STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF COMMUNITY UTILITIES OF INDIANA, INC. FOR APPROVAL OF (1) EXPENDITURES FOR CONSTRUCTION OF ADDITIONS AND IMPROVEMENTS TO PETITIONER'S WATER UTILITY PROPERTIES AND (2) THE INCLUSION OF SUCH NEW FACILITIES IN PETITIONER'S RATE BASE IN FUTURE CASES.	))))))))	**CAUSE NO. 45342**

PREFILED TESTIMONY

MARGARET A. STULL – PUBLIC'S EXHIBIT NO. 2

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

May 19, 2020

Respectfully Submitted,

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CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Office of Utility Consumer Counselor's Prefiled Testimony of Margaret A. Stull*** has been served upon the following counsel of record in the captioned proceeding by electronic service on May 19, 2020.

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TESTIMONY OF OUCC WITNESS MARGARET A. STULL
CAUSE NO. 45342
COMMUNITY UTILITIES OF INDIANA, INC.

I. INTRODUCTION

Q: Please state your name and business address.

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

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

A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Chief Technical Advisor in the Water/Wastewater Division. My qualifications are set forth in Appendix "A."

Q: What is the purpose of your testimony?

A: I explain the OUCC's position regarding various costs Community Utilities of Indiana, Inc. ("Petitioner" or "CUII") proposes to include in the capitalized costs of its requested preapproval projects, including allowance for funds used during construction ("AFUDC"), capitalized labor, and regulatory costs. I also discuss the rate impact of the capital expenditures proposed in this preapproval case as well as future capital expenditures CUII has indicated it will pursue.

Q: Please describe the review and analysis you performed.

A: I reviewed CUII's petition and pre-filed testimony. I prepared discovery questions and reviewed CUII's responses.

II. ADDITIONAL CAPITAL COSTS PROPOSED

Q: What additional costs does CUII propose be capitalized and included in rate base in this preapproval case?

A: In addition to the construction and engineering costs discussed in Mr. Carbonaro's testimony, CUII is proposing to capitalize AFUDC, labor, and regulatory costs.[1]

Q: Are these additional costs included in the $2,094,406 estimate for the water projects that constitute CUII's preapproval request in this Cause?

A: No.[2]

Q: Did CUII provide an estimate of these additional costs?

A: Yes. According to Mr. Lubertozzi's testimony, CUII estimates $300,000 of AFUDC, $20,000 of capitalized labor, and $20,000 of regulatory costs, or a total of $340,000 in costs above and beyond the $2,094,406 of construction and engineering costs.[3]

A. Allowance for Funds Used During Construction ("AFUDC")

Q: Is AFUDC a common cost of capital construction projects?

A: Yes. AFUDC is generally included as a component of construction projects. It is similar to "capitalized interest" but captures the cost of all sources of funding, including equity funds. The accumulation of AFUDC ceases when the construction project is complete. The accumulation of AFUDC also ceases during any period construction on a project is inactive.

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[1] Lubertozzi Direct at page 5.

[2] *Ibid*.

[3] *Ibid*.

Q: What amount of AFUDC has CUII estimated?

A: In testimony, CUII estimated $300,000 of AFUDC. However, in response to OUCC discovery, CUII stated there was an error in its calculation of AFUDC. CUII's updated estimate for AFUDC is approximately $100,000.[4]

Q: Does CUII's Attachment OUCC DR 2-1 reflect AFUDC of $100,000?

A: No. CUII's Attachment OUCC DR 2-1 reflects a total AFUDC of $59,349.51. This total is understated because the formula does not include any AFUDC costs reflected for the first quarter of 2021. Further, the AFUDC amounts reflected for the first quarter of 2021 are not calculated based on project expenditures incurred but instead appear to simply repeat the amount of AFUDC calculated for December 2020. AFUDC costs proposed by CUII are $103,426[5] after correcting the above errors. Table 1 reflects the correct calculation of CUII's proposed AFUDC costs.

Table 1: Corrected CUII AFUDC Calculation

	Jan-20	Feb-20	Mar-20	Total
Beginning Capital Spending	$ 1,512,346.13	$ 1,719,917.46	$ 1,927,488.79	
Current Construction Costs	205,638.33	205,638.33	205,638.33	
Current Cap Time	1,933.00	1,933.00	-	
Ending Capital Spending	$ 1,719,917.46	$ 1,927,488.79	$ 2,133,127.12	
Corrected AFUDC at 9.15%	$ 13,114.37	$ 14,697.10	$ 16,265.09	$ 44,076.56
As reflected in Attachment OUCC 2-1	11,531.63	11,531.63	11,531.63	$ 34,594.89
Additional AFUDC	$ 1,582.74	$ 3,165.47	$ 4,733.46	$ 9,481.67
Total AFUDC Per CUII Attachment OUCC DR 2-1				$ 59,349.51
Add: Corrected First Quarter 2021				44,076.56
Total CUII Proposed AFUDC				$ 103,426.07

[4] OUCC Attachment MAS-1, CUII response to OUCC Data Request No. 2-01. Note: CUII's Attachment OUCC DR 2-1 misstates the totals for each category of project costs as the totals reflected do not include any costs incurred during the first quarter of 2021.

[5] OUCC Attachment MAS-10, Corrected calculation of CUII AFUDC costs (Attachment OUCC DR 2-1).

Q: After the corrections discussed above, do you accept CUII's estimate of AFUDC based on the costs of the water projects that constitute CUII's preapproval request in this Cause?

A: No. I disagree with the 9.15% cost of capital used in CUII's calculation. CUII provides no support or explanation for the 9.15% cost of capital used in its AFUDC calculation.

Q: What cost of capital do you recommend be used to calculate AFUDC?

A: I recommend the use of the 8.175% weighted cost of capital authorized in CUII's most recent rate case (Cause No. 44724).

Q: What would CUII's AFUDC costs be using an 8.175% weighted cost of capital as you propose?

A: Using an 8.175% weighted cost of capital, CUII's AFUDC costs based on the calculations in Attachment OUCC 2-1 would be $92,927.[6]

Q: Has CUII requested authority to record post-in-service AFUDC or deferred depreciation in this Cause?

A: No.[7]

B. Capitalized Labor

Q: Is capitalized labor a common cost of construction projects?

A: Yes. It is common for utilities to capitalize labor associated with a construction project, whether that involves utility employees performing the construction themselves or overseeing a contractor who is performing the work.

[6] OUCC Attachment MAS-2 – Updated CUII AFUDC Calculation using an 8.175% weighted cost of capital.

[7] OUCC Attachment MAS-3 – CUII response to OUCC Data Request No. 2-03.

Q: What support did CUII provide for its capitalized labor estimate?

A: CUII provided no support for these estimated costs in its case-in-chief filing. In response to OUCC discovery, CUII provided a PDF copy of its estimated capitalized labor. This estimate was broken down by activity and by employee.[8] I summarized the information provided by employee to assist in my review and analysis.[9]

Q: Does the amount of capitalized labor reflected in CUII's Attachment OUCC 2-2 match the amount of capitalized labor reflected in its Attachment OUCC 2-1 (AFUDC Calculation)?

