

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**VERIFIED PETITION OF CITIZENS WATER OF)
WESTFIELD, LLC FOR (1) AUTHORITY TO)
INCREASE RATES AND CHARGES FOR WATER)
UTILITY SERVICE AND APPROVAL OF A NEW)
SCHEDULE OF RATES AND CHARGES; (2)) CAUSE NO. 46020
AUTHORITY TO IMPLEMENT AND APPROVAL OF)
A SYSTEM DEVELOPMENT CHARGE; AND (3))
APPROVAL OF CERTAIN REVISIONS TO ITS)
TERMS AND CONDITIONS APPLICABLE TO)
WATER UTILITY SERVICE)**

**VERIFIED DIRECT TESTIMONY
of
CRAIG JACKSON**

**On
Behalf of
Petitioner,
Citizens Water of Westfield, LLC**

Petitioner's Exhibit No. 2

1 **INTRODUCTION AND BACKGROUND**

2 **Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A1. My name is Craig Jackson. My business address is 2020 North Meridian Street,
4 Indianapolis, Indiana.

5 **Q2. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A2. I am employed by the Board of Directors for Utilities of the Department of Public Utilities
7 of the City of Indianapolis (the "Board of Directors" or "Board"), which does business as
8 Citizens Energy Group ("Citizens"). I serve as Senior Vice President and Chief Financial
9 Officer.

10 **Q3. PLEASE DESCRIBE THE DUTIES AND RESPONSIBILITIES OF YOUR**
11 **PRESENT POSITION.**

12 A3. As Chief Financial Officer, I have direct responsibility and oversight for the financial
13 functions of Citizens and the utilities it manages and controls, including Citizens Water of
14 Westfield, LLC ("Westfield Water" or "Petitioner").

15 **Q4. HOW LONG HAVE YOU BEEN EMPLOYED BY CITIZENS?**

16 A4. I have been employed by Citizens since September 2021. I joined as Senior Vice President,
17 Special Projects and held that position until April 1, 2022. On April 1, 2022, I was named
18 Senior Vice President and Chief Financial Officer.

19 **Q5. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

20 A5. I received a Bachelor of Science degree in Business Administration from Bloomsburg
21 University in 1996. I also earned a Master of Business Administration degree in Finance
22 from Wright State University in 2001.

1 **Q6. PLEASE DESCRIBE YOUR PRIOR BUSINESS EXPERIENCE?**

2 A6. My prior business experience has spanned over 25 years, the majority of which have been
3 in financial and financial leadership roles.

4 *United States Air Force* (May 1996 to January 2000) - Finance Technician

5 *Dayton Power & Light Company* (February 2000 to November 2002) - I served as a
6 financial analyst responsible for budgeting, forecasting, and corporate modeling.

7 *PPL Corporation* (December 2002 – May 2004) - I served as team leader, ISO Settlements,
8 responsible for managing the settlement processes in the PJM, NYISO and NEISO regional
9 transmission organization markets.

10 *Dayton Power & Light Company* (June 2004 – May 2013) - In June 2004, I returned to
11 DP&L as Manager, Financial Planning and Analysis, reporting to the Chief Financial
12 Officer. From June 2004 to May 2012, I was promoted through several positions of
13 increasing responsibility within the Finance organization, the last of which was as Vice
14 President and Treasurer. In this position, I led the financial planning, budgeting, debt and
15 equity capital markets, cash management, risk management, and investor relations
16 functions. In November 2011, AES Corporation's ("AES") acquisition of DP&L closed
17 and in May 2012, I was promoted to Chief Financial Officer of DP&L.

18 *AES U.S. Services, LLC* (May 2013 – December 2018) - In May 2013, I was promoted to
19 Chief Financial Officer of AES US Services, LLC where I had direct responsibility and
20 oversight for the financial functions of Indianapolis Power & Light (today dba AES
21 Indiana), Dayton Power and Light (today dba AES Ohio) and AES' U.S. portfolio of
22 conventional and renewable generation. In December 2017, I was promoted to President
23 and CEO of AES U.S. Utilities and served in that capacity until December 2018.

24 *MasTec Corporation* (April 2019 – September 2021) - I joined MasTec Corporation as
25 Group CFO in April 2019, leading the finance functions for the Company's Transmission
26 and Substation Group, and served in that capacity until joining Citizens in September 2021.

27 **Q7. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

28 A7. Yes, I have provided written testimony on behalf of Citizens Thermal in Cause No. 45855
29 and Westfield Gas, LLC, d/b/a Citizens Gas of Westfield in Cause No. 45761.

30 Additionally, I have provided written testimony on behalf of Indianapolis Power & Light

1 in Cause No. 44339 (Eagle Valley Combined Cycle Water Turbine and Harding Street
2 Units 5 & 6 Refueling), and testimony in Cause Nos. 44576 and 45029 (IPL Basic Rates
3 Cases). Lastly, I have provided testimony before the Public Utility Commission of Ohio in
4 Dayton Power and Light's Electric Security Plan proceedings (Case No. 12-426EL-SSO,
5 *et al.*, and Case No. 16-0395-EL-SSO, *et al.*).

