

**FILED**  
**March 31, 2023**  
**INDIANA UTILITY**  
**REGULATORY COMMISSION**

**INDIANA-AMERICAN WATER COMPANY, INC.**

**DIRECT TESTIMONY**

**OF**

**PAT BARYENBRUCH**

**SPONSORING ATTACHMENTS PLB-1 AND PLB-2**

**March 31, 2023**

**DIRECT TESTIMONY  
OF  
PAT BARYENBRUCH**

**INTRODUCTION**

1

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

3 A. My name is Patrick L. Baryenbruch. I am the President of my own consulting practice,  
4 Baryenbruch & Company, LLC, which was established in 1985. In that capacity, I  
5 provide consulting services to utilities and their regulators. My business address is  
6 2832 Claremont Road, Raleigh, North Carolina 27608.

7 **Q. Summarize your academic and professional background.**

8 A. I received a Bachelor's degree in Accounting from the University of Wisconsin  
9 Oshkosh and a Master's in Business Administration degree from the University of  
10 Michigan. I am a member of the American Institute of Certified Public Accountants  
11 and the North Carolina Association of Certified Public Accountants.

12 I began my career with Arthur Andersen & Company, where I performed  
13 financial audits of utilities, banks and finance companies. I left to pursue an M.B.A.  
14 degree. Upon graduation from business school, I worked with the management  
15 consulting firms of Theodore Barry & Associates and Scott Consulting Group (now  
16 ScottMadden) before establishing my own firm.

17 **Q. Do you hold any professional certifications?**

18 A. Yes. I am a Certified Public Accountant ("CPA") with an active license from the states  
19 of Wisconsin and North Carolina. I am a Certified Information Technology  
20 Professional, an accreditation awarded by the American Institute of Certified Public

1 Accountants to CPA professionals who can demonstrate expertise in information  
2 technology management. I also hold a Global Information Assurance Certification in  
3 cybersecurity from the SANS Institute.

4 **Q. Have you provided testimony in other regulatory proceedings on the issue of**  
5 **utility/affiliate transactions?**

6 A. Yes. During my career, I have performed more than 130 evaluations of affiliate charges  
7 to 44 utility companies. I have acted as an expert witness on utility/affiliate charges in  
8 over 90 rate case proceedings before regulators in 20 states and one Canadian province.

9 **Q. What other work experience do you have with the utility industry?**

10 A. Much of my career has been spent as a management consultant for projects related to  
11 the utility industry. I have performed consulting assignments for more than 60 utilities  
12 and 10 public service commissions. I have participated as project manager, lead  
13 consultant or staff consultant for 24 commission-ordered management and prudence  
14 audits of public utilities. Of these, I have been responsible for evaluating the area of  
15 affiliate charges and allocation of corporate expenses in the commission-ordered audits  
16 of Connecticut Light and Power, Connecticut Natural Gas, General Water Corporation  
17 (now United Water Company), Philadelphia Suburban Water Company (now Aqua  
18 America), and Pacific Gas & Electric Company.

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

1 For 20 years, I was also heavily involved in providing consulting services  
2 related to information technology (IT) infrastructure within the utility industry. These  
3 projects involve improvements in IT business management practices of utility IT  
4 organizations, covering processes such as business planning, risk management,  
5 performance measurement and reporting, cost recovery, budgeting, cost management  
6 and personnel development. I acted as the project manager or a member of the project  
7 management team for 20 large-scale IT implementation projects involving more than  
8 800,000 hours of work and hundreds of utility client employees and contractor  
9 personnel.

10 **PURPOSE OF TESTIMONY**

11 **Q. Please describe the basis for your Direct Testimony in this case.**

12 A. I am presenting the results of my evaluation of the necessity of services provided by  
13 American Water Works Service Company, Inc. (“Service Company”) to Indiana-  
14 American Water Company, Inc. (“INAWC”) and the reasonableness of the associated  
15 charges during the 12 months ended September 30, 2022 (Base Year 2022 or BY 2022).

16 **Q. Are you sponsoring any Attachments in your testimony?**

17 A. Yes. I am sponsoring INAWC Attachment PLB-1, which presents my previous  
18 affiliate transaction-related assignments, and INAWC Attachment PLB-2, which is the  
19 Market to Cost Comparison of Service Company charges to INAWC during BY 2022.  
20 This study was undertaken in conjunction with INAWC’s rate case and the results are  
21 true to the best of my knowledge and belief.

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

2 A. This study was undertaken to answer the following four questions concerning the  
3 services provided by the Service Company to INAWC, each of which bears on the  
4 reasonableness of those charges as incurred during the historical period.

5 1. Were the Service Company's charges to INAWC during BY 2022 reasonable?

6 2. Was INAWC charged the lower of cost or market for managerial and  
7 professional services provided by the Service Company during BY 2022?

8 3. Were INAWC's BY 2022 costs of Service Company's customer accounts  
9 services, including those of the National Call Centers, comparable to those of  
10 other utilities?

11 4. Are the services INAWC receives from the Service Company necessary?

12 **Q. Please describe the methodology you employed in conducting your study relative**  
13 **to the market-to-cost comparison for INAWC's Service Company costs.**

14 A. To answer the four questions contemplated in the study, I utilized the following basic  
15 methodologies. First, to place the overall reasonableness of Service Company charges  
16 into context, I compared INAWC's relevant BY 2022 Service Company charges per  
17 regulated retail customer for administrative and general ("A&G") expenses to the same  
18 charges for utility companies that must file the Federal Energy Regulatory Commission  
19 ("FERC") Form 60 – Annual Report of Service Companies. This information is  
20 publicly available and provides a useful comparison of utility service company charges  
21 generally. Second, to determine if the Service Company provided services at the lower  
22 of cost or market, I compared the cost per hour for managerial and professional services  
23 provided by Service Company personnel to hourly billing rates that would be charged

1 by outside providers of equivalent services. Third, to determine whether Service  
2 Company's charges during BY 2022 for customer account services were comparable  
3 to other utilities I compared INAWC's customer account services expenses to those of  
4 neighboring utilities. Fourth, to determine the necessity of Service Company services  
5 I investigated the services Service Company provided to INAWC during BY 2022 and  
6 analyzed whether these services would be required if INAWC were not part of the  
7 American Water organization.

### 8 CONCLUSIONS

9 **Q. What conclusions were you able to draw concerning question number 1, whether**  
10 **the A&G costs that service company charges to INAWC were consistent with**  
11 **those charged to other utilities by their respective service companies?**

12 A. I was able to determine that the Service Company's BY 2022 cost per INAWC  
13 customer is reasonable because it is in line with the cost per customer for the proxy  
14 service companies. During BY 2022, INAWC was charged \$75 per customer for  
15 A&G-related services provided by the Service Company. This compares to an average  
16 of \$127 per customer for service companies reporting to the FERC. Eighteen of the 22  
17 utility service companies that filed a FERC Form 60 for 2021 had a higher per-customer  
18 A&G cost than INAWC's charges from the Service Company.

19 **Q. Why is a comparison of A&G costs useful to a determination of the reasonableness**  
20 **of the Service Company's charges to INAWC?**

21 A. A&G-related services cover the functions identified below and provide a useful  
22 comparison because the processes involved in delivering these services are similar  
23 across utility types.

Executive Management	Information Technology
Finance	Procurement
Accounting	Rates and Regulatory
Taxes	Legal
Financial Planning and Analysis	Human Resources
Internal Auditing	Customer Services

1

2 **Q. What conclusions were you able to draw concerning question number 2, whether**  
3 **INAWC received value for services provided by the Service Company?**

4 A. The comparison of the value of services was accomplished by comparing the cost per  
5 hour for Service Company managerial and professional services to those of outside  
6 service providers to whom these duties could be assigned. Based on my study, I  
7 concluded that:

8 (1) INAWC was charged the lower of cost or market for managerial and  
9 professional services during BY 2022.

10 (2) On average, the hourly rates for outside service providers are 68% higher than  
11 the Service Company's hourly rates. Consequently, the Company obtains  
12 services from Service Company that are considerably below the market prices  
13 for such services.

14 (3) The managerial and professional services provided by the Service Company are  
15 vital and could not be procured externally by INAWC without careful  
16 supervision on the part of INAWC. If these services were contracted entirely

1 to outside providers, INAWC would have to add at least 3 positions to manage  
2 activities of outside firms. These positions would be required to ensure the  
3 quality and timeliness of services provided.

4 (4) If all the managerial and professional services now provided by the Service  
5 Company had been outsourced during the historical period, INAWC would  
6 have incurred approximately \$13.0 million in additional expenses. This amount  
7 includes the higher cost of outside providers and the cost of 3 new INAWC  
8 positions needed to direct the outsourced work.

9 (5) This Study's hourly rate comparison understates the cost advantages that accrue  
10 to INAWC from its use of the Service Company. Outside service providers  
11 generally bill for every hour worked. Service Company exempt personnel, on  
12 the other hand, charge a maximum of eight hours per day even when they work  
13 more hours. If all overtime hours of Service Company personnel were factored  
14 into the hourly rate calculation, the Service Company would have had an even  
15 greater annual dollar advantage than the \$13.0 million cited above.

