

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN)
WATER COMPANY, INC. FOR APPROVAL)
OF (A) A NEW DISTRIBUTION SYSTEM)
IMPROVEMENT CHARGE (“DSIC”)) CAUSE NO. 42351 DSIC 14
PURSUANT TO IND. CODE CHAP. 8-1-31; (B))
A NEW RATE SCHEDULE REFLECTING)
THE DSIC; AND (C) INCLUSION OF THE)
COST OF ELIGIBLE DISTRIBUTION)
SYSTEM IMPROVEMENTS IN ITS DSIC)

PUBLIC’S EXHIBIT NO. 1

TESTIMONY OF MARGARET A. STULL

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

February 17, 2023

Respectfully submitted

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR



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TESTIMONY OF OUCC WITNESS MARGARET A. STULL
CAUSE NO. 42351 DSIC-14
INDIANA-AMERICAN WATER COMPANY, INC.

I. INTRODUCTION

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

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

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

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

8 **Q: What is the purpose of your testimony?**

9 A: Indiana-American Water Company, Inc. (hereinafter “Petitioner,” “IAWC,” or
10 “Indiana-American”) filed its latest petition for distribution system improvement
11 charge (“DSIC”) on January 20, 2023 requesting permission to impose a
12 distribution system improvement charge of \$8.06¹, an increase of \$4.88 over the
13 current approved DSIC charge of \$3.18. In my testimony I provide a brief overview
14 of IAWC’s current DSIC and its proposal. I explain my exclusion of property taxes.
15 I discuss my inclusion of the net \$131,794 increase to the DSIC surcharge related
16 to the reconciliation of DSIC-11 (\$-71,276) and DSIC-12 (\$203,070). I also discuss
17 my proposed gross revenue conversion factor, which incorporates the current IURC
18 fee. Incorporating these modifications to IAWC’s proposal, I calculated a \$6.28

¹ Proposed DSIC charge for a 5/8” meter, the typical meter size for a residential customer.

1 DSIC-14 surcharge. I discuss my calculation of the 10% cap based on total water
2 operating revenues rather than total company operating revenues as proposed by
3 IAWC. Finally, I identify double recovery of removal costs that is caused by
4 IAWC's longstanding method in DSIC cases. I explain that, to avoid this double
5 recovery, costs of removal should be excluded from the DSIC calculation. I explain
6 that, because the Commission only has a short time to issue its order in this case,
7 this issue should be addressed in IAWC's next rate case.

8 **Q: What review and analysis did you perform to prepare your testimony?**

9 A: I reviewed IAWC's DSIC-14 direct testimony and attachments filed on January 20,
10 2023. I also prepared discovery questions and reviewed IAWC's responses.

11 **Q: Are you sponsoring any schedules or attachments?**

12 A: Yes. I sponsor the following attachments:

13 OUCC Attachment MAS-1

14 Schedule 1 – Calculation of DSIC-14 Water Revenue Requirement

15 Schedule 2 – Calculation of DSIC Fixed Charge Rate

16 Schedule 3 – Calculation of Depreciation Expense

17 Schedule 4 – Calculation of 10% Revenue Cap

18 Schedule 5 – Rate of Return Calculation

III. DSIC CALCULATION

A. IAWC Proposal

19 **Q: What is IAWC's current distribution system improvement charge?**

20 A: IAWC's current approved DSIC surcharge for a water customer with a 5/8" meter
21 is \$3.18. This approved DSIC includes charges authorized for DSIC-12 and DSIC-
22 13, including the reconciliation of DSIC-12 and the repeal of the utility receipts tax.

1 The current DSIC surcharge is a fixed customer charge applied to IAWC's metered
2 water customers based on the size of their meter.

Table MAS-1: Current DSIC Surcharge

	<u>DSIC-12</u>	<u>DSIC-13</u>	<u>Total</u>
Approved DSIC	\$ 1.60	\$ 1.57	\$ 3.17
Reconciliation ((Over) Under)	0.04	-	0.04
Utility Receipts Tax Repeal	(0.02)	(0.01)	(0.03)
	<u>\$ 1.62</u>	<u>\$ 1.56</u>	<u>\$ 3.18</u>

3 **Q: Has IAWC filed a reconciliation of DSIC-13?**

4 A: No. The Commission's order in DSIC-13 was issued on March 21, 2022. Because
5 a utility's DSIC reconciliation report is not due until thirty days after the expiration
6 of each twelve-month period in which the DSIC was in effect, IAWC's DSIC-13
7 reconciliation is not due to be filed until April 18, 2023.

8 **Q: What is IAWC proposing through this DSIC filing?**

9 A: IAWC seeks authority to earn a return on and return of \$130,488,664 of DSIC
10 eligible rate base projects incurred through November 30, 2022. The project costs
11 that IAWC includes in this DSIC must not already have been included in the rate
12 base authorized by the final order in Cause No. 45142. IAWC proposes an \$8.06
13 monthly DSIC charge per equivalent 5/8" meter, a \$4.88 increase to the current
14 DSIC charge in effect (Attachment GDS-2, Schedule 2).