6 **Q8. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

7 A8. The purpose of my testimony is to discuss: (a) the importance of Petitioner's financial
8 integrity, (b) the fair value of Petitioner's utility property under Indiana law, (c) Petitioner's
9 capital structure, and (d) the proposed fair rate of return and fair return for Petitioner's
10 investment.

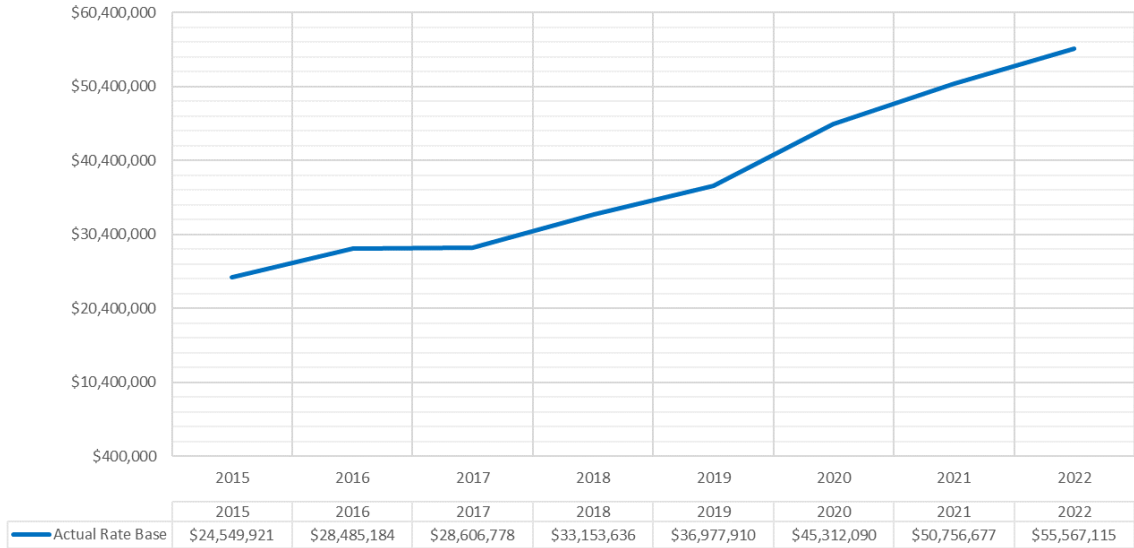
11 **Q9. WHY IS WESTFIELD WATER REQUESTING A RATE INCREASE IN THIS
12 PROCEEDING?**

13 A9. The City of Westfield has experienced population growth of 81.6%¹ since 2010. This
14 equates to an average population growth of approximately 5.1% per year from 2010 to
15 2022. Additionally, since the beginning of the COVID-19 pandemic in 2020, the City's
16 population growth has accelerated to an average of 8.5% per year. The expansion over the
17 past 12 years has required Westfield Water to invest in its water infrastructure to meet the
18 City's and its residents' needs. The investment by Westfield Water has largely been driven
19 by the City's growth and is clearly evidenced by the 94% growth in rate base between 2017
20 and 2022, as shown in the graph below.²

¹ Represents population growth from April 2010 to July 2022 as reported by the U.S. Census Bureau.
<https://www.census.gov/quickfacts/fact/table/westfieldcityindiana,IN/PST045222>

² Rate Base growth of 94% = $((55,567,115 - 28,606,778)/28,606,778)$. Note, the rate base shown in the graph is reflective of the rate base reported in Westfield Water's Annual Report that is filed with the Indiana Utility Regulatory

Westfield Water
2015 - 2022



1 To fund this continued growth, Westfield Water has an intensifying need to access the debt
2 capital markets, which puts increasing pressure on its ability to comply with its debt
3 capitalization covenants and meet its debt service obligations. Furthermore, Westfield
4 Water is experiencing cost pressures related to historically high levels of inflation, supply
5 chain challenges, and commodity price volatility. This confluence of activity has
6 negatively impacted Westfield Water’s financial integrity. Thus, Westfield Water is now
7 requesting a rate increase to recover its investments and costs, and to have an opportunity
8 to earn a reasonable rate of return, while continuing to provide safe and reliable service to
9 its customers.

Commission. This rate base amount is not, however, reflective of the Fair Value rate base used for ratemaking purposes in this proceeding.

