

FILED
March 31, 2023
INDIANA UTILITY
REGULATORY COMMISSION

INDIANA-AMERICAN WATER COMPANY, INC.

DIRECT TESTIMONY

OF

NICHOLAS FURIA

March 31, 2023

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INTRODUCTION

1

2 **Q. Please state your name and business address.**

3 A. My name is Nicholas Furia and my business address is 1 Water Street, Camden, NJ 08102.

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

5 A. I am employed by American Water Works Service Company, Inc (“Service Company” or
6 “AWWSC”) as the Assistant Treasurer. The Service Company is a subsidiary of American
7 Water Works Company, Inc. (“American Water”) that provides support services to
8 American Water’s subsidiaries, including Indiana-American Water Company, Inc.
9 (“Indiana-American,” “INAWC” or the “Company”).

10 **Q. Please summarize your educational background and work experience.**

11 A. I hold a Master of Science in Finance from Penn State University and Bachelors of Science
12 in Business Administration Accounting from Drexel University, with 20 years of
13 Accounting and Finance experience in multiple industries. Since 2014, I have been
14 employed by Service Company in multiple finance roles and most recently as the Assistant
15 Treasurer since July 2021. Prior to Service Company I held multiple accounting and
16 finance roles in multiple industries including Commercial Real Estate and Equipment
17 Leasing. I started my career in public accounting and I am a licensed Certified Public
18 Accountant in the state of Pennsylvania.

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

2 A. I am responsible for oversight and support of the treasury function and the day-to-day
3 activities of the treasury department, including the planning, analysis and execution of all
4 activity, including debt and equity financings for American Water and its subsidiaries. I
5 also serve as the Assistant Treasurer for Indiana-American responsible for supporting
6 INAWC's management and finance teams in the execution of INAWC's financing plans
7 and overall capital structure management.

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

9 A. No.

SCOPE OF TESTIMONY

10 **Q. What is the purpose of your testimony in this rate proceeding?**

11 A. The purpose of my testimony is to present the projected capital structure to be used for
12 computing the weighted average cost of capital ("WACC") for Indiana-American. The
13 WACC is used as the authorized overall rate of return on rate base in this Cause. The
14 Company's WACC reflects, among other things, the rate of return on common equity
15 recommendation presented in the Direct Testimony of INAWC witness Ann E. Bulkley.

16 **Q. Please identify the exhibit you will be sponsoring and for which you will be providing**
17 **testimony.**

18 A. I am sponsoring INAWC Financial Exhibit CC, Schedule CC1, and its supporting work
19 papers. This exhibit presents the Company's projected capital structure and WACC.

1 **Q. Was INAWC Financial Exhibit CC, Schedule CC1, prepared by you or under your**
2 **direction and supervision?**

3 A. Yes, it was.

4 **Q. What were the sources of the data used to prepare INAWC Financial Exhibit CC,**
5 **Schedule CC1?**

6 A. The data used to prepare this exhibit was acquired from the books of account and business
7 records of Indiana-American, and the officers and associates of Indiana-American with
8 knowledge of the facts based on their job responsibilities and activities.

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

11 A. Yes, I do.

12 **Q. Does INAWC Financial Exhibit CC, Schedule CC1, accurately summarize such data**
13 **and the results of your analysis using such data?**

14 A. Yes, it does.

CAPITAL STRUCTURE AND COST OF CAPITAL

15 **Q. Mr. Furia, are you presenting the Company's capital structure in this Cause?**

16 A. Yes, I am.

17 **Q. What capital structure do you sponsor for computing the Company's WACC for**
18 **ratemaking purposes?**

19 A. I sponsor the projected capital structures as of July 31, 2023, April 30, 2024 and April 30,
20 2025, which are described below. Use of these capital structures is consistent with the
21 proposed three-step increase described in the Direct Testimony of INAWC witness

1 Gregory D. Shimansky. The dates used for the proposed Step 1, Step 2, and Step 3 capital
2 structures match those used by the Company to calculate its proposed rate base in this
3 Cause. The Company's rate base is financed and supported by the components that
4 comprise its capital structure. The projected Step 1, Step 2 and Step 3 capital structures
5 are shown on INAWC Financial Exhibit CC, Schedule CC1.