A: No. CUII's Attachment OUCC 2-1 reflects total capitalized labor of $18,720 after correcting the formula error in the totals column. The amount of capitalized labor reflected in CUII's Attachment OUCC 2-2 totals $19,139, a difference of $419.

Q: Do you accept CUII's proposal to capitalize labor and include these costs in rate base?

A: Yes. While I don't necessarily agree with the amount of capitalized labor estimated by CUII, I do accept reasonable and prudently incurred capitalized labor costs as a component of construction project costs.

C. Regulatory Costs

Q: What regulatory costs has CUII requested be capitalized as part of the costs of the water projects that constitute CUII's preapproval request in this Cause?

A: CUII has requested the inclusion of costs to prepare and prosecute this case. According to Mr. Lubertozzi, CUII has estimated these costs at $20,000 but "this

[8] OUCC Attachment MAS-4 – CUII response to OUCC Data Request No. 2-02.

[9] OUCC Attachment MAS-5 – OUCC Workpaper summarizing capitalized labor by employee.

will depend on the extent to which our proposal is contested and the need to respond to lengthy formal discovery, among other matters."[10] Based on CUII's response to OUCC discovery, these estimated regulatory costs appear to consist solely of legal costs related to this case (see OUCC Attachment MAS-6).

Q: What support did CUII provide for its estimated regulatory costs?

A: CUII provided no support for these estimated costs in its case-in-chief filing. In response to OUCC discovery, CUII objected to the OUCC's request but stated the "estimate was based on consultation with Petitioner's legal counsel and legal counsel's estimate of the number of hours required to prepare the filing, respond to limited discovery, prepare for and participate at the hearing, and prepare a proposed order." However, CUII provided no information regarding the number of hours estimated or the hourly cost of such legal counsel.[11]

Q: Are regulatory costs a common cost component of capital construction projects?

A: No. I know of no preapproval case or other capital project approval case in Indiana where a utility has requested and been authorized to include the costs of pursuing preapproval as a component of its construction costs. In response to OUCC discovery, CUII cited to two electric cases requesting a certificate of public convenience and necessity ("CPCN") and further stated it thought this treatment

[10] Lubertozzi Direct at 5, lines 16-18.

[11] OUCC Attachment MAS-6 – CUII response to OUCC Data Request No. 2-05.

was in compliance with U.S. Generally Accepted Accounting Principles ("GAAP").[12]

Q: Do you consider either of the cases cited by CUII in its response to OUCC Data Request No. 2-04 to be supportive of CUII's request to capitalize regulatory costs?

A: No. The first case cited is Cause No. 45052, a Vectren CPCN case. In that case, Vectren included overhead costs as part of its construction costs. Included in these overhead costs, in addition to management and administrative costs, are accounting, legal, insurance, human resources, and other similar costs. Overhead is the allocation of common corporate costs to support the people working on the capital project and generally includes the cost of providing an office for the employee, liability insurance, employee benefits, and other similar costs. I do not believe the corporate legal costs included as a component of overhead are the same as the regulatory costs CUII has requested be capitalized in this case.

The second case cited is Cause No. 44012, a NIPSCO CPCN case. In that case, the Commission authorized NIPSCO to use construction work-in-progress ("CWIP") ratemaking treatment (including preconstruction costs) and AFUDC treatment for the Phase I projects. While CUII does not explain why Cause No. 44012 supports its request, it appears CUII equates the inclusion of preconstruction costs with its request to include regulatory costs. I do not agree that preconstruction costs are synonymous with regulatory costs. Alternatively, CUII may be arguing that regulatory costs are incurred during the preconstruction phase and

[12] OUCC Attachment MAS-7 – CUII response to OUCC Data Request No. 2-04.

preconstruction costs have been allowed as a component of construction costs, therefore regulatory costs should be included as a component of construction costs. While preconstruction costs may be recovered,[13] when the cost is incurred is not dispositive of *whether* it should be included as a capitalized construction cost. The type of cost being incurred and the appropriate regulatory treatment of those costs is more important than when the costs were incurred and Cause No. 44012 does not address either of these issues.

Q: What does CUII assert would be the U.S. GAAP treatment for these regulatory costs?

A: CUII argues capitalizing these regulatory costs is consistent with U.S. GAAP and further stated these costs are no different than other construction costs that are normally capitalized as part of the overall project's capital costs.

Q: Do you agree with CUII's characterization of how these regulatory costs would be treated for U.S. GAAP purposes?

A: No. While I disagree that U.S. GAAP would treat these costs as capital costs, there are many exceptions to U.S. GAAP for regulatory purposes and utilities are not necessarily required to follow U.S. GAAP when ordered to do otherwise by a regulatory body. Whether filing a preapproval case is prudent or not, it isn't a requirement before a utility can construct any utility plant. For U.S. GAAP purposes, only costs that are "ordinary and necessary to get the item in place and in

[13] Assuming construction begins in July 2020, CUII has included $219,328 of pre-construction costs in its estimated $2.09 million of construction and engineering costs (excludes capitalized time), according to information provided in CUII Attachment OUCC DR 2-1 (OUCC Attachment MAS-1).

condition for its intended use" can be capitalized.[14] As it isn't necessary to file a preapproval case in order to construct utility plant, U.S. GAAP would consider these costs to be operating expenses and not proper for capitalization.

Q: Does CUII make any additional arguments for capitalizing regulatory costs?

A: Yes. CUII also argues that absent capitalization of these costs, it would be financially harmed for prudently seeking Commission preapproval of this significant investment.

Q: Do you agree with this argument?

A: No. As I mentioned previously, a preapproval case is not required in order to construct or invest in utility plant. The purpose of filing a preapproval case is to provide certainty to a utility that an investment it makes in utility plant will be included in rate base in its next rate case. This certainty reduces a utility's risk and solely benefits the utility and its shareholders. Because these expenditures only benefit the utility's shareholders, these costs should be borne by the shareholders and not the utility's customers. Considering the optional nature of preapproval cases and the benefit provided to shareholders, it is especially egregious that a utility would seek to earn a return on these costs.

Q: Do you accept CUII's proposal to capitalize regulatory costs?

A: No. CUII is requesting to earn both a return "of" and a return "on" costs that solely benefit the utility's shareholders and are typically considered operating expenses. I believe this is a bad precedent to set and is contrary to both regulatory practice as

[14] PrinciplesofAccounting.com https://www.principlesofaccounting.com/chapter-10/costs-in-ppe/

well as U.S. GAAP. Therefore, I recommend denial of CUII's request to capitalize the $20,000 of regulatory costs it has projected.

D. Asset Retirements

Q: Will CUII be retiring assets being replaced by the water projects that constitute CUII's preapproval request in this Cause?