1 **Q10. ARE YOU SPONSORING ANY EXHIBITS, ATTACHMENTS, OR**
2 **WORKPAPERS?**

3 A10. Yes. In addition to my testimony, I am sponsoring the following:

- 4 • Westfield Water Attachment CLJ-1: Fair Value Return
- 5 • Westfield Water Attachment CLJ-2: Capitalization and Cost of Capital
- 6 • Westfield Water Attachment CLJ-3: Average Cost of Debt
- 7 • Westfield Water Attachment CLJ-4: Fair Value Rate Base
- 8 • Westfield Water Attachment CLJ-5: Settlement from Cause No. 44273
- 9 • Westfield Water Attachment CLJ-6: Westfield Water A&R Credit and Continuing
10 Covenant Agreement (CONFIDENTIAL)

11 **FINANCIAL INTEGRITY AND CREDIT RATINGS**

12 **Q11. HOW DO YOU DEFINE FINANCIAL INTEGRITY?**

13 A11. I define financial integrity as: (a) having sufficient cash flow to pay all normal operating
14 expenses and capital expenditures that are necessary to ensure safe and reliable service; (b)
15 meeting all contractual debt obligations on a timely basis; (c) maintaining strong
16 investment grade credit ratings; and (d) having an opportunity to earn a reasonable rate of
17 return.

18 **Q12. WHY IS FINANCIAL INTEGRITY ESSENTIAL FOR WESTFIELD WATER AND**
19 **ITS CUSTOMERS?**

20 A12. A utility must have financial integrity to ensure it can (a) make the necessary operating and
21 capital investments (as noted above) that are required in the normal course of business to

1 ensure safe and reliable service; (b) access debt capital markets, in all economic cycles, to
2 refinance existing debt obligations on their contractually established maturity dates; (c)
3 attract reasonably priced debt and equity capital, during all economic cycles, to finance
4 growth in its regulated asset base; and (d) maintain reasonably priced capital to ensure
5 reasonable rates to our customers.

6 **Q13. WHAT ARE CREDIT RATINGS?**

7 A13. Credit ratings reflect a credit rating agency's independent judgement of a company's credit
8 worthiness and its ability to meet its outstanding debt obligations. Credit committees at
9 each agency determine the ratings of a company based on certain quantitative and
10 qualitative measures. These measures are used to assess the financial and business risks of
11 fixed-income issuers. Both S&P Global Ratings ("S&P") and Fitch Ratings ("Fitch")
12 delineate investment grade as any rating equal to "BBB-" or above, while Moody's
13 Investors Service ("Moody's") delineates investment grade as any rating equal to "Baa3"
14 or above. Non-investment grade ratings are "BB+" or below at S&P and Fitch, and "Ba1"
15 or below at Moody's.

16 **Q14. WHY ARE CREDIT RATINGS CONSIDERED AN IMPORTANT ELEMENT OF**
17 **A UTILITY'S FINANCIAL INTEGRITY?**

18 A14. Westfield Water operates in a capital-intensive industry and in a growing community. At
19 times, the Petitioner may need to issue short and/or long-term debt to meet its capital
20 expenditure requirements and to appropriately manage its capital structure. When
21 Westfield Water issues debt, credit rating agencies rate it as to the safety of principal and
22 interest based on the Petitioner's ability to pay. Credit ratings are important to investors

1 because the higher the rating, the safer the debt. But credit ratings are also important to
2 debt issuers, like Westfield Water, because they affect the cost of doing business and the
3 ability to access debt capital during all economic cycles. The higher the credit rating, the
4 less interest a company pays on its debt and the lower the cost burden on ratepayers to
5 service the debt. This is because investors are willing to accept lower interest for more
6 safety of principal and interest. Furthermore, the higher the credit rating, the more demand
7 there is for the debt and the easier it is for a company to sell it. With the Westfield
8 community continuing to grow and the on-going need for Petitioner to support this growth,
9 the ability to access the market and issue debt at the lowest rate possible helps secure
10 Westfield Water's financial integrity. More importantly, though, it positions Westfield
11 Water to continue fulfilling its mission to serve and create long-term benefit for the
12 Westfield community.

13 **Q15. PLEASE DESCRIBE THE IMPACT OF A CREDIT RATINGS DOWNGRADE.**

14 A15. A downgrade in Westfield Water's credit rating would lead to an increase in overall
15 financing costs, result in a higher cost of capital, and could limit access to the capital
16 markets under certain economic conditions. Customers would be adversely affected as
17 higher capital costs (a) lead to higher rates for water service and (b) strain resources that
18 could otherwise be utilized to meet our customers' on-going need for reliable service.

19 **Q16. IS COST CONTROL IMPORTANT TO WESTFIELD WATER AND ITS CREDIT**
20 **RATING?**

21 A16. Yes. Rating agencies evaluate Westfield Water's ability to manage costs as a key
22 component of financial integrity and credit ratings, as it directly impacts operating cash

1 flow and credit metrics. Internally, cost control is important to Westfield Water, but never
2 at the expense of safety. Westfield Water strives to be efficient in its asset management
3 process, the procurement of goods and services, and the management of our employees and
4 contractors. Our approach to cost management is customer focused and balances customer
5 service, system reliability, and legal/regulatory compliance, while incorporating best
6 practices for managing costs.