6 **Q. Will INAWC's revenue requirement for each proposed increase in Step 1, Step 2, and**
7 **Step 3 use the Company's actual capital structure when rates go into effect?**

8 A. Yes. The Company will implement rates under its proposed three-step increase, as
9 described by INAWC witness Shimansky, using its actual capital structure on its books
10 and records as of July 31, 2023, April 30, 2024, and April 30, 2025. The projected capital
11 structures as shown in INAWC Financing Exhibit CC, Schedule CC1, represent the
12 Company's expectations of the final per book amounts.

13 **Q. How did you develop the capital structures as of July 31, 2023, April 30, 2024, and**
14 **April 30, 2025?**

15 A. As a starting point, I used Indiana-American's actual capital structure as of September 30,
16 2022. I then adjusted the component balances in that capital structure to reflect all changes
17 expected to occur by July 31, 2023, April 30, 2024 and April 30, 2025. As part of that, I
18 reflected expected long-term debt maturities on January 1, 2024 and May 1, 2024, a
19 common equity infusion that occurred in March of 2023, new long-term debt issuances
20 planned for November 2023 and May 2024, and a common equity infusion planned for
21 May 2024, as adjustments to arrive at the capitalization for the forecasted test year. These
22 adjustments are explained in more detail later in this testimony.

1 **Q. Please briefly describe INAWC Financial Exhibit CC, Schedule CC1.**

2 A. INAWC Financial Exhibit CC, Schedule CC1, consists of three pages that show Indiana-
3 American’s projected July 31, 2023, April 30, 2024 and April 30, 2025 capitalizations for
4 ratemaking purposes, which corresponds to the general rate base valuation dates used in
5 the original cost rate base calculation shown in INAWC Financial Exhibit RB, Schedule
6 RB1. As shown on page 1, the total projected capitalization of Indiana-American as of
7 April 30, 2025 is \$1,731,127,386, and the overall WACC is 6.88%. This WACC reflects
8 a cost of common equity of 10.60%, as recommended by Indiana-American’s cost of equity
9 expert witness, Ann E. Bulkley. As shown on page 2 of Schedule CC1, the total projected
10 capitalization of Indiana-American as of April 30, 2024 is \$1,545,974,304, and the overall
11 WACC is 6.75%, and also reflects a cost of common equity of 10.60%. As shown on page
12 3 of Schedule CC1, the total projected capitalization of Indiana-American as of July 31,
13 2023, is \$1,511,522,316, and the overall WACC is 6.77%, and also reflects a cost of
14 common equity of 10.60%. Page 4 of Schedule CC1 shows Indiana-American’s actual
15 capitalization as of September 30, 2022.

16 **Q. Please explain the amounts shown for “Accumulated Deferred Income Taxes” on**
17 **pages 1 through 3 of Schedule CC1 of INAWC Financial Exhibit CC.**

18 A. The balances for Accumulated Deferred Income Taxes (“ADIT”) are from INAWC
19 Financial Exhibit CC, Schedule CC2. Schedule CC2 is sponsored by INAWC witness
20 Gregory Shimansky. The balances for this component in the projected capital structures
21 as of April 30, 2025 and April 30, 2024, July 31, 2023, and the actual capital structure at
22 September 30, 2022, are included at zero cost.

