

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF THE CITY OF FORT WAYNE, )**  
**INDIANA, FOR AUTHORITY TO ESTABLISH ) CAUSE NO. 45124**  
**AND IMPLEMENT A SYSTEM )**  
**DEVELOPMENT CHARGE FOR WATER )**  
**SERVICE. )**

**TESTIMONY**

**OF**

**MARGARET A. STULL - PUBLIC'S EXHIBIT NO. 1**

**ON BEHALF OF THE**

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**OCTOBER 12, 2018**

Respectfully Submitted,



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Scott Franson, Atty. No. 27839-49  
Deputy Consumer Counselor

## CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Office of Utility Consumer Counselor Testimony of Margaret A. Stull* has been served upon the following counsel of record in the captioned proceeding by electronic service on October 12, 2018.

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**TESTIMONY OF OUCC WITNESS MARGARET A. STULL**  
**CAUSE NO. 45124**  
**CITY OF FORT WAYNE**

**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:    The City of Fort Wayne (hereinafter referred to as "Ft. Wayne" or "Petitioner") has  
10        requested approval of a \$590 system development charge per equivalent meter for  
11        its municipal water utility.<sup>1</sup> I discuss the OUCC's acceptance of Ft. Wayne's  
12        proposed system development charge along with various administrative and  
13        accounting issues related to implementation of a system development charge,  
14        including how the charge should be recorded in Ft. Wayne's general ledger, the  
15        restricted use of the funds collected, and the need for a periodic review of the system  
16        development charge calculation.

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<sup>1</sup> The \$590 charge is for a 5/8" meter. The charge for larger meters is based on the meter equivalency for that meter size. See Petitioner's Exhibit 4, page 3, for the proposed system development charge for meters larger than 5/8".

1   **Q:    Please describe the review and analysis you performed.**

2   A:    I reviewed Ft. Wayne's testimony and workpapers. I reviewed Ft. Wayne's 2017  
3       IURC annual report. I reviewed the AWWA M1 Manual chapter on system  
4       development charges.<sup>2</sup> Finally, I prepared discovery questions and reviewed Ft.  
5       Wayne's responses.

## II.   SYSTEM DEVELOPMENT CHARGE OVERVIEW

6   **Q:    What is a system development charge?**

7   A:    A system development charge is a one-time charge paid by a new water system  
8       customer (connection)<sup>3</sup> for system capacity.

9   **Q:    What is the purpose of a system development charge?**

10  A:    The primary purpose of a system development charge is for "growth to pay for  
11       growth."<sup>4</sup> In other words, new customers (connections) to a water utility system  
12       causing the need for a utility to invest in additional capacity should pay their share  
13       of the cost of that additional capacity. Additional objectives or goals that a system  
14       development charge can achieve include (1) funding major system expansion, (2)  
15       minimizing current debt or reducing future debt, and (3) achieving equity between  
16       the different generations of ratepayers.

17  **Q:    What costs are considered in the calculation of a system development charge?**

18  A:    Based on the AWWA Manual, in general, system development charges are based  
19       on the costs for major backbone infrastructure components that are necessary to

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<sup>2</sup> Principles of Water Rates, Fees, and Charges, AWWA Manual M1, 6<sup>th</sup> Edition, Chapter VI.2 "System Development Charges," pages 261 – 279.

<sup>3</sup> It may also be paid by an existing customer requiring increased system capacity.

<sup>4</sup> AWWA M1 Manual, 6<sup>th</sup> edition, page 262.

1 provide service to all customers, including source of supply, raw water  
2 transmission, treatment facilities, pumping facilities, storage tanks, and major  
3 treated-water transmission mains. Less commonly, the costs of water distribution  
4 mains and other facilities may also be recovered through a system development  
5 charge.<sup>5</sup>

6 **Q: How is a system development charge determined?**

7 A: There are several accepted methodologies for calculating a system development  
8 charge including the (1) buy-in method, (2) the incremental cost method, and (3)  
9 the combined approach.