7 **Q17. WHAT IS WESTFIELD WATER'S CURRENT CREDIT RATING?**

8 A17. Westfield Water currently maintains an AA- credit rating, with a stable outlook from S&P.

9 **Q18. IS THERE CREDIT RATING RISK ASSOCIATED WITH PETITIONER?**

10 A18. Yes, there is credit risk from a cash volatility and financial flexibility perspective. In S&P's
11 most recent Westfield Water report³, dated April 4, 2022, it noted, "*We could lower the*
12 *rating if financial metrics were to decline, especially given recent unrestricted cash*
13 *volatility. If liquidity reserves were to remain nominally low and the system were to draw*
14 *on its LOC with no extension, we would view these levels as incommensurate with peers.*
15 *In addition, the rating could be pressured if debt to equity were to rise, and in our view,*
16 *pressure the system's ongoing financial flexibility.*" This could be problematic because as
17 discussed further below in my testimony, Westfield Water recently received a Commission
18 Order (Cause No. 45968; Final Order issued February 21, 2024) granting approval for it to
19 raise \$20 million of new long-term debt ("New Debt") with a term of up to 30 years.
20 Everything else being equal, an issuance of new debt based on this authority will result in

³ See S&P Global Ratings Report_April 2022, p. 4

1 worsening debt capitalization and interest coverage ratios. However, I believe this credit
2 risk can be mitigated.

3 **Q19. HOW CAN THIS CREDIT RISK BE MITIGATED?**

4 A19. The risk can be mitigated from two aspects. First, a balanced capital funding plan will
5 minimize the impact on Westfield Water's capitalization ratios. Westfield Water is
6 addressing this balanced funding approach through (a) on-going retained earnings, (b) an
7 \$8 million equity contribution it received from its parent in September 2023, and (c) the
8 planned New Debt issuance described earlier. Second, the risk will be mitigated through
9 Commission approval of our filing in this proceeding. As S&P stated in its April 4, 2022
10 report⁴, *"The rating reflects our opinion of the Westfield Water system's general credit*
11 *worthiness as the ultimate obligor on the debt. Given the previously mentioned regulatory*
12 *environment, system capital needs, supportive customer incomes, and a short history of*
13 *IURC approvals, we anticipate Citizens management would receive future rate increases*
14 *at or near the magnitude requested."*

15 **FAIR VALUE**

16 **Q20. WHAT IS THE LEGAL BASIS FOR WESTFIELD WATER TO VALUE ITS**
17 **PROPERTY AT FAIR VALUE FOR PURPOSES OF THE REQUESTED RELIEF?**

18 A20. My basis is Indiana statutory law. Specifically, IC 8-1-2-6 requires the Commission to
19 "value all property of every public utility actually used and useful for the convenience of
20 the public at its fair value." Additionally, the Indiana Supreme Court has held, "no

⁴ See S&P Global Ratings Report_April 2022, p. 3.

1 legislature may enact a law providing for a valuation of utility property for rate-making
2 purposes at other than its full fair value.” See Pub. Serv. Comm’n v. City of Indpls., 131
3 N.E. 3d 308, 317 (Ind. 1956). Thus, in accordance with IC 8-1-2-6, Westfield Water’s
4 property must be valued, for ratemaking purposes, at its fair value.

5 **Q21. HOW IS FAIR VALUE DEFINED FOR THESE PURPOSES?**

6 A21. I understand fair value to be defined as the true current worth of property, best measured
7 by what a third-party market participant would be willing to pay for the property. My
8 understanding of fair value has been influenced through (a) my academic training, (b) my
9 practical valuation experience related to business entities, property, and a combination
10 thereof, and (c) specifically as it relates to ratemaking in Indiana, by Orders of the
11 Commission and by decisions of the Indiana Courts.

12 **Q22. WHAT ORDERS OF THE COMMISSION AND/OR DECISIONS OF THE**
13 **INDIANA COURTS HAVE INFORMED THIS DEFINITION OF FAIR VALUE?**

14 A22. This definition of fair value is closely aligned to and has been informed by Orders of the
15 Commission and by decisions of the Indiana Courts. Specifically, the Commission defined
16 fair value in its Order in Cause No. 39314 (Indiana Michigan Power Company, November
17 12, 1993, at p. 46):

18 [W]e believe that the fair value of a utility’s property is most
19 analogous to the true current worth of that property, perhaps what a
20 willing buyer would pay a willing seller in an arms length
21 transaction. ... [W]e must consider the effects of inflation upon the
22 value of a utility’s property and its cost to be reproduced at current
23 prices. ... Thus, the Commission is charged specifically by statute
24 and by the Courts with considering all of the factors which can be
25 quantified such as reproduction cost new, net original cost, and the
26 effects of inflation in determining the true current worth or fair value
27 of the utility’s used and useful property. [Emphasis added.]