A: Yes. There are several projects included in CUII's preapproval request that represent replacements of existing facilities, including the south filter, SCADA system, building roof, chemical feed system, phosphate system, chlorine analyzers, spill containment, building heaters, aerator, and interior piping. Therefore, the original costs of these existing assets will need to be retired or otherwise removed from utility plant in service ("UPIS") when they are replaced and taken out of service.[15]

Q: What assets does CUII state will be retired?

A: CUII does not discuss the retirement of replaced assets in its case-in-chief. In response to OUCC discovery, CUII states the original cost of the replaced assets is $222,314.[16] Table 2 lists each of the assets CUII states will be retired or otherwise removed from UPIS.

[15] While UPIS will decrease due to these retirements, rate base will not be affected. This is because the same amount should also be removed from accumulated depreciation.

[16] OUCC Attachment MAS-8 – CUII response to OUCC Data Request No. 2-06.

Table 2: Original Cost of Retired Assets per CUII

Asset	Original Cost	Replacement Cost
Aerator/Filter/Valves	$ 93,376.87	$ 325,000.00
Split Case Pumps (HSP 2-3)	20,778.60	76,000.00
Electrical	108,159.06	360,000.00
	$ 222,314.53	$ 761,000.00

Absent from the list CUII provided are any costs related to SCADA, the building roof, chemical feed system, phosphate system, chlorine analyzers, spill containment, building heaters, and interior piping.

Q: Does CUII propose to remove these retired assets from utility plant in service?

A: Yes, at least in part. In response to OUCC discovery, CUII provided the transactions it will record to remove these replaced assets from UPIS.[17] However, the amounts reflected in those transactions are not the same amounts provided in another discovery response regarding the original cost of the replaced assets (see OUCC Attachment MAS-8).

Table 3: Comparison of Original Cost and Retirement Amount Per CUII

Asset	Original Cost (DR 2-6)	Amount Removed from UPIS (DR 2-7)	Difference
Aerator/Filter/Valve	93,376.87	66,548.44	26,828.43
Split Case Pumps (HSP 2-3)	20,778.60	15,097.68	5,680.92
Electrical	108,159.06	75,663.55	32,495.51
	$ 222,314.53	$ 157,309.67	$ 65,004.86

[17] OUCC Attachment MAS-9 – CUII response to OUCC Data Request No. 2-07.

Q: What is the proper transaction to record when assets are removed from utility plant in service due to retirement or replacement?

A: When a utility uses the composite method of depreciation[18] as CUII does, the proper way to reflect the retirement or replacement of assets is to remove the entire original cost from both UPIS and accumulated depreciation. This is because when the composite method of depreciation is used, assets are not depreciated individually but in total and, therefore, the amount of accumulated depreciation associated with any one asset is not known.[19] No gain or loss on disposal of the asset is recorded. Table 4 reflects a sample transaction.

Table 4: Sample Retirement Transaction

	Debit	Credit
Accumulated Depreciation	$ 93,376.87	
Utility Plant in Service		$ 93,376.87

To record the retirement/replacement of the aerator/filter/valves.

Q: What is the effect of the retirement transactions proposed by CUII?

A: The effect of CUII's proposed transactions is the removal of only part of the original cost of the assets being replaced. The remainder, $65,005 (see Table 2 above), will remain in UPIS and CUII will continue to earn a return on these costs as well as recover depreciation expense.

[18] This method of removing assets from UPIS when they are retired or replaced is also applicable when a utility uses the group method of depreciation.

[19] Even if a utility using the composite depreciation method incorrectly reflects depreciation of individual assets, retirement or replacement of an asset should still be recorded by removing the entire original cost from both UPIS and accumulated depreciation.

Q: Are there any other costs that should be removed from UPIS as a result of the water projects that constitute CUII's preapproval request in this Cause?

A: Yes. To the extent there are additional assets being replaced, the original costs of these assets should be removed from UPIS. Further, on page 4 of Mr. Lubertozzi's testimony, he states "the South Filter was rehabilitated in 2016 and 2017." CUII provided additional information regarding this rehabilitation, as well as the replacement of filter media, in response to OUCC discovery.[20] I do not believe the costs of this rehabilitation or the filter media replacement were included in the costs CUII provided as the original South Filter costs to be retired. If these rehabilitation or filter media costs were capitalized, they should also be removed when the South Filter is replaced.

E. Total Water Project Costs

Q: What total water project costs has CUII estimated in this Cause?

A: CUII estimates total water project costs of $2,236,553 (OUCC Attachment MAS-10) and an increase to UPIS of $2,079,243. (See Tables 5 and 6 below.)

Q: What total water project costs do you estimate, assuming all proposed projects are approved by the Commission?

A; I estimate total water project costs of $2,204,555[21] (OUCC Attachment MAS-11) and an increase to UPIS of $1,982,240. (See Table 5 below.)

[20] OUCC Attachment JTP-4 – CUII responses to OUCC Data Request Nos. 1-02, 1-03, 1-04, 4-13, and 5-10 regarding South Filter rehabilitation, including copies of invoices and Peerless-Midwest proposal.

[21] OUCC Attachment MAS-11 – Calculation of OUCC proposed total project costs assuming all proposed water projects are approved.

Table 5: Comparison of Total Water Project Costs and Increase to UPIS

Construction Cost Component	CUII [(A)]	OUCC [(B)]	OUCC More (Less)
Construction and Engineering	$ 2,094,407	$ 2,094,407	$ -
Capitalized Labor	18,720	18,720	-
AFUDC	103,426	91,428	(11,998)
Regulatory Costs	20,000	-	(20,000)
Total Water Project Costs	$ 2,236,553	$ 2,204,555	$ (31,998)
Less: Asset Retirements	(157,310)	(222,315)	(65,005)
Total Increase to UPIS	$ 2,079,243	$ 1,982,240	$ (97,003)

[(A)] See OUCC Attachment MAS-10.

[(B)] See OUCC Attachment MAS-11.

Q: What total water project costs do you estimate based on the OUCC's proposed preapproved water projects?

A: I estimate total water project costs of $419,810[22] and an increase to UPIS of $290,872. Estimated construction period is six (6) months. OUCC Witness James T. Parks discusses the OUCC's proposed construction and engineering costs of $400,000. (See Table 6 below.)

[22] OUCC Attachment MAS-12 – Calculation of OUCC proposed project costs.

Table 6: Comparison of Proposed Water Project Costs and Increase to UPIS

Construction Cost Component	CUII [A]	OUCC [B]	OUCC More (Less)
Construction and Engineering	$ 2,094,407	$ 400,000	$ (1,694,407)
Capitalized Labor	18,720	10,000	(8,720)
AFUDC	103,426	9,810	(93,616)
Regulatory Costs	20,000	-	(20,000)
Total Water Project Costs	$ 2,236,553	$ 419,810	$ (1,816,743)
Less: Asset Retirements	(157,310)	(128,938)	28,372
Total Increase to UPIS	$ 2,079,243	$ 290,872	$ (1,788,371)

[A] See OUCC Attachment MAS-10.

[B] See OUCC Attachment MAS-12.