10 The buy-in method is based on the value of the existing system's capacity  
11 and is used when the existing system has sufficient capacity to serve new  
12 development now and into the future. It is important to note that while this method  
13 is labeled a "buy-in method," payments do not transfer or impart ownership of  
14 assets to the customer.

15 The incremental cost method is based on the value or cost to expand the  
16 existing system's capacity and is used when the existing system has limited or no  
17 available capacity to serve new development.

18 The combined approach is a combination of both the buy-in method and the  
19 incremental cost method and is typically used when some capacity is available in

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<sup>5</sup> AWWA M1 Manual, 6<sup>th</sup> edition, page 261.

1 parts of the existing system but new or incremental capacity will need to be built in  
2 other parts of the system to serve new development.<sup>6</sup>

### III. SYSTEM DEVELOPMENT CHARGE DETERMINATION

3 **Q: How did Ft. Wayne determine its system development charge?**

4 A: Ft. Wayne used the equity buy-in method to calculate its proposed system  
5 development charge. Ft. Wayne's calculation is based on the total value of its water  
6 utility system at 12/31/2017. This value is then reduced by accumulated  
7 depreciation, contributions-in-aid of construction, and outstanding debt. The result  
8 represents existing customers' equity in Ft. Wayne's water system. This amount is  
9 then divided by total equivalent meters to determine the system development charge  
10 to be collected from each new customer. (See Petitioner's Exhibit 4, page 3.)

11 **Q: Do you accept Ft. Wayne's proposed system development charge**  
12 **methodology?**

13 A: Yes. The methodology Ft. Wayne chose appears reasonable considering the facts  
14 and circumstances of this case.

15 **Q: Why do you accept the use of Ft. Wayne's total system valuation as the basis**  
16 **for determining its system development charge in this case?**

17 A: While it would be preferable to base the system development charge calculation on  
18 the value of Ft. Wayne's back-bone capacity assets, I believe it is acceptable in this  
19 case to use the total system valuation. There are several difficulties to determining  
20 the net equity investment in Ft. Wayne's back-bone capacity assets. First, it would  
21 be necessary to eliminate the value of distribution mains from NARUC Account

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<sup>6</sup> AWWA M1 Manual, 6<sup>th</sup> edition, pages 265 - 266.

1 331. Second, it would be necessary to identify the outstanding debt principal related  
2 to back-bone capacity assets. Finally, it would be necessary to identify the  
3 contributions-in-aid of construction related to back-bone capacity assets, if any.  
4 While information on these amounts are not readily available from the information  
5 provided, based on my review of Ft. Wayne's historical IURC annual reports, I  
6 don't believe a materially different conclusion would be reached if the calculation  
7 were based only on back-bone capacity.

#### IV. IMPLEMENTATION

##### A. Accounting Treatment

8 **Q: What is the appropriate accounting treatment for a system development**  
9 **charge?**

10 **A:** The appropriate accounting treatment for system development charges is to record  
11 a debit to a restricted cash account and a credit to contributions in aid of  
12 construction (NARUC Account 271).

13 **Q: Will Ft. Wayne record any monies collected through its proposed system**  
14 **development charge to contributions-in-aid of construction?**

15 **A:** Yes. Mr. Walsh states "Fort Wayne plans to account for any money received from  
16 its SDC for water service as CIAC."<sup>7</sup>

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<sup>7</sup> Verified Direct Testimony and Exhibits of Eric J. Walsh, CPA on Behalf of Petitioner, the City of Fort Wayne, Indiana, p. 7, lines 10-12.

**B. Restricted Use of Funds and Treatment of Interest Earned**

1   **Q:    How will Ft. Wayne use the funds collected through its proposed system**  
2       **development charge?**

3    A:    Mr. Walsh does not address this issue in his direct testimony. In response to OUCC  
4       Discovery, Ft. Wayne stated “it intends to use the receipts collected through its  
5       proposed system development charge to finance the development of growth-related  
6       or capacity related water facilities.” Further, Ft. Wayne stated “it intends to keep  
7       the funds collected through the system development charge in a separate account  
8       to track their use for such purposes.” (See Attachment MAS-1.)