1 Indiana case law is consistent with this definition of fair value, as is set forth, for example,
2 in City of Indianapolis v. Public Serv. Comm'n, 131 N.E.2d 308, 325 (Ind. 1956):

3 We judicially know there has been inflation in values since 1939. ...
4 If the state condemns a shack in shanty town the owner is
5 compensated according to its value when taken, and not according
6 to what it cost him. ... Utilities are not bought and sold in any market
7 place so that a market value can be thus established, and in an area
8 like Indianapolis, with its growth or population and industry
9 reproduction cost new less depreciation cannot be disregarded in
10 fixing a valuation for rate making purposes.

11 See also Indianapolis Water Company v. Public Serv. Comm'n, 484 N.E.2d 635, 640 (Ind.
12 Ct. App. 1985) (quoting City of Indianapolis, 131 N.E.2d at 325).

13 **Q23. DOES FAIR VALUE DIFFER FROM ORIGINAL COST?**

14 A23. Yes. Original cost represents the initial costs incurred to place an asset in service. It is this
15 cost upon which the asset is then depreciated over its useful life. Fair value, by contrast, is
16 defined as the true worth of the asset at a given point in time. This is an important
17 distinction and was noted by the Commission in its Order on remand in Cause No. 37612.

18 In this Order, the Commission stated:

19 [R]eference to language that alludes that fair value is a choice
20 between either original cost or reproduction costs new is
21 erroneous.... "Fair value is a conclusion or final figure, drawn from
22 all the various 'values' or factors to be weighed in accordance with
23 the statute by the Commission." [quoting City of Indianapolis, 131
24 N.E.2d at 318.] ... "[C]ourts will not limit the Commission to any
25 one or more methods of valuation, be it prudent investment, original
26 cost, present value, or cost of reproduction." [*Id.*]

27 Original cost is therefore not the same as fair value, but rather it is merely one of various
28 valuation methods available for the Commission to consider in determining fair value:

29 [W]hile original cost is one of the factors which the Commission
30 should consider in arriving at a fair value figure, it is not necessarily,

1 in and of itself, an accurate reflection of the fair value of the
2 company's property. [Indianapolis Water Co., Cause No. 37612.]

3 **RATE BASE**

4 **Q24. PLEASE DESCRIBE THE MAJOR RATE BASE COMPONENTS OF THE**
5 **SETTLEMENT AGREEMENT ("SETTLEMENT") AND SUBSEQUENT**
6 **COMMISSION ORDER IN CAUSE NO. 44273?**

7 A24. There were two primary components in the Settlement related to rate base: (1) Net Original
8 Cost of Utility Plant as of December 31, 2011, and (2) Recognition of a Fair Value
9 Increment on Utility Plant. The parties to the Settlement agreed to a finding on the net
10 original cost of certain utility plant, as of December 31, 2011 ("Pre-2012 assets"),
11 consistent with Part (a) of Schedule 12.10(b) of the asset purchase agreement. Specifically,
12 the agreed net original cost of utility plant for the Westfield Water system was deemed to
13 be \$12,470,000. In addition to the net original cost finding, the parties agreed that Westfield
14 Water would be allowed to earn a return on, but not of, a fair value increment of \$6,960,000
15 in future cases. However, the parties did not agree, in that proceeding to a rate of return
16 methodology with respect to the fair value increment. Rather, the parties agreed that
17 Westfield Water would amortize the fair value increment over 40 years from the date of
18 the closing of the Westfield Water acquisition transaction, which ultimately took place in
19 2014.

20 **Q25. CAN YOU EXPLAIN FURTHER WHAT YOU MEAN WITH THE PHRASE "PRE-**
21 **2012 ASSETS"?**

1 A25. Yes. Part of the Settlement addressed the net original cost of the utility plant that would be
2 conveyed to Westfield Water, and the minimum fair value increment that Westfield Water
3 would be allowed to earn a return on, but not of, both as of December 31, 2011. The net
4 original cost of utility plant, when added to the minimum fair value increment for purposes
5 of Westfield Water's next rate case, would not total less than \$19,430,000, as of December
6 31, 2011, assuming the \$6,960,000 fair value increment amount discussed above.
7 Accordingly, those assets valued as of December 31, 2011, in the total amount of
8 \$19,430,000, after addition of the agreed fair value increment amount to the net original
9 cost of utility plant, are what I refer to herein as the "Pre-2012 Assets." In other words,
10 those assets in existence as of the date chosen for the Settlement valuation, *i.e.*, December
11 31, 2011. Conversely, those assets added to utility plant after that date (beginning January
12 1, 2012) would be "Post-2011 Assets" for purposes of my testimony. A copy of the
13 Commission-approved Settlement from Cause No. 44273 is attached as Attachment CLJ-
14 5.

15 **Q26. HAVE YOU CALCULATED WESTFIELD WATER'S FAIR VALUE RATE**
16 **BASE?**

17 A26. Yes. Given this proceeding is based on a forward test year, I have provided the fair value
18 rate base at three distinct time periods: (a) Base Period which reflects the actual 12 months
19 ending June 30, 2023; (b) Link Period which reflects the proforma 12 months ending June
20 30, 2024; and (c) Test Period which reflects the proforma 12 months ending June 30, 2025.
21 As shown on Attachment CLJ-4 (Line 3), Westfield Water's total fair value rate base(s)
22 are as follows:

- 1 • Base Period: \$82,057,254
- 2 • Link Period: \$88,355,069
- 3 • Test Period: \$89,890,020

4 The fair value rate base amounts were calculated using the (a) stipulated net original cost
5 value of the Pre-2012 Assets, adjusted for depreciation, plus the unamortized portion of
6 the agreed to fair value increment (see Petitioner's Witness Johnson's testimony for the
7 detailed calculation); and (b) the fair value of utility plant for the Post-2011 Assets, as
8 provided by Petitioner's Witness Bui.

9 **Q27. DOES PETITIONER'S FAIR VALUE RATE BASE CALCULATION COMPLY**
10 **WITH THE SETTLEMENT AND SUBSEQUENT ORDER IN CAUSE NO. 44273?**

11 A27. Yes. As I explained earlier in my testimony, and in accordance with the terms of the
12 Settlement described above, the fair value of the Pre-2012 Assets, in this proceeding,
13 reflects the stipulated net original cost value of those assets plus the unamortized portion
14 of the agreed to fair value increment. The detailed calculation, which reflects the
15 compliance, is included in Petitioner's Witness Johnson's Attachment CAJ-4.

16 **Q28. HOW DOES THE STIPULATED RATE BASE COMPARE TO PETITIONER**
17 **WITNESS BUI'S FAIR VALUE OPINION ON THE PRE-2012 ASSETS?**

18 A28. The table below shows a comparison of the amount, as of June 30, 2023, the Petitioner will
19 be authorized to earn a return on for the Pre-2012 Assets based on the Cause No. 44273
20 Settlement Agreement compared to the replacement cost new less depreciation value of
21 those assets.

| | Stipulated Rate Base Amounts for Pre- Settlement Assets Under Cause No. 44273 Settlement Agreement | | Fair Value of Pre-Settlement Assets as of June 30, 2023 Based on Replacement Cost New Less Depreciation |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------|-----|------------------------------------------------------------------------------------------------------------------|
| Net Original Cost of Pre-Settlement Assets | \$1,966,828 | (1) | |
| Unamortized Fair Value Increment | 5,345,823 | (2) | |
| Total | \$7,312,651 | | \$50,455,333 (3) |

(1) Petitioner Witness Johnson Attachment CAJ-4, Line 5 + Line 7

(2) Petitioner Witness Johnson Attachment CAJ-4, Line 8

(3) Petitioner Witness Bui Attachment ATB-1, Page 1, Line 41

1 **Q29. WHAT CONCLUSION DO YOU REACH BASED ON MS. BUI'S OPINION OF**
2 **THE FAIR VALUE OF THE PRE-2012 ASSETS COMPARED TO THE**
3 **STIPULATION ESTABLISHED IN CAUSE NO. 44273 WITH RESPECT TO**
4 **THAT PLANT?**

5 A29. As shown above, a comparison of Ms. Bui's fair value opinion and the stipulation
6 demonstrates that the fair value of the Pre-2012 Assets is substantially higher than the
7 combination of the stipulated net original cost of such plant, less depreciation, plus the
8 unamortized portion of the agreed to fair value increment that the Petitioner will be
9 authorized to earn a return on in this case. In other words, if the Petitioner were solely
10 interested in maximizing the overall return to be authorized in this case, it would abandon
11 the stipulations established in Cause No. 44273 and request an opportunity to earn a return
12 on the fair value of all its utility plant, including the Pre-2012 Assets.

13 **Q30. IS PETITIONER REQUESTING, IN THIS CASE, AN OPPORTUNITY TO EARN**
14 **A RETURN ON THE FAIR VALUE OF THE PRE-2012 ASSETS?**

1 A30. No. Although Cause No. 44273 Settlement Agreement provides Petitioner the discretion
2 to seek an opportunity to earn a return on the fair value of the Pre-2012 Assets, Westfield
3 Water has reduced the return it is requesting in this case by limiting the value of the Pre-
4 2012 Assets in accordance with the net original cost and fair value increment stipulations
5 reached in the Cause No. 44273 Settlement Agreement.

6 **CAPITAL STRUCTURE**

7 **Q31. PLEASE DESCRIBE THE INVESTOR SUPPLIED CAPITAL COMPONENTS**
8 **THAT YOU HAVE REFLECTED IN THE CALCULATION OF WESTFIELD**
9 **WATER'S CAPITAL STRUCTURE.**

10 A31. Westfield Water seeks to maintain its financial integrity and a high investment grade profile
11 so that we can deliver safe and reliable water service at a reasonable cost to our customers.
12 Maintaining an appropriate capital structure and high investment grade profile are
13 important to ensure we can (a) access the credit markets at attractive rates during all
14 economic cycles and (b) always meet our financial obligations. As of June 30, 2023,
15 Petitioner's actual capital structure was as follows:

| Type of Capital | Amount | % of Total |
|--------------------|--------------|------------|
| Common Equity | \$50,311,637 | 58.28% |
| Long-Term Debt | \$36,000,000 | 41.70% |
| Customer Deposits | \$ 19,747 | 0.02% |
| TOTAL at 6/30/2023 | \$86,331,384 | 100.00% |

(See Attachment CLJ-2).

16 **Q32. PLEASE DESCRIBE THE PETITIONER'S OUTSTANDING LONG-TERM**
17 **DEBT.**

1 A32. Petitioner has two Revenue Bond Series (“Series 2019A” and “Series 2022A”, collectively
2 “Utility Bonds”) outstanding as of June 30, 2023, totaling \$36 million. The financing
3 structure for the Utility Bonds is a fixed rate, non-amortizing debt. Therefore, the utility
4 pays debt service equal to the interest on the borrowings and not any principal. When the
5 debt matures, the amount borrowed is expected to be refinanced over a new term.

6 **Q33. DOES THE PETITIONER HAVE SHORT-TERM DEBT OUTSTANDING AT**
7 **JUNE 30, 2023?**

8 A33. No. However, the Petitioner has a \$7 million revolving line of credit facility available for
9 working capital purposes.

10 **Q34. WHAT IS THE PETITIONER'S COST OF LONG-TERM DEBT AT JUNE 30,**
11 **2023?**

12 A34. As shown on Attachment CLJ-3 (line 3), Petitioner's average cost of long-term debt was
13 4.0% at June 30, 2023.

14 **Q35. WHAT IS THE BASIS FOR THE COMMON EQUITY OF 10.9% AS SHOWN ON**
15 **ATTACHMENT CLJ-2?**

16 A35. Petitioner's witness Malinak has recommended a common equity rate of 10.9% for
17 Westfield Water. I have included the 10.9% common equity rate in the weighted average
18 cost of capital calculation.

19 **Q36. IS PETITIONER PROPOSING ANY MATERIAL CHANGES TO ITS JUNE 30,**
20 **2023 CAPITAL STRUCTURE AND SUBSEQUENT WEIGHTING?**

21 A36. Yes. There are two specific transactions that will have a material impact on the Petitioner's
22 capital structure as of the link and base periods. First, Citizens Westfield Utilities

1 (“CWU”), the parent of Westfield Water, contributed \$8 million of capital to Westfield
2 Water in September 2023. Second, as is mentioned earlier in my testimony, Westfield
3 Water recently received approval from the Commission (Cause No. 45968) to raise up to
4 \$20 million in aggregate principal amount of new long-term debt (identified above as “New
5 Debt”), in one or more series, with the last being issued no later than December 31, 2024.
6 Similar to Westfield Water’s existing long-term debt, the financing structure for the New
7 Debt will be an up to 30-year, non-amortizing loan. For purposes of my testimony in this
8 current proceeding, I have assumed Westfield Water issues the New Debt, at a currently
9 estimated interest rate of 5%⁵, prior to the end of the link period, June 30, 2024. The
10 combination of the \$8 million capital contribution and \$20 million of new long-term debt
11 will result in a total of \$28 million of incremental capital, since June 2023, that will be
12 reflected in the proforma capital structure at June 30, 2024 and June 30, 2025.

13 **Q37. ARE THERE OTHER CHANGES EXPECTED TO THE CAPITAL STRUCTURE**
14 **PRIOR TO THE END OF THE LINK PERIOD?**

15 A37. Yes. In addition to the equity contribution and New Debt discussed above, there will be
16 incremental retained earnings from June 2023 to June 2025. Such incremental retained
17 earnings are reflected in Petitioner’s Witness Karner’s projected balance sheet on
18 Attachment SEK-2, page 2.

19 **Q38. PLEASE DESCRIBE THE PROFORMA CAPITAL STRUCTURE?**

20 A38. The proforma capital structure is estimated as follows (see Attachment CLJ-2):

⁵ The interest rate on the New Debt reflects market pricing as of November 2023, as provided to Westfield Water by Bank of America. The interest rate will be reconciled and trued-up upon debt issuance.

| (\$ in thousands) | Actual At June 30, 2023 | | Proforma At June 30, 2024 | | Proforma At June 30, 2025 | |
|-------------------|-------------------------|------------|---------------------------|------------|---------------------------|------------|
| | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| Estimated Capital | | | | | | |
| Common Equity | \$50,311,637 | 58.28% | \$61,846,295 | 52.47% | \$64,771,317 | 53.62% |
| Long-Term Debt | \$36,000,000 | 41.70% | \$56,000,000 | 47.51% | \$56,000,000 | 46.36% |
| Customer Deposits | \$19,747 | 0.02% | \$19,747 | 0.02% | \$19,747 | 0.02% |
| Total | \$86,331,384 | 100.00% | \$117,866,042 | 100.00% | \$120,791,064 | 100.00% |

Note: Westfield Water has no prepaid pensions assets, deferred income taxes, or Post 1970 investment tax credits. Given the values are zero and for presentation purposes only, they have been excluded from the table above.