Q: Does the OUCC have any recommendations regarding any costs incurred by CUII above the amount preapproved in this Cause?

A: Yes. The OUCC recommends the Commission disallow the inclusion in rate base of any overages or excess costs incurred by CUII above the amount preapproved by the Commission in this Cause, absent the Commission granting additional approval for the costs prior to that rate case. A contemporaneous review by the OUCC and the Commission of any excess costs should be performed at or near the time the additional costs are incurred, in order to preserve both the proper documentation such costs were indeed incurred by the utility as well as the records documenting the need for such additional expense.

III. RATE IMPACT

Q: Does CUII identify the rate impact of its preapproval request in this Cause?

A: Yes. While no calculations or details were provided in its case-in-chief, Mr. Lubertozzi states the estimated rate impact is approximately $4.20 per month for

all CUII water customers, but this does not include any AFUDC, capitalized labor, or regulatory costs.[23]

Q: Do you agree with this estimated rate impact?

A: Not entirely. CUII's presentation of the impact is devoid of context and excludes costs that will be incurred and will impact customers. CUII did not state what monthly consumption this dollar increase is based upon and appears to assume the increase will affect all customers equally.

Q: Why do you say CUII's presentation is devoid of context?

A: CUII states the impact as a dollar increase to a customer's monthly water bill. This makes the impact sound less onerous than it really is. In terms of percentages, CUII's proposed water projects would represent a 10.3% rate increase for CUII water customers.[24] While it is important to understand what the increase will be to an individual customer, I consider it is also necessary to look at the bigger picture and understand the total impact of CUII's request on operating revenues.

Q: What rate impact did you calculate?

A: Based on the same parameters as CUII's calculated rate impact (only construction and engineering costs), I calculate a 10.74%[25] increase to CUII's currently authorized operating revenues as approved in Cause No. 44724.

[23] Lubertozzi Direct at 11, lines 16 – 24.

[24] A water customer using 4,500 gallons of water is currently charged $40.71. A $4.20 increase therefore represents a 10.3% increase ($4.20/$40.71). See OUCC Attachment MAS-13 for the details behind these calculations.

[25] OUCC Attachment MAS-13 – OUCC calculation of rate impact.

Based on all the cost factors for all projects proposed by CUII, including capitalized labor, AFUDC, and UPIS retirements, I calculate an 11.08% increase to CUII's currently authorized operating revenues (OUCC Attachment MAS-13).

Based on all cost factors for those water projects the OUCC recommends, I calculate a 2.02% increase to CUII's currently authorized operating revenues (OUCC Attachment MAS-13).

Q: Are there additional concerns to bear in mind when considering the rate impact of CUII's preapproval request?

A: Yes. There are two issues I consider important to understand the full impact of CUII's request in this Cause: (1) significant future wastewater improvements and (2) affordability.

Q: Why do you consider CUII's future wastewater improvements are an important factor when evaluating the rate impact of the projects being considered in this Cause?

A: CUII has indicated it will be pursuing approximately $40.0 million of wastewater improvements in one or more future preapproval cases.[26] CUII has stated these additional wastewater improvement projects will increase the average customers' bill by *$100 per month*.[27] When the water projects in this case are considered in the context of CUII's total planned capital improvement projects, it becomes clear that CUII intends to make an enormous investment in rate base and CUII expects to earn both a return on as well as a return of this investment. As Mr. Parks explains

[26] OUCC Attachment MAS-14 – Cause No. 44724, CUII Asset Management Plan (August 2018), page 46 of 48 (Cause No. 44724 CUII 2nd Technical Conference Agenda and Materials).

[27] OUCC Attachment MAS-15 – Submission of Minutes from August 2018 Technical Conference, Agenda Item 2 – Recommended and Implementation of System Improvement Plan.

in his testimony, it is crucial that these investment projects be examined closely to determine whether they are reasonable and necessary to provide safe, reliable utility service to CUII's customers. Further, these projects should be prioritized so that the investments being made are for truly essential improvements. Finally, less costly ways to deal with the operational issues should be considered, such as repair or rehabilitation in order to reduce the burden on customers.

Q: Why is affordability an issue to be considered in this Cause?

A: All customers are entitled to access to safe and reliable water and wastewater utility services. But as the cost for these utility services increases, lower-income customers may no longer be able to afford these services. Given CUII's significant capital improvement plans, CUII's rates will quickly become unaffordable for a portion of its customer base. The water projects which are the subject of this proceeding are all planned for CUII's Twin Lakes division, the most affluent of CUII's three divisions. However, the costs for these improvements will also be borne by the customers at Water Service Company of Indiana ("WSCI") and Indiana Water Service, Inc. ("IWSI"), both of which are primarily low to middle income customers. Absent consideration and development of affordability programs, these customers will find it difficult to afford their water and wastewater utility services. And if that happens, it would have a significant impact to both CUII and its customers. Therefore it is imperative that CUII's capital improvement projects be considered carefully to ensure they are reasonable, prudent, and necessary to the continued provision of safe and reliable utility service. Further, these projects must be prioritized so that the most important needs are dealt with first. Finally,

whenever possible and prudent, less costly solutions should be considered and encouraged. All of these measures will assist in keeping rates affordable for CUII's customers. But CUII should also consider and develop affordability programs to proactively prepare for affordability issues.

IV. RECOMMENDATIONS

Q: Please summarize your recommendations.

A: Generally, I recommend the Commission consider the rate impact these proposed water projects will have on CUII's customers in its determination of which projects will be preapproved. In conjunction with the rate impact, I also recommend the Commission consider the affordability of CUII's rates and require CUII to begin developing a rate affordability program so as to be prepared to deal with this issue. More specifically, I recommend the 8.175% weighted cost of capital authorized in CUII's most recent rate case (Cause No. 44724) be used instead of the 9.15% proposed by CUII. I also recommend the Commission disallow the inclusion in rate base of any overages or excess costs incurred by CUII above the amount preapproved by the Commission in this Cause, absent the Commission granting additional approval for these costs prior to that rate case. Finally, I recommend denial of CUII's request to capitalize regulatory costs.

Q: Does this conclude your testimony?

A: Yes.

APPENDIX A

Q: Please describe your educational background and experience.

A: I graduated from the University of Houston at Clear Lake City in August 1982 with a Bachelor of Science degree in Accounting. From 1982 to 1985, I held the position of Gas Pipeline Accountant at Seagull Energy in Houston, Texas. From 1985 to 2001, I worked for Enron in various positions of increasing responsibility and authority. I began in gas pipeline accounting, was promoted to a position in financial reporting and planning, for both the gas pipeline group and the international group, and finally was promoted to a position providing accounting support for infrastructure projects in Central and South America. In 2002, I moved to Indiana, where I held non-utility accounting positions in Indianapolis. In August 2003, I accepted my current position with the OUCC. In 2011, I was promoted to Senior Utility Analyst. In 2018, I was promoted to Chief Technical Advisor.

