

**VERIFIED REBUTTAL TESTIMONY OF OTTO W. KROHN**

IURC

PETITIONER'S

EXHIBIT NO.

2-22-19

DATE

REPORTER

**Q. Please state your name, occupation, and business address.**

A. My name is Otto W. Krohn. I am an executive partner of O.W. Krohn & Associates, LLP, a firm of certified public accountants and consultants. Our practice focuses on the accounting, financial, and managerial needs of local government units and utilities primarily in the State of Indiana. My business address is 231 East Main Street, Westfield, Indiana 46074.

**Q. Are you the same Otto W. Krohn that testified previously in this Cause?**

A. Yes, I am.

**Q. Please explain the purpose of your Rebuttal Testimony.**

A. My rebuttal testimony is in response to the OUCC's witness, Margaret Stull, as it relates to her recommendation that HSE establish separate system development charges ("SDC") for each of HSE's service areas.

**Q. What is the basis for the previously approved SDCs?**

A. In Cause Nos. 43435, 43761 and 44683, the Commission approved a uniform SDC for all of HSE's CTAs. In those proceedings, HSE utilized the Fishers CTA as a proxy in order to determine the collection system capital cost component of its SDC. Using the incremental cost method analysis on a system wide basis in Cause No. 44683, HSE concluded that a \$450 increase to the \$1,350 previously approved by the Commission for the portion of the SDC retained by HSE for its collection system capital costs was sufficient even though the incremental collection system cost per EDU was \$3,326. The Commission approved the \$450 increase to HSE's SDC, resulting in a uniform SDC of \$2,850 for all of HSE's CTAs, of which HSE would retain \$1,800 for its collection

system capital costs. The remaining \$1,050 of the Commission-approved SDC was a pass-through cost to be paid to HSE's wholesale treatment provider for treatment plant capacity.

**Q. What is the purpose of the current Commission proceeding?**

A. The current proceeding is two-fold: 1) to establish a \$1,000 per EDU increase in the treatment plant capacity component of HSE's SDC; and 2) to include income tax gross-up costs on the collection system component of its SDC, pursuant to the Tax Cuts and Jobs Act of 2017. Figure OWK-R1 (below) identifies the Current and Proposed SDC for HSE:

**Figure OWK-R1:**

UNIFORM SDC FOR ALL AREAS		
	CURRENT SDC	PROPOSED SDC
TOTAL SDC	\$ 2,850	\$ 4,471

**Q. Has Ms. Stull opined on the reasonableness of the proposed SDC for HSE's CTA that has reached a more mature level of development, i.e., the CTAs comprising the Fishers CTA?**

A. Yes. I believe that she had no issue with the proposed increase in HSE's SDC in the various CTAs in the more mature Fishers CTA, but she objects to having a uniform SDC for all of HSE's CTAs, which includes new areas that are presently being developed but which are all CTAs contiguous to Indianapolis and all CTAs developed, owned, and on the books of HSE. All of these areas have a uniform SDC of \$2,850 approved by the Commission in Cause No. 44683.

1 **Q. Why do you believe that it is reasonable to use the more mature Fishers CTA area**  
2 **as a proxy for the other CTAs that are now getting very close to commencement of**  
3 **construction of initial development?**

4 A. Because the Fishers CTA, Noblesville CTA, and Boone County CTA are relatively  
5 homogenous. All three CTAs are likely to have similar customer mixes (residential  
6 subdivisions and commercial & retail establishments). All three CTAs will require HSE  
7 to invest its SDCs in the same types of costs: treatment plant capacity and collection  
8 system capital costs.

9 **Q. Have you prepared any estimates of the Master Plan costs per EDU for the**  
10 **undeveloped CTAs?**

11 A. No. While HSE has a general Master Plan for all of its CTAs that have previously been  
12 filed with the Commission consisting of estimated sewer mains that might be necessary  
13 over the next 30 to 40 years, it is premature to estimate how, when or where  
14 developments will occur. It is pure speculation at this point. However, because HSE's  
15 more mature Fishers CTA was in a position to identify the vast majority of its build-out  
16 costs at the time HSE sought approval of its SDCs in Cause No. 44683, it provides an  
17 excellent proxy for what the SDCs should be in the CTAs that are presently under  
18 development.

19 **Q. Have you been provided any information as to what HSE's capital costs are likely to**  
20 **be for the Noblesville CTA's proposed initial development?**

21 A. Yes. Both HSE's engineer (SAMCO) and the developer in Wayne Township prepared  
22 capital cost estimates for the collection system capital costs that HSE would be required  
23 to fund for the initial development. This cost information is discussed in Mr. Cochran's

rebuttal testimony, Petitioner's Exhibit 3. Additionally, the treatment plant capacity costs for the Noblesville treatment plant are also known. We also know the approximate number of EDUs that the initial development will produce, which is 1,476 EDUs.

**Q. How do those costs compare with the proposed uniform SDC using HSE's Fishers CTA as a proxy?**

**A.** Based upon the range of collection system capital costs, including the related income tax gross-up, along with the \$2,100 treatment capacity costs at the Noblesville WWTP for Area 1 of the Noblesville CTA where the project will be located, I have determined a range of an estimated initial SDC to fall within \$4,461 and \$5,503 per EDU. See Figure OWK-R2 (below).

**Figure OWK-R2:**

CAPITAL COST ILLUSTRATION - INITIAL PROJECT IN WAYNE TWP			
		<u>COLLECTION SYSTEM CAPITAL COSTS</u>	
		<u>HSE Estimate</u>	<u>Developer Estimate</u>
HSE CAPITAL COSTS		\$ 1,820,000	\$ 2,623,000
CAPITALIZED INTEREST OVER			
ASSUMED 10 YR BUILDOUT @ 7%		771,271	1,111,562
TOTAL COST TO HSE		\$ 2,591,271	\$ 3,734,562
TOTAL EDU'S IN INITIAL PROJECT		1,476	1,476
AVERAGE COST PER EDU - BEFORE GROSS-UP TAX		\$ 1,756	\$ 2,530
GROSS-UP TAX ON COLL SYS SDC (34.48%)		\$ 605	\$ 872
TREATMENT CAPITAL COST / EDU		\$ 2,100	\$ 2,100
TOTAL COST / EDU		\$ 4,461	\$ 5,503
UNIFORM SDC FOR ALL AREAS			
		CURRENT SDC	PROPOSED SDC
TOTAL SDC		\$ 2,850	\$ 4,471

1 **Q. What SDC is HSE seeking as a uniform SDC in this proceeding?**

2 A. The present uniform SDC for all of HSE's areas is \$2,850 and HSE is seeking to increase  
3 that to \$4,471, which is at the lower end of the range in the above cost illustration.

4 **Q. Why is it important for HSE to have a uniform SDC based on the proxy of its**  
5 **Fishers CTA Area?**

6 A. HSE needs to be able to inform the developers in their various CTAs how much it will  
7 cost to build-out their proposed development. A development agreement needs to  
8 identify all of these costs so that each party understands what will be required. HSE  
9 needs to be able to point to their approved Tariff charges in order to be able to move "at  
10 the speed of business". HSE believes that its existing SDC in its mature developed areas,  
11 to which the OUCC agrees to the increase requested in this Cause, is an excellent proxy,  
12 particularly since the wastewater treatment plant capacity costs are about the same  
13 between its two existing wholesale treatment providers (\$2,050 in Fishers and \$2,100 in  
14 Area 1 of the Noblesville CTA). HSE is comfortable in utilizing a system of Single Tariff  
15 Pricing as the most efficient means of dealing with new development in the foreseeable  
16 future. All of HSE's CTAs are anticipated to experience the same basic capital costs.  
17 The Wayne Township costs are nearly identical to the costs to develop in HSE's more  
18 mature CTAs. In fact, the Noblesville CTA is immediately adjacent to the CTAs around  
19 Fishers.

20 **Q. Have other utilities utilized Single Tariff Pricing between various CTAs?**

21 A. Yes. It is my understanding that other investor-owned-utilities have received  
22 Commission approval of Single Tariff Pricing ("STP") between non-contiguous CTAs  
23 that may not have the homogenous characteristics that HSE's CTAs enjoy. For example,

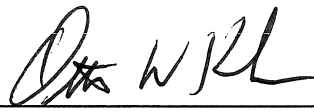
1 Indiana American Water ("Indiana American") has a uniform SDC based on meter size  
2 regardless of the area being served. In its current rate case in Cause No. 45142, Indiana  
3 American describes its efforts to move towards STP and the Commission's approval of  
4 STP beginning in Indiana American's 1997 rate case in Cause No. 40703. In Indiana  
5 American's 2009 rate case in Cause No. 43680, the Commission recognized benefits of  
6 STP, including that "in the long-term all areas will benefit by increased rate stability and  
7 mitigation of the impact of construction projects in their communities."

8 **Q. Does this conclude your Rebuttal Testimony?**

9 **A.** Yes, it does.

**VERIFICATION**

I, Otto W. Krohn, affirm under penalties of perjury that the foregoing testimony is true to the best of my knowledge, information and belief.

  
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Otto W. Krohn