15 **Q: What total revenues would IAWC's proposed DSIC-14 provide?**

16 A: In total, IAWC's DSIC-14 is designed to provide \$35,752,729 of additional
17 operating revenues above the revenues approved in Cause No. 45142 (base rate

1 case) as adjusted by Cause No. 45032 (tax investigation case) and TD #50604
2 (utility receipts tax repeal).

3 **Q: What additional revenues would IAWC's proposed DSIC-14 provide?**

4 A: IAWC's proposed DSIC-14 is designed to provide \$20,731,814 of additional
5 operating revenues, consisting of an additional \$10,132,799 return *on* its
6 investments, an additional \$2,596,543 return *of* its investments (depreciation
7 expense), and additional property taxes of \$8,002,472.

Table MAS-2: IAWC Proposed DSIC-14 Revenues

	<u>DSIC 12</u>	<u>DSIC 13</u>	<u>DSIC 14</u>	<u>Total</u>
Net Investor Supplied Water DSIC Additions	\$ 78,838,623	\$ 78,230,129	\$ 130,488,664	\$ 287,557,416
Pre-Tax Return on Additions	6,138,513	6,062,186	10,132,799	22,333,498
DSIC-11 Reconciliation (A)	-	-	-	-
DSIC-12 Reconciliation (B)	-	-	-	-
Utility Receipts Tax Repeal	(83,787)	(82,745)	-	(166,532)
Total Pre-Tax Return on Additions	6,054,726	5,979,441	10,132,799	22,166,966
Depreciation Expense	1,500,989	1,485,759	2,596,543	5,583,291
Property Tax Expense	-	-	8,002,472	8,002,472
Total DSIC Surcharge Revenues	<u>\$ 7,555,715</u>	<u>\$ 7,465,200</u>	<u>\$ 20,731,814</u>	<u>\$ 35,752,729</u>

(A) IAWC did not include the over-recovery of DSIC-11 revenues in the calculation of its proposed DSIC-14 surcharge.

(B) IAWC did not include the under-recovery of DSIC-12 revenues in the calculation of its proposed DSIC-14 surcharge.

8 **Q: What rate increase does IAWC's proposed DSIC surcharge represent?**

9 A: IAWC's proposed DSIC represents a 15.51% (\$35,752,729 / \$230,508,121)
10 increase in total operating revenues over the Step 2 rates approved in Cause No.
11 45142 (base rate case) as adjusted by Cause No. 45032 (tax investigation case) and
12 TD #50604 (utility receipts tax repeal).

1 **Q: Did IAWC update its capital structure and its weighted cost of capital from**
2 **Cause No. 45142?**

3 A: Yes. IAWC proposes a 7.77% pre-tax weighted cost of capital based on a
4 November 30, 2022 capital structure (Attachment GDS-2, Schedule 5). This
5 equates to a 6.23% post-tax weighted cost of capital only slightly lower than the
6 6.25% weighted cost of capital approved in Cause No. 45142.

7 **Q: In DSIC-13, IAWC agreed in its rebuttal case that it had calculated**
8 **depreciation expense incorrectly because it had not included contributions-in-**
9 **aid of construction in the calculation. Did IAWC calculate depreciation**
10 **expense correctly in this case?**

11 A: Yes. IAWC correctly reduced the costs to be depreciated by the amount of any
12 contributions-in-aid of construction received.

13 **Q: Does IAWC's proposed DSIC produce total DSIC revenues exceeding 10% of**
14 **IAWC's base revenue level approved by the Commission in its Cause No.**
15 **45142 Rate Order?**

16 A: No. As shown in Attachment GDS-2, Schedule 4, the \$21,274,494 of proposed
17 DSIC-14 revenues (excluding main relocations and lead service line
18 improvements) represent 9.23% of total Step 2 base operating revenues as approved
19 in Cause No. 45142 (base rate case) as adjusted by Cause No. 45032 (tax
20 investigation case) and TD #50604 (utility receipts tax repeal). This is less than the
21 10% cap imposed by IC 8-1-31-13.

B. OUCC Recommendation

22 **Q: What distribution system improvement charge do you recommend?**

23 A: I recommend a \$6.28 monthly water distribution system improvement charge per
24 equivalent 5/8" meter (OUCC Attachment MAS-1, Schedule 2).

1 **Q: What additional revenues does your recommended DSIC surcharge provide?**

2 A: My recommended DSIC surcharge would provide \$12,728,890 of additional water
3 operating revenues, consisting of a return *on* additional investments of \$10,132,445
4 and a return *of* additional investments (depreciation expense) of \$2,596,445 (OUCC
5 Attachment MAS-1, Schedule 1).

6 **Q: What total revenues is your recommended DSIC-14 designed to provide?**

7 A: In total, my recommended DSIC would provide \$27,881,599 of additional water
8 operating revenues (OUCC Attachment MAS-1, Schedule 1). Table 2 presents a
9 comparison of the DSIC revenues recommended by the OUCC to those proposed
10 by IAWC.