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

2016 I was appointed chair of the NASUCA Tax and Accounting Committee and was reappointed to an additional two-year term in November 2019.

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

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

Q: Have you held any professional licenses?

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

Data Request OUCC DR 2 - 01

Please provide the detailed monthly calculation of the estimated $300,000 of AFUDC as discussed in Mr. Lubertozzi's testimony, page 5, line 12.

Objection:

Response:

Please see attachment to OUCC DR 2-1. We have corrected an error in our calculation of AFUDC, bringing our total AFUDC value for the project to approximately $100,000. These AFUDC values are not part of the $2.09 million estimate.

OUCC DR 2-1: Detailed Calculation of AFUDC

			Actuals through Dec. 2019											
Description	**Finish Date**	**Rate**	**Dec-19**	**Jan-20**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**	**Jun-20**	**Jul-20**	**Aug-20**	**Sep-20**	**Oct-20**	**Nov-20**	**Dec-20**
Capital Spending			$ 160,315.82		$ 45,678.89	$ 3,333.33	$ 3,333.33	$ 3,333.33	$ 3,333.33	$ 209,971.67	$ 213,638.33	$ 213,638.33	$ 213,638.33	$ 213,638.33	$ 213,638.33
Capitalized Time			$ 10,988.18											$ 1,933.00	$ 1,933.00
AFUDC	3/31/2021	0.0915	$ 4,894.40	$ 1,306.19	$ 1,654.49	$ 1,679.91	$ 1,705.33	$ 1,730.74	$ 1,756.16	$ 3,357.20	$ 4,986.19	$ 6,615.18	$ 8,244.17	$ 9,887.90	$ 11,531.63

Description	**Jan-21**	**Feb-21**	**Mar-21**	**Apr-21**	**Totals**
Capital Spending	$ 205,638.33	$ 205,638.33	$ 205,638.33		**$ 1,497,491.38**
Capitalized Time	$ 1,933.00	$ 1,933.00			**$ 14,854.18**
AFUDC	$ 11,531.63	$ 11,531.63	$ 11,531.63		**$ 59,349.51**

Community Utilities of Indiana, Inc.
Cause No. 45342
Response to OUCC DR 2-1 Attachment

OUCC Attachment MAS-2
Cause No. 45342
Page 1 of 1

	2019	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Cumulative Spending - Beginning		171,304.00	171,304.00	216,982.89	220,316.22	223,649.55	226,982.88	230,316.21	440,287.88	653,926.81
Capital Spending	160,315.82	-	45,678.89	3,333.33	3,333.33	3,333.33	3,333.33	209,971.67	213,638.93	213,638.33
Capitalized Time	10,988.18	-	-	-	-	-	-	-	-	
Cumulative Spending - Ending	171,304.00	171,304.00	216,982.89	220,316.22	223,649.55	226,982.88	230,316.21	440,287.88	653,926.81	867,565.14
Corrected AFUDC @8.175%	4,894.40	1,167.01	1,478.20	1,500.90	1,523.61	1,546.32	1,569.03	2,999.46	4,454.88	5,910.29

	Oct-20	Nov-20	Dec-20	Totals	Jan-21	Feb-21	Mar-21	Totals
Cumulative Spending - Beginning	867,565.14	1,081,203.47	1,296,774.80		1,512,346.13	1,719,917.46	1,927,488.79	
Capital Spending	213,638.33	213,638.33	213,638.33	1,497,491.95	205,638.33	205,638.33	205,638.33	2,114,406.94
Capitalized Time		1,933.00	1,933.00	14,854.18	1,933.00	1,933.00	-	18,720.18
Cumulative Spending - Ending	1,081,203.47	1,296,774.80	1,512,346.13	1,512,346.13	1,719,917.46	1,927,488.79	2,133,127.12	2,133,127.12
Corrected AFUDC @8.175%	7,365.69	8,834.27	10,302.85	53,546.91	11,716.93	13,131.01	14,531.92	92,926.77

Data Request OUCC DR 2 - 03

Is Petitioner seeking authority to record post-in-service AFUDC or deferred depreciation? Please explain.

Objection:

Response:

Not in this proceeding.

Data Request OUCC DR 2 - 02

Please provide the detailed calculation of the estimated $20,000 of Cap Time by employee as discussed in Mr. Lubertozzi's testimony, page 5, line 12. Please include the title of each employee estimated to charge time to this project, the hours to be capitalized, the dollar amount to be capitalized, and the duties to be performed by each employee.

Objection:

Response:

Please see attachment to OUCC DR 2-2.

OUCC DR 2-2: Detailed Calculation of Capitalized Time

Design and bidding phase data

Employee	Title	Capitalized Time Totals through 2/29/2020	Hours (approximate)	Hourly Rate	Role
Sean Carbonaro	Director of Engineering and Asset Management	$4,349.95	91	$48.00	Project management. Plans and specifications review. Design meetings and progress calls. Site visits. Respond to engineer data requests.
Loren Grosvenor	Area Manager	$6,169.70	137	$45.00	Plans and specifications review. Design meetings and progress calls. Site visits. Respond to engineer data requests.
Scott Smith	Operator	$887.63	25	$35.00	Design review. Design meetings.
Total		**$11,407.28**			

Construction Phase

Progress meetings (bi-weekly, 2 hours per meeting, 4 month construction duration)

	Hours	Hourly Rate	Total	Monthly Estimate
Sean Carbonaro	16	$48.00	$768.00	$192.00
Loren Grosvenor	16	$45.00	$720.00	$180.00

Project management (2 hours per week, 4 month construction duration)

	Hours	Hourly Rate	Total	Monthly Estimate
Sean Carbonaro	32	$48.00	$1,536.00	$384.00

Plant operations to accommodate construction (miscellanenous)

	Hours	Hourly Rate	Total	Monthly Estimate
Loren Grosvenor	8	**$45.00**	$360.00	$90.00
Scott Smith	32	$35.00	$1,120.00	$280.00

Staffing during outages (12 hours per outage, 2 hours for coordination, 4 outages)

	Hours	Hourly Rate	Total	Monthly Estimate
Loren Grosvenor	8	**$45.00**	$360.00	$90.00
Scott Smith	48	$35.00	$1,680.00	$420.00

Start-up and training (3 meetings, 2 hours each, 3 operators)

	Hours	Hourly Rate	Total	Monthly Estimate
Sean Carbonaro	6	**$48.00**	$288.00	$72.00
Loren Grosvenor	6	**$45.00**	$270.00	$67.50
Scott Smith	18	**$35.00**	$630.00	$157.50

Community Utilities of Indiana, Inc.
Cause No. 45342
OUCC DR 2-2 - Summary of Capitalized Time

OUCC Attachment MAS-5
Page 1 of 1

			Cumulative Cap Time 2/229/20	Progress Meetings	Project Mgmt	Plant Ops.	Staffing Outages	Start up Training	Totals
Sean Carbonaro	VP	48	$ 4,349.95	$ 768.00	$ 1,536.00	$ -	$ -	$ 288.00	$ 6,941.95
Loren Grosvenor	Area Manager	45	6,169.70	720.00	-	360.00	360.00	270.00	7,879.70
Scott Smith	Operator	35	887.63	-	-	1,120.00	1,680.00	630.00	4,317.63
			$ 11,407.28	$ 1,488.00	$ 1,536.00	$ 1,480.00	$ 2,040.00	$ 1,188.00	$ 19,139.28
Cap Time per AFUDC Calcualtion (OUCC 2-1)			10,988.18						18,720.18
Difference			(419.10)						(419.10)

Data Request OUCC DR 2 - 05

Please provide the detailed calculation of the $20,000 of estimated regulatory costs to pursue this pre-approval case as discussed in Mr. Lubertozzi's testimony on page 5, line 16.