1 **Q. Please explain the "Accumulated Depreciation on Contributed Utility Plant for**
2 **Muncie Sewer" component as it appears on pages 1 through 3 of Schedule CC1 of**
3 **INAWC Financial Exhibit CC.**

4 A. The basis for and determination of the accumulated depreciation on contributed plant for
5 Muncie Sewer represents a reclassification from the rate base to the capital structure as
6 authorized by the Commission in the Order in Cause No. 40442, which approved the
7 Farmington Utilities, Inc. acquisition. The balances for this component in the projected
8 capital structures as of April 30, 2025 and April 30, 2024, July 31, 2023, and the actual
9 capital structure at September 30, 2022, are included at zero cost.

10 **Q. Please explain the amounts shown for Other Post-Retirement Employee Benefits**
11 **("OPEBs") on pages 1 through 3 of Schedule CC1 of INAWC Financial Exhibit CC.**

12 A. This represents the amount by which INAWC's cumulative contributions to the OPEBs
13 fund have exceeded the cumulative accrual to post-retirement benefit expense. As with the
14 Contributed Plant for Muncie Sewer, the net balances for this component in the Company's
15 projected capital structures as of April 30, 2025 and April 30, 2024, July 31, 2023, and the
16 actual capital structure at September 30, 2022, are included at zero cost. In addition,
17 because the balances for each of these time periods represent asset positions, they have
18 been included in the capital structure as negative values.

19 **Q. Please explain the Prepaid Pension asset that is included in the capital structure at a**
20 **zero cost rate.**

21 A. This represents the amount by which INAWC's cumulative contributions to the pension
22 fund have exceeded the cumulative accrual to pension expense. As with the Contributed
23 Plant for Muncie Sewer, the net balances for this component in the Company's projected

1 capital structures as of April 30, 2025 and April 30, 2024, July 31, 2023, and the actual
2 capital structure at September 30, 2022, are included at zero cost. In addition, because the
3 balances for each of these time periods represent asset positions, they have been included
4 in the capital structure as negative values.

5 **Q. Please describe Workpaper 1 and Workpaper 2 that support Schedule CC1 of**
6 **INAWC Financial Exhibit CC.**

7 A. Workpaper 1 shows the calculation of the weighted cost rate for long-term debt that is
8 utilized in the determination of the interest synchronization deduction described by
9 Company witness Gregory D. Shimansky regarding State and Federal Income Taxes. Also
10 presented on Workpaper 1 is the calculation of the cost rate for Job Development
11 Investment Tax Credits (“JDITC”) that is utilized in the determination of the WACC on
12 Schedule CC1. This calculation utilizes the components of the capital structure that are
13 considered investor-supplied capital, specifically long-term debt, preferred stock, and
14 common equity. Each of the methodologies employed in these calculations has been
15 utilized by the Company and approved by this Commission in Indiana-American’s last
16 several rate cases. Workpaper 1 shows these projected calculations as of April 30, 2025
17 and April 30, 2024, July 31, 2023, and the actual capital structure at September 30, 2022.
18 Workpaper 2 for Schedule CC1 provides a detailed calculation of the projected amounts
19 and cost rates for long-term debt as of April 30, 2025 and April 30, 2024, July 31, 2023,
20 and the actual capital structure at September 30, 2022.

1 **Q. Please explain the adjustments you made to Indiana-American’s long-term debt**
2 **balance.**

3 A. I started with the Company’s long-term debt schedule as of September 30, 2022 and made
4 adjustments to reflect the following: 1) maturity of the 6.990% first mortgage series B on
5 January 1, 2024; 2) maturity of the 2.300% tax-exempt bonds on January 1, 2024; 3)
6 maturity of the 7.110% taxable series general mortgage bonds on May 1, 2024; 4) the new
7 taxable debt issuance in the amount of \$23,000,000 planned for November 2023; and 5)
8 the new taxable debt issuance in the amount of \$96,658,000 planned for May 2024. These
9 adjustments are necessary to best approximate the long-term debt balance that is supporting
10 the rate base Indiana-American is utilizing in this case and are based on the Company’s
11 capital requirements and to maintain appropriate capital structure ratios.

12 **Q. Please describe the new long-term debt the Company plans to issue in November 2023**
13 **and March 2024.**

14 A. The Company plans to issue \$23,000,000 of new long-term debt on or around November
15 30, 2023. The Company has estimated that this debt will be split equally between a 10-
16 year term with an interest rate of 5.00% and a 30-year term with an interest rate of 5.25%.
17 In addition, INAWC’s cost of long-term debt reflects the Company’s proposal to amortize
18 and recover an estimated total of \$230,000 of debt issuance costs; \$115,000 will be
19 amortized over the 10-year life (i.e., 120 months) of the new issuance and the remaining
20 \$115,000 over the 30-year life (i.e., 360 months) of the new issuance.

21 The Company also plans to issue \$96,658,000 of new long-term debt on or around May
22 31, 2024. The Company has estimated that this debt will be split equally between a 10-
23 year term with an interest rate of 4.850% and a 30-year term with an interest rate of

1 5.153%%. In addition, INAWC's cost of long-term debt reflects the Company's proposal
2 to amortize and recover an estimated total of \$966,580 of debt issuance costs: \$483,290
3 will be amortized over the 10-year life (i.e., 120 months) of the new issuance and the
4 remaining \$483,290 over the 30-year life (i.e., 360 months) of the new issuance. The
5 Company received authorization for its financing program through December 31, 2025 in
6 Cause No. 45660 and these projected debt issuances fall within that financing authority.

7 **Q. What assumptions did you make with respect to how this new debt will be issued?**

8 A. I assumed that the new debt planned for November 2023 and May 2024 will be taxable
9 issuances placed through American Water Capital Corp. ("AWCC"), an entity established
10 for the purpose of providing financial services to American Water, its water utility
11 subsidiaries, and Service Company, including the issuance of debt securities in a
12 consolidated, cost-effective manner. In addition, I assumed an issuance cost rate of 1.00%,
13 which is consistent with the cost rate incurred on recent AWCC issuances.

14 **Q. What is Indiana-American's cost of long-term debt?**

15 A. Indiana-American's projected cost of long-term debt as of July 31, 2023 is 4.73%. Indiana-
16 American's projected cost of long-term debt as of April 30, 2024 and as of April 30, 2025
17 is 4.71%. The computation of these costs is shown on INAWC Financial Exhibit CC,
18 Schedule CC1, Workpaper 2.

19 **Q. Please explain the adjustments you made to Indiana-American's common equity**
20 **component.**

21 A. Starting with the Company's common equity balance as of September 30, 2022, I made
22 adjustments to reflect the following: 1) a common equity infusion of \$53,000,000 on

1 March 15, 2023, 2) a common equity infusion of \$73,600,000 planned for May 2024, and
2 3) changes to the retained earnings balance that are expected to occur between September
3 30, 2022 and April 30, 2025. These adjustments reflect the Company's projections for the
4 2023-2025 period and are based on the Company's projected capital requirements and the
5 need to maintain appropriate capital structure ratios.

6 **Q. What is the basis for the 10.60% cost rate assigned to the Company's common equity**
7 **component?**

8 A. As noted previously, the cost of common equity has been developed and recommended by
9 Ann E. Bulkley, the Company's expert witness on this issue.

10 **Q. What is Indiana-American's overall WACC?**

11 A. The overall WACC is calculated by summing the component costs of the capital structure,
12 with each component weighted by its respective proportion to total capitalization. Based
13 on the projected capital component balances and component costs I have described,
14 Indiana-American's WACC is 6.88% as of April 30, 2025, 6.75% as of April 30, 2024, and
15 6.77% as of July 31, 2023 as shown on INAWC Financial Exhibit CC, Schedule CC1,
16 pages 1 and 2, respectively.

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

18 A. Yes, it does.

VERIFICATION

I, Nicholas Furia, Assistant Treasurer, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Nicholas Furia

Nicholas Furia

Date: 3/27/2023