Table MAS-3: DISC Revenue Comparison

	OUCC Recommendation				IAWC	OUCC More (Less)
	DSIC 12	DSIC 13	DSIC 14	Total		
Return on DSIC Investments	\$ 6,138,513	\$ 6,062,186	\$ 10,132,445	\$ 22,333,144	\$ 22,333,498	\$ (354)
Reconciliation of DSIC-11	(71,276)	-	-	(71,276)	-	(71,276)
Reconciliation of DSIC-12	203,070	-	-	203,070	-	203,070
Utility Receipts Tax Repeal	(83,787)	(82,745)	-	(166,532)	(166,532)	-
Total Pre-Tax Return on Additions	6,186,520	5,979,441	10,132,445	22,298,406	22,166,966	131,440
Depreciation Expense (Return of)	1,500,989	1,485,759	2,596,445	5,583,193	5,583,291	(98)
Property Taxes	-	-	-	-	8,002,472	(8,002,472)
	<u>\$ 7,687,509</u>	<u>\$ 7,465,200</u>	<u>\$ 12,728,890</u>	<u>\$ 27,881,599</u>	<u>\$ 35,752,729</u>	<u>\$ (7,871,130)</u>

11 **Q: What rate increase does your recommended DSIC represent?**

12 A: My recommended DSIC represents a 12.17% (\$27,881,599 / \$229,156,938)
13 increase in water operating revenues over the Step 2 rates approved in Cause No.
14 45142 (base rate case) as adjusted by Cause No. 45032 (tax investigation case) and
15 TD #50604 (utility receipts tax repeal).

16 **Q: Does your recommended DSIC produce total DSIC revenues exceeding 10%
17 of IAWC's base revenue level approved in Cause No. 45142?**

18 A: No. As shown in OUCC Attachment MAS-1, Schedule 4, the \$21,274,161 of the
19 OUCC's recommended DSIC-14 revenues (excluding main relocations and lead

1 service line replacements) represent 9.28% of total Step 2 base water operating
2 revenues as approved in Cause No. 45142 as adjusted by Cause No. 45032 (tax
3 investigation case) and TD #50604 (utility receipts tax repeal). This is less than the
4 10% cap imposed by IC 8-1-31-13.

5 **Q: Has the OUCC reviewed all the projects included in this distribution system**
6 **improvement charge?**

7 A: No. IAWC presented hundreds of work orders representing thousands of invoices.
8 Due to the time limitations of a DSIC proceeding and the number of improvements,
9 a detailed review by the OUCC of all projects is not feasible. The OUCC is not able
10 to form an opinion as to the reasonableness or prudence of all IAWC's proposed
11 DSIC additions in the short DSIC timeframe. A more thorough review of the
12 proposed DSIC additions will take place during IAWC's next base rate case.

13 **Q: How does your calculation of the DSIC differ from IAWC's calculation?**

14 A: My calculation differs from IAWC's calculation in three ways: (1) updated gross
15 revenue conversion factor to reflect the current IURC fee (Attachment MAS-1,
16 Schedule 5); (2) inclusion of the DSIC-11 and DSIC-12 reconciliations (\$-71,276
17 + \$203,070 = \$131,794); and (3) exclusion of property tax expense.

1. Gross Revenue Conversion Factor

18 **Q: What gross revenue conversion factor did IAWC propose?**

19 A: IAWC proposed an overall gross revenue conversion factor of 134.6335% to be
20 applied to the return on DSIC additions included in this case. IAWC also proposed
21 a gross revenue conversion factor of 101.1487% to be applied to depreciation
22 expense and property taxes.

1 **Q: Do you agree with IAWC's proposed gross revenue conversion factors?**

2 A: No. The gross revenue conversion factors calculated by IAWC did not incorporate
3 the current rate of IURC fee.

4 **Q: What gross revenue conversion factors do you recommend?**

5 A: I recommend an overall gross revenue conversion factor of 134.6283% to be
6 applied to the return on DSIC additions included in this case. I recommend a gross
7 revenue conversion factor of 101.1449% to be applied to depreciation expense and
8 property taxes. See OUCC Attachment MAS-1, Schedule 5.

2. DSIC Reconciliations

9 **Q: What DSIC operating revenues does IAWC include for DSIC-12?**

10 A: IAWC includes DSIC-12 operating revenues of \$7,555,715.

11 **Q: Do you agree this is the DSIC-12 revenue approved by the Commission?**

12 A: No. IAWC's DSIC-12 operating revenues do not include the \$71,276 decrease to
13 adjust for the over-collection of DSIC-11 revenues as presented in the DSIC-11
14 reconciliation filed April 23, 2020.

15 **Q: What DSIC operating revenues does IAWC include for DSIC-13?**

16 A: IAWC includes DSIC-13 operating revenues of \$7,465,200.

17 **Q: Do you agree this is the DSIC-13 revenue approved by the Commission?**

18 A: No. IAWC's DSIC-13 operating revenues do not include the \$203,070 increase to
19 adjust for the under-collection of DSIC-12 revenues as presented in the DSIC-12
20 reconciliation filed April 18, 2022. IAWC has understated this component of its
21 surcharge.

1 **Q: Have you included these reconciliation adjustments in your recommended**
2 **operating revenues in this case?**

3 A: Yes.

3. Property Taxes

4 **Q: Does the DSIC statute now allow the recovery of property taxes?**

5 A: Yes. In 2022, the DSIC statute was amended to allow for the recovery of property
6 taxes in addition to a return *on* and *of* a utility's investment in DSIC eligible
7 investments.

8 **Q: What does the statute allow regarding property taxes?**

9 A: IC 8-1-31.5-5(1)(b) includes property taxes as a component of "infrastructure
10 improvement costs." Specifically, the statute states that "property taxes to be paid
11 by the public utility based upon the first assessment date following placement in
12 service" may be included or recovery in a DSIC. The statute also excludes the
13 property taxes from the calculation of the 10% cap.

14 **Q: What does IAWC propose in this DSIC regarding property taxes?**

15 A: IAWC has included \$8,002,472² of property taxes on the DSIC additions included
16 in this case, as well as the additions included in DSIC-12 and DSIC-13. IAWC
17 based its property tax expense on the 2021 property taxes payable in 2022.

18 **Q: Do you agree with IAWC's property tax proposal in this case?**

19 A: No. In its DSIC, IAWC has applied the property tax change retroactively to DSICs
20 filed prior to the effective date of the amended statute. Even if such retroactive

² \$7,911,592 before gross-up for bad debt expense and IURC fee.

1 application were proper, IAWC has not applied the correct property tax rates
2 indicated by the new provision.

3 **Q: Please explain your concerns with retroactively applying this amendment.**

4 A: DSICs focus on new plant. Once a DSIC recovery has been established, that DSIC
5 should not be increased in a subsequent DSIC. In this DSIC case, IAWC included
6 in its request the property tax costs for additions included in prior DSIC cases –
7 DSIC-12 and DSIC-13. Moreover, the new statutory language makes no provision
8 for applying the property tax retroactively to prior DSIC applications. The DSIC
9 recovery for plant added in DSIC-12 and DSIC-13 have already been decided. The
10 recovery to be authorized for the utility plant in service added in DSIC-12 and
11 DSIC-13 are not an issue in this case and should not be revisited.

12 **Q: Please explain your concerns with the property tax rates used for the DSIC-14**
13 **additions.**

14 A: The statute provides that the property tax rate to be used is to be based on “the first
15 assessment date following placement in service.” Most of the additions included in
16 DSIC-14 were placed in service in 2022³. However, IAWC used the tax rates
17 *payable* in 2022, which are based on the 2021 assessment. This assessment date is
18 prior to the date most of the DSIC-14 additions were placed in service.

19 **Q: How are property taxes assessed and paid in Indiana?**

20 A: Property taxes in Indiana are paid 2 years in arrears. They are assessed in May of
21 Year One based on the property values as of December 31 of Year Zero. They are
22 payable in two installments in Year Two (May and November).

³ DSIC-14 additions were placed in service from December 2021 through November 2022.

1 **Q: Did you include property taxes in your calculation with respect to the new**
2 **DSIC-14 plant additions?**

3 A: No. The plain language of the statute is clear that the 2022 property tax assessments
4 should be used to determine the property tax expense for the DSIC-14 additions
5 placed in service in 2022. Because of IAWC's decision to file this DSIC when it
6 did, the 2022 property tax assessment was not available and will not be available
7 before the Commission issues its order in this DSIC. Therefore, I have not included
8 any property tax for the DSIC-14 additions.

9 **Q: Was any portion of new plant included in the 2021 property tax assessment?**

10 A: Yes. A small portion of the new plant had been placed in service by December 31,
11 2021. If IAWC quantifies precisely in its rebuttal case the property tax assessment
12 amount applicable to those additions, it would be appropriate to include that amount
13 in the DSIC-14 calculation.

IV. COST OF REMOVAL

14 **Q: What is "cost of removal"?**

15 A: According to "Accounting for Public Utilities," cost of removal means "the cost of
16 demolishing, dismantling, tearing down or otherwise removing...plant."⁴

17 **Q: How is cost of removal recovered from IAWC's customers?**

18 A: Cost of removal is recovered from customers before these costs are actually
19 incurred by IAWC because the cost is built into Indiana-American's authorized
20 depreciation rates. Indiana-American's authorized depreciation rate is designed to

⁴ Accounting for Public Utilities, Chapter 6 - Public Utility Depreciation, §6.03[2], page 6-7.

1 allow it to recover the original cost of the asset plus an estimated cost of removal,
2 net of salvage, over the life of the asset.

3 **Q: Why do you propose that cost of removal should be excluded from the**
4 **calculation of DSIC project costs?**

5 A: A public utility providing water service is properly allowed to recover the costs it
6 incurs in removing replaced plant. But IAWC has already recovered those removal
7 costs. It began to recover the removal costs as soon as it began to earn a return *of*
8 its investment in the replaced plant through its authorized depreciation expense. It
9 is inequitable and bad public policy to allow IAWC to continue to recover these
10 costs through depreciation rates designed by its depreciation study to recover future
11 removal costs over the life of the asset and also through the DSIC surcharge.

12 **Q: Why haven't you addressed the inclusion of removal costs in prior DSIC**
13 **cases?**

14 A: Cost of removal is a complex ratemaking concept, especially in the context of a
15 capital tracker such as a distribution system improvement charge. Removal costs
16 are not typically in the forefront of regulatory approvals. Moreover, because these
17 DSIC cases require the OUCC and the Commission such limited amount of time to
18 review and consider applications, the fact of double recovery was not readily
19 apparent to me. The fact that IAWC's approved depreciation rates already include
20 removal costs was not recognized and therefore not previously addressed. Based on
21 my recent research and analysis, I consider it important to bring this issue to the
22 attention of the Commission.

1 **Q: What would be the effect of eliminating cost of removal from this DSIC?**

2 A: Eliminating the cost of removal from DSIC-14 project costs would reduce total
3 DSIC revenues by \$1,196,774 and the DSIC-14 surcharge by \$0.27 per residential
4 customer per month or \$3.24 per year.

5 **Q: Are you asking the Commission to decide now whether cost of removal should**
6 **be excluded from the calculation of this DSIC?**

7 A: No. As the Commission noted in its order in Cause No. 42351 DSIC-8, "any
8 proposal to change existing DSIC accounting methodologies should be addressed
9 in Petitioner's next rate case, not in the context of an expedited DSIC proceeding"
10 (See Cause No. 42351 DSIC-8 Final Order issued December 18, 2013, page 13).
11 Neither the parties to this case nor the Commission has the necessary time to devote
12 to fully presenting this complicated issue as part of this very expedited DSIC
13 proceeding. Therefore, consistent with the Commission's discussion in DSIC-8, the
14 OUC will raise this issue in IAWC's next rate case.

V. CONCLUSION

15 **Q: Please summarize your recommendations.**

16 A: I recommend the Commission approve a distribution system improvement charge
17 of \$6.28 per month per 5/8" equivalent meter. I recommend the Commission
18 require Petitioner to follow the NARUC Uniform System of Accounts when
19 recording additions to utility plant in service in accordance with my testimony
20 above. Finally, I recommend the Commission consider changes to the calculation
21 of the distribution system improvement charge to exclude cost of removal in
22 Petitioner's next base rate case.

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

2 **A: Yes.**

APPENDIX A - QUALIFICATIONS

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

2 A: I graduated from the University of Houston at Clear Lake City in August 1982 with
3 a Bachelor of Science degree in accounting. From 1982 to 1985, I held the position
4 of Gas Pipeline Accountant at Seagull Energy in Houston, Texas. From 1985 to
5 2001, I worked for Enron in various positions of increasing responsibility and
6 authority. I began in gas pipeline accounting, was promoted to a position in
7 financial reporting and planning, for both the gas pipeline group and the
8 international group, and finally was promoted to a position providing accounting
9 support for infrastructure projects in Central and South America. In 2002, I moved
10 to Indiana, where I held non-utility accounting positions in Indianapolis. In August
11 2003, I accepted my current position with the OUCC. In 2011, I was promoted to
12 Senior Utility Analyst. Since joining the OUCC I have attended the National
13 Association of Regulatory Utility Commissioners (“NARUC”) Eastern Utility Rate
14 School in Clearwater Beach, Florida, and the Institute of Public Utilities’ Advanced
15 Regulatory Studies Program in East Lansing, Michigan. I have also attended several
16 American Water Works Association and Indiana Rural Water Association
17 conferences as well as the National Association of Utility Consumer Advocates
18 (“NASUCA”) Water Committee Forums. I am an active member of the NASUCA
19 Water Committee and the NASUCA Tax and Accounting Committee. I served as
20 chair for the Tax and Accounting Committee from 2016 – 2021.

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

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

4 **Q: Have you previously testified before the Indiana Utility Regulatory**
5 **Commission?**

6 A: Yes. I have testified before the Commission as an accounting witness in various
7 cases involving water, wastewater, electric, and gas utilities.