Objection:

CUII objects to the request on the grounds and to the extent the request seeks information that is confidential, proprietary, competitively-sensitive, and/or trade secret. CUII further objects to the request, and in particular the request for a "detailed calculation" on the grounds that the disclosure of such information would require a breakdown of the amount of time estimated by counsel for each phase of this proceeding and therefore could reveal counsel's mental impressions and legal strategies regarding this proceeding. Subject to and without waiver of the foregoing objections, CUII provides the following response.

Response:

The estimate of regulatory costs is based on consultation with Petitioner's legal counsel and legal counsel's estimate of the number of hours required to prepare the filing, respond to limited discovery, prepare for and participate at the hearing, and prepare a proposed order. As noted in Mr. Lubertozzi's testimony on page 5, actual legal expenses will vary depending on the extent to which Petitioner's proposal is contested and the need to respond to lengthy formal discovery, among other matters. Since the preparation and filing of this case, Petitioner would note that an additional party (LOFS) has intervened in the proceeding. In addition, the OUCC has thus far issued three sets of discovery, with approximately 48 questions (not including subparts).

Data Request OUCC DR 2 - 04

Please cite to any cases or other authoritative sources Petitioner is aware of that allowed the capitalization of the costs to pursue pre-approval of capital projects and earn a return on and of these expenditures.

Objection:

CUII objects to the request on the grounds and to the extent the request seeks a calculation, analysis, study, or compilation which CUII has not performed and to which CUII objects to performing. CUII further objects to the request on the grounds and to the extent the request seeks the production of information that is publicly available and accessible by the OUCC. Subject to and without waiver of the foregoing objections, CUII provides the following response.

Response:

CUII has not performed an exhaustive review of prior "cases or other authoritative sources". That said, CUII is aware of the inclusion of legal costs in the costs to be capitalized in Cause No. 45052, involving Vectren. See Direct Testimony of J. Cas Swiz, page 17. See also Cause No. 44012, Order at 22 (approving capitalization of preconstruction costs). This treatment is also consistent with generally accepted accounting principles. More specifically, costs associated with this proceeding should be included no different than other costs, such as permitting, engineering, appraisal, geotechnical reports, and other project development costs, that are normally capitalized as part of the overall project's capital cost. Absent such accounting treatment, Petitioner would be financially harmed for prudently seeking Commission pre-approval of this significant investment.

Data Request OUCC DR 2 - 06

Please provide the original cost for each asset being replaced or retired as a result of the construction projects for which Petitioner seeks pre-approval.

Objection:

Response:

Item #	Asset Title	Replacement Cost	Year Placed in Service	Original Cost
4.1	Aerator/Filter/Valves	$ 325,000.00	1982	$ 93,376.87
4.3	Split Case Pumps (HSP 2-3)	$ 76,000.00	1992	$ 20,778.60
9	Electrical	$ 360,000.00	1982	$ 108,159.06

Data Request OUCC DR 2 - 07

Please provide the accounting entry to record the retirement of each asset being replaced or retired as a result of the construction projects for which Petitioner seeks pre-approval.

Objection:

Response:

Item #	Asset Title	Credit Plant	*Plant Account*	Debit Accumulated Depreciation	*Accumulated Depreciation Account*
4.1	Aerator/Filter/Valves	$ (66,548.44)	*1115*	$ 66,548.44	*1910*
4.3	Split Case Pumps (HSP 2-3)	$ (15,097.68)	*1105*	$ 15,097.68	*1900*
9	Electrical	$ (75,663.55)	*1055*	$ 75,663.55	*1850*

Community Utilities of Indiana, Inc.
Cause No. 45342
Response to OUCC DR 2-1 Attachment

OUCC Attachment MAS-10
Cause No. 45342
Page 1 of 1

	2019	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Cumulative Spending - Beginning		171,304.00	171,304.00	216,982.89	220,316.22	223,649.55	226,982.88	230,316.21	440,287.88	653,926.81
Capital Spending	160,315.82	-	45,678.89	3,333.33	3,333.33	3,333.33	3,333.33	209,971.67	213,638.93	213,638.33
Capitalized Time	10,988.18	-	-	-	-	-	-	-	-	
Cumulative Spending - Ending	171,304.00	171,304.00	216,982.89	220,316.22	223,649.55	226,982.88	230,316.21	440,287.88	653,926.81	867,565.14
Corrected AFUDC @9.15%	4,894.40	1,306.19	1,654.49	1,679.91	1,705.33	1,730.74	1,756.16	3,357.20	4,986.19	6,615.18
								18,084.42		
AFUDC per Attach. OUCC 2-1	4,894.40	1,306.19	1,654.49	1,679.91	1,705.33	1,730.74	1,756.16	3,357.20	4,986.19	6,615.18
	-	-	-	-	-	-	-	-	-	-

	Oct-20	Nov-20	Dec-20	Totals	Jan-21	Feb-21	Mar-21	Totals
Cumulative Spending - Beginning	867,565.14	1,081,203.47	1,296,774.80		1,512,346.13	1,719,917.46	1,927,488.79	
Capital Spending	213,638.33	213,638.33	213,638.33	1,497,491.95	205,638.33	205,638.33	205,638.33	2,114,406.94
Capitalized Time		1,933.00	1,933.00	14,854.18	1,933.00	1,933.00		18,720.18
Cumulative Spending - Ending	1,081,203.47	1,296,774.80	1,512,346.13	1,512,346.13	1,719,917.46	1,927,488.79	2,133,127.12	2,133,127.12
Corrected AFUDC @9.15%	8,244.17	9,887.91	11,531.64	59,349.51	13,114.37	14,697.10	16,265.09	103,426.07
AFUDC per Attach. OUCC 2-1	8,244.17	9,887.90	11,531.63	59,349.49	11,531.63	11,531.63	11,531.63	93,944.38
	-	0.01	0.01	0.02	1,582.74	3,165.47	4,733.46	9,481.69

	Total Costs
(A)	$ 2,114,406.94
	18,720.18
	103,426.07
	$ 2,236,553.19

(A) Includes $20,000 of regulatory costs.

Community Utilities of Indiana, Inc.
Cause No. 45342
OUCC Proposed Total Project Costs
Assuming all Projects are Approved

OUCC Attachment MAS-11
Cause No. 45342
Page 1 of 1

	2019	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Cumulative Spending - Beginning		171,304.00	171,304.00	216,982.89	216,316.22	215,649.55	214,982.88	214,316.21	420,287.88	633,926.81
Capital Spending	160,315.82	-	45,678.89	3,333.33	3,333.33	3,333.33	3,333.33	209,971.67	213,638.93	213,638.33
Remove Regulatory Costs	-	-	-	(4,000.00)	(4,000.00)	(4,000.00)	(4,000.00)	(4,000.00)	-	-
Capitalized Time	10,988.18	-	-	-	-	-	-	-	-	-
Cumulative Spending - Ending	171,304.00	171,304.00	216,982.89	216,316.22	215,649.55	214,982.88	214,316.21	420,287.88	633,926.81	847,565.14
AFUDC @8.175%	4,894.40	1,167.01	1,478.20	1,473.65	1,469.11	1,464.57	1,460.03	2,863.21	4,318.63	5,774.04

	Oct-20	Nov-20	Dec-20	Totals	Jan-21	Feb-21	Mar-21	Totals
Cumulative Spending - Beginning	847,565.14	1,061,203.47	1,276,774.80		1,492,346.13	1,699,917.46	1,907,488.79	
Capital Spending	213,638.33	213,638.33	213,638.33	$1,497,491.95	205,638.33	205,638.33	205,638.33	$2,114,406.94
Capital Spending Adjustment	-	-	-	(20,000.00)	-	-	-	(20,000.00)
Capitalized Time	-	1,933.00	1,933.00	14,854.18	1,933.00	1,933.00	-	18,720.18
Cumulative Spending - Ending	1,061,203.47	1,276,774.80	1,492,346.13	$1,492,346.13	1,699,917.46	1,907,488.79	2,113,127.12	$2,113,127.12
AFUDC @8.175%	7,229.44	8,698.02	10,166.60	52,456.91	11,580.68	12,994.76	14,395.67	91,428.02
Total Project Costs (including AFUDC)				$1,544,803.04				$2,204,555.14

Community Utilities of Indiana, Inc.
Cause No. 45342
OUCC Proposed Total Project Costs

OUCC Attachment MAS-12
Cause No. 45342
Page 1 of 1

	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Totals
Cumulative Spending - Beginning	-	68,666.67	137,333.34	206,000.01	274,666.68	343,333.34	-
Capital Spending	66,666.67	66,666.67	66,666.67	66,666.67	66,666.66	66,666.66	$ 400,000.00
Capitalized Time	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	-	10,000.00
Cumulative Spending - Ending	68,666.67	137,333.34	206,000.01	274,666.68	343,333.34	410,000.00	$ 410,000.00
AFUDC @8.175%	467.79	935.58	1,403.38	1,871.16	2,338.95	2,793.12	9,809.98
Total Project Costs							$ 419,809.98

Community Utilities of Indiana, Inc.
Cause No. 45342
Rate Impact Analysis

OUCC Attachment MAS-13
Page 1 of 1

1	**Authorized Revenues in Cause No. 44724**			$ 2,725,095	
	Current Customer Bill for 4,500 Gallons:				
			IWSI	**TLUI / WSCI**	
2	Volumetric		6.38	6.38	
3	Tracker		0.15	-	
4	Total Volumetric		6.53	6.38	
5	Base Charge		11.32	11.32	
6	Volumetric - 4,500 Gallons		29.39	28.71	Line 4 x 4.5
7	Total Customer Bill		$ 40.71	$ 40.03	
	CUII Rate Impact:				
8	Increase in Monthly Bill		$ 4.20	$ 4.20	Per Lubertozzi Tesitmony
9	Percentage Increase to Current Bill		10.32%	10.49%	Line 8 divided by Line 7
	OUCC Rate Impact:				
		All Projects Approved	**All Projects Approved**	**OUCC Proposd Projects**	
10	Construction and Engineering	$ 2,094,407	$ 2,094,407	$ 400,000	
11	Capitalized Time		18,720	10,000	
12	AFUDC		91,428	9,810	
13	Total Project Costs	2,094,407	2,204,555	419,810	
14	Lesss: Plant Retirements		(222,315)	(128,938)	
15	Increase to	$ 2,094,407	$ 1,982,240	$ 290,872	
16	Currently Authorized WACC	8.175%	8.175%	8.175%	
17	Additional Return	$ 171,218	$ 180,222	$ 34,319	Line 13 times Line 16
18	Additional Depreciation	41,888	39,645	5,817	Line 14 times 2.0%
19		213,106	219,867	40,136	
20	Gross-up	1.37323743	1.37323743	1.37323743	
21	Additional Required Revenues	$ 292,645	$ 301,930	$ 55,116	Line 19 times Line 20
	Rate Increase Percentage	10.74%	11.08%	2.02%	Line 21 divided by Line 1

44724 CUII Asset Management Plan, August 2018, page 46 of 48 (44724 CUII 2nd Technical Conference Agenda and Materials 081018.pdf)

Community Utilities of Indiana, Inc. - Forecast Plan (Capital Spending)

Capital Plan *	Category / Type	Timing	2017	2018	2019	2020	2021	2022
TLUI-SCIP	HSE	1	$ 164,442	$ 157,393	$ 195,195	$ 177,070	$ 180,000	$ 180,000
TLUI-Service Line Replace	LOS	3	-	-	180,000	180,000	180,000	180,000
TLUI-Watermain Replacement	LOS	3	-	-	200,000	200,000	200,000	200,000
TLUI-WTP#1 Iron Filter Replacement	EOL	3	-	90,333	1,917,067	-	-	-
TLUI-Well # 12	Capacity	2	-	150,000	-	-	-	-
TLUI-Well # 13	Capacity	3	-	-	100,000	-	-	-
TLUI-TLUI Detention Basin Study	HSE	1	24,400	186,934	-	-	-	-
TLUI-Central WWTP	HSE	1	-	411,600	823,200	8,323,467	4,161,733	-
TLUI-Collection System Expansion	HSE	1	-	251,500	1,109,000	6,707,750	6,247,500	2,384,250
WSO-Sewer System CIP	HSE	1	-	68,170	73,255	73,255	73,255	73,255
WSO-Install water storage	Capacity	3	-	-	-	250,000	-	-
IWSI-Water main replacement	LOS	1	-	174,192	75,000	75,000	75,000	75,000
GL Spending			407,963	517,745	571,591	602,563	635,213	669,633
Transportation			7,903	48,962	30,000	30,000	-	57,350
Total Capital Spending			$ 604,708	$ 2,056,829	$ 5,274,308	$ 16,619,105	$ 11,752,701	$ 3,819,488

Total Costs = $40,127,139

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF COMMUNITY UTILITIES OF INDIANA, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE; (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO; AND (3) APPROVAL OF NEW DEPRECIATION RATES	))))))))	**CAUSE NO. 44724**

COMMUNITY UTILITIES OF INDIANA, INC.'S
SUBMISSION OF MINUTES FROM THE AUGUST 2018 TECHNICAL CONFERENCE

Petitioner Community Utilities of Indiana, Inc. ("CUII"), by counsel and pursuant to the Final Order issued in this Cause, hereby submits the Minutes from the August 2018 technical conference.

