

FILED
March 18, 2019
INDIANA UTILITY
REGULATORY COMMISSION

Public's Exhibit No. 11
Cause No. 45142

**BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF INDIANA-AMERICAN WATER)
COMPANY, INC. FOR (1) AUTHORITY TO)
INCREASE ITS RATES AND CHARGES FOR)
WATER UTILITY SERVICE; (2) REVIEW OF ITS)
RATES AND CHARGES FOR WASTEWATER)
UTILITY SERVICE; (3) APPROVAL OF NEW)
SCHEDULES OF RATES AND CHARGES)
APPLICABLE TO WATER AND WASTEWATER)
UTILITY SERVICE; AND (4) AUTHORITY TO)
IMPLEMENT A LOW-INCOME PILOT PROGRAM)**

CAUSE NO. 45142

VERIFIED TESTIMONY IN SUPPORT OF SETTLEMENT

of

JEROME D. MIERZWA

On Behalf of

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

March 18, 2019

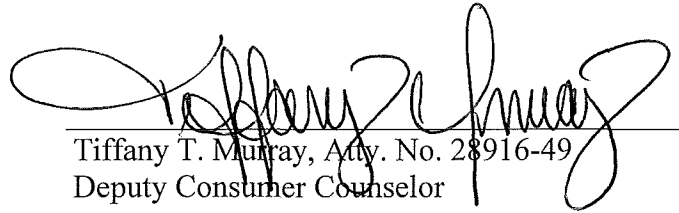
EXETER

ASSOCIATES, INC.

10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

Respectfully Submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR



Tiffany T. Murray, Atty. No. 28916-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the *Office of Utility Consumer Counselor Settlement Testimony of Jerome D. Mierzwa* has been served upon the following counsel of record in the captioned proceeding by electronic service on March 18, 2019.

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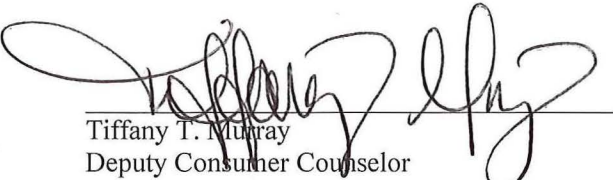
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VERIFIED TESTIMONY IN SUPPORT OF SETTLEMENT OF JEROME D. MIERZWA
CAUSE NO. 45142
INDIANA-AMERICAN WATER COMPANY, INC.

I. INTRODUCTION

1

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is Jerome D. Mierzwa. I am a principal and Vice President of Exeter
4 Associates, Inc. ("Exeter"). My business address is 10480 Little Patuxent Parkway,
5 Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-
6 related consulting services.

7 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. Yes. My direct testimony was submitted as Public's Exhibit No. 8, and my
10 cross-answering testimony was submitted as Public's Exhibit No. 9.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 A. The purpose of this testimony is to provide the Commission with the background for,
13 and explain certain terms of, the Stipulation and Settlement Agreement ("Agreement")
14 reached by the Indiana-American Water Company, Inc. ("IAWC"), the Indiana Office
15 of Utility Consumer Counselor ("OUCC"), the Indiana American Industrial Group
16 ("Industrial Group"), City of Crown Point, Town of Schererville, Town of Whiteland,
17 Sullivan-Vigo Rural Water Corporation, Citizens Action Coalition, and Indiana
18 Community Association, Inc. (collectively "Parties") which was filed on March 18,
19 2019. The Agreement is a comprehensive settlement, addressing revenue
20 requirements, cost allocation, and rate design. More specifically, my testimony
21 addresses the cost allocation and rate design aspects of the Agreement. OUCC witness

1 Margaret Stull addresses the revenue requirement aspects of the Agreement. My
2 testimony concludes by recommending the Commission approve the Agreement.

3 **II. BACKGROUND**

4 **Q. PLEASE BRIEFLY DESCRIBE THE HISTORY LEADING UP TO THE**
5 **EXECUTION OF THE AGREEMENT.**

6 A. The Agreement is the product of negotiations that occurred prior to the hearings in this
7 Cause which were initially scheduled to begin on February 14, 2019. More
8 specifically, on February 13, 2019, the Parties filed a *Joint Agreed Motion to Continue*
9 *Evidentiary Hearing* until February 18, 2019 with the Administrative Law Judge
10 (“ALJ”) in order to afford the Parties time to engage in Settlement discussions. On
11 February 15, 2019, the Parties filed a *Joint Agreed Motion for Additional Continuance*
12 *of Evidentiary Hearing* until February 25, 2019 in order to afford the parties additional
13 time to engage in settlement discussions. On February 21, 2019, the Parties filed a
14 *Joint Status Report and Agreed Motion for Additional Continuance of Evidentiary*
15 *Hearing* notifying the ALJ that a settlement agreement in principle had been reached
16 subject to client review and approval, and requesting continuance of the hearing until
17 the week of April 8, 2019. On February 25, 2019, the Parties filed a *Joint Motion for*
18 *Leave to File Settlement Agreement and Request for Settlement Hearing* notifying the
19 ALJ that an agreement in principle had been reached on all issues, subject to client
20 approval, and to file the Settlement Agreement on or before March 18, 2019.

21 **Q. DOES THE AGREEMENT RESOLVE THE COST ALLOCATION AND**
22 **RATE DESIGN ISSUES RAISED BY THE PARTIES TO THIS**
23 **PROCEEDING IN THEIR RESPECTIVE TESTIMONIES AND EXHIBITS?**

24 A. Yes, the Agreement resolves all of the issues related to cost allocation and rate design
25 in this Cause raised by the Parties.

1 **Q. PLEASE IDENTIFY THE CUSTOMER CLASSES SERVED BY IAWC.**

2 A. IAWC provides service to the Residential, Commercial, Industrial, Public Authority,
3 Sales for Resale, Public Fire, and Private Fire customer classes.

4 **III. SETTLEMENT OF COST ALLOCATION AND RATE DESIGN ISSUES**

5 **Q. WHAT WAS THE IMPETUS BEHIND THE PARTIES' AGREEMENT WITH**
6 **RESPECT TO RESOLUTION OF THE COST ALLOCATION AND RATE**
7 **DESIGN ISSUES?**

8 A. The Parties' Agreement relating to resolution of the cost allocation and rate design
9 issues was structured to reach a mutually acceptable resolution of these issues and avoid
10 the risk, expense, and administrative burden of further litigation. The Agreement is the
11 result of arms-length bargaining between and among the Parties. While each Party
12 presenting cost allocation and rate design testimony and exhibits strongly believed in
13 its respective position, they were able to put aside those differences and agree upon a
14 resolution of these issues that avoids litigation, generally moves the revenues from each
15 class toward the allocated cost-of-service as determined in IAWC's case-in-chief, and
16 falls within the range of potential outcomes proposed by the Parties, if the case had
17 been litigated.

18 **Q. WHAT IS THE IMPACT OF THE AGREEMENT ON THE REVENUES TO**
19 **BE RECOVERED FROM EACH CUSTOMER CLASS?**

20 A. The Agreement provides for an increase of \$17,500,000 in IAWC operating revenues
21 in two steps. More specifically, the Agreement provides for an operating revenue
22 increase of \$3.8 million, or 1.73 percent, effective upon the later of the date of the
23 Commissioner's Order in this Cause or July 1, 2019; and an additional increase of
24 \$13.7 million, or 6.07 percent, effective upon the later of the date the Company certifies
25 its end of test year net plant in service or May 1, 2020. The revenues recovered from

1 each customer class under existing rates, the increase in revenues under each step of
2 the Agreement, and the revenues to be recovered from each class under each step of
3 the proposed Agreement are identified in Table 1.

Table 1
Indiana American Water Company, Inc.
Summary of Revenue Distribution

STEP 1				
Class	Present	Increase	Proposed	Percent
	Rates		Rates	Increase
Residential	\$115,264,554	\$619,298	\$115,883,852	0.54%
Commercial	44,552,673	1,678,687	46,231,360	3.77
Industrial	14,421,504	533,951	14,955,455	3.70
Other Public Authority	7,933,269	310,299	8,243,568	3.91
Sales for Resale	10,970,821	197,080	11,167,901	1.80
Subtotal	\$193,142,821	\$3,339,315	\$196,482,136	1.73%
Private Fire	\$4,444,788	\$95,723	\$4,540,511	2.15%
Public Fire	20,064,488	401,033	20,465,521	2.00
Other Revenues	3,726,936	0	3,726,936	0.00
TOTAL	\$221,379,033	\$3,836,071	\$225,215,104	1.73%
STEP 2				
Class	Step 1	Increase	Proposed	Percent
	Rates		Rates	Increase
Residential	\$115,883,852	\$7,236,827	123,120,679	6.24%
Commercial	46,231,360	2,717,010	48,948,370	5.88
Industrial	14,955,455	1,018,258	15,973,713	6.81
Other Public Authority	8,243,568	459,409	8,702,977	5.88
Sales for Resale	11,167,901	689,405	11,857,306	6.17
Subtotal	\$196,482,136	\$12,120,909	\$208,603,045	6.17%
Private Fire	\$4,540,511	\$280,107	\$4,820,618	6.17%
Public Fire	20,465,521	1,262,533	21,728,054	6.17
Other Revenues	3,726,936	0	3,726,936	0.00
TOTAL	\$225,215,104	\$13,663,549	\$238,878,653	6.07%

1 **Q. HOW DO THE INCREASES IN RATES UNDER THE AGREEMENT**
2 **COMPARE TO THE PARTIES' LITIGATION POSITIONS?**

3 A. A direct comparison between the Parties' litigation positions on the distribution of the
4 revenue increase provided under the Agreement cannot be made because the Parties'
5 litigation positions were based on IAWC's proposed operating revenue increase and
6 not the increase provided for under the Agreement. Nevertheless, IAWC initially
7 proposed increases for the Residential, Private Fire, and Public Fire classes which were
8 less than the proposed system average increase of 17.6 percent, and increases for all
9 other classes which were greater than the system average increase. These proposed
10 increases were consistent with the results of the Class Cost of Service Study
11 ("CCOSS") sponsored by IAWC. The OUCC proposed increases for the Residential,
12 Private Fire, and Public Fire classes that were less than the increases initially proposed
13 by IAWC based on the results of its CCOSS, and higher increases for all other classes.
14 The Sales for Resale witnesses generally proposed increases for the Sales for Resale
15 class which were lower than the increase proposed by IAWC. The Industrial Group
16 proposed rate increases based on the results of the CCOSS sponsored by its witness
17 that resulted in a lower increase for the Residential class, higher increases for the
18 Commercial, Public Authority, and Sales for Resale classes, and an increase for the
19 Industrial class that was comparable to the increase proposed by IAWC. The Industrial
20 Group proposed no increase for the Private Fire and Public Fire classes.

21 The Agreement provides for a distribution of the revenue increase in a manner
22 that could have resulted from the various positions of the parties. All of the Parties,
23 however, moved from their respective litigation positions in order to arrive at a
24 compromise.

1 **Q. A CONTROVERSIAL RATE DESIGN ISSUE IN THIS CAUSE WAS THE**
2 **DESIGN OF THE MONTHLY FIXED CHARGE FOR RESIDENTIAL**
3 **CUSTOMERS. HOW WAS THIS RATE DESIGN ISSUE RESOLVED**
4 **UNDER THE AGREEMENT?**

5 A. Nearly 99.9 percent of Residential customers are served by meters sized 5/8-inch,
6 3/4-inch, and 1-inch. IAWC had initially proposed significant increases in the monthly
7 fixed charge for customers served by 5/8-inch, 3/4-inch, and 1-inch meters. For
8 example, the Company proposed to increase the current monthly fixed charge for a
9 customer with a 5/8-inch meter from \$14.23 to \$22.35, or an increase of 57 percent. In
10 testimony, the OUCC recommended the current 5/8-inch meter monthly fixed customer
11 charge be maintained. The Agreement provides a compromise between the positions
12 of the Company and the OUCC, and adopts smaller increases in the monthly fixed
13 charge for customers served by 5/8-inch, 3/4-inch, and 1-inch meters. As discussed in
14 greater detail in my direct testimony, a lower monthly fixed charge is more reflective
15 of the direct costs incurred by IAWC with the addition of a customer. Moreover, lower
16 monthly fixed charges are consistent with effective conservation efforts, which in the
17 long term, will result in reduced rates to customers. Lower fixed monthly charges are
18 also consistent with competitive pricing.

19 The Agreement does not provide for similar reductions in the monthly fixed
20 charge for larger-sized meters. As noted above, the vast majority of Residential
21 customers are served by meters 1-inch and below. Because other classes are largely
22 served by larger meters, that became a reasonable point to draw a distinction for
23 purposes of designing rates, and particularly the treatment of fixed monthly charges.

24 **Q. DO YOU BELIEVE COMMISSION APPROVAL OF THE AGREEMENT IS**
25 **IN THE PUBLIC INTEREST?**

1 A. Yes, for the reasons I have discussed, I believe the Agreement is in the public interest.
2 The Agreement resolves contentious issues without the need for protracted litigation
3 and provides for a reasonable revenue allocation by class that falls within the evidence
4 of record in this Cause. The reduction to the proposed monthly fixed charge for
5 Residential customers provides a Residential customer with a greater degree of control
6 over their monthly bill, which promotes conservation and sends an appropriate pricing
7 signal. At the same time, customers with large meters are typically customers whose
8 usage would remain at a high volume irrespective of its fixed monthly charge, and that
9 fixed charge ultimately makes up a small portion of the high use customer's average
10 bill. Customers therefore benefit from the customer charges in the Agreement, as they
11 are properly balanced to meet the general usage characteristics of Residential and non-
12 Residential customers.

13 **IV. CONCLUSION**

14 **Q. IN YOUR OPINION, DO THE TERMS OF THE AGREEMENT REPRESENT**
15 **A REASONABLE RESOLUTION OF THE ISSUES RAISED REGARDING**
16 **COST ALLOCATION AND RATE DESIGN?**

17 A. In my opinion, yes.

18 **Q. WHAT DO YOU RECOMMEND TO THE COMMISSION?**

19 A. I find the Agreement reasonable and I recommend the Commission approve the
20 Agreement.

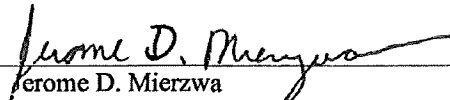
21 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY IN THIS**
22 **PROCEEDING?**

23 A. Yes, it does.

VERIFICATION

STATE OF INDIANA)
)
COUNTY OF MARION) ss:

The undersigned, Jerome D. Mierzwa, under penalties of perjury and being first duly sworn on his oath, says that he is a Consultant for the Indiana Office of Utility Consumer Counselor; that he caused to be prepared and read the foregoing; that the representations set forth therein are true and correct to the best of his knowledge, information and belief.


By: Jerome D. Mierzwa
Indiana Office of
Utility Consumer Counselor

Subscribed and sworn to before me, a Notary Public, this 18 day of Mar 2019.


Signature

Deborah M Adams
Printed Name

My Commission Expires: 2/2013

My County of Residence: Howard

DEBORAH M ADAMS
Notary Public
State of Maryland
Howard County