Indiana-American Water Company
Cause No. 42351 DSIC-14
Distribution System Improvement Charge
Calculation of DSIC-14 Revenue Requirement

Line Number	Description	A. Company Totals	B. Items excluded From % Calculation	C. Applicable to % Calculation
1	Plant Additions Subject to DSIC (From Attachment SSH-1):	\$ 122,176,904	\$ 28,223,455	\$ 93,953,449
2	Less: Retirements (From Attachment SSH-1):	6,596,894	391,269	6,205,625
3	Plus: Cost of Removal (Cost of Removal less Salvage) (From Attachment SSH-1):	15,411,878	5,071,118	10,340,760
4	Less: Reimbursement by INDOT, Others (From Attachment SSH-1):	503,224	323,310	179,914
5	Net Investor Supplied DSIC Additions (Line 1 - Line 2 + Line 3 - Line 4):	<u>130,488,664</u>	<u>32,579,994</u>	<u>97,908,670</u>
6				
7	Pre-Tax Rate of Return (From Attachment MAS-1 Schedule 5):	7.7650%	7.7650%	7.7650%
8	Pre-Tax Return on Additions (Line 5 X Line 7):	<u>10,132,445</u>	<u>2,529,837</u>	<u>7,602,608</u>
9				
10	Depreciation on DSIC Additions (From Attachment MAS-1 Schedule 3):	<u>2,596,445</u>	<u>810,779</u>	<u>1,785,666</u>
11				
12	Property Taxes on DSIC Additions	-	-	-
13				
14	Total DSIC-14 Revenues to Determine DSIC Per Meter Rate (Line 8 + Line 10):	<u>\$ 12,728,890</u>	<u>\$ 3,340,616</u>	<u>\$ 9,388,274</u>
15				
16	Total Base Revenue Approved in Cause No. 45142 After Rate Base True-Up 6/26/2020			
17	and after the Repeal of the URT:			<u>230,508,121</u>
18				
19	% Increase - for DSIC 10% Maximum Comparison (Line 12 divided by Line 14):			<u>4.07%</u>
20				
21	Total DSIC Revenues for Cause No. 42351 DSIC-14 (line 12 + line 18)	<u>\$ 12,728,890</u>	<u>\$ 3,340,616</u>	<u>\$ 9,388,274</u>
22				
23	Total DSIC Revenues for Cause No. 42351 DSIC-13, Approved by the IURC on 03/21/2022:	7,465,200	1,585,858	5,879,342
24				
25	Total DSIC Revenues for Cause No. 42351 DSIC-12, Approved by the IURC on 03/17/2021:	7,687,509	1,549,170	6,006,545
26				
27	Total DSIC-12, DSIC-13, and DSIC-14 Revenues to Determine DSIC Rate (Line 20 + Line 21):	<u>\$ 27,881,599</u>	<u>\$ 6,475,644</u>	<u>\$ 21,274,161</u>
28				
29	Total Water Base Revenue Approved in Cause No. 45142 After Rate Base True-Up 6/26/2020:			
30	and after the Repeal of the URT:			\$ 229,156,938
31				
32	Total DSIC-12, DSIC-13, and DSIC-14 Percentage to Apply to Customer Bills (Line 23 / Line 25):			<u>9.28%</u>
33	(for DSIC 10% Maximum Comparison)			

Indiana-American Water Company
Calculation of DSIC Charge
Calculation of DSIC Fixed Charge Rate Based on Meter Size
Using Meter Billing Units for the Twelve Months Ended November 30, 2022

Line	Meter Size	Meter Billing Units by Meter Size As of 11/30/2022	AWWA Equivalent Meter Flow- Based Ratio	Meter Equivalents	Annualized DSIC Revenue	DSIC Charge by Meter Size	
1	5/8"	3,345,541	1.0	3,345,541	\$ 21,026,335	\$ 6.28	
2	3/4"	3,632	1.5	5,448	34,238	9.43	
3	1"	119,574	2.5	298,936	1,878,776	15.71	
4	1 1/2"	14,857	5.0	74,286	466,880	31.42	
5	2"	64,837	8.0	518,692	3,259,921	50.28	
6	3"	5,990	15.0	89,855	564,731	94.27	
7	4"	2,869	25.0	71,737	450,859	157.12	
8	6"	-	50.0	-	-	314.24	
9	8"	300	80.0	24,000	150,837	502.79	
10	10"	60	130.0	7,800	49,022	817.03	
11	12"	-	215.0	-	-	1,351.25	
12	Total	<u>3,557,660</u>		<u>4,436,295</u>	<u>\$ 27,881,599</u>		
13							
14	DSIC-14 Revenue (Per Line 16 of Attachment MAS-1, Schedule 1):					<u>\$ 27,881,599</u>	
15							
16	Monthly DSIC Rate per Equivalent 5/8" Meter (Total Revenue / Total Meter Equivalents):					<u>\$ 6.28</u>	

Note: The American Water Works Association (AWWA) standard Equivalent Meter Flow-Based Ratio is used at the basis for calculation. For example, the safe operating capacity of a 5/8 inch meter is 20 gallons per minute, which is used as the base ratio of 1.0. In contrast to this, a two inch meter has a safe operating capacity of 160 gallons per minute. Thus, on a continuity basis, a two inch meter is the equivalent of eight 5/8 inch meters, and thus the equivalent flow ratio for a two inch meter is 8.0.

Indiana-American Water Company
Cause No. 42351 DSIC-14
Distribution System Improvement Charge
Calculation of Depreciation for DSIC Projects

Line Number	Account Number	Account Description	DSIC Additions	Less: Retirements	Less: CIAC	Net DSIC Additions	Depreciation Rate	Depreciation Expense
1	303500	Land & Land Rights-T&D	\$ 50,473	\$ -		\$ 50,473	0.00%	\$ -
2	303600	Land & Land Rights-General	-	-		-	0.00%	-
3	304100	Struct & Imp-Supply	-	-		-	3.22%	-
4	304200	Struct & Imp-Pumping	-	-		-	2.31%	-
5	304400	Struct & Imp-T&D	(15,481)	-		(15,481)	2.77%	(429)
6	310000	Power Generation Equip	-	-		-	2.28%	-
7	311200	Pump Eqp Electric	-	-		-	1.39%	-
8	311500	Pump Eqp Other	-	-		-	3.00%	-
9	330000	Dist Reservoirs & Standpipes	900,612	583,483		317,130	2.01%	6,374
10	330001	Tank Repainting	2,987,373	-		2,987,373	2.69%	80,261
11	330002	Tank Original Painting	-	-		-	11.69%	-
12	330003	Tank Repainting	-	317,944		(317,944)	11.69%	(37,168)
13	330100	Elevated Tanks & Standpipes	-	64,847		(64,847)	2.01%	(1,303)
14	331001	TD Mains Not Classified	63,267,824	582,387	171,931	62,513,507	1.70%	1,062,730
15	331200	TD Mains 6in to 8in	636,784	46,706		590,077	1.70%	10,031
16	332000	Fire Mains	-	-		-	1.00%	-
17	333000	Services	7,514,256	935,708	5,320	6,573,229	3.59%	235,979
18	333100	Replaced Customer Lead Services	(0)	-		(0)	3.59%	-
19	334100	Meters	3,621,050	2,079,723		1,541,327	5.20%	80,149
20	334110	Meters Bronze Case	(1,898)	214,667		(216,566)	6.17%	(13,362)
21	334120	Meters Plastic Case	579	115,965		(115,386)	8.80%	(10,154)
22	334130	Meters Other	288,725	53,890		234,835	4.48%	10,521
23	334131	Meter Reading Units	264,809	32,005		232,804	4.48%	10,430
24	334200	Meter Installations	5,684,273	375,604		5,308,669	2.45%	130,062
25	334201	Meter Installations-Other	60,862	(3)		60,865	2.45%	1,491
26	334300	Meter Vaults	3,485,779	186,972		3,298,807	2.93%	96,589
27	335000	Hydrants	5,207,429	615,728	2,663	4,589,038	2.25%	103,253
28	346190	Remote Control & Instrument	-	-		-	6.67%	-
29								
30		Sub Total:	93,953,450	6,205,625	179,914	87,567,910		1,765,454
31								
32		Relocations						
33	303500	Land & Land Rights-T&D	210,208	-		210,208	0.00%	-
34	311200	Pump Eqp Electric	-	-		-	1.39%	-
35	331001	TD Mains Not Classified	7,620,685	144,210	323,310	7,153,165	1.70%	121,604
36	331200	TD Mains 6in to 8in	501,296	-		501,296	1.70%	8,522
37	333000	Services	926,265	25,450		900,815	3.59%	32,339
38	334100	Meters	254,919	-		254,919	5.20%	13,256
39	334130	Meters Other	-	3,814		(3,814)	4.48%	(171)
40	334200	Meter Installations	217,958	19,555		198,404	2.45%	4,861
41	334201	Meter Installations-Other	28,255	-		28,255	2.45%	692
42	334300	Meter Vaults	75,362	19,022		56,340	2.93%	1,650
43	335000	Hydrants	539,767	32,805		506,963	2.25%	11,407
44								
45		Sub Total:	10,374,716	244,856	323,310	9,806,551		194,160
46								
47		Lead Service Line Work - Customer Service Lines						
48	331001	TD Mains Not Classified	-	-		-	1.70%	-
49	333000	Services	4,648	-		4,648	3.59%	167
50	333100	Replaced Customer Lead Services	7,573,716	-		7,573,716	3.59%	271,896
51	334100	Meters	-	-		-	5.20%	-
52	334200	Meter Installations	3,208	-		3,208	2.45%	79
53	334300	Meter Vaults	1,742	-		1,742	2.93%	51
54								
55		Sub Total:	7,583,313	-	-	7,583,313		272,193
56								
57		Lead Service Line Work - Company Service Lines						
58	331001	TD Mains Not Classified	(36,914)	(9,531)		(27,383)	1.70%	(466)
59	333000	Services	5,849,305	220,722		5,628,582	3.59%	202,066
60	333100	Replaced Customer Lead Services	3,175	20		3,155	3.59%	113
61	334100	Meters	562,715	50,292		512,423	5.20%	26,646
62	334200	Meter Installations	2,157,265	3,327		2,153,938	2.45%	52,771
63	334201	Meter Installations-Other	-	-		-	2.45%	-
64	334300	Meter Vaults	1,729,880	(118,417)		1,848,297	2.93%	54,118
65								
66		Sub Total:	10,265,425	146,413	-	10,119,012		335,248
67								
68		Grand Total:	\$ 122,176,904	\$ 6,596,894	\$ 503,224	\$ 115,076,786		\$ 2,567,055