Respectfully submitted,

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Attorneys for Petitioner COMMUNITY UTILITIES OF INDIANA, INC.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served by email transmission, this 3rd day of December, 2018, upon:

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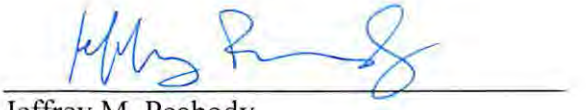

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Attorneys for Petitioner
COMMUNITY UTILITIES OF INDIANA, INC.

DMS 13638579v1

Community Utilities of Indiana, Inc. Technical Conference Agenda

Wednesday, August 15, 2018 at 8:30am
101 W. Washington Street, Suite 1500E, Indianapolis, Indiana

MINUTES

1. **Opening Remarks**

Steve Lubertozzi, President of CUII, introduced CUII's other attendees: Justin Kersey (Vice President of Operations), Mike Miller (Regional Manager), Loren Grosvenor (Area Manager) and Dr. John Norton (Director of Capital Planning and Asset Management.

Mr. Lubertozzi provided an update on efforts completed by CUII since the last technical conference and explained CUII had worked with qualified engineering firms to generate, evaluate and select alternatives that would address the three key aspects of service quality identified in the Commission's Order.

2. **Recommended and Implementation of System Improvement Plan**

Mr. Lubertozzi provided a high level overview of the SIP. He explained the SIP identifies capital and deferred spending totaling approximately $40 million, to be spread over the 2018-2022 time period. He said these costs (including new headcount), if and when included in rates, would impact a combined water/wastewater customer by approximately $100/month over the current monthly bill.

Dr. Norton discussed the use of engineers who have worked hard over the last several months to evaluate options.

   a. **Evaluation and Planned Improvements of Water Supply System**

Dr. Norton explained the Company considered a new well vs. an interconnection with Indiana-American to address its water supply needs. In response to questions from the IURC Staff, Dr. Norton explained that IDEM and DNR confirmed that an interconnection with Winfield could only be used for emergency purposes, not as a general source of water.

   b. **Evaluation and Planned Improvements of Water Treatment System**

Dr. Norton reiterated that the Company's water quality was very high, and that the Company received very few water quality complaints during Q2 of 2018.

c. Evaluation and Planned Improvements of Water Distribution System

i. Water Mains
ii. Service Connections

Dr. Norton stated the Company experiences roughly one water main break per year, and is more frequently seeing service line breaks. He said these pipes are poly-ethylene and are subject to oxidation.

Dr. Norton explained the Company proposes two programs to address these issues. First, for water mains, the Company is moving to online asset management program, which will give the Company complete details of the system, and allows for tracking of issues and work completed. Second program addresses service lines, and the Company plans to replace ~60 a year proactively. He said CUII will use hydro-excavation to check whether the service line is poly-ethylene vs. copper, which should be relatively cheap and efficient.

In response to a question from Nikki Shoultz, Dr. Norton explained that at that rate, it would take approximately 50 years to replace the entire system. In response to questions from Scott Bell at the OUCC, Dr. Norton also discussed looking at performing this work in-house vs. hiring a third party.

d. Evaluation and Planned Improvements of Wastewater Collection System

i. Inflow Reduction Program. Mr. Loren Grosvenor discussed CUII's Inflow Reduction Program. Mr. Grosvenor explained the Program is a combination of the following efforts: household inspections, smoke testing and dye testing. Mr. Grosvenor expounded upon the Utility's efforts related to household inspections. He explained the effort includes Utility employees going door-to-door and requesting that customers allow the employees to enter the home and perform basement inspections to identify any illegal drainage connections. Mr. Grosvenor also discussed the Utility's rain barrel giveaway program. Mr. Grosvenor reported that the giveaway was again a huge success, with the Utility giving away dozens of rain barrels to members of the community.

Mr. Kersey reiterated the importance of community participation in helping the Utility to identify and remove illegal drain connections. Mr. Kersey also discussed CUII's newly approved rules tariff and the impact the tariff will have on helping the Utility to identify and enforce removal of prohibited drain connections. There was general discussion between the Utility, LOFS and the OUCC regarding the rules tariff.

ii. Infiltration Reduction Program. Mr. Grosvenor also reported on the Utility's progress with its Infiltration Reduction Program. Mr. Grosvenor reported the Utility has now completed the sewer cleaning and televising for the entirety of the LOFS system. He further reported the Utility has completed the engineering

assessment and evaluation of the high priority sewer needs. He stated the total cost of these projects, including both engineering and construction, totals $708,200.

Mr. Grosvenor further reported the Utility is continuing its efforts to seal and line manholes throughout the LOFS system.

iii. **Collection System Expansion.** Mr. Grosvenor summarized the Utility's infrastructure upgrade recommendations for expanding its collection system. Mr. Grosvenor explained these recommendations were developed using Strand hydraulic modeling and its own internal data. Mr. Grosvenor explained that using this data the Utility has developed a 3-phase set of system upgrades to address system basement backups and sewer overflows.

e. Evaluation and Planned Improvements of Wastewater Treatment System

i. **SCADA System.** Mr. Grosvenor briefly discussed the Utility's recommendation to implement a SCADA system in the wastewater treatment system. Mr. Grosvenor explained that implementing a SCADA system at the plant would help improve plant performance and decision-making.

ii. **Headworks.** Mr. Grosvenor mentioned upgrading the Headworks at the plant would assist in controlling incoming flows during rain events.

iii. **Treatment capacity/redundancy**

iv. **Phosphorus**

v. **Disinfection**

vi. **Residuals handling**

3. **Performance Metrics.** Mr. Justin Kersey and Mr. Loren Grosvenor discussed the performance metrics developed by CUII and presented the performance metrics in draft form for consideration. Mr. Kersey acknowledged that the Utility provided performance objectives in the last Technical Conference but did not provide specific target numbers for review and consideration. Mr. Kersey discussed the target compared to actual metrics for 2018, as well as the future target metrics for 2019, 2020, 2021 and 2022. The parties generally discussed CUII's target performance metrics and the likelihood of achieving such metrics. Mr. Kersey reiterated that achieving such metrics is dependent on community cooperation and the capital improvements CUII undertakes as part of its System Improvement Plan.

4. **Asset Management Plan.** Mr. Grosvenor discussed the Utility's Asset Management Program. Mr. Grosvenor explained that a large portion of the Program is dependent on converting paper maps into GIS system maps. Mr. Grosvenor indicated the Utility has engaged college student interns to work on this project throughout the summer. Mr. Grosvenor further indicated the Utility intends to implement an online asset management system to help manage the Utility's existing assets and assist in the Utility's overall risk assessment and asset replacement analysis.

5. Next Steps