, and then multiplied by the forecasted property
6 tax rate to determine property tax expense. This forecasted UPIS as of December 31, 2024
7 was used to forecast property tax expense for 2025. The personal property tax rate has
8 been trending higher over the past several years and is expected to accelerate as
9 municipalities are forced to spend more coming out of the COVID-19 pandemic. That
10 trend was used in our 2023 and 2025 property tax rate estimates. The monthly forecasted
11 2025 property tax expense was annualized to determine the total forecasted property tax
12 expense for the test year ending April 30, 2025. A separate adjustment was included for
13 the Claypool and Sunset Village/Bushman Lake systems. The verifiable link period
14 expense and future test year property tax expense can be found in INAWC Financial
15 Exhibits OPER Schedule OTX1 within the Exhibit Tab. This schedule can be found in the
16 file entitled INAWC 2023 Rate Case – Property Tax Expense.

17 **CONCLUSION**

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

19 **A.** Yes, it does.

VERIFICATION

I, Manuel Cifuentes, Jr., Senior Principal Regulatory Analyst, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.



Manuel Cifuentes, Jr.

Date: _____

3/27/2023