16 (6) It would be difficult for INAWC to find local service providers with the same  
17 specialized water and wastewater industry expertise as that possessed by the  
18 Service Company staff. Service Company personnel spend substantially all  
19 their time serving operating water and wastewater companies. This  
20 specialization brings with it a unique knowledge of water and wastewater utility  
21 operations and regulation that may not be available from local service providers  
22 and provides efficiencies over third-party providers.



1 (7) Service Company fees do not include any profit markup. Only its actual cost  
2 of service is being charged to INAWC.

3 **Q. What conclusions were you able to draw concerning question number 3, whether**  
4 **the historical period costs of the Service Company's customer account services**  
5 **were comparable to such costs incurred by other utilities?**

6 A. Because I found that these costs were comparable to the costs incurred by other utilities  
7 for such customer services, I concluded that the costs of the Service Company's  
8 customer account services were reasonable. Such costs are below the average of the  
9 neighboring electric utility comparison group. This group of companies provides a  
10 reasonable proxy group for comparison to a regulated utility such as INAWC. During  
11 the historical period, the per-customer cost of customer account services for INAWC  
12 customers was \$21.67, compared to the 2021 average of \$31.52 for other comparable  
13 utilities.

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

16 A. As my study demonstrates:

17 (1) The services that the Service Company provides are necessary and are required  
18 for a water and wastewater utility.

19 (2) There is no redundancy or overlap in the services provided by the Service  
20 Company to INAWC.

1 Q. **Does this complete your Direct Testimony?**

2 A. Yes.

## VERIFICATION

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



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Patrick L. Baryenbruch

Date: March 27, 2023

Patrick Baryenbruch's Previous Affiliate Transactions  
and Rate Case Engagements

	Client	State	Year	Purpose	Rate Case Witness?
1	Connecticut American Water	Connecticut	1999	Rate Case	Yes
2	Illinois American Water	Illinois	2007	Rate Case	Yes
		Illinois	2021	Rate Case	Yes
3	Indiana American Water	Indiana	2017	Rate Case	Yes
4	Iowa American Water	Iowa	2020	Rate Case	Yes
5	Kentucky American Water	Kentucky	2003	Rate Case	Yes
		Kentucky	2006	Rate Case	Yes
		Kentucky	2008	Rate Case	Yes
		Kentucky	2009	Rate Case	Yes
		Kentucky	2018	Rate Case	Yes
6	Massachusetts American Water	Massachusetts	2000	Rate Case	Yes
7	Missouri American Water	Missouri	2002	Rate Case	Yes
		Missouri	2008	Rate Case	Yes
		Missouri	2014	Rate Case	Yes
		Missouri	2016	Rate Case	Yes
		Missouri	2019	Rate Case	Yes
8	New Jersey American Water	New Jersey	2005	Rate Case	Yes
		New Jersey	2007	Rate Case	Yes
		New Jersey	2009	Rate Case	Yes
		New Jersey	2010	Rate Case	Yes
		New Jersey	2014	Rate Case	Yes
		New Jersey	2017	Rate Case	Yes
		New Jersey	2019	Rate Case	Yes
9	New Mexico American Water	New Mexico	2007	Rate Case	Yes
10	New York American Water	New York	2006	Rate Case	Yes
		New York	2010	Rate Case	Yes
		New York	2013	Rate Case	Yes
		New York	2015	Rate Case	Yes
11	Ohio American Water	Ohio	2006	Rate Case	Yes
		Ohio	2010	Rate Case	Yes
12	Pennsylvania American Water	Pennsylvania	2008	Compliance	No
		Pennsylvania	2011	Compliance	No
		Pennsylvania	2014	Compliance	No
		Pennsylvania	2017	Compliance	No
		Pennsylvania	2020	Compliance	No
13	Tennessee American Water	Tennessee	2006	Rate Case	Yes
		Tennessee	2010	Rate Case	Yes
14	Virginia American Water	Virginia	1996	Rate Case	Yes
		Virginia	1999	Rate Case	Yes
		Virginia	2000	Rate Case	Yes
		Virginia	2001	Rate Case	Yes
		Virginia	2003	Rate Case	Yes
		Virginia	2007	Rate Case	Yes
		Virginia	2009	Rate Case	Yes
		Virginia	2011	Rate Case	Yes
		Virginia	2014	Rate Case	Yes
		Virginia	2018	Rate Case	Yes
		Virginia	2021	Rate Case	Yes
15	West Virginia American Water	West Virginia	2002	Rate Case	Yes
		West Virginia	2006	Rate Case	Yes
		West Virginia	2007	Rate Case	Yes
		West Virginia	2009	Rate Case	Yes
		West Virginia	2012	Rate Case	Yes
		West Virginia	2014	Rate Case	Yes
		West Virginia	2017	Rate Case	Yes
		West Virginia	2020	Rate Case	Yes
16	Atlanta Gas Light (Southern Co)	Georgia	2009	Rate Case	Yes
17	Atmos Energy Corporation	Virginia	2004	Compliance	No
18	Columbia Gas of Kentucky	Kentucky	2015	Rate Case	Yes
19	Columbia Gas of Maryland	Maryland	2015	Rate Case	Yes
20	Columbia Gas of Massachusetts	Massachusetts	2004	Rate Case	Yes
		Massachusetts	2006	Internal Info	No
		Massachusetts	2011	Internal Info	No
		Massachusetts	2012	Internal Info	No
		Massachusetts	2014	Internal Info	No
		Massachusetts	2017	Internal Info	No
21	Columbia Gas of Pennsylvania	Pennsylvania	2015	Internal Info	No
		Pennsylvania	2020	Rate Case	Yes

### Patrick Baryenbruch's Previous Affiliate Transactions and Rate Case Engagements

	Client	State	Year	Purpose	Rate Case Witness?	
22	Columbia Gas of Virginia	Virginia	2003	Compliance	No	
		Virginia	2004	Compliance	No	
		Virginia	2005	Rate Case	Yes	
		Virginia	2006	Compliance	No	
		Virginia	2007	Compliance	No	
		Virginia	2008	Compliance	No	
		Virginia	2009	Rate Case	Yes	
		Virginia	2010	Compliance	No	
		Virginia	2011	Compliance	No	
		Virginia	2012	Compliance	No	
		Virginia	2013	Rate Case	Yes	
		Virginia	2014	Compliance	No	
		Virginia	2015	Rate Case	Yes	
		Virginia	2016	Compliance	No	
		Virginia	2017	Rate Case	Yes	
		Virginia	2018	Compliance	No	
		Virginia	2019	Compliance	No	
		Virginia	2020	Compliance	No	
23		Northern Indiana Public Service	Indiana	2015	Internal Info	No
			Indiana	2016	Rate Case	Yes
	Indiana		2020	Rate Case	Yes	
24	Dominion Energy, Inc.	Virginia	2008	Rate Case	Yes	
		Virginia	2009	Compliance	No	
		Virginia	2010	Compliance	No	
		Virginia	2011	Compliance	No	
		Virginia	2012	Compliance	No	
		Virginia	2014	Compliance	No	
		Virginia	2017	Compliance	No	
	Virginia	2019	Compliance	No		
25	Duke Energy	North Carolina	2006	Compliance	No	
26	Elizabethtown Gas (Southern Co)	New Jersey	2008	Rate Case	Yes	
27	Electric Transmission Texas	Texas	2016	Rate Case	Yes	
28	General Water Works of Rio Rancho	New Mexico	1993	Rate Case	Yes	
29	General Water Works of Virginia	Virginia	1992	Rate Case	Yes	
30	Po River Water and Sewer	Virginia	1993	Rate Case	Yes	
		Virginia	2007	Rate Case	Yes	
		Virginia	2008	Rate Case	Yes	
31	Progress Energy	North Carolina	2001	Internal Info	No	
32	Roanoke Gas	Virginia	2006	Compliance	No	
33	Southern California Edison	California	2002	Compliance	No	
		California	2003	Compliance	No	
		California	2004	Compliance	No	
		California	2005	Compliance	No	
34	AEP Texas	Texas	2018	Rate Case	Yes	
35	Southwestern Electric Power	Texas	2016	Rate Case	Yes	
		Texas	2020	Rate Case	Yes	
36	Kentucky Utilities	Virginia	2020	Rate Case	Yes	
37	Virginia Natural Gas (Southern Co)	Virginia	2004	Compliance	No	
		Virginia	2005	Rate Case	Yes	
		Virginia	2010	Rate Case	Yes	
38	United Water of Pennsylvania	Pennsylvania	2004	Rate Case	Yes	
39	Corix Infrastructure/Water Services Corp.	Enterprise	2018	Internal Info	No	
		Enterprise	2019	Internal Info	No	
		Enterprise	2021	Internal Info	No	
40	Community Utilities of Indiana	Indiana	2020	Rate Case	No	
41	Massanutten Public Service Company	Virginia	2006	Rate Case	Yes	
		Virginia	2008	Rate Case	Yes	
		Virginia	2013	Rate Case	Yes	
		Virginia	2019	Rate Case	Yes	
42	Water Service Corporation Kentucky	Kentucky	2010	Rate Case	Yes	
		Kentucky	2012	Rate Case	Yes	
		Kentucky	2019	Rate Case	Yes	
		Kentucky	2021	Rate Case	Yes	
43	Corix Utilities Oklahoma	Oklahoma	2019	Compliance	Yes	
44	Great Basin Water Company	Nevada	2019	Rate Case	Yes	
		Nevada	2021	Rate Case	Yes	
Total Studies					134	
Number of Rate Cases					92	
Number of Utility Clients					44	
Number of States					20	

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**Market to Cost Comparison of Service Company Charges to  
Indiana-American Water Company  
12 Months Ended September 30, 2022**

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February 2023

**Indiana-American Water Company  
Market to Cost Comparison of Service Company Charges  
12 Months Ended September 30, 2022**

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### **Purpose of This Study**

This Market-to-Cost Comparison of American Water Works Service Company, Inc. (Service Company) charges to Indiana-American Water Company, Inc. (INAWC) study (Study) was undertaken to answer the following four questions concerning the services provided by the Service Company to INAWC during the 12 months ending September 30, 2022 (BY 2022):

1. Were the Service Company's charges to INAWC for administrative and general (A&G)-related services in line with comparable costs charged by service companies to electric utilities during BY 2022?
2. Was INAWC charged a reasonable value for managerial and professional services provided by the Service Company during BY 2022?
3. Were BY 2022 costs of the Service Company's customer account services comparable to those of other utilities?
4. Are the services INAWC receives from the Service Company necessary?

### **Study Results**

Concerning question 1, the following conclusion was reached:

- The Service Company's 12 months ended BY 2022 cost per INAWC customer is reasonable compared to costs per customer for electric and combination electric/gas service companies. During BY 2022, INAWC was charged \$75 per customer for A&G related services provided by the Service Company. This compares to an average of \$127 per customer for service companies reporting to the Federal Energy Regulatory Commission (FERC). Eighteen of the 22 utility service companies that filed a FERC Form 60 for 2021 had higher per-customer A&G costs than INAWC's charges from the Service Company.

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

- INAWC was charged a reasonable value for managerial and professional services during BY 2022.
- On average, the hourly rates for outside service providers are 68% higher than the Service Company's hourly rates. Consequently, the Company obtains services from the Service Company that are considerably below the market prices for such services.
- The managerial and professional services provided by the Service Company are vital and could not be procured externally by INAWC without careful supervision on the part of INAWC. If these services were contracted entirely to outside providers, INAWC would have to add at least three positions to manage activities of outside firms. These positions would be required 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 BY 2022, INAWC and its customers would have incurred approximately \$13.0 million in additional expenses. This amount includes the higher cost of outside providers and the cost of three new INAWC positions needed to direct the outsourced work.
- This study's hourly rate comparison understates the cost advantages that accrue to INAWC from its use of the Service Company. Outside service providers generally bill for every



## I – Introduction

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hour worked. Service Company exempt personnel, on the other hand, charge a maximum of eight 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 Company would have had an even greater annual dollar advantage than the \$13.0 million cited above.

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

Concerning question 3, the following conclusion was reached:

- The cost of the Service Company's customer account services is reasonable. Such costs are below the average of the proxy group of comparable regulated utilities of the size and scope of the Service Company and INAWC. During BY 2022, the cost of customer account services for INAWC customers was \$21.67, compared to the 2021 average of \$31.52 for comparable utilities.

Concerning question 4, the following conclusions were drawn:

- The services that the Service Company provides are necessary and required for water and wastewater utility.
- There is no redundancy or overlap in the services provided by the Service Company to INAWC. For all of the services provided (Exhibit 13), there was only one entity primarily responsible for the service.

### 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 can 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 manage 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 align operating utility operations because their implementation is supported by the Service Company.
- **Improved Support and Guidance** – American Water's Service Company provides another dimension of management and financial support and guidance 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 INAWC, 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

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

- One Water Street – Service Company employees at One Water Street provide corporate governance and service functions, including executive management, finance, accounting, audit, tax, regulatory, external affairs, engineering, supply chain, human resources and benefits services. One Water Street also includes American Water's main Information Technology (IT) Services center for employees, which provides software delivery and enhancements. It also provides local on-site support and IT Service Desk for remote assistance. Further, One Water Street supports mission-critical systems such as supervisory control and data acquisition (SCADA) as well as emerging technologies such as geographic information systems and mobility. It provides technical expertise in project governance and release management while ensuring compliance with all governmental regulations.
- Central Lab – The national trace substance laboratory is in Belleville, Illinois, and performs testing for all American Water operating companies.
- Customer Relations and Customer Service Centers – Provide customer relations, field resource coordination services, customer communication, and billing and collection services from various locations.
- Information Technology Services Center – The IT Services Center supports the technology infrastructure required to run business applications and communications systems for American Water's operating companies. American Water's primary data center is an IBM facility in Sterling Forest, New York.
- Regional 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**

The 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, 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 (WBS)) and a reviewer to approve the information in accordance with the corporate Delegation of

## II – Background

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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 the Service Company or through a capital leasing arrangement with Laurel Oak Properties (LOP). The 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 Service Company to meet its business needs. One Water Street (OWS), which owns the Camden headquarters, is providing furniture, fixtures and office-related equipment for the first 7 years of the lease with the Service Company.
- **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 WBS.

### **Service Company Billing and Clearing**

The Service Company has developed a billing system that 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 element is configured in SAP 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 costs or an Affiliate's WBS element for capital expenditures (CAPEX). 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 Corp., (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 Charges

During BY 2022, the Service Company billed INAWC a total of approximately \$37.3 million, as shown in the table below. These charges were subjected to a market-to-cost comparison.

	BY 2022
Support Services - O&M	\$ 26,784,065
Support Services - Capital	\$ 10,532,835
Total Service Company Charges	\$ 37,316,900

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

- **Managerial and Professional Services** – Includes such services as management, accounting, legal, human resources, engineering, and information technology.
- **Customer Account Services** – Includes customer-related services, such as call center, credit, billing, collection, and payment processing.
- **Field Resource Coordination Services** – Includes tracking and dispatching service orders for field representatives and distribution crews to carry out.

Total BY 2022 Service Company dollar and hour charges break down between management and professional services and customer account services as follows:

	BY 2022	
	Charges	Hours
Management and Professional Services	\$ 30,360,881	129,838
Customer Account Services	\$ 6,029,571	58,646
Field Resource Coordination Services	\$ 926,449	16,932
Total Service Company Charges	\$ 37,316,900	205,415

#### Service Company Cost Comparison Approach

This study's first question—whether the Service Company A&G charges during BY 2022 were reasonable—was determined by comparing INAWC'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—how the Service Company charges during BY 2022 compared to 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 INAWC during BY 2022. 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 the Service Company's BY 2022 customer account services charges were comparable to other utilities—was addressed by comparing INAWC's customer account services expenses to those of investor-owned electric utilities. This utility comparison group was selected because the cost of outside providers of customer account 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

### III – Service Company Cost Comparison Approach

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transparency and consistency. The selection of electric utilities from Indiana and neighboring states provides a sufficiently sized comparison group.

The fourth question—the necessity of Service Company services—was investigated by defining the services provided to INAWC and determining if these services would be required if INAWC were not part of the American Water organization.

## IV – Question 1 – Reasonableness of Service Company Charges

### 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 finance, human resources and information technology. Because A&G-related services are delivered by all utility service companies, this study uses A&G charges per customer as the metric by which to test the reasonableness of affiliate charges.

### INAWC's Service Company A&G Cost per Customer

During BY 2022, INAWC was charged \$75 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.

	BY 2022
Total Service Company charges	\$ 37,316,900
Less: Capital charges	\$(10,532,835)
Less: Non-A&G charges	
Engineering	\$ (187,777)
Operations	\$ (1,528,695)
Water Quality	\$ (231,679)
Net A&G Service Company Charges	\$ 24,835,914
INAWC Customer Count	332,169
INAWC A&G SC Charges per Customer	\$ 75

### 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 Section 1270 of the Public Utility Holding Company Act of 2005, Section 390 of the Federal Power Act, and Section 18 Code of Federal Regulations paragraph 366.23. The Form 60 is designed to collect financial information from service companies within a holding company structure.

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 2021, a Form 60 was filed by service companies associated with 22 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

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

The A&G expenses per regulated utility customer for the 22 utility holding companies whose service companies filed a Form 60 for 2021 are calculated in Exhibit 1 (page 10).

Exhibit 2 (page 11) shows INAWC's BY 2022 Service Company cost per customer of \$75 to be lower than the average of \$127 per customer for the comparison group service companies. Eighteen of the 22 comparison group service companies had higher per-customer A&G costs than INAWC's charges from the Service Company. Based on this result, it is possible to conclude that the Service Company's charges to INAWC are reasonable.

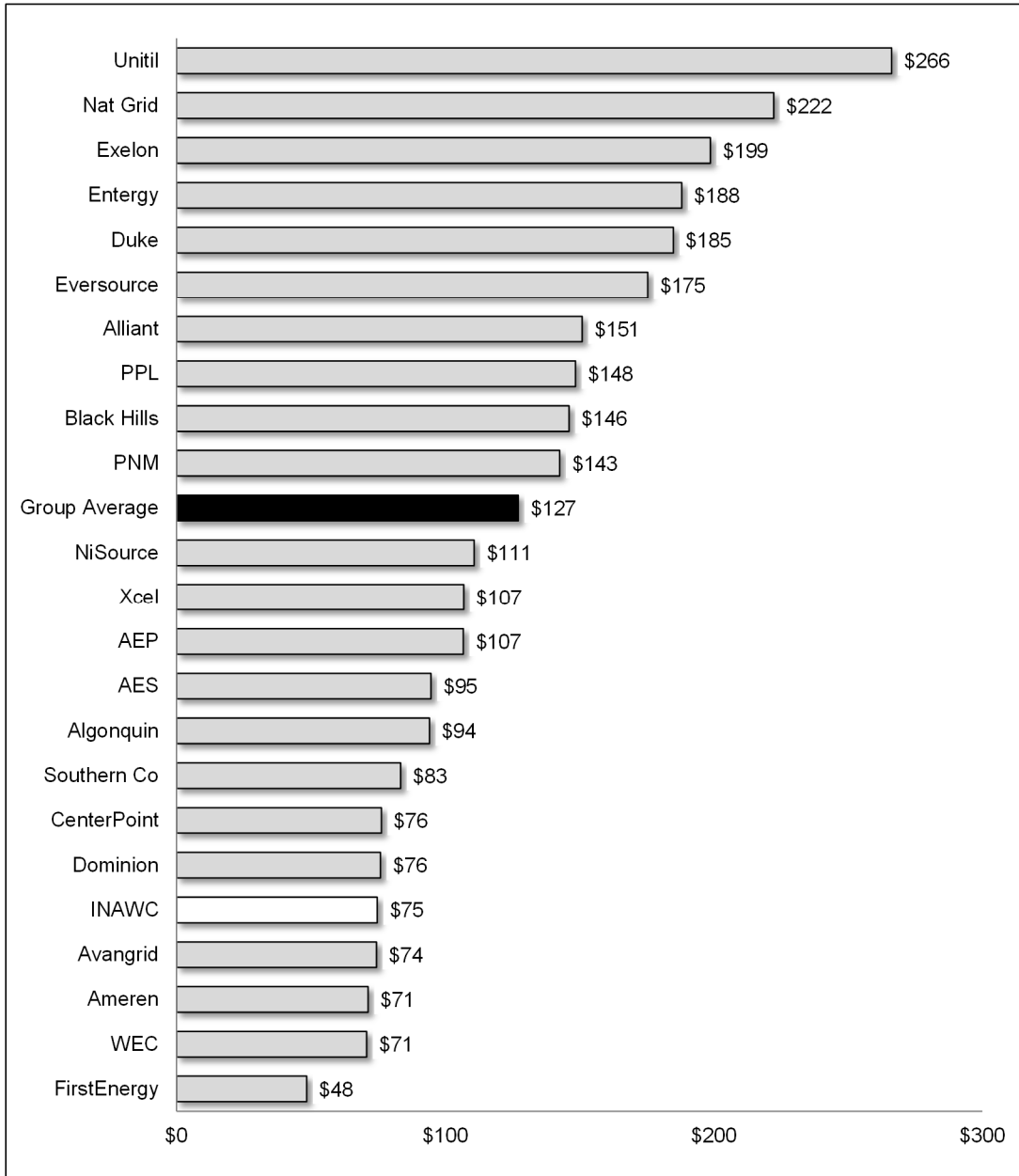


**Indiana-American Water Company**  
Calculation of 2021 Service Company A&G Charges Per Customer

Utility Company	2021 Regulated Retail Service Company A&G Expenses	Regulated Retail Customers	Cost per Customer
AEP	\$587,302,141	5,500,000	\$ 107
AES	\$93,876,438	991,229	\$ 95
Algonquin	\$102,935,011	1,093,000	\$ 94
Alliant	\$210,615,298	1,395,000	\$ 151
Ameren	\$235,318,183	3,300,000	\$ 71
Avangrid	\$245,518,798	3,300,000	\$ 74
Black Hills	\$184,957,652	1,265,945	\$ 146
CenterPoint	\$445,622,560	5,842,684	\$ 76
Dominion	\$506,009,294	6,664,000	\$ 76
Duke	\$1,738,513,167	9,400,000	\$ 185
Entergy	\$602,866,456	3,206,000	\$ 188
Eversource	\$703,118,546	4,009,000	\$ 175
Exelon	\$2,027,101,694	10,200,000	\$ 199
FirstEnergy	\$290,715,426	6,000,000	\$ 48
Nat Grid	\$1,556,479,671	7,000,000	\$ 222
NiSource	\$395,939,148	3,573,000	\$ 111
PNM	\$112,122,878	786,000	\$ 143
PPL	\$405,058,651	2,728,000	\$ 148
Southern Co	\$751,067,052	9,000,000	\$ 83
Unitil	\$51,725,393	194,300	\$ 266
WEC	\$325,723,396	4,600,600	\$ 71
Xcel	\$620,259,894	5,800,000	\$ 107
<b>Total/Average</b>	<b>\$12,192,846,747</b>	<b>95,848,758</b>	<b>\$ 127</b>

Source: FERC Form 60; Baryenbruch & Company, LLC, analysis

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



Source: Company information; 2021 FERC Form 60; Baryenbruch & Company, LLC, analysis

### Methodology

The value of services 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
- IT Professionals – information technology services
- Professional Engineers – engineering, operations and water quality services.

The Service Company's hourly rates were calculated for each of the five outside service provider categories based on the dollars and hours charged to INAWC during BY 2022. 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 to INAWC during BY 2022, 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 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 14) details the assignment of BY 2022 management and professional Service Company charges by outsider provider category. Exhibit 4 (page 15) shows the same assignment for Service Company management and professional hours charged to INAWC during BY 2022.

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 non-labor Service Company charges for BY 2022:

- Contract Services – BY 2022 Service Company charges to INAWC include expenses associated with the use of outside professional firms to perform certain enterprise-wide services (e.g., legal, financial audit, actuarial services). These professional fees are excluded from the Service Company hourly rate calculation because the related services have effectively been out-sourced already.
- IT Infrastructure Expenses – Included in BY 2022 Service Company charges to INAWC are leases, maintenance fees and depreciation related to American Water's enterprise computing and network infrastructure and 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 as current and deferred income tax expense, line of credit fees and board expenses. These are not

## V – Question 2 – Provision of Services as Compared to Market

related to the provision of services by Service Company personnel and have been excluded.

- 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.

Exhibit 5 (page 16) shows how contract services, travel expenses, IT infrastructure and non-service-related charges are assigned to the five outside provider categories.

Based on the assignment of expenses and hours shown in Exhibits 3 and 4 and the excludable items shown in Exhibit 5, the Service Company's equivalent costs per hour for BY 2022, are calculated below.

	BY 2022					Total
	Attorney	Management Consultant	Certified Public Accountant	IT Professional	Professional Engineer	
Total management, professional & technical services charges	\$ 989,194	\$ 9,909,791	\$ 4,821,793	\$ 13,214,354	\$ 1,425,750	\$ 30,360,881
Less: Exclusions						
Contract services	\$ 44,475	\$ 892,399	\$ 478,511	\$ 5,732,787	\$ 50,738	\$ 7,198,910
IT infrastructure expenses	\$ 4	\$ 1,346,501	\$ 209	\$ 3,256,495	\$ 108	\$ 4,603,317
Non-service related expenses	\$ 122,359	\$ 53,450	\$ (44,974)	\$ 22,054	\$ 47,514	\$ 200,403
Travel expenses	\$ 5,182	\$ 70,359	\$ 46,818	\$ 38,028	\$ 39,591	\$ 199,977
Total Exclusions	\$ 172,019	\$ 2,362,709	\$ 480,564	\$ 9,049,364	\$ 137,952	\$ 12,202,608
Net Service-Related Charges (A)	\$ 817,174	\$ 7,547,081	\$ 4,341,229	\$ 4,164,990	\$ 1,287,798	\$ 18,158,273
Total Hours (B)	3,495	35,987	45,221	33,225	11,911	129,838
<b>Average Hourly Rate (A / B)</b>	<b>\$ 234</b>	<b>\$ 210</b>	<b>\$ 96</b>	<b>\$ 125</b>	<b>\$ 108</b>	

Indiana-American Water Company  
BY 2022 Service Company Charges by Location and Function

		BY 2022 Service Company Charges					
Location	Function	Attorney	Management Consultant	Certified Public Accountant	IT Professional	Professional Engineer	Total
Belleville Lab	Water Quality	\$ -	\$ -	\$ -	\$ -	\$ 231,679	\$ 231,679
Call Centers	Human Resources	\$ -	\$ 656	\$ -	\$ -	\$ -	\$ 656
Corporate	Accounting	\$ -	\$ -	\$ 2,077,054	\$ -	\$ -	\$ 2,077,054
	Administration	\$ -	\$ 5,271,253	\$ -	\$ -	\$ -	\$ 5,271,253
	Audit	\$ -	\$ -	\$ 338,720	\$ -	\$ -	\$ 338,720
	Business Development	\$ -	\$ 205,486	\$ -	\$ -	\$ -	\$ 205,486
	Communications	\$ -	\$ 589,771	\$ -	\$ -	\$ -	\$ 589,771
	Engineering	\$ -	\$ -	\$ -	\$ -	\$ 1,160,564	\$ 1,160,564
	External Affairs	\$ -	\$ 12,932	\$ -	\$ -	\$ -	\$ 12,932
	Finance	\$ -	\$ 52,949	\$ 950,595	\$ -	\$ -	\$ 1,003,544
	Human Resources	\$ -	\$ 2,042,524	\$ -	\$ -	\$ -	\$ 2,042,524
	Information Technology	\$ -	\$ -	\$ -	\$ 191,473	\$ -	\$ 191,473
	Legal	\$ 523,391	\$ -	\$ -	\$ -	\$ -	\$ 523,391
	Operations	\$ -	\$ 869,976	\$ -	\$ -	\$ -	\$ 869,976
	Supply Chain	\$ -	\$ -	\$ 821,816	\$ -	\$ -	\$ 821,816
Regional Offices	Administration	\$ -	\$ 688,865	\$ -	\$ -	\$ -	\$ 688,865
	Business Development	\$ -	\$ 43,662	\$ -	\$ -	\$ -	\$ 43,662
	Engineering	\$ -	\$ -	\$ -	\$ -	\$ 33,507	\$ 33,507
	External Affairs	\$ -	\$ 65,133	\$ -	\$ -	\$ -	\$ 65,133
	Finance	\$ -	\$ -	\$ 381,102	\$ -	\$ -	\$ 381,102
	Human Resources	\$ -	\$ 1,181	\$ -	\$ -	\$ -	\$ 1,181
	Legal	\$ 465,802	\$ -	\$ -	\$ -	\$ -	\$ 465,802
	Operations	\$ -	\$ 63,162	\$ -	\$ -	\$ -	\$ 63,162
Rates & Regulatory	\$ -	\$ -	\$ 252,507	\$ -	\$ -	\$ 252,507	
Tech & Innovation	Information Technology	\$ -	\$ 2,240	\$ -	\$ 13,022,881	\$ -	\$ 13,025,121
<b>Total Dollars Charged</b>		<b>\$ 989,194</b>	<b>\$ 9,909,791</b>	<b>\$ 4,821,793</b>	<b>\$ 13,214,354</b>	<b>\$ 1,425,750</b>	<b>\$ 30,360,881</b>

Indiana-American Water Company  
BY 2022 Service Company Hours by Location and Function

Location	Function	BY 2022 Service Company Hours					Total
		Attorney	Management Consultant	Certified Public Accountant	IT Professional	Professional Engineer	
Belleville Lab	Water Quality	-	-	-	-	2,126	2,126
Call Centers	Human Resources	-	-	-	-	-	-
Corporate	Accounting	-	-	20,102	-	-	20,102
	Administration	-	8,112	-	-	-	8,112
	Audit	-	-	1,693	-	-	1,693
	Business Development	-	948	-	-	-	948
	Communications	-	3,281	-	-	-	3,281
	Engineering	-	-	-	-	9,785	9,785
	External Affairs	-	-	-	-	-	-
	Finance	-	816	9,598	-	-	10,414
	Human Resources	-	15,126	-	-	-	15,126
	Information Technology	-	-	-	1,890	-	1,890
	Legal	1,130	-	-	-	-	1,130
	Operations	-	4,147	-	-	-	4,147
	Supply Chain	-	-	8,002	-	-	8,002
Regional Offices	Administration	-	2,837	-	-	-	2,837
	Business Development	-	129	-	-	-	129
	Engineering	-	-	-	-	-	-
	External Affairs	-	17	-	-	-	17
	Finance	-	-	3,930	-	-	3,930
	Human Resources	-	-	-	-	-	-
	Legal	2,365	-	-	-	-	2,365
	Operations	-	574	-	-	-	574
Rates & Regulatory	-	-	1,896	-	-	1,896	
Tech & Innovation	Information Technology	-	-	-	31,335	-	31,335
<b>Total Hours Charged</b>		<b>3,495</b>	<b>35,987</b>	<b>45,221</b>	<b>33,225</b>	<b>11,911</b>	<b>129,838</b>

**Indiana-American Water Company  
BY 2022 Service Company Charges Excludable from the Hourly Rate Calculation**

Charges By Function	BY 2022 Exclusions From Hourly Rate Calculation				
	Contract Services	Enterprise IT Expenses	Travel Expenses	Other Expenses	Total
Accounting	\$ 210,070	\$ 35	\$ 9,567	\$ 12,772	\$ 232,443
Administration	\$ 464,000	\$ 1,346,501	\$ 44,696	\$ 14,115	\$ 1,869,313
Audit	\$ 119,166		\$ 2,286	\$ -	\$ 121,452
Business Development	\$ 36,189		\$ 3,610	\$ (4,512)	\$ 35,286
Communications	\$ 76,195		\$ 4,987	\$ 16,518	\$ 97,700
Engineering	\$ 29,579	\$ 21	\$ 25,484	\$ (16,927)	\$ 38,156
External Affairs	\$ 257		\$ 3,699		\$ 3,956
Finance	\$ 139,039	\$ 32	\$ 19,078	\$ (61,325)	\$ 96,824
Human Resources	\$ 315,758		\$ 13,366	\$ 27,330	\$ 356,454
Information Technology	\$ 5,732,787	\$ 3,256,495	\$ 38,028	\$ 22,054	\$ 9,049,364
Legal	\$ 44,475	\$ 4	\$ 5,182	\$ 122,359	\$ 172,019
Operations	\$ 32,720	\$ 12	\$ 13,889	\$ 393	\$ 47,014
Rates & Regulatory		\$ 142	\$ 654		\$ 795
Supply Chain	\$ 10,237		\$ 15,233	\$ 3,580	\$ 29,049
Water Quality	\$ (11,561)	\$ 76	\$ 218	\$ 64,048	\$ 52,781
<b>Total</b>	<b>\$ 7,198,910</b>	<b>\$ 4,603,317</b>	<b>\$ 199,977</b>	<b>\$ 200,403</b>	<b>\$ 12,202,608</b>

Outside Service Provider Category
Certified Public Accountant
Management Consultant
Certified Public Accountant
Management Consultant
Management Consultant
Professional Engineer
Management Consultant
Certified Public Accountant
Management Consultant
IT Professional
Attorney
Professional Engineer
Certified Public Accountant
Certified Public Accountant
Professional Engineer

Recap By Outside Provider	BY 2022 Exclusions From Hourly Rate Calculation				
	Contract Services	Enterprise IT Expenses	Travel Expenses	Other Expenses	Total
Attorney	\$ 44,475	\$ 4	\$ 5,182	\$ 122,359	\$ 172,019
Management Consultant	\$ 892,399	\$ 1,346,501	\$ 70,359	\$ 53,450	\$ 2,362,709
Certified Public Accountant	\$ 478,511	\$ 209	\$ 46,818	\$ (44,974)	\$ 480,564
IT Professional	\$ 5,732,787	\$ 3,256,495	\$ 38,028	\$ 22,054	\$ 9,049,364
Professional Engineer	\$ 50,738	\$ 108	\$ 39,591	\$ 47,514	\$ 137,952
<b>Total</b>	<b>\$ 7,198,910</b>	<b>\$ 4,603,317</b>	<b>\$ 199,977</b>	<b>\$ 200,403</b>	<b>\$ 12,202,608</b>

**Outside Service Provider Hourly Rates**

The next step in the 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**

An estimate of Indiana attorney rates was developed from National Law Journal’s Survey of Law Firm Economics Report. As shown in Exhibit 6 (page 19), data from this survey has been adjusted for cost-of-living differences between each law firm’s location and Greenwood, Indiana. The hourly rates data of National Law Review is for 2020. The survey’s calculated average rate was escalated to March 31, 2022—the midpoint of BY 2022.

**Management Consultants**

The cost per hour for management consultants was developed from a survey performed by Rodenhauer & Company LLC, a research company that monitors the consulting industry. The survey includes rates that were in effect during 2022 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, the U.S. national average is appropriate for comparison.

The first step in the calculation, presented in Exhibit 7 (page 20), 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.



### **Certified Public Accountants**

The average hourly rate for Indiana CPAs was developed from a 2020 survey performed by the American Institute of Certified Public Accountants (AICPA). As shown in Exhibit 8 (page 21), 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, based on Baryenbruch & Company, LLC's, experience. Since the survey includes hourly rates that were in effect as of December 31, 2020, the calculated average rate was escalated to March 31, 2022—the midpoint of BY 2022.

### **Information Technology Professionals**

The 2022 average hourly rate for information technology consultants and contractors was developed from two sources: The Service Company's IT contractor rates and a survey performed by Rodenhauer & Company, LLC, for IT consultants. As shown in Exhibit 9 (page 22), that data was compiled and a weighted average was calculated based on the percent of time that is typically applied to an IT consulting assignment, based on Baryenbruch & Company, LLC's, experience.

### **Professional Engineers**

The Company provided hourly rate information for outside engineering firms that provided INAWC with their rate schedules. As presented in Exhibit 10 (page 23), an average rate was developed for each engineering position level. Then, using the Service Company's percentage mix by engineering position, a weighted average cost per hour was calculated.

**Indiana-American Water Company  
Estimated Billing Rates for Attorneys**

Average Hourly Billing Rates during 2020.									
Region	Avg Billing Rates (Note A)		Weighted Avg Rate Calculation			Cost of Living (COL) Adjustment			(X x Y) Adjusted Rate
	Partner	Associate	0.25	0.75	(X)	COL Indices (Note B)		(Y)	
			Partner	Associate	Weighted Average	Region	Greenwood , Indiana	COL Adjustment	
Northeast	\$ 480	\$ 313	\$ 120	\$ 234	\$ 354	121.1	91.1	75.2%	\$ 267
Midwest	\$ 375	\$ 225	\$ 94	\$ 169	\$ 263	94.0	91.1	96.9%	\$ 254
South	\$ 450	\$ 350	\$ 113	\$ 263	\$ 375	94.1	91.1	96.8%	\$ 363
West	\$ 350	\$ 260	\$ 88	\$ 195	\$ 283	108.4	91.1	84.0%	\$ 237
Overall Average Hourly Billing Rate									\$ 280
Escalation to BY 2022 Midpoint (March 31, 2022)									
CPI at December 31, 2020									260.5
CPI at March 31, 2022									287.5
Inflation/Escalation (Note C)									10.4%
Average Hourly Billing Rate For Attorneys At March 31, 2022									\$ 309

Note A: 2021 Survey of Law Firm Economics Report, National Law Journal  
 Note B: Cost of Living Index, Source Council for Community and Economic Research  
 Note C: U.S. Bureau of Labor Statistics (<http://data.bls.gov/cgi-bin/surveymost>)

**Indiana-American Water Company  
Billing Rates of Management Consultants**

Survey billing rates in effect in 2022 (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	\$ 247	\$ 299	\$ 366	\$ 553	\$ 688	
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)	\$ 247	\$ 299	\$ 366	\$ 553	\$ 688	
Percent of Consulting Assignment	30%	30%	25%	10%	5%	Weighted Average
	\$ 74	\$ 90	\$ 91	\$ 55	\$ 34	\$ 345
Average Hourly Billing Rate For Management Consultants During 2022						\$ 345

Note A: Source is Rodenhauer & Company LLC; Baryenbruch & Company, LLC, analysis

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

A. Calculation of Average Hourly Billing Rate by Public Accounting Position					
Survey billing rates were those in effect in 2020 (Note A)					
<b>Average Hourly Billing Rate (Notes A and B)</b>					
	Staff Accountant	Senior Accountant	Manager	Partner	
Average Hourly Billing Rate by CPA Firm Position	\$ 113	\$ 149	\$ 199	\$ 280	
Percent of Accounting Assignment	30%	30%	20%	20%	Weighted Average
	\$ 34	\$ 45	\$ 40	\$ 56	\$ 174
National Average Hourly Billing Rate (above) \$ 174					
Cost of Living Adjustment					
COL Index for Richmond, Indiana 87.4					
Average COL Index 100.0					
Adjustment Percentage <u>87.4%</u>					
Cost of Living Adjusted Hourly Rate \$ 152					
<u>Escalation to BY 2022 Midpoint (March 31, 2022)</u>					
CPI at December 31, 2020 260.5					
CPI at March 31, 2022 287.5					
Inflation/Escalation (Note C) <u>10.4%</u>					
Average Hourly Billing Rate For CPAs At March 31, 2022 \$ 168					

Note A: Source is AICPA's 2020 National PCPS/TSCPA Management of an Accounting Practice Survey

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

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

**Indiana-American Water Company**  
**Billing Rates for Information Technology Professionals**

A. Calculation of Average Hourly Billing Rate by Information Technology Position  
 Survey billing rates were those in effect in 2022 (Note A)

		Average Hourly Billing Rate (Note A)					
		Contractor Positions		Consultant Positions			
		Senior					
		Contractor	Contractor	Associate	Manager	Partner	
Average Hourly Billing Rate by IT Position Category		\$ 91	\$ 121	\$ 271	\$ 377	\$ 502	
Percent of IT Assignment		25%	25%	25%	15%	10%	Weighted Average
		\$ 23	\$ 30	\$ 68	\$ 57	\$ 50	\$ 228
Average Hourly Billing Rate For IT Professionals During 2020							\$ 228

Note A: Source is American Water Works Service Company, Rodenhauer & Company and Baryenbruch & Company, LLC

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

A. Calculation of Average 2022 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	\$140	\$144	\$199	\$261
Firm #2	\$90		\$170	\$300
Firm #3	\$98	\$117	\$165	\$210
Firm #4	\$102	\$143	\$244	\$315
Firm #5	\$99	\$123	\$171	\$200
Firm #6	\$100	\$125	\$180	\$210
Firm #7	\$97	\$120	\$176	\$201
Firm #8	\$115	\$108	\$165	\$230
Firm #9	\$71	\$127	\$168	\$210
Firm #10	\$90	\$130	\$142	\$205
Firm #11	\$105	\$156	\$195	\$236
Firm #12	\$103	\$122	\$153	\$165
Firm #13	\$135	\$100	\$199	\$295
Firm #14	\$99	\$151	\$195	
Firm #15	\$120	\$142	\$212	\$240
Firm #16	\$119	\$105	\$156	\$260
Firm #17	\$130	\$159	\$198	\$240
Firm #18	\$97	\$132	\$178	\$180
Firm #19	\$95	\$127	\$188	\$220

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)	\$106	\$129	\$182	\$232	
Typical Percent of Time on an Engineering Assignment	13%	31%	46%	10%	
	\$14	\$40	\$83	\$24	\$161

Note A: Source is American Water Service Company information.

## V – Question 2 – Provision of Services Compared to Market

### 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	BY 2022		
	Service Company	Outside Provider	Difference-- Service Co. Greater(Less) Than Outside
Attorney	\$ 234	\$ 309	\$ (75)
Management Consultant	\$ 210	\$ 345	\$ (135)
Certified Public Accountant	\$ 96	\$ 168	\$ (72)
IT Professional	\$ 125	\$ 228	\$ (103)
Professional Engineer	\$ 108	\$ 161	\$ (53)

Based on these cost-per-hour differentials and the number of managerial and professional services hours billed to INAWC during BY 2022, outside service providers would have cost \$12,429,740 more than the Service Company (see table below). Thus, on average, outside providers' hourly rates are 68% higher than those of the Service Company (\$12,429,740 / \$18,158,273).

Service Provider	BY 2022		
	Hourly Rate Difference-- Service Co. Greater(Less) Than Outside	Service Company Hours Charged	Dollar Difference
Attorney	\$ (75)	3,495	\$ (262,125)
Management Consultant	\$ (135)	35,987	\$ (4,858,245)
Certified Public Accountant	\$ (72)	45,221	\$ (3,255,912)
IT Professional	\$ (103)	33,225	\$ (3,422,175)
Professional Engineer	\$ (53)	11,911	\$ (631,283)
Service Company Less Than Outside Providers			\$ (12,429,740)

It bears repeating that the cost differential associated with using outside providers is even greater than calculated above 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, INAWC would have been charged by outside providers for overtime worked by Service Company personnel who are not paid for that time.

If INAWC 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 approximately 129,800 hours of work (approximately 72 full-time equivalents at 1,800 "billable" hours per FTE per year) would add a significant workload to the existing INAWC management team. Thus, it would be necessary for INAWC to add at least three positions to supervise the outside firms and ensure they deliver quality and timely services. The individuals who would fill these positions would need a good understanding of each profession being managed. These persons must also have management experience and the authority necessary to provide credibility with the outside firms. As calculated in the table below, the new positions would add \$546,000 per year to INAWC's personnel expenses.

## V – Question 2 – Provision of Services Compared to Market

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	<u>Total</u>
New Positions' Salary	\$ 130,000
Benefits (at 25%)	\$ 32,500
Office Expenses (15%)	\$ 19,500
Total Cost per Position	\$ 182,000
Number of Positions Required	<u>3</u>
Total Cost of Added INAWC Staff	\$ 546,000

Thus, the total effect on INAWC customers of contracting all services now provided by Service Company would be an increase in their costs of \$12,975,740 (\$12,429,740 + \$546,000). Based on the results of this comparison, the Service Company charged INAWC significantly lower costs than the Company would have been charged had it sourced such services from the competitive market during BY 2022.



## VI - Question 3 - Reasonableness of Customer Account Services Costs

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### Background

Customer account 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 account 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 IT – 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

Comparable 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 account services are Account 903 Customer Accounts Expense – Records and Collection Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense. Exhibit 11 (page 27) 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.

Customer Accounts Expenses Comparison Group

Indiana	Duke Energy Indiana	Michigan	DTE Energy
	Indiana Michigan Power		Consumers Energy
	Indianapolis Power & Light		NSP Wisconsin
	Northern Indiana Public Service		Upper Peninsula Power
	So. Indiana Gas & Electric		Wisconsin Electric
Illinois	Commonwealth Edison	Ohio	Wisconsin Public Service
	Ameren - Illinois		Dayton Power
	MidAmerica - Energy		Cleveland Electric Illuminating
Kentucky	Duke Energy Kentucky		Duke Energy - Ohio
	Kentucky Power		Ohio Edison
	Kentucky Utilities		Ohio Power
	Louisville Gas and Electric		Toledo Edison

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 Account Services Costs

### INAWC's Cost per Customer

As calculated below, INAWC's customer account services expense per customer was \$21.67 for BY 2022. 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 INAWC. It is necessary to adjust the Service Company's charges because electric utilities experience an average of 1.25 calls per customer compared to American Water's 0.86 calls per customer during BY 2022. Thus, the Service Company's expenses had to be increased, for comparison purposes, to reflect its costs if it had had 1.25 calls per customer.

Indiana-American Water Company, Inc.		BY 2022 Service Co Charges	Adjustment Fewer Calls For Water Cos. (A)	Adjusted																									
Service Company	Call processing, order processing, credit, bill collection, forms, postage	\$ 6,029,571	\$ 760,908	\$ 6,790,478																									
	Customer payment processing			\$ 406,642 (B)																									
INAWC	Customer advocacy expenses			\$ 183,127																									
			Cost Pool Total	\$ 7,197,121																									
			Total Customers	332,169																									
			BY 2022 Cost per Indiana-American Customer	<b>\$ 21.67</b>																									
<p>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</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 45%;">Call handling expenses</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">\$ 1,681,190</td> <td style="width: 10%;"></td> <td style="width: 15%;"></td> </tr> <tr> <td>Electric utility industry's avg calls/customer</td> <td style="text-align: center;">1.25</td> <td></td> <td></td> <td></td> </tr> <tr> <td>American Water's avg calls/customer</td> <td style="text-align: center;"><u>0.86</u></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Percent different</td> <td style="text-align: center;">45%</td> <td></td> <td style="text-align: center;"><u>45%</u></td> <td></td> </tr> <tr> <td>Total Adjustment</td> <td></td> <td style="text-align: right;">\$ 760,908</td> <td></td> <td></td> </tr> </table>					Call handling expenses		\$ 1,681,190			Electric utility industry's avg calls/customer	1.25				American Water's avg calls/customer	<u>0.86</u>				Percent different	45%		<u>45%</u>		Total Adjustment		\$ 760,908		
Call handling expenses		\$ 1,681,190																											
Electric utility industry's avg calls/customer	1.25																												
American Water's avg calls/customer	<u>0.86</u>																												
Percent different	45%		<u>45%</u>																										
Total Adjustment		\$ 760,908																											
<p>Note B: Customer payment processing expenses</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 45%;">Number of customer bills</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">3,921,335</td> <td style="width: 10%;"></td> <td style="width: 15%;"></td> </tr> <tr> <td>Bank charge per item</td> <td></td> <td style="text-align: right;">\$ 0.1037</td> <td></td> <td></td> </tr> <tr> <td>Total estimated annual expense</td> <td></td> <td style="text-align: right;">\$ 406,642</td> <td></td> <td></td> </tr> </table>					Number of customer bills		3,921,335			Bank charge per item		\$ 0.1037			Total estimated annual expense		\$ 406,642												
Number of customer bills		3,921,335																											
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Total estimated annual expense		\$ 406,642																											

### Electric Utility Group Cost per Customer

Exhibit 12 (page 29) shows the calculation of customer account expense per customer for 2021 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 2021 Customer Account Expense Per Customer**

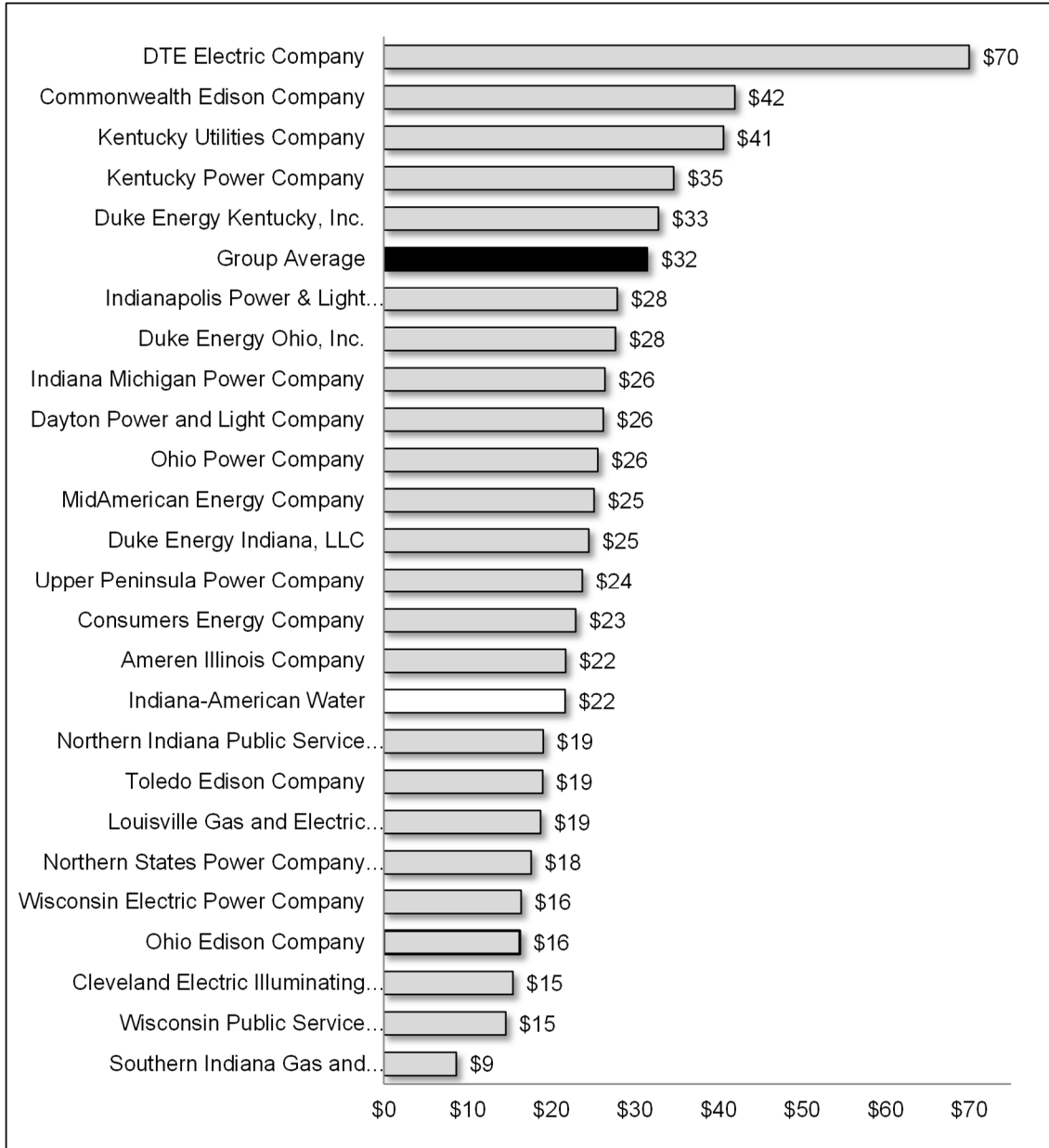
Comparison Group	Customer Accounts Services Cost Pool				Total Retail Customers	Customer Account Services Expenses per Customer
	Employee Benefits			Total Cost Pool		
	Account 903 and 905	Employee Pension and Benefits	Payroll Taxes			
Ameren Illinois Company	\$ 25,366,891	\$ 184,536	\$ 1,154,869	\$ 26,706,297	1,228,564	\$ 21.74
Cleveland Electric Illuminating Company	\$ 9,465,114	\$ 1,911,767	\$ 270,846	\$ 11,647,727	755,210	\$ 15.42
Commonwealth Edison Company	\$ 153,562,879	\$ 11,728,609	\$ 6,558,389	\$ 171,849,877	4,095,261	\$ 41.96
Consumers Energy Company	\$ 40,185,160	\$ 578,846	\$ 2,129,755	\$ 42,893,761	1,870,123	\$ 22.94
Dayton Power and Light Company	\$ 12,320,976	\$ 1,103,897	\$ 592,203	\$ 14,017,076	534,192	\$ 26.24
DTE Electric Company	\$ 142,401,214	\$ 9,455,849	\$ 5,263,724	\$ 157,120,787	2,244,945	\$ 69.99
Duke Energy Indiana, LLC	\$ 19,196,005	\$ 1,069,114	\$ 845,330	\$ 21,110,449	860,972	\$ 24.52
Duke Energy Kentucky, Inc.	\$ 4,510,377	\$ 156,456	\$ 144,588	\$ 4,811,420	146,514	\$ 32.84
Duke Energy Ohio, Inc.	\$ 19,199,720	\$ 436,078	\$ 736,936	\$ 20,372,735	735,922	\$ 27.68
Indiana Michigan Power Company	\$ 15,030,389	\$ 468,752	\$ 485,914	\$ 15,985,055	604,549	\$ 26.44
Indianapolis Power & Light Company	\$ 11,342,788	\$ 805,416	\$ 598,307	\$ 12,746,511	456,739	\$ 27.91
Kentucky Power Company	\$ 5,584,749	\$ 36,945	\$ 110,459	\$ 5,732,154	165,416	\$ 34.65
Kentucky Utilities Company	\$ 20,384,244	\$ 1,776,217	\$ 788,445	\$ 22,948,906	565,153	\$ 40.61
Louisville Gas and Electric Company	\$ 7,150,277	\$ 553,331	\$ 294,954	\$ 7,998,562	427,163	\$ 18.72
MidAmerican Energy Company	\$ 18,704,490	\$ 495,628	\$ 1,029,272	\$ 20,229,390	804,312	\$ 25.15
Northern Indiana Public Service Company	\$ 8,481,043	\$ 230,293	\$ 455,963	\$ 9,167,298	481,132	\$ 19.05
Northern States Power Company (Wisconsin)	\$ 4,220,510	\$ 281,624	\$ 165,586	\$ 4,667,720	265,235	\$ 17.60
Ohio Edison Company	\$ 13,694,961	\$ 3,133,765	\$ 419,690	\$ 17,248,416	1,062,269	\$ 16.24
Ohio Power Company	\$ 37,427,045	\$ 254,609	\$ 963,410	\$ 38,645,064	1,511,444	\$ 25.57
Southern Indiana Gas and Electric Company	\$ 1,219,103	\$ 60,270	\$ 49,263	\$ 1,328,635	153,433	\$ 8.66
Toledo Edison Company	\$ 4,669,487	\$ 1,151,822	\$ 145,512	\$ 5,966,821	314,440	\$ 18.98
Upper Peninsula Power Company	\$ 1,053,525	\$ 164,061	\$ 71,598	\$ 1,289,185	54,329	\$ 23.73
Wisconsin Electric Power Company	\$ 17,035,430	\$ 825,056	\$ 912,446	\$ 18,772,932	1,144,822	\$ 16.40
Wisconsin Public Service Corporation	\$ 6,139,923	\$ 106,026	\$ 379,824	\$ 6,625,773	454,892	\$ 14.57
<b>Total/Average</b>	<b>\$ 598,346,300</b>	<b>\$ 36,968,968</b>	<b>\$ 24,567,284</b>	<b>\$ 659,882,551</b>	<b>20,937,031</b>	<b>\$ 31.52</b>

Source: FERC Form 1; Baryenbruch & Company, LLC, analysis

## VI - Question 3 - Reasonableness of Customer Account Services Costs

### Summary of Results

As shown in the table below, INAWC's BY 2022 cost per customer is below the 2021 average cost of the utility comparison group. It can be concluded that INAWC's total BY 2022 customer account expenses compare favorably to those of other utilities.



Source: Company information; FERC Form 1; Baryenbruch & Company, LLC, analysis

### **Analysis of Services**

The final aspect of this Study is an assessment of whether the services provided to INAWC by the Service Company would be necessary if INAWC were not part of the American Water organization. The first step in this evaluation was to determine specifically what the Service Company does for INAWC. Based on discussions with Service Company personnel, the matrix in Exhibit 13 (pages 32-34) was created showing which entity—INAWC or a Service Company location—is responsible for each of the functions INAWC 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 water and wastewater 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 INAWC were not part of the American Water organization.
- There is no redundancy or overlap in the services provided by the Service Company to INAWC. 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	INAWC	Performed By:				
		American Water Service Company				
		Customer Call Center	Midwest	Central Services	T&I Service Centers	Central Lab
<b>Engineering and Construction Management</b>						
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					
<b>Water Quality and Purification</b>						
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
<b>Transmission and Distribution</b>						
Preventive Maintenance Program Development	P			S		
System Maintenance	P					
Leak Detection	P					
<b>Customer Service</b>						
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: INAWC responsible for State regulations, Central Services responsible for Federal regulations

Note 2: INAWC 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	INAWC	Performed By:				
		American Water Service Company				
		Customer Call Center	Midwest	Central Services	T&I Service Centers	Central Lab
<b>Financial Management</b>						
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		
<b>Internal Auditing</b>				P		
<b>Budgeting and Variance Reporting</b>						
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 (Budget/Plan Analysis)	P		S	S		
Prepare Capital Project Budget Status Report	P		S			
Year-End Projections	P		S			
<b>Accounting and Taxes</b>						
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 (B)	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. INAWC has the ability to issue LTD.

Note B: The Gross Receipts Tax was eliminated as of July 2022



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

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

Note A: INAWC is responsible for local inventory management while Central Services manages central supply chain items

### **Governance Practices Associated with Service Company Charges**

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

1. **Chief Operating Officer Oversight** – The Chief Operating Officer (COO) is on the Executive Leadership Team (ELT) of American Water. This position is responsible for the overall performance of each operating company in American Water. As part of the ELT, the COO has equal say with other ELT members in major business decisions of American Water and has the ability to monitor Service Company performance quality and spending. The COO also addresses local concerns with each operating company president.
2. **Operating Company Board Oversight** – The INAWC board of directors includes members of the INAWC management team and external business and community leaders. This diverse board ensures that INAWC's needs are a factor in the delivery of Service Company services. The INAWC board meets at a minimum of four times each year and at every meeting financial and operational reports and issues are discussed at length.
3. **Service Company Budget Review/Approval** – The ELT serves as the Board of Directors for the Service Company and must formally approve the budget for Service Company charges for the next year. These budgeted charges are consolidated with the operating company's own spending into an overall budget that must be approved by the operating company's board of directors.
4. **Major Project Review and Approval** – Before major Service Company non-capital projects are undertaken, they must be reviewed and approved by American Water's ELT, which includes the COO. The COO, with significant input from direct reports, has the ability to impact 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 ELT 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.
5. **Service Company Bill Scrutiny** – INAWC Finance personnel review the monthly Service Company operating expenses for accuracy and reasonableness. INAWC's Director of Finance discusses the monthly bill with Finance personnel, and any mistakes or overcharges are credited on a subsequent billing. The INAWC Director of Finance prepares an actual-to-budget comparison of management fees each month for use in identifying unusual variances. A Service Company actual-to-budget comparison is included in the monthly Financial Review Package (FRP). Unusual variances are researched, explanations are provided and any necessary corrections are made.
6. **Service Company Budget Variance Reporting** – Each month, a summary variance analysis is prepared that explains differences between budgeted and actual Service Company spending. In addition, a more detailed monthly variance report, called the "Statement of Expenses and Billed Charges," is produced by Service Company location and shows actual spending for the month.
7. **Operating Company Budget Variance Reporting** – The "Budget/Plan Analysis," produced monthly by each operating company, has line items for Management Fees and Shared Service Expense (i.e., IT, Call Center, etc.). In this way, Service Company budget versus actual charges as charged to the operating company can be monitored and reviewed for the month and year-to-date as compared to prior year, plan and reforecast.
8. **Capital Program Management (CPM)** – CPM is one of American Water's primary business planning processes. It covers capital and asset planning and is used throughout American Water. CPM provides a full range of governance practices, including a formal protocol for

## VII - Question 4 – Need for Service Company Services

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assessing system needs, prioritizing expenditures, managing the capital program, approving project spending, delivering projects and measuring outputs. CPM ensures that:

- Capital expenditure plans are aligned with the strategic intent of the business,
- The impact of capital expenditures and savings are fully reflected in operating expense plans,
- The effects of these plans are understood and affordable, and
- Effective controls are in place over budgets (through business plans) and individual capital projects (through appropriate authorization thresholds, management and reporting processes).

The CPM process was designed to optimize the effectiveness of asset investment. The process is managed at two levels for all American Water companies, including all INAWC Operating Units. Monthly meetings of the CPM are held to review capital spending compared to plan, review new project requests and review updates or modifications to existing projects. The President of INAWC and others (e.g., INAWC operations managers and Finance Director) participate, as necessary, and provide the data used in the monthly review schedules.

9. Accounting and Financial Reporting – The Service Company follows the same accounting and financial reporting processes as American Water’s regulated utilities. During the month, accounting transactions are recorded. At month-end, the Service Company Finance team reviews all transactions. Variance analyses are performed based on month-to-month actual as well as actual to budget to ensure accuracy. Once completed, the service company bill is produced, and the actuals are “pushed down” and allocated to the states based on predetermined formulas. A conference call is scheduled before the operating companies close their books each month to discuss Service Company performance. This is based at a functional level with explanation reported for any expense variances that meet or exceed certain thresholds. At this time, the operating companies may question expenses and spending for better understanding of results.