Indiana-American Water Company
Cause No. 42351 DSIC-14
Distribution System Improvement Charge
Revenue to Use for Determination if 10% Cap is Exceeded
Using Final Revenue Requirement Approved on June 26, 2020 as Part of Cause No. 45142 Rate Base True Up
And Includes the TCJA / CIAC Settlement revenue figures and URT Repeal

Line Number	Description of Revenue	Total Company Revenue
1	Residential Revenue	\$ 118,089,266
2	Commercial and Other Public Authority Revenue	54,725,001
3	Industrial Revenue	15,053,306
4	Sale for Resale Revenue	11,306,949
5	Private Fire Service Revenue	4,753,940
6	Public Fire Service Revenue	21,427,331
7	Miscellaneous Revenue	74,209
8	Wastewater Revenue	1,351,183
9	Other Revenue	3,726,936
10	Total Company Operating Revenues	<u>230,508,121</u>
11	Less: Wastewater Revenue	(1,351,183)
12	Total Water Revenue	<u><u>\$ 229,156,938</u></u>
13	Total applicable DSIC-14 Revenue Requirement:	<u>\$ 21,274,161</u>
14	Percentage of DSIC Revenue to Total Revenue (must be less than 10%) (Line 13 / Line 12):	<u><u>9.28%</u></u>

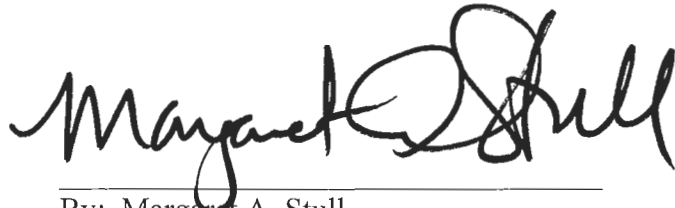
Indiana-American Water Company
Cause No. 42351 DSIC-14
Distribution System Improvement Charge
Rate of Return Calculation
Based on Actual Capital figures as of November 30, 2022. ROE as Approved in Cause No. 45142

Line Number	Class of Capital	Amount as of 11/30/2022	Percent of Total	(%) Cost	Weighted Cost	Pre-Tax Weighted Cost
1.	Long Term Debt	\$ 557,885,673	38.10%	4.73%	1.8019%	1.8019%
2.						
3.	Accumulated Deferred Investment Tax Credits - Pre 1971	261,198,129	17.84%	0.00%	0.0000%	0.0000%
4.						
5.	Job Development Investment Tax Credits (JDITC) - Post 1970	615,932	0.04%	7.48%	0.0031%	0.0031%
6.						
7.	Other Capital Elements	(16,796,223)	-1.15%	0.00%	0.0000%	0.0000%
8.						
9.	Common Equity	661,536,500	45.17%	9.80%	4.4270%	5.9600%
10.						
11.	Total Capitalization	\$ 1,464,440,011	100.00%		6.2321%	7.7650%
12.						
13.	Tax Gross-Up Calculation:					
14.	Gross Revenue Change		100.0000%		*Used for Expense gross up 100.0000%	
15.	Less: Uncollectible Expense		1.0167%			1.0167%
16.	Total Before Gross Income and IURC Fees (Line 14 - Line 15)		98.9833%			98.9833%
17.						
18.	Less: IURC Fee IURC Fee Rate for 2022/2023 Rate: 0.1163372%	0.1163372%	0.1152%		0.1163372%	0.1152%
19.	Total Before Gross Income Taxes (Line 16 - Line 18)		98.8681%			98.8681%
20.						
21.	Less: State Income Tax	4.9000%	4.8445%		0.0000%	0.0000%
22.	Less: Utility Receipts Tax (REPEALED)	0.0000%	0.0000%		0.0000%	0.0000%
23.	Total before Federal Income Taxes (Line 19 - Line 21 - Line 22)		94.0236%			98.8681%
24.						
25.	Less: Federal Income Taxes (21% X Line 23)	21.00%	19.7450%		0.00%	0.0000%
26.						
27.	Total after Income Taxes (Line 23 - Line 25)		74.2786%			98.8681%
28.						
29.	Gross Revenue Conversion Factor (1 / Line 27)		134.6283%			101.1449%

Gross Up and ROE from Final Order Cause No. 45142.

AFFIRMATION

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

A handwritten signature in black ink that reads "Margaret A. Stull". The signature is written in a cursive style with a large, looping initial "M".

By: Margaret A. Stull
Cause No. 42351 DSIC-14
Office of Utility Consumer Counselor (OUCC)

Date: 2/17/2023

CERTIFICATE OF SERVICE

This is to certify that a copy of the *Public's Exhibit No. 1 Testimony of Margaret A. Stull on behalf of the OUCC* has been served upon the following in the captioned proceeding by electronic service on February 17, 2023.

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