9   **Q:    Do you accept Ft. Wayne’s proposed use of the monies collected through its**  
10       **proposed system development charge?**

11   A:    Yes. Maintaining a separate interest-bearing cash account for these funds should be  
12       sufficient in this circumstance.

13   **Q:    Do you have any further recommendations?**

14   A:    Yes. I recommend interest income earned on this separate bank account be  
15       dedicated to fund capacity or growth-related water facilities in the same manner  
16       that the system development charge funds are dedicated. This will help to offset  
17       inflationary cost increases for future system expansion projects.<sup>8</sup>

**C. Periodic Review of the System Development Charge Calculation**

18   **Q:    Should a utility review its system development charge calculation on a periodic**  
19       **basis?**

20   A:    Yes. The AWWA M1 Manual states

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<sup>8</sup> AWWA M1 Manual, 6<sup>th</sup> edition, page 278.



1 As development occurs and the economic mix of the community that  
2 the utility serves changes, growth and development assumptions  
3 may also change. Similarly, the facilities needed to serve customers  
4 will change over time, and the costs associated with these facilities  
5 will be different from the past. As this occurs, the utility may update  
6 its master plan, comprehensive plan, or facility plan, which typically  
7 provides the basis for many key assumptions used within the  
8 development of the SDCs. Because of these changes, utilities need  
9 to, on a periodic basis, reassess their SDC assumptions and compare  
10 the historical development, capital spending, and capacity  
11 utilization levels achieved with that originally planned or projected.

12 (AWWA M1 Manual "Principles of Water Rates, Fees, and Charges," 6<sup>th</sup>  
13 Edition, Chapter VI.2 "System Development Charges," page 279.)

14 The AWWA M1 Manual goes on to recommend that utilities review their system  
15 development charge calculations at least every five (5) years, when major capital  
16 improvements are planned, or when a significant change occurs.

17 **Q: Do you recommend that Ft. Wayne conduct a periodic review of the SDC**  
18 **charges based on the AWWA M1 Manual?**

19 **A:** Yes, I recommend that Ft. Wayne conduct a periodic review of the SDC  
20 assumptions and calculations at least every five (5) years and to provide the results  
21 of this analysis to the Commission and OUCC as a compliance filing in this cause  
22 number.

## **V. RECOMMENDATIONS**

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

24 **A:** I recommend the Commission approve a system development charge of \$590 per  
25 equivalent meter.<sup>9</sup> I further recommend any monies collected through this system

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<sup>9</sup> The \$590 charge is for a 5/8" meter. The charge for larger meters is based on the meter equivalency for that meter size. See Petitioner's Exhibit 4, page 3, for the proposed system development charge for meters larger than 5/8".

1 development charge be considered contributions-in-aid of construction and be held  
2 in a separate, interest-bearing cash account. I recommend that interest income  
3 earned on this separate account be dedicated to funding growth or capacity-related  
4 capital projects. Finally, I recommend Ft. Wayne be required to review its system  
5 development charge calculation at least once every five (5) years and provide the  
6 results of this analysis to the Commission and the OUCC as a compliance filing  
7 under this case number.

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

9 **A:** Yes.

## APPENDIX A

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. In 2018, I was promoted to Chief Technical Advisor.

13               Since joining the OUCC I have attended the National Association of  
14      Regulatory Utility Commissioners ("NARUC") Eastern Utility Rate School in  
15      Clearwater Beach, Florida, and the Institute of Public Utilities' Advanced  
16      Regulatory Studies Program in East Lansing, Michigan. I have also attended several  
17      American Water Works Association and Indiana Rural Water Association  
18      conferences as well as the National Association of Utility Consumer Advocates  
19      ("NASUCA") Water Committee Forums. I have participated in the NASUCA  
20      Water Committee and the NASUCA Tax and Accounting Committee. In March  
21      2016 I was appointed chair of the NASUCA Tax and Accounting Committee.

1   **Q:   Have you previously testified before the Indiana Utility Regulatory**  
2   **Commission?**

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

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

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

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**AFFIRMATION**

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



By: Margaret A. Stull  
Cause No. 45124  
Indiana Office of  
Utility Consumer Counselor

10/12/18

Date: