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INDIANA UTILITY
REGULATORY COMMISSION

INDIANA-AMERICAN WATER COMPANY, INC.

IURC CAUSE NO. 45142

DIRECT TESTIMONY

OF

PATRICK L. BARYENBRUCH

SPONSORING ATTACHMENT PLB-1

**DIRECT TESTIMONY
OF
PATRICK L. BARYENBRUCH**

CAUSE NO. 45142

BACKGROUND

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Q. Please state your name and business address.

A. Patrick L. Baryenbruch, 2832 Claremont Road, Raleigh, North Carolina 27608.

Q. Please describe your educational and professional background.

A. I received a Bachelors degree in Accounting from the University of Wisconsin-Oshkosh in 1974 and a Masters in Business Administration degree from the University of Michigan in 1979.

I am a Certified Public Accountant (CPA) with active licenses from the state of Wisconsin (license number 5343-1) and North Carolina (reciprocal license number 41832). I am a Certified Information Technology Professional (CITP), an accreditation awarded by the American Institute of Certified Public Accountants to CPA professionals who demonstrate expertise in Information Technology management. I also hold a Global Information Assurance Certification (GIAC) in cybersecurity from the SANS Institute. I am a member of the American Institute of Certified Public Accountants and the North Carolina Association of Certified Public Accountants.

I began my career with Arthur Andersen & Company where I performed financial audits of utilities, banks and finance companies. After three years I left to pursue an M.B.A. degree. Upon graduation from business school, I worked with the consulting

1 firms of Theodore Barry & Associates and Scott Consulting Group (predecessor firm to
2 Scott, Madden & Associates).

3 During my consulting career, I have performed consulting assignments for
4 approximately 50 utilities and 10 public service commissions. I have participated as
5 project manager, lead or staff consultant for 24 commission-ordered management and
6 prudence audits of public utilities. Of these, I have been responsible for evaluating the
7 area of affiliate charges and allocation of corporate expenses in the Commission-ordered
8 audits of Connecticut Light and Power, Connecticut Natural Gas, General Water
9 Corporation (Pennsylvania Operations), Philadelphia Suburban Water Company (now
10 Aqua America) and Pacific Gas & Electric Company.

11 My firm has performed the commission-ordered audit of Southern California
12 Edison's 2002, 2003, 2004 and 2005 transactions with its non-regulated affiliate
13 companies.

14 **Q. What are your duties and responsibilities in your current position?**

15 A. I am the President of my own consulting practice, Baryenbruch & Company, LLC, which
16 was established in 1985. In that capacity, I provide consulting services to utilities and
17 their regulators.

18 **Q. Please describe the reason for your testimony in this case.**

19 A. I am presenting the results of my study, which evaluated the services provided by
20 American Water Works Service Company, Inc. (Service Company) during the 12 months
21 ended December 31, 2017 to Indiana-American Water Company (IAWC). This study

1 was undertaken in conjunction with IAWC's rate case and is accurate to the best of my
2 knowledge and belief. The study is attached as Attachment PLB-1.

3 **Q. What were the objectives of your study?**

4 A. This study was undertaken to answer four questions concerning the services provided by
5 the Service Company to IAWC, each of which bears on the reasonableness of those
6 charges as incurred during the 2017 base period. First, were the Service Company's
7 charges to IAWC during 2017 reasonable? Second, was IAWC charged the lower of cost
8 or market value for managerial and professional services provided by the Service
9 Company during 2017? Third, were 2017 costs of the Service Company's customer
10 accounts services, including those of the National Call Centers, comparable to those of
11 other utilities? Fourth, are the services IAWC receives from the Service Company
12 necessary?

13 **Q. What conclusions were you able to draw concerning question number 1, whether**
14 **the Service Company charges to IAWC were reasonable?**

15 A. The Service Company's 2017 cost per IAWC customer is reasonable compared to cost
16 per customer for electric and combination electric/gas service companies. During 2017,
17 IAWC was charged \$60 per customer for administrative and general (A&G)-related
18 services provided by the Service Company. This compares to an average of \$107 per
19 customer for service companies reporting to the Federal Energy Regulatory Commission
20 (FERC). Twenty of the 24 utility service companies that filed a FERC Form 60 for 2017
21 had a higher per-customer A&G cost than IAWC's charges from the Service Company.

1 **Q. What conclusions were you able to draw concerning question number 2, whether**
2 **IAWC was charged the lower of cost or market services provided by the Service**
3 **Company?**

4 A. I was able to draw the following conclusions:

5 (1) IAWC was charged the lower of cost or market for managerial and professional
6 services during 2017.

7 (2) On average, the hourly rates for outside service providers are 45% higher than the
8 Service Company's hourly rates.

9 (3) The managerial and professional services provided by the Service Company are
10 vital and could not be procured externally by IAWC without careful supervision
11 on the part of IAWC. If these services were contracted entirely to outside
12 providers, IAWC would have to add at least two positions to manage activities of
13 outside firms. These positions would be necessary to ensure the quality and
14 timeliness of services provided.

15 (4) If all the managerial and professional services now provided by the Service
16 Company had been outsourced during 2017, IAWC and its customers would have
17 incurred almost \$6 million in additional expenses. This amount includes the
18 higher cost of outside providers and the cost of two IAWC positions needed to
19 direct the outsourced work.

20 (5) This study's hourly rate comparison actually understates the cost advantages that
21 accrue to IAWC from its use of the Service Company. Outside service providers
22 generally bill for every hour worked. Service Company exempt personnel, on the
23 other hand, charge a maximum of 8 hours per day even when they work more

1 hours. If all overtime hours of Service Company personnel were factored into the
2 hourly rate calculation, the Service Company would have had an even greater
3 annual dollar advantage than the \$6 million cited above.

4 (6) It would be difficult for IAWC to find local service providers with the same
5 specialized water and wastewater industry expertise as that possessed by the
6 Service Company staff. Service Company personnel spend substantially all their
7 time serving operating water and wastewater companies. This specialization
8 brings with it a unique knowledge of water and wastewater utility operations and
9 regulation that is most likely unavailable from local service providers.

10 (7) Service Company fees do not include any profit markup. Only its actual cost of
11 service is being recovered from IAWC customers.

12 **Q. What conclusions were you able to draw concerning question number 3, whether**
13 **the 2017 costs of the Service Company's customer account services, including those**
14 **of the National Call Centers, were reasonable?**

15 A. The cost of the Service Company's customer accounts services, including those provided
16 by the National Call Centers, is below the weighted average of the neighboring electric
17 utility comparison group. As explained in the study, this group of companies provides a
18 reasonable proxy group for comparison to a regulated utility of the size and scope of the
19 Service Company and IAWC. During 2017, the cost of customer accounts services for
20 IAWC customers was \$27.85 compared to the 2017 average of \$32.02 for neighboring
21 electric utilities. The highest comparison group per-customer cost was \$59.06 and the
22 lowest was \$14.06.

1 **Q. What conclusions were you able to draw concerning question number 4, whether**
2 **the services IAWC receives from the Service Company are necessary?**

3 A. I was able to draw the following conclusions:

4 (1) The services that the Service Company provides are necessary and would be
5 required even if IAWC were a stand-alone water utility.

6 (2) There is no redundancy or overlap in the services provided by the Service
7 Company to IAWC.

8 **Q. Does this complete your testimony?**

9 A. Yes.

VERIFICATION

I, Patrick L. Baryenbruch, President of Baryenbruch & Company, LLC, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to read "Patrick Baryenbruch", written over a horizontal line.

Patrick L. Baryenbruch

Date: September 4, 2018

**Market to Cost Comparison of Service Company Charges to
Indiana-American Water Company**

12 Months Ended December 31, 2017

August 2018



**Indiana-American Water Company
Market to Cost Comparison of Service Company Charges
12 Months Ended December 31, 2017**

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Purpose of This Study

This study was undertaken to answer four questions concerning the services provided by American Water Works Service Company, Inc., (Service Company) to Indiana-American Water Company (IAWC):

1. Were the Service Company's charges to IAWC during 2017 reasonable?
2. Was IAWC charged the lower of cost or market for managerial and professional services provided by the Service Company during 2017?
3. Were 2017 costs of Service Company's customer accounts services, including those of the National Call Centers, comparable to those of other utilities?
4. Are the services IAWC receives from the Service Company necessary?

Study Results

Concerning question 1, the following conclusion was reached:

- The Service Company's 2017 cost per IAWC customer is reasonable compared to costs per customer for electric and combination electric/gas service companies. During 2017 IAWC was charged \$60 per customer for administrative and general (A&G)-related services provided by the Service Company. This compares to an average of \$107 per customer for service companies reporting to the Federal Energy Regulatory Commission (FERC). Twenty of the 24 utility service companies that filed a FERC Form 60 for 2016 had higher per customer A&G costs than IAWC's charges from the Service Company.

Concerning question 2, the following conclusions were drawn from this study:

- IAWC was charged the lower of cost or market for managerial and professional services during 2017.
- On average, the hourly rates for outside service providers are 45% higher than the Service Company's hourly rates.
- The managerial and professional services provided by the Service Company are vital and could not be procured externally by IAWC without careful supervision on the part of IAWC. If these services were contracted entirely to outside providers, IAWC would have to add at least two positions to manage activities of outside firms. These positions would be necessary to ensure the quality and timeliness of services provided.
- If all the managerial and professional services now provided by the Service Company had been outsourced during 2017, IAWC and its customers would have incurred almost \$6 million in additional expenses. This amount includes the higher cost of outside providers and the cost of two IAWC positions needed to direct the outsourced work.
- This study's hourly rate comparison actually understates the cost advantages that accrue to IAWC from its use of the Service Company. Outside service providers generally bill for every hour worked. Service Company exempt personnel, on the other hand, charge a maximum of 8 hours per day even when they work more hours. If all overtime hours of Service Company personnel were factored into the hourly rate calculation, the Service



I – Introduction

Company would have had an even greater annual dollar advantage than the \$6 million cited above.

- It would be difficult for IAWC to find local service providers with the same specialized water and wastewater industry expertise as that possessed by the Service Company staff. Service Company personnel spend substantially all their time serving operating water and wastewater companies. This specialization brings with it a unique knowledge of water and wastewater utility operations and regulation that is most likely unavailable from local service providers.
- Service Company fees do not include any profit markup. Only its actual cost of service is being recovered from IAWC customers.

Concerning question 3, the following conclusion was reached:

- The cost of the Service Company's customer accounts services, including those provided by the National Call Centers, is below the weighted average of the neighboring electric utility comparison group. As will be explained further herein, this group of companies provides a reasonable proxy group for comparison to a regulated utility of the size and scope of the Service Company and IAWC. During 2017, the cost of customer accounts services for IAWC customers was \$27.85 compared to the 2017 average of \$32.02 for neighboring electric utilities. The highest comparison group per-customer cost was \$59.06 and the lowest \$14.06.

Concerning question 4, the following conclusions were drawn:

- The services that the Service Company provides are necessary and would be required even if IAWC were a stand-alone water utility.
- There is no redundancy or overlap in the services provided by the Service Company to IAWC.



Overview of American Water Works Service Company

American Water's Service Company exists to provide certain shared services to American Water subsidiaries. It follows a service company model used by many utility holding companies that own multiple regulated utilities. By consolidating executive and professional services into a single service company, utility holding companies are able to realize the following benefits for customers:

- **Purchasing Economies** – Common expenses (e.g., insurance, chemicals, piping) can be procured on a much larger scale, thereby providing greater bargaining power for the combined entity compared to individual utility operating companies. A service company facilitates enterprise-wide purchasing programs through its procurement and contract administration functions.
- **Operating Economies of Scale** – A service company is able to deliver services more efficiently because workloads can be balanced across more persons and facilities. For instance, American Water's Service Company is able to maintain one principal data center for the entire organization. This is much more cost-efficient than each operating utility funding its own data center with large fixed hardware, software and staffing costs.
- **Continuity of Service** – Centralizing service company personnel who perform similar services facilitates job cross-training and sharing of knowledge and expertise. This makes it easier to deal with staff turnover and absences and to sustain high levels of service to operating utilities. An individual operating utility might experience considerable disruption if a key professional left and it were necessary to hire outside to fill the vacancy.
- **Maintenance of Enterprise-Wide Standards** – Personnel in American Water's Service Company establish standards for many functions (e.g., engineering designs, operating procedures and maintenance practices). It is easier to ensure these standards are followed by every operating utility because their implementation is overseen by the Service Company.
- **Improved Governance** – American Water's Service Company provides another dimension of management and financial oversight that supplements local operating utility management. The Service Company facilitates standard planning and reporting, which helps ensure that operating utilities meet the requirements of their customers in a cost-effective manner.
- **Retention of Personnel** – A service company organization provides operating utility personnel with another career path beyond what may be available on a local level. These opportunities tend to improve employee retention.

American Water follows the model for other utility service companies in another important regard: Its services are provided to affiliate operating utilities, like IAWC, at cost. American Water's Service Company is not a profit-making entity. It assigns only its actual expenses to the American Water subsidiaries it services.



II – Background

The Service Company provides services to American Water operating companies from the following locations:

- Corporate Headquarters – Provides corporate governance and service functions, including executive management, finance, external affairs, human resources and benefits. The corporate headquarters is located in Voorhees, New Jersey.
- Central Lab – The national trace substance laboratory is located in Belleville, Illinois, and performs testing for all American Water operating companies.
- Customer Service Centers – Provides customer call center and billing services from two locations: Alton, Illinois, and Pensacola, Florida.
- Customer Relations Centers – Provides customer relations and field resource coordination services from two locations: Belleville, Illinois, and Wilkes Barre, Pennsylvania.
- Hershey Technology & Innovation Services Center – American Water's principal data center, located in Hershey, Pennsylvania, supports the IT infrastructure required to run business applications and communications systems for American Water's operating companies.
- Haddon Heights Technology & Innovation Services Center - American Water's data center, located in Haddon Heights, New Jersey, maintains data servers for back-up and disaster recovery.
- Mount Laurel Office – Provides corporate service functions, including engineering and supply chain services. The office is located in Mount Laurel, New Jersey.
- Woodcrest Office – The Woodcrest Office, located in Cherry Hill, New Jersey, provides individual operating companies with accounting, audit, tax, regulatory and security services. The Woodcrest office is American Water's main Technology & Innovation Services (T&I) center. Its staff provides software delivery and enhancements for SAP and non-SAP (legacy) systems, local on-site support and T&I Service Desk for remote assistance for all employees using personal computers in the performance of their day-to-day activities. The Woodcrest office supports mission-critical systems such as SCADA and emerging technologies such as geographic information systems and mobility capabilities. T&I personnel provide technical expertise in project governance and release management and ensure compliance with technology-related governmental regulations.
- Divisional Support Services – Operating companies are provided with certain support services that are delivered more effectively on a regional basis because individual operating company workloads are not sufficient to warrant maintaining their own full-time staff for these activities. These services require closer proximity to operating companies and therefore are located closer to the operating companies the employees provide service to instead of one of the corporate locations.

Service Company Accounting

Service Company maintains an accounting ledger for recording transactions (e.g., labor, expenses, overhead, capital and other assets, liabilities and equity) in a Service Company ledger separate from Affiliates' ledgers. Monthly financial statements are prepared that summarize month-to-date and year-to-date costs, budgets and prior year comparison, with variances and explanations, by category and function. Accounting categories by transaction type are described below:

- **Service Company Labor:** The Service Company utilizes a system that tracks time and attendance. Employees electronically enter hours worked (including vacation, sick, family leave, etc.) and accounting information (e.g., business unit; formula; pay type) and electronically submit the timesheet for approval. Submitted timesheets are electronically routed to authorized approvers. Time sheets require approval (of hours and accounting information such as formulas, etc.) by an authorized timesheet approver in the employee's home business unit.
- **Service Company Expenses:** Expenditures (i.e., standard invoices, purchase orders, electronic disbursements, miscellaneous invoices, recurring invoices, recurring vouchers, and procurement cards) and journal entries require a preparer to enter accounting coding details (e.g., cost center, cost element and work breakdown structure) and a reviewer to approve the information in accordance with the corporate Delegation of Authority Policy. Expenditures are processed electronically and are automatically routed to the employee's supervisor for approval. Costs are posted many times daily, in detail, in the business unit selected. Journal entries are submitted as prepared to the appropriate reviewer and posted as approved.
- **Service Company Assets:** Service Company assets are procured directly by Service Company or through a capital leasing arrangement with Laurel Oak Properties (LOP). Service Company capitalizes these LOP leases as Non-Utility Plant assets in accordance with generally accepted accounting principles. Generally speaking, Service Company assets (including hardware, servers, laptops, desktops, servers, storage racks, furniture, laboratory and test equipment, security cameras, monitors and leasehold improvements) are acquired through LOP via a capital lease. LOP, on behalf of the Service Company, will acquire the necessary materials and services to build the assets that are needed for the Company to meet its business needs.
- **Service Company Overhead:** Costs for support personnel (e.g., administrative assistants, mailroom clerks), rents, facility expenses, pension, medical insurance, taxes, general office supplies and other similar expenses are recorded in the ledger of the cost center responsible for incurring the charge. Overhead expenditures are posted using the labor and expense processes noted above, and are recorded, in detail, in the ledger of the cost center responsible for the charge using an overhead Work Breakdown Structure (WBS) element.

Service Company Billing and Clearing

Service Company has developed a billing system which charges directly or allocates costs for services provided to Affiliates. Service Company billing is processed monthly and includes all Service Company costs charged to Affiliates using the WBS element selected for each transaction.

- **WBS element:** Every Service Company transaction (vouchers, journal entries, payroll batch, etc.) requires a WBS element within the account coding string. Each WBS



II – Background

element is configured in the SAP system with the following: Affiliate(s) to be charged, percent of charge to be billed to each Affiliate (total must equal 100%), receiving object (e.g., Affiliate's cost center) for O&M expenses or an Affiliate's WBS element for capital costs. WBS elements are configured in SAP with an end date (month/year) to prevent transactions from using an expired WBS during data input.

- **Affiliate Billing Process:** Service Company billing is a two-step process that first calculates allocations of transactions for all non-overhead WBS elements. The second step calculates overhead transaction allocations using the ratio of direct labor (Cost Element 5012000) allocations to Affiliates from the first step above multiplied by the pool of overhead expenses by physical location.
- **Bill Clearing Process:** Service Company billings are cleared through American Water Capital Corporation, Inc., (an Affiliate) monthly via an intercompany journal entry to GL Account 23120000 (Notes Payable – Associated Companies) posted on the last day of the month. Payments are estimated for each Affiliate using the prior month actual billing (current month estimate) with adjustment for prior month actual to estimate (previous month funding) true-up.

III – Service Company Cost Comparison Approach

Service Company Base Period Charges

During 2017, the Service Company billed IAWC a total of approximately \$24.5 million, as shown in the table below. These charges were subjected to a market-to-cost comparison.

	2017
Management Fees - O&M	\$ 19,006,295
Management Fees - Capital	\$ 5,448,609
Total Service Company Charges	\$ 24,454,903

For purposes of comparing these charges to certain outside benchmarks, Service Company services were placed into two categories:

- Managerial and Professional Services – Includes such services as management, accounting, legal, human resources, technology and innovation and engineering.
- Customer Accounts Services – Includes customer-related services, such as call center, credit, billing, collection and payment processing.

Total 2017 Service Company dollar and hour charges break down between management and professional services and customer account services as follows:

	2017	
	Amount	Hours
Management and Professional Services	\$ 20,072,784	92,886
Customer Account Services	\$ 4,382,119	81,868
Total Service Company Charges	\$ 24,454,903	174,754

Service Company Cost Comparison Approach

This study's first question—whether Service Company 2017 charges were reasonable—was determined by comparing IAWC's A&G-related Service Company charges per regulated retail customer to the same charges for utility companies that must file the Federal Energy Regulatory Commission (FERC) Form 60 – Annual Report of Service Companies.

The second question—whether the Service Company charges during 2017 were at the lower of cost or market—was evaluated by comparing the cost per hour for managerial and professional services provided by Service Company personnel to hourly billing rates that would be charged by outside providers of equivalent services. Service Company costs per hour were based on actual charges to IAWC during 2017. Outside providers' billing rates came from surveys or other information from professionals who could perform the services now provided by the Service Company.

The third question—whether Service Company's 2017 customer account services charges, including National Call Center costs, were comparable to other utilities—was addressed by comparing IAWC's customer accounts services expenses to those of neighboring investor-owned electric utilities. This utility comparison group was selected because the cost of outside providers of customer accounts services is proprietary and not publicly available. Comparison to electric utilities is appropriate because all utilities, regardless of service type, must perform customer account services activities, including updating customer records for meter reads, printing and mailing bills, and collecting and processing customer payments. Electric utility costs are available from the FERC Form 1; thus, there is appropriate data transparency. The selection of electric utilities from Indiana and neighboring states provides a comparison group of sufficient size.

III – Service Company Cost Comparison Approach

The fourth question—the necessity of Service Company services—was investigated by defining the services provided to IAWC and determining if these services would be required if IAWC were a stand-alone utility.

Methodology

Utility service companies deliver a variety of services. Some may support their regulated utility affiliate’s operations-related functions (e.g., transmission, distribution). All utility service companies, however, provide A&G services to their affiliates. This is the case because considerable economies of scale derive from centralizing the management of corporate A&G services such as technology and innovation, finance and human resources. Because A&G-related services are consistently delivered by utility service companies, this study uses A&G charges per customer as the metric by which to test the reasonableness of affiliate charges.

IAWC’s Service Company A&G Cost per Customer

During 2017 IAWC was charged \$60 per customer by the Service Company for A&G-related services. The calculation of this amount, shown in the table below, starts with total Service Company charges and adjusts for capital and non-A&G function (e.g., engineering, operations and water quality) charges. These adjustments are necessary to develop a per-customer cost that can be compared to the cost of the utility service company comparison group.

	2017
Total Service Company charges	\$ 24,454,903
Less: Capital charges	\$ (5,448,609)
Less: Non-A&G charges	
Engineering	\$ (162,284)
Operations	\$ (534,811)
Water Quality	\$ (117,744)
Net A&G Service Company Charges	\$ 18,191,455
IAWC Customer Count	302,830
IAWC A&G SC Charges per Customer	\$ 60

Comparison Group Cost Per Customer

Every centralized service company in a holding company system subject to regulation by the FERC must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act, and 18 Code of Federal Regulations paragraph 366.23. This report is designed to collect financial information from service companies that are subject to regulation by the FERC.

Charges to utility affiliates for the comparison group service companies were obtained from Schedule XVI – Analysis of Charges for Service Associate and Non-Associate Companies (p. 303 to 306) of each entity’s FERC Form 60. Information from Form 60 schedule Account 457 – Analysis of Billing – Associate Companies was also used to isolate and eliminate charges to non-regulated affiliates from the cost pool used to calculate A&G expenses per regulated service customer.

For 2017, a Form 60 was filed by service companies associated with 24 utility holding companies. These service companies support utilities that provide regulated electric and, in some cases, gas service to retail customers.

IV – Question 1 – Reasonableness of Service Company Charges

FERC Form 60 shows service company charges to affiliates by FERC account. The table below shows a list of FERC A&G accounts and designates which correspond to services the Service Company provides to IAWC. Amounts in the designated FERC accounts are included in the calculation of service company A&G expenses per regulated customer.

FERC Account	Included In Cost Calculation
901 - Supervision	X
902 - Meter reading expenses	
903 - Customer records and collection expenses	X
904 - Uncollectible accounts	
905 - Miscellaneous customer accounts expenses	X
907 - Supervision	
908 - Customer assistance expenses	
909 - Informational And Instructional Advertising Expenses	
910 - Miscellaneous Customer Service And Informational Exp	X
911 - Supervision	
912 - Demonstrating and Selling Expenses	
913 - Advertising Expenses	
916 - Miscellaneous Sales Expenses	
920 - Administrative and General Salaries	X
921 - Office Supplies and Expenses	X
923 - Outside Services Employed	X
924 - Property Insurance	X
925 - Injuries and Damages	
926 - Employee Pensions and Benefits	X
928 - Regulatory Commission Expenses	
930.1 - General Advertising Expenses	
930.2 - Miscellaneous General Expenses	X
931 - Rents	X
935 - Maintenance of Structures and Equipment	X

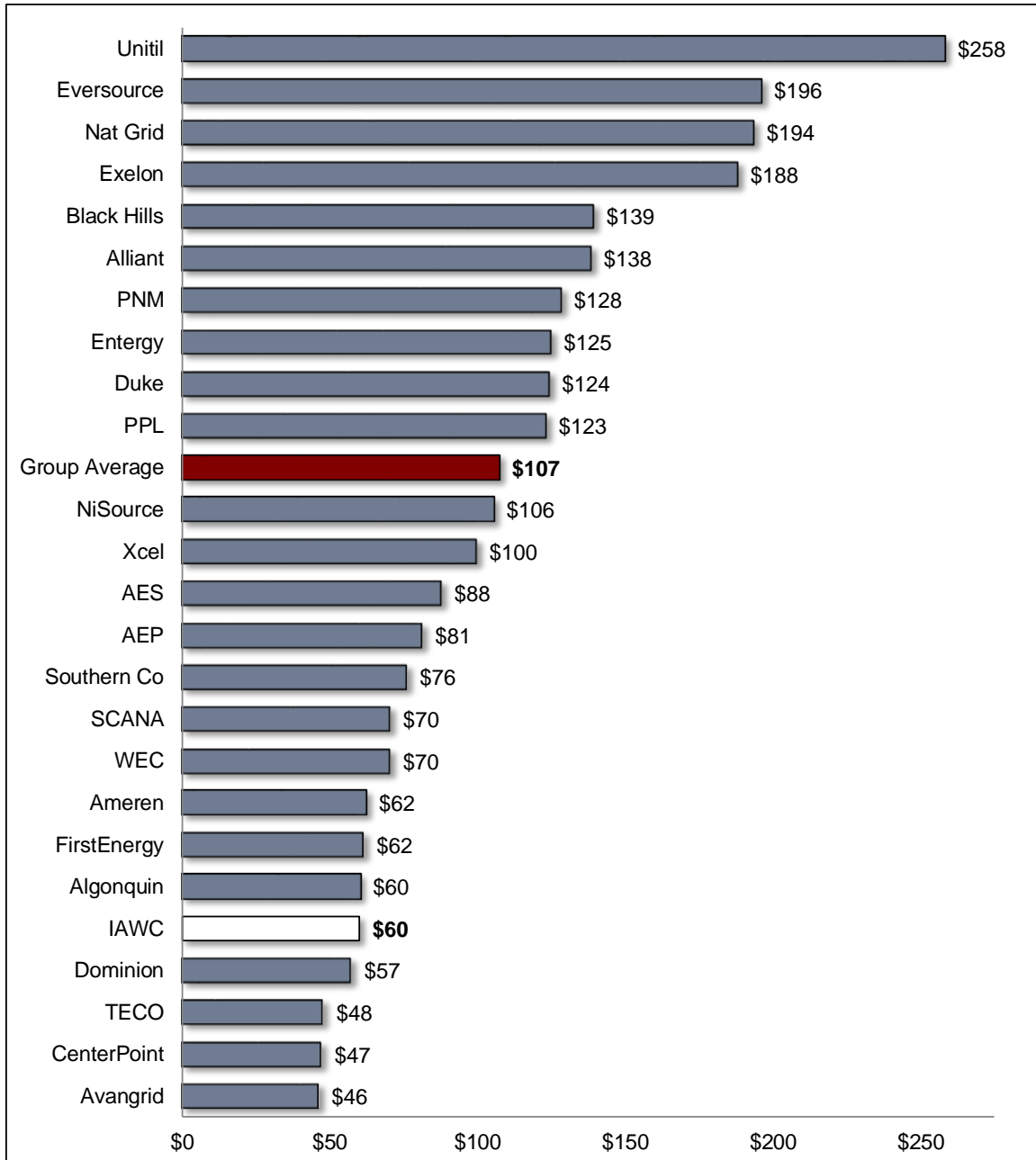
The A&G expenses per regulated utility customer for the 24 utility companies whose service companies filed a Form 60 for 2017 are calculated in Exhibit 1 (page 11).

Exhibit 2 (page 12) shows IAWC's 2017 Service Company cost per customer of \$60 to be lower than the average of \$107 per customer for the comparison group service companies. Twenty of the 24 comparison group service companies had higher per customer A&G costs than IAWC's charges from the Service Company. Based on this result, it is possible to conclude that the Service Company's charges to IAWC were reasonable.

Indiana-American Water Company
Calculation of 2017 Service Company A&G Expenses Per Customer

Utility Company	2017 Regulated Retail Service Company A&G Expenses	Regulated Retail Customers	Cost per Customer
AEP	\$438,890,527	5,400,000	\$ 81
AES	\$65,918,860	750,622	\$ 88
Algonquin	\$45,681,680	758,000	\$ 60
Alliant	\$190,442,009	1,375,175	\$ 138
Ameren	\$205,647,993	3,300,000	\$ 62
Avangrid	\$148,532,619	3,209,450	\$ 46
Black Hills	\$174,635,129	1,252,523	\$ 139
CenterPoint	\$267,594,992	5,659,220	\$ 47
Dominion	\$281,060,124	4,900,000	\$ 57
Duke	\$1,131,814,714	9,100,000	\$ 124
Entergy	\$387,315,119	3,099,000	\$ 125
Eversource	\$712,905,964	3,634,000	\$ 196
Exelon	\$1,841,470,017	9,790,000	\$ 188
FirstEnergy	\$369,031,399	6,000,000	\$ 62
Nat Grid	\$1,336,022,949	6,900,000	\$ 194
NiSource	\$411,798,390	3,900,000	\$ 106
PNM	\$99,261,645	773,000	\$ 128
PPL	\$332,841,876	2,700,000	\$ 123
SCANA	\$158,719,721	2,252,373	\$ 70
Southern Co	\$704,734,402	9,263,000	\$ 76
TECO	\$76,809,801	1,605,000	\$ 48
Unitil	\$47,585,313	184,200	\$ 258
WEC	\$312,453,243	4,438,093	\$ 70
Xcel	\$558,930,060	5,600,000	\$ 100
Total	\$10,300,098,546	95,843,656	\$ 107

Indiana-American Water Company
Comparison of Service Company A&G Expenses Per Customer



Methodology

The lower-of-cost-or-market comparison is accomplished by comparing the cost per hour for Service Company managerial and professional services to those of outside service providers to whom these duties could be assigned. Based on the nature of the Service Company services, it was determined that the following outside providers could perform the categories of services indicated below:

- Management Consultants – executive and administrative management, risk management, human resources and communications services
- Attorneys – legal services
- Certified Public Accountants – accounting, financial and rates and revenues services
- T&I Professionals – information technology services
- Professional Engineers – engineering, operations and water quality services.

The services provided by the Belleville lab are assumed to be transferable to professional engineers for purposes of this cost comparison. This was done for two reasons. First, there is no readily available survey of hourly billing rates for testing services such as those performed by Belleville. Second, Belleville personnel have similar scientific educational backgrounds as Service Company engineering personnel. Thus, it is appropriate to compare the hourly rates of Belleville services to those of outside engineering firms.

Service Company's hourly rates were calculated for each of the five outside service provider categories, based on the dollars and hours charged to IAWC during 2017. Hourly billing rates for outside service providers were developed using third party surveys or directly from information furnished by outside providers themselves.

It should be noted that by using the Service Company's hours charged IAWC 2017, its hourly rates are actually overstated because some Service Company personnel charge a maximum of 8 hours per day even when they work more. Outside service providers generally bill for every hour worked. If all overtime hours of Service Company personnel had been factored into the hourly rate calculation, Service Company hourly rates would have been lower.

The last step in the lower-of-cost-or-market comparison was to compare the Service Company's average cost per hour to the average cost per hour for outside providers.

Service Company Hourly Rates

Exhibit 3 (page 15) details the assignment of 2017 management and professional Service Company charges by outsider provider category. Exhibit 4 (page 16) shows the same assignment for Service Company management and professional hours charged to IAWC during 2017.

Certain adjustments to these dollar amounts were necessary to calculate Service Company hourly rates that are directly comparable to those of outside providers. Adjustments were made to the following 2017 non-labor Service Company charges:

- Contract Services – 2017 Service Company charges to IAWC include expenses associated with the use of outside professional firms to perform certain corporate-wide services (e.g., legal, financial audit, actuarial services). These professional fees are

V – Question 2 – Provision of Services at the Lower of Cost or Market

excluded from the Service Company hourly rate calculation because the related services have effectively been out-sourced already.

- Travel Expenses – In general, client-related travel expenses incurred by outside service providers are not recovered through their hourly billing rates. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these Service Company charges from the hourly rate calculation.
- Information Technology Infrastructure Expenses – Included in 2017 Service Company charges to IAWC are leases, maintenance fees and depreciation related to American Water's enterprise computing and network infrastructure and corporate business applications. An outside provider that would take over operation of this infrastructure would recover these expenses over and above the cost of personnel necessary to operate the data center.
- Non-Service Related Expenses – These are corporate expenses such current and deferred income tax expense, line of credit fees and board expenses. These are not related to the provision of services by Service Company personnel and have been excluded.

Exhibit 5 (page 17) shows how contract services, travel expenses, information technology infrastructure and non-service-related Service Company charges are assigned to the four outside provider categories.

Based on the assignment of expenses and hours shown in Exhibits 2 and 3 and the excludable items shown in Exhibit 4, the Service Company's equivalent costs per hour for 2017 are calculated below.

	Attorney	Management Consultant	Certified Public Accountant	T&I Professional	Professional Engineer	Total
Total management, professional & technical services charges	\$ 1,058,787	\$ 5,850,490	\$ 3,361,301	\$ 8,842,899	\$ 959,307	\$ 20,072,784
Less: Exclusions						
Contract services	\$ 96,296	\$ 388,323	\$ 394,789	\$ 3,231,829	\$ (13,945)	\$ 4,097,291
Travel expenses	\$ 21,807	\$ 167,167	\$ 71,642	\$ 97,706	\$ 26,661	\$ 384,984
IT infrastructure expenses	\$ 821	\$ 1,496,978	\$ 13,109	\$ 1,488,246	\$ 7,488	\$ 3,006,642
Non-service related expenses	\$ 85,971	\$ (236,909)	\$ (120,717)	\$ 214,589	\$ 45,338	\$ (11,728)
Total Exclusions	\$ 204,895	\$ 1,815,559	\$ 358,822	\$ 5,032,370	\$ 65,543	\$ 7,477,189
Net Service-Related Charges (A)	\$ 853,892	\$ 4,034,930	\$ 3,002,479	\$ 3,810,530	\$ 893,764	\$ 12,595,595
Total Hours (B)	3,732	21,511	29,962	30,046	7,634	92,886
Average Hourly Rate (A / B)	\$ 229	\$ 188	\$ 100	\$ 127	\$ 117	

Indiana-American Water Company
2017 Service Company Charges by Location and Function

		2017 Service Company Charges					
Location	Function	Attorney	Management Consultant	Certified Public Accountant	T&I Professional	Professional Engineer	Total
Belleville Lab	Water Quality					\$ 146,391	\$ 146,391
Call Center	Human Resources		\$ 43,704				\$ 43,704
Corporate	Accounting			\$ 1,331,428			\$ 1,331,428
	Administration		\$ 1,925,946				\$ 1,925,946
	Audit			\$ 195,949			\$ 195,949
	Business Development		\$ 278,470				\$ 278,470
	Communications		\$ 328,778				\$ 328,778
	Engineering					\$ 812,853	\$ 812,853
	External Affairs		\$ 214,916				\$ 214,916
	Finance			\$ 1,042,421			\$ 1,042,421
	Human Resources			\$ 1,199,673			\$ 1,199,673
	Information Technology				\$ 511,395		\$ 511,395
	Legal		\$ 741,684				\$ 741,684
	Operations			\$ 624,617			\$ 624,617
	Procurement				\$ 428,372		\$ 428,372
	Rates & Regulatory			\$ 41,199			\$ 41,199
Risk Management			\$ 146,801			\$ 146,801	
Regional Offices	Administration		\$ 535,367				\$ 535,367
	Business Development		\$ 79,428				\$ 79,428
	Engineering					\$ 62	\$ 62
	External Affairs		\$ 249,872				\$ 249,872
	Finance			\$ 214,733			\$ 214,733
	Human Resources		\$ 181,720				\$ 181,720
	Legal		\$ 317,103				\$ 317,103
	Rates & Revenue			\$ 148,398			\$ 148,398
Technology & Innovation	Information Technology				\$ 8,331,505	\$ 8,331,505	
Total Dollars Charged		\$ 1,058,787	\$ 5,850,490	\$ 3,361,301	\$ 8,842,899	\$ 959,307	\$ 20,072,784

Indiana-American Water Company
2017 Service Company Hours by Location and Function

		2017 Service Company Hours					
Location	Function	Attorney	Management Consultant	Certified Public Accountant	T&I Professional	Professional Engineer	Total
Belleville Lab	Water Quality					1,068	1,068
Call Center	Human Resources		498				498
Corporate	Accounting			11,916			11,916
	Administration		1,979				1,979
	Audit			1,041			1,041
	Business Development		806				806
	Communications		1,680				1,680
	Engineering					6,566	6,566
	External Affairs		219				219
	Finance			9,189			9,189
	Human Resources		8,259				8,259
	Information Technology					5,135	5,135
	Legal		1,690				1,690
	Operations			1,258			1,258
	Procurement				4,333		4,333
	Rates & Regulatory			73			73
Risk Management			1,270			1,270	
Regional Offices	Administration		1,866				1,866
	Business Development		268				268
	Engineering						-
	External Affairs		1,437				1,437
	Finance			1,839			1,839
	Human Resources		1,897				1,897
	Legal		2,042				2,042
	Rates & Revenue			1,645			1,645
Technology & Innovation	Information Technology				24,911		24,911
Total Hours Charged		3,732	21,511	29,962	30,046	7,634	92,886

Indiana-American Water Company
2017 Service Company Charges Excludable from the Hourly Rate Calculation

Charges By Function	Exclusions From Hourly Rate Calculation					Outside Service Provider Category
	Contract Services	Travel Expenses	T&I Infrastructure	Non-Services-Related Items	Total	
Accounting	\$ 283,973	\$ 14,946	\$ 9,837	\$ (124,882)	\$ 183,875	Certified Public Accountant
Administration	\$ 56,987	\$ 32,785	\$ 1,489,364	\$ (353,821)	\$ 1,225,315	Management Consultant
Audit	\$ 89,666	\$ 2,538	\$ 3,113	\$ 43	\$ 95,360	Certified Public Accountant
Business Development	\$ 3,569	\$ 21,423		\$ 5,044	\$ 30,037	Management Consultant
Communications	\$ 63,478	\$ 6,660	\$ 714	\$ 10,010	\$ 80,861	Management Consultant
Engineering	\$ 3,005	\$ 25,522	\$ 6,934	\$ 4,105	\$ 39,566	Professional Engineer
External Affairs	\$ 23,428	\$ 18,972	\$ 713	\$ 1,763	\$ 44,876	Management Consultant
Finance	\$ 13,870	\$ 32,962	\$ 151	\$ 2,386	\$ 49,368	Certified Public Accountant
Human Resources	\$ 251,552	\$ 44,836	\$ 4,736	\$ 17,040	\$ 318,163	Management Consultant
Information Technology	\$ 3,231,829	\$ 97,706	\$ 1,488,246	\$ 214,589	\$ 5,032,370	IT Professional
Legal	\$ 96,296	\$ 21,807	\$ 821	\$ 85,971	\$ 204,895	Attorney
Operations	\$ (436)	\$ 32,195		\$ 51,734	\$ 83,493	Management Consultant
Procurement	\$ 7,238	\$ 11,548	\$ 7	\$ 1,609	\$ 20,402	Certified Public Accountant
Rates & Regulatory	\$ 41	\$ 9,649		\$ 127	\$ 9,817	Certified Public Accountant
	\$ (1,898)	\$ 5,538	\$ 39	\$ 131	\$ 3,810	Management Consultant
Risk Management	\$ (8,358)	\$ 4,759	\$ 1,412	\$ 31,191	\$ 29,003	Management Consultant
Water Quality	\$ (16,949)	\$ 1,139	\$ 554	\$ 41,233	\$ 25,977	Professional Engineer
Total	\$ 4,097,291	\$ 384,984	\$ 3,006,642	\$ (11,728)	\$ 7,477,189	

Recap By Outside Provider	Exclusions From Hourly Rate Calculation				
	Contract Services	Travel Expenses	T&I Infrastructure	Non-Services-Related Items	Total
Attorney	\$ 96,296	\$ 21,807	\$ 821	\$ 85,971	\$ 204,895
Management Consultant	\$ 388,323	\$ 167,167	\$ 1,496,978	\$ (236,909)	\$ 1,815,559
Certified Public Accountant	\$ 394,789	\$ 71,642	\$ 13,109	\$ (120,717)	\$ 358,822
IT Professional	\$ 3,231,829	\$ 97,706	\$ 1,488,246	\$ 214,589	\$ 5,032,370
Professional Engineer	\$ (13,945)	\$ 26,661	\$ 7,488	\$ 45,338	\$ 65,543
Total	\$ 4,097,291	\$ 384,984	\$ 3,006,642	\$ (11,728)	\$ 7,477,189

Outside Service Provider Hourly Rates

The next step in the lower-of-cost-or-market comparison was to obtain the average billing rates for outside service providers. The source of this information and the determination of the average rates are described in the paragraphs that follow.

It should be noted that professionals working for three of the five outside provider categories may be licensed to practice by state regulatory bodies. However, not every professional working for these firms is licensed. For instance, among US certified public accounting firms, only more experienced staff are predominantly CPAs (see table below). Some Service Company employees also have professional licenses. Thus, it is valid to compare the Service Company's hourly rates to those of the outside professional service providers included in this study.

Position	US Average
Partners/Owners	98%
Directors (11+ years experience)	87%
Managers (6-10 years experience)	79%
Sr Associates (4-5 years experience)	50%
Associates (1-3 years experience)	22%
New Professionals	10%

Source: AICPA's National PCPS/TSCPA Management of an Accounting Practice Survey (2010)

Attorneys

The Indiana State Bar does not survey its members as to their hourly billing rates. In addition, publicly available billing rate information could not be found for Indiana attorneys. Therefore, an estimate of Indiana attorney rates was developed from a 2017 billing rate survey from National Law Journal. As shown in Exhibit 6 (pages 20-22), data from this survey has been adjusted for cost-of-living differences between each law firm's location and Greenwood, Indiana. The National Law Review billing survey hourly rates data is for 2017.

Management Consultants

The cost per hour for management consultants was developed from the 2016 annual survey information from ALM Intelligence, a research firm that follows the management consulting industry. The survey includes rates that were in effect during 2016 for firms throughout the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, in this case the U.S. national average is appropriate for comparison.

The first step in the calculation, presented in Exhibit 7 (page 23), was to determine an average rate by consultant position level. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position level. The calculated average rate was escalated to December 31, 2017—the midpoint of 2017.

Certified Public Accountants

The average hourly rate for Indiana CPAs was developed from a 2016 survey performed by the American Institute of Certified Public Accountants (AICPA). The Indiana version of this survey was used to develop hourly rates for member firms in Indiana.

As shown in Exhibit 8 (page 24), a weighted average hourly rate was developed based on a set of accountant positions and a percent of time that is typically applied to an accounting assignment. This survey includes rate information in effect during 2015. The calculated average rate was escalated to December 31, 2017—the midpoint of 2017.

Technology and Innovation Professionals

The average hourly rate for technology and innovation consultants and contractors was developed from two sources: NSCS for IT contractor rates and ALM Intelligence for information technology consultants. As shown in Exhibit 9 (page 25), that data was compiled and a weighted average was calculated based on a percent of time that is typically applied to a T&I consulting assignment based on Baryenbruch & Company's experience.

Professional Engineers

The Company provided hourly rate information for outside engineering firms that provided IAWC with their rate schedules. As presented in Exhibit 10 (page 26), an average rate was developed for each engineering position level. Then, using a typical percentage mix of project time by engineering position, a weighted average cost per hour was calculated.

Indiana-American Water Company
Estimated Billing Rates for Indiana Attorneys

City	2017 Billing Rates (Note A)					Cost of Living (COL) Adjustment (Note B)			
	Average Billing Rate		Weighted Average Rate Calculation			COL Indices			(A x B) Adjusted Rate
	Partner	Associate	0.25 Partner	0.75 Associate	(A) Weighted Average	Law Firm Location	Richmond IN	(B) COL Adjustment	
Albany, NY	\$ 350	\$ 180	\$ 88	\$ 135	\$ 223	110.9	87.4	79%	\$ 176
Albuquerque, NM	\$ 475	\$ 238	\$ 119	\$ 179	\$ 298	94.3	87.4	93%	\$ 276
Alhambra, CA	\$ 475	\$ 425	\$ 119	\$ 319	\$ 438	131.0	87.4	67%	\$ 292
Amenia, NY	\$ 300	\$ 250	\$ 75	\$ 188	\$ 263	110.9	87.4	79%	\$ 207
Arlington, TX	\$ 385	\$ 195	\$ 96	\$ 146	\$ 242	95.7	87.4	91%	\$ 221
Astoria, NY	\$ 425	\$ 325	\$ 106	\$ 244	\$ 350	151.4	87.4	58%	\$ 202
Atlanta, GA	\$ 521	\$ 371	\$ 130	\$ 278	\$ 408	93.5	87.4	93%	\$ 381
Atlantic Beach, FL	\$ 295	\$ 248	\$ 74	\$ 186	\$ 260	95.5	87.4	91%	\$ 238
Austin, TX	\$ 445	\$ 400	\$ 111	\$ 300	\$ 411	92.5	87.4	94%	\$ 388
Baltimore, MD	\$ 432	\$ 295	\$ 108	\$ 221	\$ 329	111.3	87.4	79%	\$ 258
Baton Rouge, LA	\$ 388	\$ 350	\$ 97	\$ 263	\$ 360	91.7	87.4	95%	\$ 343
Beverly Hills, CA	\$ 510	\$ 373	\$ 128	\$ 280	\$ 408	131.0	87.4	67%	\$ 272
Bloomfield Hills, MI	\$ 373	\$ 275	\$ 93	\$ 206	\$ 299	96.1	87.4	91%	\$ 272
Boca Raton, FL	\$ 438	\$ 325	\$ 110	\$ 244	\$ 354	109.5	87.4	80%	\$ 282
Boston, MA	\$ 1,075	\$ 515	\$ 269	\$ 386	\$ 655	140.1	87.4	62%	\$ 409
Brooklyn, NY	\$ 625	\$ 575	\$ 156	\$ 431	\$ 587	175.6	87.4	50%	\$ 292
Buffalo, NY	\$ 288	\$ 175	\$ 72	\$ 131	\$ 203	96.2	87.4	91%	\$ 184
Calabasas, CA	\$ 450	\$ 250	\$ 113	\$ 188	\$ 301	131.0	87.4	67%	\$ 201
Camp Hill, PA	\$ 250	\$ 150	\$ 63	\$ 113	\$ 176	98.9	87.4	88%	\$ 156
Carrollton, GA	\$ 325	\$ 270	\$ 81	\$ 203	\$ 284	94.7	87.4	92%	\$ 262
Cary, NC	\$ 300	\$ 290	\$ 75	\$ 218	\$ 293	94.6	87.4	92%	\$ 271
Cerritos, CA	\$ 400	\$ 188	\$ 100	\$ 141	\$ 241	131.0	87.4	67%	\$ 161
Chapel Hill, NC	\$ 325	\$ 200	\$ 81	\$ 150	\$ 231	110.9	87.4	79%	\$ 182
Charlotte, NC	\$ 435	\$ 303	\$ 109	\$ 227	\$ 336	96.1	87.4	91%	\$ 305
Cherry Hill, NJ	\$ 350	\$ 275	\$ 88	\$ 206	\$ 294	121.2	87.4	72%	\$ 212
Cherry Hill, PA	\$ 425	\$ 350	\$ 106	\$ 263	\$ 369	92.2	87.4	95%	\$ 350
Chicago, IL	\$ 578	\$ 407	\$ 145	\$ 305	\$ 450	117.4	87.4	74%	\$ 335
Claremont, CA	\$ 270	\$ 250	\$ 68	\$ 188	\$ 256	112.0	87.4	78%	\$ 200
Columbia, MO	\$ 250	\$ 250	\$ 63	\$ 188	\$ 251	96.9	87.4	90%	\$ 226
Corpus Christi, TX	\$ 250	\$ 150	\$ 63	\$ 113	\$ 176	91.9	87.4	95%	\$ 167
Dallas, TX	\$ 536	\$ 312	\$ 134	\$ 234	\$ 368	95.7	87.4	91%	\$ 336
Decatur, GA	\$ 350	\$ 350	\$ 88	\$ 263	\$ 351	93.5	87.4	93%	\$ 328
Denver, CO	\$ 449	\$ 308	\$ 112	\$ 231	\$ 343	104.0	87.4	84%	\$ 288
East Meadow, NY	\$ 425	\$ 413	\$ 106	\$ 310	\$ 416	129.2	87.4	68%	\$ 281
East Orange, NJ	\$ 400	\$ 375	\$ 100	\$ 281	\$ 381	128.4	87.4	68%	\$ 259
El Paso, TX	\$ 350	\$ 300	\$ 88	\$ 225	\$ 313	90.8	87.4	96%	\$ 301
Encino, CA	\$ 450	\$ 400	\$ 113	\$ 300	\$ 413	131.0	87.4	67%	\$ 275
Englewood, NJ	\$ 463	\$ 325	\$ 116	\$ 244	\$ 360	133.0	87.4	66%	\$ 236
Escondido, CA	\$ 400	\$ 300	\$ 100	\$ 225	\$ 325	129.2	87.4	68%	\$ 220
Fair Oaks, CA	\$ 350	\$ 325	\$ 88	\$ 244	\$ 332	109.8	87.4	80%	\$ 264
Fort Lauderdale, FL	\$ 400	\$ 343	\$ 100	\$ 257	\$ 357	109.5	87.4	80%	\$ 285
Fort Worth, TX	\$ 492	\$ 355	\$ 123	\$ 266	\$ 389	100.1	87.4	87%	\$ 340
Fountain Valley, CA	\$ 350	\$ 200	\$ 88	\$ 150	\$ 238	140.7	87.4	62%	\$ 148
Franklin, TN	\$ 395	\$ 310	\$ 99	\$ 233	\$ 332	86.3	87.4	101%	\$ 336
Frederick, MD	\$ 300	\$ 300	\$ 75	\$ 225	\$ 300	127.4	87.4	69%	\$ 206
Freehold, NJ	\$ 500	\$ 500	\$ 125	\$ 375	\$ 500	122.2	87.4	71%	\$ 357
Frisco, TX	\$ 400	\$ 300	\$ 100	\$ 225	\$ 325	90.2	87.4	97%	\$ 315
Glendale, CA	\$ 600	\$ 450	\$ 150	\$ 338	\$ 488	131.0	87.4	67%	\$ 325
Granada Hills, CA	\$ 200	\$ 200	\$ 50	\$ 150	\$ 200	131.0	87.4	67%	\$ 133

Indiana-American Water Company
Estimated Billing Rates for Indiana Attorneys

City	2017 Billing Rates (Note A)					Cost of Living (COL) Adjustment (Note B)			
	Average Billing Rate		Weighted Average Rate Calculation			COL Indices			(A x B) Adjusted Rate
	Partner	Associate	0.25 Partner	0.75 Associate	(A) Weighted Average	Law Firm Location	Richmond IN	(B) COL Adjustment	
Grand Rapids, MI	\$ 406	\$ 295	\$ 102	\$ 221	\$ 323	92.5	87.4	94%	\$ 305
Greenbelt, MD	\$ 467	\$ 347	\$ 117	\$ 260	\$ 377	127.4	87.4	69%	\$ 259
Greensburg, PA	\$ 400	\$ 195	\$ 100	\$ 146	\$ 246	92.2	87.4	95%	\$ 233
Grosse Pointe Woods, MI	\$ 375	\$ 250	\$ 94	\$ 188	\$ 282	96.1	87.4	91%	\$ 256
Hackensack, NJ	\$ 658	\$ 305	\$ 165	\$ 229	\$ 394	133.0	87.4	66%	\$ 259
Harrisburg, PA	\$ 292	\$ 225	\$ 73	\$ 169	\$ 242	98.9	87.4	88%	\$ 214
Harrisonburg, VA	\$ 300	\$ 250	\$ 75	\$ 188	\$ 263	97.7	87.4	89%	\$ 235
Hawthorne, NJ	\$ 425	\$ 400	\$ 106	\$ 300	\$ 406	133.0	87.4	66%	\$ 267
Houston, TX	\$ 522	\$ 345	\$ 131	\$ 259	\$ 390	99.0	87.4	88%	\$ 344
Huntingdon Valley, PA	\$ 220	\$ 125	\$ 55	\$ 94	\$ 149	121.2	87.4	72%	\$ 107
Indianapolis, IN	\$ 452	\$ 337	\$ 113	\$ 253	\$ 366	91.1	87.4	96%	\$ 351
Irvine, CA	\$ 402	\$ 325	\$ 101	\$ 244	\$ 345	140.7	87.4	62%	\$ 214
Jacksonville, FL	\$ 350	\$ 250	\$ 88	\$ 188	\$ 276	95.5	87.4	91%	\$ 252
Johnstown, PA	\$ 250	\$ 250	\$ 63	\$ 188	\$ 251	92.2	87.4	95%	\$ 238
Kansas City, MO	\$ 407	\$ 305	\$ 102	\$ 229	\$ 331	98.0	87.4	89%	\$ 295
Knoxville, TN	\$ 269	\$ 225	\$ 67	\$ 169	\$ 236	88.5	87.4	99%	\$ 233
LaGrange, IL	\$ 400	\$ 400	\$ 100	\$ 300	\$ 400	97.4	87.4	90%	\$ 359
Las Vegas, NV	\$ 383	\$ 338	\$ 96	\$ 253	\$ 349	102.7	87.4	85%	\$ 297
Long Beach, CA	\$ 400	\$ 400	\$ 100	\$ 300	\$ 400	131.0	87.4	67%	\$ 267
Los Angeles, CA	\$ 515	\$ 404	\$ 129	\$ 303	\$ 432	131.0	87.4	67%	\$ 288
Mamaroneck, NY	\$ 495	\$ 375	\$ 124	\$ 281	\$ 405	151.4	87.4	58%	\$ 234
Manasquan, NJ	\$ 400	\$ 250	\$ 100	\$ 188	\$ 288	122.2	87.4	71%	\$ 206
Maple Shade, NJ	\$ 400	\$ 275	\$ 100	\$ 206	\$ 306	121.2	87.4	72%	\$ 221
McAllen, TX	\$ 250	\$ 213	\$ 63	\$ 159	\$ 222	86.3	87.4	101%	\$ 225
Metairie, LA	\$ 350	\$ 180	\$ 88	\$ 135	\$ 223	98.2	87.4	89%	\$ 198
Miami, FL	\$ 338	\$ 300	\$ 84	\$ 225	\$ 309	107.2	87.4	81%	\$ 252
Middletown, NY	\$ 400	\$ 400	\$ 100	\$ 300	\$ 400	110.9	87.4	79%	\$ 315
Minden, NV	\$ 363	\$ 200	\$ 91	\$ 150	\$ 241	90.1	87.4	97%	\$ 234
Minneapolis, MN	\$ 680	\$ 463	\$ 170	\$ 347	\$ 517	110.3	87.4	79%	\$ 409
Murrieta, CA	\$ 250	\$ 175	\$ 63	\$ 131	\$ 194	112.0	87.4	78%	\$ 151
Nashville, TN	\$ 413	\$ 338	\$ 103	\$ 253	\$ 356	86.3	87.4	101%	\$ 360
New City, NY	\$ 400	\$ 400	\$ 100	\$ 300	\$ 400	151.4	87.4	58%	\$ 231
New Orleans, LA	\$ 388	\$ 235	\$ 97	\$ 176	\$ 273	98.2	87.4	89%	\$ 243
New York, NY	\$ 748	\$ 501	\$ 187	\$ 376	\$ 563	221.3	87.4	39%	\$ 222
Newark, NJ	\$ 735	\$ 495	\$ 184	\$ 371	\$ 555	128.4	87.4	68%	\$ 378
Newport Beach, CA	\$ 595	\$ 425	\$ 149	\$ 319	\$ 468	131.0	87.4	67%	\$ 312
Newton, MA	\$ 350	\$ 300	\$ 88	\$ 225	\$ 313	140.1	87.4	62%	\$ 195
North Andover, MA	\$ 400	\$ 275	\$ 100	\$ 206	\$ 306	140.1	87.4	62%	\$ 191
North Bergen, NJ	\$ 400	\$ 300	\$ 100	\$ 225	\$ 325	133.0	87.4	66%	\$ 213
Northbrook, IL	\$ 425	\$ 363	\$ 106	\$ 272	\$ 378	117.4	87.4	74%	\$ 281
Oakland, CA	\$ 575	\$ 575	\$ 144	\$ 431	\$ 575	134.9	87.4	65%	\$ 373
Okemos, MI	\$ 300	\$ 205	\$ 75	\$ 154	\$ 229	87.9	87.4	99%	\$ 228
Ontario, CA	\$ 350	\$ 350	\$ 88	\$ 263	\$ 351	112.0	87.4	78%	\$ 274
Orlando, FL	\$ 400	\$ 400	\$ 100	\$ 300	\$ 400	95.9	87.4	91%	\$ 365
Palo Alto, CA	\$ 1,100	\$ 735	\$ 275	\$ 551	\$ 826	148.8	87.4	59%	\$ 485
Philadelphia, PA	\$ 653	\$ 406	\$ 163	\$ 305	\$ 468	121.2	87.4	72%	\$ 337
Phoenix, AZ	\$ 462	\$ 276	\$ 115	\$ 207	\$ 322	97.3	87.4	90%	\$ 289
Pittsburgh, PA	\$ 375	\$ 226	\$ 94	\$ 170	\$ 264	92.2	87.4	95%	\$ 250
Plano, TX	\$ 400	\$ 163	\$ 100	\$ 122	\$ 222	96.6	87.4	90%	\$ 201

Indiana-American Water Company
Estimated Billing Rates for Indiana Attorneys

City	2017 Billing Rates (Note A)					Cost of Living (COL) Adjustment (Note B)			
	Average Billing Rate		Weighted Average Rate Calculation			COL Indices			(A x B) Adjusted Rate
	Partner	Associate	0.25 Partner	0.75 Associate	(A) Weighted Average	Law Firm Location	Richmond IN	(B) COL Adjustment	
Portland, OR	\$ 375	\$ 345	\$ 94	\$ 259	\$ 353	119.1	87.4	73%	\$ 259
Red Bank, NJ	\$ 425	\$ 250	\$ 106	\$ 188	\$ 294	122.2	87.4	71%	\$ 210
Richmond, VA	\$ 522	\$ 333	\$ 130	\$ 250	\$ 380	99.7	87.4	88%	\$ 333
Ridgeland, MS	\$ 375	\$ 225	\$ 94	\$ 169	\$ 263	89.0	87.4	98%	\$ 258
Roanoke, VA	\$ 365	\$ 216	\$ 91	\$ 162	\$ 253	92.0	87.4	95%	\$ 240
Royal Oak, MI	\$ 350	\$ 300	\$ 88	\$ 225	\$ 313	96.1	87.4	91%	\$ 284
Sacramento, CA	\$ 400	\$ 250	\$ 100	\$ 188	\$ 288	109.8	87.4	80%	\$ 229
San Antonio, TX	\$ 315	\$ 271	\$ 79	\$ 203	\$ 282	87.6	87.4	100%	\$ 281
San Diego, CA	\$ 475	\$ 362	\$ 119	\$ 271	\$ 390	129.2	87.4	68%	\$ 264
San Francisco, CA	\$ 443	\$ 377	\$ 111	\$ 282	\$ 393	159.9	87.4	55%	\$ 215
San Jose, CA	\$ 438	\$ 350	\$ 109	\$ 263	\$ 372	148.8	87.4	59%	\$ 218
San Mateo, CA	\$ 495	\$ 395	\$ 124	\$ 296	\$ 420	159.9	87.4	55%	\$ 230
Santa Ana, CA	\$ 350	\$ 350	\$ 88	\$ 263	\$ 351	140.7	87.4	62%	\$ 218
Santa Barbara, CA	\$ 438	\$ 300	\$ 110	\$ 225	\$ 335	131.0	87.4	67%	\$ 223
Santa Clara, CA	\$ 475	\$ 400	\$ 119	\$ 300	\$ 419	148.8	87.4	59%	\$ 246
Santa Clarita, CA	\$ 438	\$ 300	\$ 110	\$ 225	\$ 335	112.0	87.4	78%	\$ 261
Santa Monica, CA	\$ 575	\$ 350	\$ 144	\$ 263	\$ 407	131.0	87.4	67%	\$ 271
Santa Rosa Beach, FL	\$ 300	\$ 300	\$ 75	\$ 225	\$ 300	97.6	87.4	89%	\$ 268
Scottsdale, AZ	\$ 300	\$ 213	\$ 75	\$ 160	\$ 235	113.9	87.4	77%	\$ 180
Seattle, WA	\$ 425	\$ 310	\$ 106	\$ 233	\$ 339	117.5	87.4	74%	\$ 252
Sherman Oaks, CA	\$ 405	\$ 350	\$ 101	\$ 263	\$ 364	131.0	87.4	67%	\$ 243
Southfield, MI	\$ 330	\$ 245	\$ 83	\$ 184	\$ 267	96.1	87.4	91%	\$ 243
Spring Lake, NJ	\$ 400	\$ 275	\$ 100	\$ 206	\$ 306	122.2	87.4	71%	\$ 219
Springfield, NJ	\$ 375	\$ 300	\$ 94	\$ 225	\$ 319	128.4	87.4	68%	\$ 217
St. Louis, MO	\$ 556	\$ 351	\$ 139	\$ 263	\$ 402	94.4	87.4	93%	\$ 372
Staten Island, NY	\$ 450	\$ 425	\$ 113	\$ 319	\$ 432	151.4	87.4	58%	\$ 249
Sugar Land, TX	\$ 450	\$ 400	\$ 113	\$ 300	\$ 413	99.0	87.4	88%	\$ 365
Tampa, FL	\$ 385	\$ 290	\$ 96	\$ 218	\$ 314	92.9	87.4	94%	\$ 295
Tempe, AZ	\$ 380	\$ 240	\$ 95	\$ 180	\$ 275	97.3	87.4	90%	\$ 247
The Woodlands, TX	\$ 600	\$ 600	\$ 150	\$ 450	\$ 600	95.0	87.4	92%	\$ 552
Tucker, GA	\$ 350	\$ 300	\$ 88	\$ 225	\$ 313	93.5	87.4	93%	\$ 292
Tucson, AZ	\$ 400	\$ 343	\$ 100	\$ 257	\$ 357	96.4	87.4	91%	\$ 324
Upper Marlboro, MD	\$ 425	\$ 380	\$ 106	\$ 285	\$ 391	111.3	87.4	79%	\$ 307
Ventura, CA	\$ 350	\$ 235	\$ 88	\$ 176	\$ 264	131.0	87.4	67%	\$ 176
Wantagh, NY	\$ 595	\$ 415	\$ 149	\$ 311	\$ 460	129.2	87.4	68%	\$ 311
Washington, DC	\$ 781	\$ 510	\$ 195	\$ 382	\$ 577	141.6	87.4	62%	\$ 356
Wayne, NJ	\$ 425	\$ 375	\$ 106	\$ 281	\$ 387	128.4	87.4	68%	\$ 263
West Orange, NJ	\$ 563	\$ 275	\$ 141	\$ 206	\$ 347	128.4	87.4	68%	\$ 236
West Palm Beach, TX	\$ 425	\$ 425	\$ 106	\$ 319	\$ 425	90.1	87.4	97%	\$ 412
Wheaton, IL	\$ 405	\$ 350	\$ 101	\$ 263	\$ 364	117.4	87.4	74%	\$ 271
White Plains, NY	\$ 463	\$ 354	\$ 116	\$ 266	\$ 382	151.4	87.4	58%	\$ 220
Wilmette, IL	\$ 450	\$ 395	\$ 113	\$ 296	\$ 409	117.4	87.4	74%	\$ 304
Wilmington, DE	\$ 703	\$ 359	\$ 176	\$ 269	\$ 445	108.4	87.4	81%	\$ 359
Winston-Salem, NC	\$ 525	\$ 375	\$ 131	\$ 281	\$ 412	87.9	87.4	99%	\$ 410
Woodland Hills, CA	\$ 625	\$ 485	\$ 156	\$ 364	\$ 520	131.0	87.4	67%	\$ 347
York, PA	\$ 345	\$ 235	\$ 86	\$ 176	\$ 262	98.9	87.4	88%	\$ 232
2017 Overall Average Billing Rate									\$ 270

Note A: National Law Journal 2017 Billing Survey

Note B: Cost of Living Index, Source Council for Community and Economic Research

Note C: U.S. Bureau of Labor Statistics (<https://data.bls.gov/cgi-bin/surveymost>)

Indiana-American Water Company
Billing Rates of U.S. Management Consultants

Survey billing rates in effect in 2016 (Note A)

A. Calculation of Average Hourly Billing Rate by Consultant Position

		Average Hourly Rates (Note A)				
		Analyst Consultant	Associate	Sr. Assoc/ Manager	Principal	Partner
Average		\$ 206	\$ 234	\$ 288	\$ 438	\$ 523

B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement

		Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner		
Average Hourly Billing Rate (from above)		\$ 206	\$ 234	\$ 288	\$ 438	\$ 523		
Percent of Consulting Assignment		30%	30%	25%	10%	5%	Weighted Average	
		\$ 62	\$ 70	\$ 72	\$ 44	\$ 26	\$ 274	

Average Hourly Billing Rate For Management Consultants During 2016 **\$ 274**

Escalation to Test Period Midpoint (June 30, 2017)

CPI at December 31, 2016	241.4
CPI at June 30, 2017	245.0
Inflation/Escalation (Note B)	1.5%
Average Hourly Billing Rate For Management Consultants at June 30, 2017	\$ 278

Note A: Source is ALM Intelligence

Note B: Source is U.S. Bureau of Labor Statistics (<https://data.bls.gov/cgi-bin/surveymost>)



Indiana-American Water Company
Billing Rates of Indiana Certified Public Accountants

A. Calculation of Average Hourly Billing Rate by Public Accounting Position				
Survey billing rates were those in effect in 2015 (Note A)				
	Average Hourly Billing Rate (Note A)			
	Staff Accountant	Senior Accountant	Manager	Partner
Average Hourly Billing Rate by CPA Firm Position	\$ 91	\$ 116	\$ 161	\$ 208
Percent of Accounting Assignment	30%	30%	20%	20%
	\$ 27	\$ 35	\$ 32	\$ 42
				\$ 136
				Weighted Average
	<u>Escalation to Test Period Midpoint (June 30, 2017)</u>			
				CPI at December 31, 2015 236.5
				CPI at June 30, 2017 245.0
				Inflation/Escalation (Note B) 3.6%
				Average Hourly Billing Rate for Indiana CPAs at June 30, 2017 \$ 141

Note A: Source is AICPA's 2016 National PCPS Management of an Accounting Practice Survey (Indiana edition)

Note B: Source is U.S. Bureau of Labor Statistics (<http://data.bls.gov/cgi-bin/surveymost>)

Indiana-American Water Company
Billing Rates of Technology and Innovation Professionals

A. Calculation of Average Hourly Billing Rate by Information Technology Position
 Survey billing rates were those in effect in 2016/2017 (Note A)

		Average Hourly Billing Rate (Note A)				
		Contractor Positions		Consultant Positions		
		Developer, Analyst	Proj Mgr, Architect	Associate	Manager	Partner
Average Hourly Billing Rate by IT Position Category		\$ 85	\$ 115	\$ 218	\$ 323	\$ 406
Percent of IT Assignment		25%	25%	25%	15%	10%
		\$ 21	\$ 29	\$ 55	\$ 48	\$ 41
	Weighted Average	\$ 194				

Note A: Source is ALM Intelligence and American Water Service Company information

**Indiana-American Water Company
Billing Rates of Indiana Engineers**

A. Calculation of Average 2017 Hourly Rate by Engineer Position (Note A)				
Name of Firm	Average Hourly Billing Rates			
	Technician	Engineer	Project Manager	Officer
	Senior Technician	Design Engineer Project Engineer	Sr. Mgr. Engineer	Principal Engineer
Firm #1	\$98	\$108	\$173	\$226
Firm #2	\$80	\$98	\$123	\$165
Firm #3	\$124	\$143	\$224	\$297
Firm #4	\$112	\$147	\$188	NA
Firm #5	\$85	\$150	\$210	NA
Firm #6	\$100	\$123	\$169	\$185
Firm #7	\$143	\$139	\$197	\$244
Firm #8	\$82	\$124	\$173	\$268
Firm #9	\$120	\$133	\$155	\$201
Firm #10	\$99	\$120	\$175	NA
Firm #11	\$78	\$138	\$153	\$275

B. Calculation of Overall Average Engineering Hourly Billing Rate					
	Technician	Engineer	Project Manager	Officer	Weighted Average
	Senior Technician	Design Engineer Project Engineer	Sr. Mgr. Engineer	Principal Engineer	
Average Hourly Billing Rate (From Above)	\$102	\$129	\$176	\$233	
American Water Svc Co. Engineering Complement	13%	31%	46%	10%	
	\$13	\$40	\$80	\$24	\$158

Note A: Source is American Water Service Company Information

Service Company versus Outside Provider Cost Comparison

As shown in the table below, Service Company costs per hour are considerably lower than those of outside providers.

Service Provider	2017		
	Service Company	Outside Provider	Difference-- Service Co. Greater(Less) Than Outside
Attorney	\$ 229	\$ 270	\$ (41)
Management Consultant	\$ 188	\$ 278	\$ (90)
Certified Public Accountant	\$ 100	\$ 141	\$ (41)
T&I Professional	\$ 127	\$ 194	\$ (67)
Professional Engineer	\$ 117	\$ 158	\$ (41)

Based on these cost-per-hour differentials and the number of managerial and professional services hours billed to IAWC during 2017, outside service providers would have cost \$5,643,554 more than the Service Company (see table below). Thus, on average, outside providers' hourly rates are 45% higher than those of the Service Company (\$5,643,554 / \$12,595,595).

Service Provider	2017		
	Hourly Rate Difference-- Service Co. Greater(Less) Than Outside	Service Company Hours Charged	Dollar Difference
Attorney	\$ (41)	3,732	\$ (153,029)
Management Consultant	\$ (90)	21,511	\$ (1,935,955)
Certified Public Accountant	\$ (41)	29,962	\$ (1,228,462)
T&I Professional	\$ (67)	30,046	\$ (2,013,108)
Professional Engineer	\$ (41)	7,634	\$ (313,001)
Service Company Less Than Outside Providers			\$ (5,643,554)

It should be noted that the cost differential associated with using outside providers is even greater because exempt Service Company personnel do not charge more than 8 hours per day even when they work more. Outside providers generally charge clients for all hours worked. Thus, IAWC would have been charged by outside providers for overtime worked by Service Company personnel who are not paid for that time.

If IAWC were to use outside service providers rather than the Service Company for managerial and professional services, it would incur other additional expenses besides those associated with higher hourly rates. Managing outside firms who would perform almost 93,000 hours of work (around 62 full-time equivalents at 1,500 "billable" hours per FTE per year) would add a significant workload to the existing IAWC management team. Thus, it would be necessary for IAWC to add at least two positions to supervise the outside firms and ensure they deliver quality and timely services. The individuals who would fill this position would need a good understanding of each profession being managed. The persons must also have management experience and the authority necessary to provide credibility with the outside firms. As calculated in the table below, these positions would add around \$350,000 per year to IAWC's personnel expenses

V – Question 2 – Provision of Services at the Lower of Cost or Market

Cost of Adding 2 Professional Positions To
Indiana American Water Company's Staff

	Total
Senior Manager Position Salary	\$ 120,000
Benefits (at 31%)	\$ 37,200
Office Expenses (15%)	\$ 18,000
Total Cost per Position	\$ 175,200
Number of Positions Required	2
Total Cost of Added IAWC Staff	\$ 350,400

Thus, the total effect on the customers of IAWC of contracting all services now provided by Service Company would be an increase in their costs of \$5,993,954 (\$5,643,554 + \$350,400). Based on the results of this comparison, it is possible to conclude that the Service Company charged IAWC at the lower of cost or market for services provided during 2017.

VI - Question 3 - Reasonableness of Customer Accounts Services Costs

Background

Customer Accounts Services involve the processes that occur from the time meter-read data is recorded in the customer information system through the printing and mailing of bills, concluding with the collection and processing of customer payments. Customer Accounts Services are accomplished by the following utility functions:

- Customer Call Center Operations – customer calls/contact, credit, order taking/disposition, bill collection efforts and outage calls
- Customer Call Center Maintenance – support of phone banks, voice recognition units, call center software applications and telecommunications
- Customer billing – bill printing, stuffing and mailing
- Remittance processing – processing customer payments received in the mail
- Bill payment centers – processing customer payments at locations where customers can pay their bills in person

Neighboring electric utility cost information comes from the FERC Form 1 that each utility subject to FERC regulation must file. FERC’s chart of accounts is defined in Chapter 18, Part 101 of the Code of Federal Regulations. FERC accounts that contain expenses related to customer accounts services are Account 903 Customer Accounts Expense – Records and Collection Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense. Exhibit 11 provides FERC’s definition of the type of expenses that should be recorded in these accounts.

In addition to the charges in these FERC accounts, labor-related overhead charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905:

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer’s portion of FICA)

Comparison Group

Electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1 reports show amounts for accounts 903 and 905.

Indiana	<ul style="list-style-type: none"> • Duke Energy Indiana • Indiana Michigan Power • Indianapolis Power & Light 	<ul style="list-style-type: none"> • NIPSCO • Vectren
Illinois	<ul style="list-style-type: none"> • Ameren Illinois • Commonwealth Edison 	<ul style="list-style-type: none"> • MidAmerica Energy
Michigan	<ul style="list-style-type: none"> • Consumers Energy • DTE Energy • NSP Wisconsin 	<ul style="list-style-type: none"> • Upper Peninsula Power • Wisconsin Electric
Ohio	<ul style="list-style-type: none"> • Cleveland Elect Illuminating • Dayton Power & Light • Duke Energy Ohio 	<ul style="list-style-type: none"> • Ohio Edison • Ohio Power • Toledo Edison
Kentucky	<ul style="list-style-type: none"> • Duke Energy Kentucky • Kentucky Power 	<ul style="list-style-type: none"> • Kentucky Utilities • Louisville Gas & Electric

Indiana-American Water Company
FERC Account Descriptions

903 – Customer Records and Collection Expenses

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

905 – Miscellaneous Customer Accounts Expenses

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

VI - Question 3 - Reasonableness of Customer Accounts Services Costs

IAWC's Cost per Customer

As calculated below, IAWC's customer accounts services expense per customer was \$27.85 for 2017. The cost pool used to calculate this average includes charges for Service Company services (e.g., call center, billing, payment processing) and postage and forms expenses, which are incurred directly by IAWC. It is necessary to adjust the Service Company's National Call Center charges because electric utilities experience an average of 2.50 calls per customer compared to American Water's 1.06 calls per customer during 2017. Thus, National Call Center expenses had to be increased, for comparison purposes, to reflect its costs if it had had 2.50 calls per customer.

Indiana American Water Company		Service Co	Adjustment	
Cost Component		Charges	Fewer Calls For Water Cos. (A)	Adjusted
Service Company	Call Centers	\$4,382,119	\$ 2,108,639	\$ 6,490,759
Service Company	Customer payment processing (B)			\$ 289,844
Operating Company	Postage & forms			\$ 1,652,126
Cost Pool Total				\$ 8,432,728
Total Customers				302,830
2017 Customer Account Services Cost Per Indiana American Customer				\$ 27.85
Note A: Adjustment for American Water's fewer calls per customer (this adjustment is necessary because water utilities experience fewer calls per customer than do electric utilities)				
	Test year Call Handling charges	\$1,553,233		
	Electric utility industry's avg calls/customer	2.50		
	American Water's avg calls/customer	1.06		
	Percent different	136%	136%	
	Total Adjustment B		\$2,108,639	
Note B: Estimated customer payment processing expenses				
	Number of customers	302,830		
	Number of payments/customer/year	11.9		
	Total payments processed/year	3,603,677		
	Bank charge per item	\$ 0.0804		
	Total estimated annual expense	\$ 289,844		

Electric Utility Group Cost per Customer

Exhibit 12 (pages 32-35) shows the calculation of customer accounts expense per customer for 2016 for the electric utility comparison group. All of the underlying data was taken from the utilities' FERC Form 1.

Indiana-American Water Company
Comparison Group 2017 Customer Accounts Expense Per Customer

	Indiana					Illinois
	Duke Energy Indiana	Indiana Michigan Pwr	Indianapolis Pwr & Light	NIPSCO	Vectren	Ameren Illinois
Customer Account Services Cost Pool						
FERC Account Balances:						
Account 903 - Customer Records & Collection (page 322, line 161)	\$ 20,898,514	\$ 12,792,694	\$ 10,007,128	\$ 11,680,019	\$ 2,490,864	\$ 28,010,663
Account 905 - Misc Customer Accounts (page 322, line 163)	\$ 2,626	\$ 65,601	\$ 65,537	\$ -	\$ 275,436	\$ 188,492
Subtotal	\$ 20,901,140	\$ 12,858,295	\$ 10,072,665	\$ 11,680,019	\$ 2,766,300	\$ 28,199,155
Add: Employee Benefits & Employer FICA (not included in above amounts)						
Account 926 - Employee Pension & Benefits (Note A)	\$ 1,222,035	\$ 488,267	\$ 1,548,756	\$ 1,399,590	\$ 769	\$ 1,324,971
Account 408 - Taxes Other Than Income (Employer's Portion of FICA) (Note B)	\$ 569,472	\$ 237,982	\$ 396,287	\$ 547,085	\$ 91,481	\$ 830,085
Total Cost Pool	\$ 22,692,646	\$ 13,584,544	\$ 12,017,708	\$ 13,626,694	\$ 2,858,550	\$ 30,354,211
Total Customers (page 304, line 43)	819,569	591,984	489,601	467,780	149,213	1,221,130
Customer Account Services Expense per Customer	\$ 27.69	\$ 22.95	\$ 24.55	\$ 29.13	\$ 19.16	\$ 24.86
Note A: Pension & Benefits Pertaining to Customer Acct Services						
Account 926 - Employee Pension & Benefits (page 323, line 187)	\$ 32,170,369	\$ 26,450,155	\$ 33,440,233	\$ 33,135,893	\$ 24,191	\$ 32,625,050
Total O&M Payroll (page 355, line 65)	\$ 195,967,095	\$ 168,521,167	\$ 111,849,669	\$ 169,313,472	\$ 37,622,927	\$ 267,181,072
Benefits as Percent of Payroll	16.4%	15.7%	29.9%	19.6%	0.1%	12.2%
Payroll Applicable to Customer Account Services						
Total Payroll Charged to Customer Accounts Function						
Electric (page 354, line 7)	\$ 10,350,655	\$ 3,320,710	\$ 7,689,795	\$ 7,969,150	\$ 1,767,037	\$ 15,406,460
Percent Applicable to Customer Accounts Services (903 and 905):						
Account 903 - Customer Records & Collection (page 322, line 161)	\$ 20,898,514	\$ 12,792,694	\$ 10,007,128	\$ 11,680,019	\$ 2,490,864	\$ 28,010,663
Account 905 - Misc Customer Accounts (page 322, line 163)	\$ 2,626	\$ 65,601	\$ 65,537	\$ -	\$ 275,436	\$ 188,492
Subtotal - Total Charges Applicable to Customer Accounts Services	\$ 20,901,140	\$ 12,858,295	\$ 10,072,665	\$ 11,680,019	\$ 2,766,300	\$ 28,199,155
Account 902 - Meter Reading Expenses (page 322, line 160)	\$ 8,160,971	\$ 867,290	\$ 4,879,727	\$ 1,335,513	\$ 1,321,348	\$ 11,839,366
Total Charges Applicable to Customer Accounts Svcs & Meter Reading	\$ 29,062,111	\$ 13,725,585	\$ 14,952,392	\$ 13,015,532	\$ 4,087,648	\$ 40,038,521
Percent Applicable to Customer Accounts Services (903 and 905)	71.9%	93.7%	67.4%	89.7%	67.7%	70.4%
Customer Account Services Portion of Total Payroll	\$ 7,444,073	\$ 3,110,882	\$ 5,180,223	\$ 7,151,442	\$ 1,195,835	\$ 10,850,779
Pension & Benefits Pertaining to Customer Accounts Services	\$ 1,222,035	\$ 488,267	\$ 1,548,756	\$ 1,399,590	\$ 769	\$ 1,324,971
Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Svcs						
Customer Account Services Portion of Total Payroll	\$ 7,444,073	\$ 3,110,882	\$ 5,180,223	\$ 7,151,442	\$ 1,195,835	\$ 10,850,779
Employer's Portion of FICA (6.20%) and Medicare (1.45%)	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA	\$ 569,472	\$ 237,982	\$ 396,287	\$ 547,085	\$ 91,481	\$ 830,085

Indiana-American Water Company
Comparison Group 2017 Customer Accounts Expense Per Customer

	Illinois (cont.)		Michigan			
	Com Edison	MidAmerica Energy	Consumers Energy	DTE Energy	NSP Wisconsin	Upper Peninsula Pwr
Customer Account Services Cost Pool						
FERC Account Balances:						
Account 903 - Customer Records & Collection (page 322, line 161)	\$ 150,278,223	\$ 15,583,671	\$ 30,182,678	\$ 75,945,089	\$ 3,677,359	\$ 1,261,067
Account 905 - Misc Customer Accounts (page 322, line 163)	\$ -	\$ 291,125	\$ 13,732	\$ 39,098,951	\$ 687,225	\$ -
Subtotal	\$ 150,278,223	\$ 15,874,796	\$ 30,196,410	\$ 115,044,040	\$ 4,364,584	\$ 1,261,067
Add: Employee Benefits & Employer FICA (not included in above amounts)						
Account 926 - Employee Pension & Benefits (Note A)	\$ 30,919,546	\$ 1,189,268	\$ 1,542,938	\$ 10,832,072	\$ 395,313	\$ 316,094
Account 408 - Taxes Other Than Income (Employer's Portion of FICA) (Note B)	\$ 6,016,477	\$ 945,362	\$ 1,402,825	\$ 2,991,284	\$ 116,858	\$ 78,895
Total Cost Pool	\$ 187,214,245	\$ 18,009,426	\$ 33,142,173	\$ 128,867,396	\$ 4,876,755	\$ 1,656,056
Total Customers (page 304, line 43)	4,006,465	770,330	1,815,064	2,181,941	257,668	52,165
Customer Account Services Expense per Customer	\$ 46.73	\$ 23.38	\$ 18.26	\$ 59.06	\$ 18.93	\$ 31.75
Note A: Pension & Benefits Pertaining to Customer Acct Services						
Account 926 - Employee Pension & Benefits (page 323, line 187)	\$ 136,896,648	\$ 20,343,997	\$ 40,598,247	\$ 163,635,979	\$ 15,007,336	\$ 3,898,427
Total O&M Payroll (page 355, line 65)	\$ 348,209,409	\$ 211,394,236	\$ 482,504,175	\$ 590,695,166	\$ 57,990,887	\$ 12,719,325
Benefits as Percent of Payroll	39.3%	9.6%	8.4%	27.7%	25.9%	30.6%
Payroll Applicable to Customer Account Services						
Total Payroll Charged to Customer Accounts Function						
Electric (page 354, line 7)	\$ 99,050,496	\$ 16,060,516	\$ 23,721,325	\$ 40,254,420	\$ 2,187,479	\$ 1,766,038
Percent Applicable to Customer Accounts Services (903 and 905):						
Account 903 - Customer Records & Collection (page 322, line 161)	\$ 150,278,223	\$ 15,583,671	\$ 30,182,678	\$ 75,945,089	\$ 3,677,359	\$ 1,261,067
Account 905 - Misc Customer Accounts (page 322, line 163)	\$ -	\$ 291,125	\$ 13,732	\$ 39,098,951	\$ 687,225	\$ -
Subtotal - Total Charges Applicable to Customer Accounts Services	\$ 150,278,223	\$ 15,874,796	\$ 30,196,410	\$ 115,044,040	\$ 4,364,584	\$ 1,261,067
Account 902 - Meter Reading Expenses (page 322, line 160)	\$ 38,987,477	\$ 4,756,711	\$ 8,865,373	\$ 3,391,361	\$ 1,885,552	\$ 898,406
Total Charges Applicable to Customer Accounts Svcs & Meter Reading	\$ 189,265,700	\$ 20,631,507	\$ 39,061,783	\$ 118,435,401	\$ 6,250,136	\$ 2,159,473
Percent Applicable to Customer Accounts Services (903 and 905)	79.4%	76.9%	77.3%	97.1%	69.8%	58.4%
Customer Account Services Portion of Total Payroll	\$ 78,646,752	\$ 12,357,673	\$ 18,337,587	\$ 39,101,747	\$ 1,527,556	\$ 1,031,313
Pension & Benefits Pertaining to Customer Accounts Services	\$ 30,919,546	\$ 1,189,268	\$ 1,542,938	\$ 10,832,072	\$ 395,313	\$ 316,094
Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Svcs						
Customer Account Services Portion of Total Payroll	\$ 78,646,752	\$ 12,357,673	\$ 18,337,587	\$ 39,101,747	\$ 1,527,556	\$ 1,031,313
Employer's Portion of FICA (6.20%) and Medicare (1.45%)	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA	\$ 6,016,477	\$ 945,362	\$ 1,402,825	\$ 2,991,284	\$ 116,858	\$ 78,895

**Indiana-American Water Company
Comparison Group 2017 Customer Accounts Expense Per Customer**

	Michigan (cont.)	Ohio				
	Wisconsin Electric	Cleveland Electric Illum.	Dayton Power & Light	Duke Energy Ohio	Ohio Edison	Ohio Power
Customer Account Services Cost Pool						
FERC Account Balances:						
Account 903 - Customer Records & Collection (page 322, line 161)	\$ 17,406,982	\$ 7,691,842	\$ 6,935,866	\$ 18,633,366	\$ 11,788,080	\$ 38,632,003
Account 905 - Misc Customer Accounts (page 322, line 163)	\$ 221,940	\$ 781,889	\$ -	\$ 2,280	\$ 1,203,640	\$ 206,025
Subtotal	\$ 17,628,922	\$ 8,473,731	\$ 6,935,866	\$ 18,635,646	\$ 12,991,720	\$ 38,838,028
Add: Employee Benefits & Employer FICA (not included in above amounts)						
Account 926 - Employee Pension & Benefits (Note A)	\$ 1,807,766	\$ 1,835,869	\$ 1,547,700	\$ 1,343,370	\$ 1,537,608	\$ 1,680,144
Account 408 - Taxes Other Than Income (Employer's Portion of FICA) (Note B)	\$ 532,249	\$ 243,011	\$ 356,437	\$ 758,714	\$ 400,697	\$ 764,564
Total Cost Pool	\$ 19,968,937	\$ 10,552,611	\$ 8,840,003	\$ 20,737,730	\$ 14,930,024	\$ 41,282,736
Total Customers (page 304, line 43)	1,122,771	750,660	261,210	712,328	1,046,760	1,472,768
Customer Account Services Expense per Customer	\$ 17.79	\$ 14.06	\$ 33.84	\$ 29.11	\$ 14.26	\$ 28.03
Note A: Pension & Benefits Pertaining to Customer Acct Services						
Account 926 - Employee Pension & Benefits (page 323, line 187)	\$ 57,945,668	\$ 18,058,539	\$ 24,324,441	\$ 13,131,784	\$ 11,127,451	\$ 11,965,703
Total O&M Payroll (page 355, line 65)	\$ 223,013,923	\$ 31,246,775	\$ 73,228,130	\$ 96,949,247	\$ 37,905,688	\$ 71,177,757
Benefits as Percent of Payroll	26.0%	57.8%	33.2%	13.5%	29.4%	16.8%
Payroll Applicable to Customer Account Services						
Total Payroll Charged to Customer Accounts Function						
Electric (page 354, line 7)	\$ 8,153,285	\$ 5,348,713	\$ 6,990,311	\$ 10,313,745	\$ 8,933,702	\$ 11,719,416
Percent Applicable to Customer Accounts Services (903 and 905):						
Account 903 - Customer Records & Collection (page 322, line 161)	\$ 17,406,982	\$ 7,691,842	\$ 6,935,866	\$ 18,633,366	\$ 11,788,080	\$ 38,632,003
Account 905 - Misc Customer Accounts (page 322, line 163)	\$ 221,940	\$ 781,889	\$ -	\$ 2,280	\$ 1,203,640	\$ 206,025
Subtotal - Total Charges Applicable to Customer Accounts Services	\$ 17,628,922	\$ 8,473,731	\$ 6,935,866	\$ 18,635,646	\$ 12,991,720	\$ 38,838,028
Account 902 - Meter Reading Expenses (page 322, line 160)	\$ 3,029,881	\$ 5,794,155	\$ 3,469,931	\$ 743,936	\$ 9,166,961	\$ 6,703,812
Total Charges Applicable to Customer Accounts Svcs & Meter Reading	\$ 20,658,803	\$ 14,267,886	\$ 10,405,797	\$ 19,379,582	\$ 22,158,681	\$ 45,541,840
Percent Applicable to Customer Accounts Services (903 and 905)	85.3%	59.4%	66.7%	96.2%	58.6%	85.3%
Customer Account Services Portion of Total Payroll	\$ 6,957,500	\$ 3,176,613	\$ 4,659,313	\$ 9,917,825	\$ 5,237,864	\$ 9,994,304
Pension & Benefits Pertaining to Customer Accounts Services	\$ 1,807,766	\$ 1,835,869	\$ 1,547,700	\$ 1,343,370	\$ 1,537,608	\$ 1,680,144
Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Svcs						
Customer Account Services Portion of Total Payroll	\$ 6,957,500	\$ 3,176,613	\$ 4,659,313	\$ 9,917,825	\$ 5,237,864	\$ 9,994,304
Employer's Portion of FICA (6.20%) and Medicare (1.45%)	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA	\$ 532,249	\$ 243,011	\$ 356,437	\$ 758,714	\$ 400,697	\$ 764,564

**Indiana-American Water Company
Comparison Group 2017 Customer Accounts Expense Per Customer**

	Ohio (cont.)	Kentucky				Group Average
	Toledo Edison	Duke Energy Kentucky	Kentucky Power	Kentucky Utilities	Louisville Gas & Electric	
Customer Account Services Cost Pool						
FERC Account Balances:						
Account 903 - Customer Records & Collection (page 322, line 161)	\$ 4,533,970	\$ 4,302,161	\$ 5,319,350	\$ 19,507,799	\$ 7,045,154	
Account 905 - Misc Customer Accounts (page 322, line 163)	\$ 352,255	\$ 451	\$ 20,074	\$ 2,764	\$ 3,309	
Subtotal	\$ 4,886,225	\$ 4,302,612	\$ 5,339,424	\$ 19,510,563	\$ 7,048,463	
Add: Employee Benefits & Employer FICA (not included in above amounts)						
Account 926 - Employee Pension & Benefits (Note A)	\$ 557,473	\$ 378,166	\$ 179,014	\$ 3,237,040	\$ 810,962	
Account 408 - Taxes Other Than Income (Employer's Portion of FICA) (Note B)	\$ 158,782	\$ 175,227	\$ 93,811	\$ 746,470	\$ 249,547	
Total Cost Pool	\$ 5,602,480	\$ 4,856,006	\$ 5,612,249	\$ 23,494,073	\$ 8,108,971	\$ 632,886,226
Total Customers (page 304, line 43)	310,305	141,274	167,599	550,636	408,738	19,767,959
Customer Account Services Expense per Customer	\$ 18.05	\$ 34.37	\$ 33.49	\$ 42.67	\$ 19.84	\$ 32.02
Note A: Pension & Benefits Pertaining to Customer Acct Services						
Account 926 - Employee Pension & Benefits (page 323, line 187)	\$ 3,371,421	\$ 6,033,202	\$ 3,796,598	\$ 35,113,462	\$ 23,052,071	
Total O&M Payroll (page 355, line 65)	\$ 12,552,437	\$ 36,543,135	\$ 26,007,537	\$ 105,846,521	\$ 92,725,636	
Benefits as Percent of Payroll	26.9%	16.5%	14.6%	33.2%	24.9%	
Payroll Applicable to Customer Account Services						
Total Payroll Charged to Customer Accounts Function						
Electric (page 354, line 7)	\$ 3,171,163	\$ 2,771,485	\$ 1,315,805	\$ 12,318,503	\$ 4,377,588	
Percent Applicable to Customer Accounts Services (903 and 905):						
Account 903 - Customer Records & Collection (page 322, line 161)	\$ 4,533,970	\$ 4,302,161	\$ 5,319,350	\$ 19,507,799	\$ 7,045,154	
Account 905 - Misc Customer Accounts (page 322, line 163)	\$ 352,255	\$ 451	\$ 20,074	\$ 2,764	\$ 3,309	
Subtotal - Total Charges Applicable to Customer Accounts Services	\$ 4,886,225	\$ 4,302,612	\$ 5,339,424	\$ 19,510,563	\$ 7,048,463	
Account 902 - Meter Reading Expenses (page 322, line 160)	\$ 2,579,173	\$ 903,386	\$ 389,782	\$ 5,120,136	\$ 2,410,404	
Total Charges Applicable to Customer Accounts Svcs & Meter Reading	\$ 7,465,398	\$ 5,205,998	\$ 5,729,206	\$ 24,630,699	\$ 9,458,867	
Percent Applicable to Customer Accounts Services (903 and 905)	65.5%	82.6%	93.2%	79.2%	74.5%	
Customer Account Services Portion of Total Payroll	\$ 2,075,578	\$ 2,290,555	\$ 1,226,285	\$ 9,757,779	\$ 3,262,047	
Pension & Benefits Pertaining to Customer Accounts Services	\$ 557,473	\$ 378,166	\$ 179,014	\$ 3,237,040	\$ 810,962	
Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Svcs						
Customer Account Services Portion of Total Payroll	\$ 2,075,578	\$ 2,290,555	\$ 1,226,285	\$ 9,757,779	\$ 3,262,047	
Employer's Portion of FICA (6.20%) and Medicare (1.45%)	7.65%	7.65%	7.65%	7.65%	7.65%	
Estimated Employer's Portion of FICA	\$ 158,782	\$ 175,227	\$ 93,811	\$ 746,470	\$ 249,547	

Summary of Results

As shown in the table below, IAWC's cost per customer is below than the 2017 average cost of the neighboring electric utility comparison group. It can be concluded that IAWC's 2017 customer accounts expenses, including those of the Alton and Pensacola Call Centers, assigned by the Service Company to IAWC are comparable to those of other utilities.

Customer Account Services Expenses Per Customer	
DTE Energy	\$ 59.06
Commonwealth Edison	\$ 46.73
Kentucky Utilities	\$ 42.67
Duke Energy - Kentucky	\$ 34.37
Dayton Power	\$ 33.84
Kentucky Power	\$ 33.49
Comparison Group Average	\$ 32.02
Upper Peninsula Power	\$ 31.75
NIPSCO	\$ 29.13
Duke Energy - Ohio	\$ 29.11
Ohio Power	\$ 28.03
Indiana American Water	\$ 27.85
Duke Energy - Indiana	\$ 27.69
Ameren - Illinois	\$ 24.86
Indianapolis Power & Light	\$ 24.55
MidAmerica - Energy	\$ 23.38
Indiana Michigan Power	\$ 22.95
Louisville Power	\$ 19.84
Vectren	\$ 19.16
NSP Wisconsin	\$ 18.93
Consumers Energy	\$ 18.26
Toledo Edison	\$ 18.05
Wisconsin Electric	\$ 17.79
Ohio Edison	\$ 14.26
Cleveland Electric Illuminating	\$ 14.06

Analysis of Services

The final aspect of this study is an assessment of whether the services provided to IAWC by the Service Company would be necessary if IAWC were a stand-alone water utility. The first step in this evaluation was to determine specifically what the Service Company does for IAWC. Based on discussions with Service Company personnel, the matrix in Exhibit 13 (pages 40-42) was created showing which entity— IAWC or a Service Company location—is responsible for each of the functions IAWC requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there was redundancy or overlap in the services being provided by the Service Company and (2) if Service Company services are typical of those needed by a stand-alone water utility.

Upon review of Exhibit 13, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and would be required even if IAWC were a stand-alone water utility.
- There is no redundancy or overlap in the services provided by the Service Company to IAWC. For all of the services listed in Exhibit 13, there was only one entity that was primarily responsible for the service.

**Indiana-American Water Company
Designation of Responsibility for Water Utility Functions**

Water Company Function	IAWC	Performed By:				
		American Water Service Company				
		Customer Call Center	Midwest	Central Services	T&I Service Centers	Central Lab
Engineering and Construction Management						
CPS Preparation	P			S		
Five-Year System Planning	P			S		
Engineering Standards & Policies Development				P		
Project Design						
Major Projects (e.g., new treatment plant)	P			S		
Special Projects	P			S		
Minor Projects (e.g., pipelines)	P					
Construction Project Management						
Major Projects	P			S		
Special Projects	P					
Minor Projects	P					
Hydraulics Review	P					
Developers Extensions	P					
Tank Painting	P					
Water Quality and Purification						
Water Quality Standards Development	P (1)			P (1)		S
Research Studies	S			P		S
Water Quality Program Implementation	P			S		S
Water Treatment Operations & Maintenance	P			S		
Compliance Sampling	P					S
Testing/Other Sampling	P					S
Transmission and Distribution						
Preventive Maintenance Program Development	P			S		
System Maintenance	P					
Leak Detection	P					
Customer Service						
Community Relations	P			S		
Customer Contact	P (2)	P (2)				
Call Processing	S	P				
Service Order Processing	P	S				
Customer Credit		P				
Meter Reading	P				S	
Customer Bill Preparation	S	S			P	
Bill Collection	S	P			S	
Customer Payment Processing	S			P	S	
Meter Standards Development	S			P		
Meter Testing, Maintenance & Replacement	P					
Note 1: IAWC responsible for State regulations, Central Services responsible for Federal regulations						
Note 2: IAWC provides in-person customer contact while Service Company call centers provide customer phone contact						

**Indiana-American Water Company
Designation of Responsibility for Water Utility Functions**

Water Company Function	IAWC	Performed By:				
		American Water Service Company				
		Customer Call Center	Midwest	Central Services	T&I Service Centers	Central Lab
Financial Management						
Financial Planning	P		S	S		
Financings--Equity	S		S	P		
Financings--Long Term Debt & Preferred (Note A)	S		S	P		
Short Term Lines of Credit Arrangements(Note A)	S		S	P		
Investor Relations			S	P		
Insurance Program Administration	S			P		
Loss Control/Safety Program Administration	P			S		
Pension Fund Asset Management				P		
Cash Management/Disbursements				P		
Internal Auditing				P		
Budgeting and Variance Reporting						
Corporate Guidelines & Instructions	S		S	P		
Budget Preparation						
Revenue and O&M	S		S	P		
Depreciation and Interest Expense	S		S	P		
Budget Preparation--Service Company Charges	S	S	S	P	S	S
Capital Budget Preparation—Projects	P		S	S		
Capital Budget Preparation—Non-Project Work	P		S	S		
Prepare Monthly Budget Variance Report	P		S	S		
(Budget/Plan Analysis)						
Prepare Capital Project Budget Status Report	P		S			
Year-End Projections	P		S			
Accounting and Taxes						
Accounts Payable Accounting	S			P		
Payroll Accounting	S			P		
Work Order Accounting	S		S	P		
Fixed Asset Accounting	S		S	P		
Journal Entry Preparations--Billing Corrections	S		S	P		
Journal Entry Preparation--All Others	S		S	P		
Financial Statement Preparation	S		S	P		
State Commission Reporting	S		S	P		
Income Taxes--State				P		
Income Taxes--Federal				P		
Property Taxes	S		S	P		
Gross Receipts (Town) Taxes	S		S	P		

Note A: Lines of credit are the responsibility of American Water Capital Corporation (AWCC). AWCC is also responsible for Corporate financings which may be distributed to the regulated subsidiaries. IAWC has the ability to issue LTD.

**Indiana-American Water Company
Designation of Responsibility for Water Utility Functions**

Water Company Function	IAWC	Performed By:				
		American Water Service Company				
		Customer Call Center	Midwest	Central Services	T&I Service Centers	Central Lab
Rates						
Rate Studies & Tariff Change Administration	S		S	P		
Rate Case Planning and Preparation	P		S	S		
Rate Case Administration	P		S	S		
Commission Inquiry Response	P		S	S		
Legal	P		S	S		
Purchasing and Materials Management – National (pipe, chemicals, meters, etc.)						
Specification Development	S			P		
Bid Solicitation	S			P		
Contract Administration	S			P		
Purchasing and Materials Management – State (state supplier service agreements)						
Specification Development	P			S		
Bid Solicitation	P					
Contract Administration	P					
Ordering	P					
Inventory Management	P					
Human Resources Management						
Benefit Program Development				P		
Benefits Program Administration			S	P		
Management Compensation Administration			S	P		
Wage & Salary Program Design			S	P		
Wage & Salary Administration	S		P	S		
Labor Negotiations--Wages	S		P			
Labor Negotiations--Benefits	S		P	S		
Labor Negotiations-- Work Rules	S		P			
Training Program Development	S		S	P		
Training--Course Delivery	S		P			
Affirmative Action/EEO--Plan Development			S	P		
Affirmative Action/EEO--Implementation	S		P			
Technology & Innovation Services						
Service Company Data Centers						
System Operations & Maintenance					P	
Software Maintenance					P	
Network Administration	S				P	
Workstation Acquisition & Support	P				S	
Help Desk	S				P	

Governance Practices Associated with Service Company Charges

There are several ways by which IAWC exercises control over Service Company services and charges. The most important of these are described below.

1. **IAWC Company Board Oversight** – The IAWC board of directors includes the IAWC's President, Vice President of Operations, Divisional CFO and external business and community leaders. This diverse board ensures that the needs IAWC and its customers are a consideration overseeing the delivery of Service Company services. The IAWC Board meets at a minimum of four times each year and at every meeting, financial and operational reports and issues are discussed at length. Besides the quarterly meetings, the Board is a resource IAWC's Leadership Team can call upon throughout the year.
2. **IAWC President Oversight** – IAWC's President is responsible for the overall performance of IAWC and, as such, monitors services and charges received from the Service Company. As a direct report to American Water's President of Regulated Operations, IAWC's President has a significant voice in major business decisions that impact the Service Company's quality and cost of services.
3. **Divisional CFO (CFO)** – The CFO and supporting staff are responsible for monitoring the overall financial performance of IAWC. This includes overseeing IAWC's financial reporting process, performing revenue and expense analysis, the annual budgeting process, and monitoring internal control performance. Every month, the Finance team performs a detailed expense analysis that includes Service Company charges. Actual and year-to-date actual performance is compared against budget and prior period actuals. The Finance team also reviews and investigates monthly Service Company charges based on the results of the team's analytical procedures in order to determine the appropriateness of the charges.
4. **Service Company Board Oversight** – The Service Company Board of Directors is comprised of 16 members who meet four times a year to oversee activities and bylaws of Service Company. The Board's primary responsibilities include:
 - a. Approve the Business Plan and Operating Budget
 - b. Review Financial Performance
 - c. Review performance metrics for certain functional groups
 - d. Approve American Water policies, procedures and practices as they relate to Service Company.
5. **Service Company Budget Review/Approval** – Several state-regulated water utility presidents serve on the Service Company board of directors. The board reviews and approves the Service Company's budget charges for the next year. The Service Company's overall budget is assigned to each operating company, which consolidates these charges with its own direct spending to arrive at a total operating company budget. This is presented to the operating company's board of directors (e.g., IAWC) for their approval.
6. **Major Project Review and Approval** – Before major Service Company non-capital projects are undertaken, they must be reviewed and approved by American Water's Executive Management Team, which includes the President of Regulated Operations. The President of Regulated Operations, with significant input from his direct reports, has the ability to affect all new initiatives and projects before they are authorized. Major non-capital projects and initiatives for the Service Company are approved through the Business Planning process. A 3-year technology roadmap of initiatives is developed from American Water's vision, strategy, operational objectives and key business programs. The alignment of these initiatives with enterprise goals is approved by the

VI - Question 4 – Need for Service Company Services

Executive Leadership Team and key business leaders from various operational and functional areas of American Water. The roadmap is updated annually to produce a rolling 3-year roadmap and investment plan.

7. **Capital Investment Management (CIM)** – CIM covers capital and asset planning and is employed throughout American Water, including the Service Company. CIM provides a full range of governance practices, including a formal protocol for assessing system needs, prioritizing capital expenditures, managing the capital program, approving project spending, delivering projects and measuring outputs. CIM ensures that:
 - a. Capital expenditure plans are aligned with the strategic intent of the business
 - b. The impact of capital expenditure and income plans are fully reflected in operating expense plans
 - c. The impacts of these plans on state operating company budgets and operating results are understood
 - d. Effective controls are in place over budgets (through business plans) and individual capital projects (through appropriate authorization thresholds, management and reporting processes).

The CIM process was designed to optimize the effectiveness of asset investment.

8. **Accounting and Financial Reporting** – The Service Company follows the same accounting and financial reporting processes as American Water's regulated utilities. At month-end, the Service Company's Finance team performs detailed expense analysis and variance analysis for monthly actual results (compared to budget and prior year actual results) and year-to-date actual results (compared to budget). Once this is complete, the Service Company bill is run and the actuals allocated and assigned to the state operating companies based on predetermined formulas. A review document is then created to explain expense variances that meet or exceed certain thresholds. IAWC's Finance personnel review the document on a monthly basis for accuracy and reasonableness and have the opportunity to inquire about expenses and spending levels to gain a better understanding of results. Any errors or overcharges are corrected on a subsequent billing.
9. **IAWC Company Budget Variance Analysis** – Each month a Service Company Affiliate Billing Analysis Report is prepared and provided to operating companies. This report allows each operating company to monitor its Service Company budget-versus-actual charges for the month and year-to-date.