1 **Q39. DOES WESTFIELD WATER'S ESTIMATED PROFORMA CAPITAL**
 2 **STRUCTURE HAVE AN APPROPRIATE EQUITY COMPONENT?**

3 A39. Yes. Inclusive of the \$32 million of new proforma capital (debt and equity) and incremental
 4 retained earnings discussed earlier, Westfield Water's proforma equity component and
 5 overall capital structure reflects our managed approach to capital structure and takes into
 6 consideration (a) the ability to access the debts given company size and limitations on debt
 7 service coverage capacity, (b) restrictive leverage covenants within our banking
 8 documents, and (c) potential adverse consequences from an untimely overleveraged
 9 position.

10 **Q40. WHAT LIMITATIONS ON DEBT SERVICE COVERAGE CAPACITY EXIST**
 11 **FOR WESTFIELD WATER?**

12 A40. Westfield Water has restrictive covenants with respect to debt capitalization and interest
 13 coverage. For example, per the terms of its bank line of credit agreement,⁶ Westfield
 14 Water's debt capitalization cannot exceed 55%. The proforma debt capitalization, as shown
 15 above, is estimated to be 47.51% at June 30, 2024 and 46.36% at June 30, 2025, which
 16 meets the negative covenant requirement. It is important to note that the utility should never

⁶ See Attachment CLJ-6: Westfield Water A&R Credit and Continuing Covenant Agreement (Section 9.14 on page 77).

1 issue debt up to its covenant. Doing so removes all flexibility Westfield Water has to
2 manage through adverse earnings scenarios, which could negatively impact retained
3 earnings, and ultimately could cause the utility to be in an Event of Default⁷ as a result of
4 it breaching the negative debt covenant. An event of default would have consequences for
5 Westfield Water.

6 **Q41. WHAT ARE THE CONSEQUENCES OF AN EVENT OF DEFAULT THAT YOU**
7 **REFER TO?**

8 A41. In summary, the Lenders supporting the line of credit agreement would no longer be
9 obligated to make loans under the agreement and the Issuing Lender would be under no
10 obligation to issue letters of credit. Specifically, the Lenders and Issuing Lender would
11 have the right to terminate their obligations under the agreement. Additionally, the Lenders
12 would have the right to seek remedy for any drawn balances. Further details are included
13 in the line of credit agreement⁸.

14 **FAIR RATE OF RETURN**

15 **Q42. HOW DOES FAIR VALUE RELATE TO FAIR RATE OF RETURN?**

16 A42. In addition to determining the fair value of utility property or rate base upon which an
17 opportunity to earn a return will be authorized, the Commission must also decide a fair rate
18 of return to apply to the fair value rate base. The key is that the rate of return a utility is
19 authorized to apply must be sufficient to allow it an opportunity to earn a fair return on the

⁷ See Attachment CLJ-6: Westfield Water A&R Credit and Continuing Covenant Agreement (Section 10.1(c)).

⁸ See Attachment CLJ-6: Westfield Water A&R Credit and Continuing Covenant Agreement (Sections 10.2 and 10.3)

1 fair value of its investment in utility plant. In the Indianapolis Water Co. v. Public Service
2 Commission of Indiana case I referenced earlier, “the Indiana Court of Appeals confirmed
3 that a utility is entitled to earn a fair rate of return on the fair value of its used and useful
4 property.” See Cause No. 39314 (Indiana Michigan Power Company), Final Order at
5 Section 9(A)(i) (citing Indianapolis Water Co., 484 N.E.2d 635). Additionally, in the
6 Indiana Michigan rate case Order in Cause No. 39314 that I mentioned above, the
7 Commission explained:

8 it is increasingly clear that a ratemaking agency’s rate of return
9 formula must be methodically consistent with its rate base
10 development. Otherwise, the result will be insupportably arbitrary
11 and unlawful since the ratemaking agency has a duty to ensure that
12 the method of selecting the appropriate rate of return is reasonably
13 related to the method of calculating the rate base. When the two
14 methods lack consistency the combination of rate base and rate of
15 return methodology does not produce an acceptable end result.

16 (Order at p. 42.)

17 Furthermore, in the same Indiana Michigan Order, the Commission stated, “the
18 Commission must find the current fair value of Petitioner’s used and useful property
19 dedicated to service of the public in Indiana and give actual effect to that fair value finding
20 in determining allowed return.” (Order at p. 46.)

21 **Q43. IF THE FAIR VALUE OF WESTFIELD’S PROPERTY EXCEEDS ITS ORIGINAL**
22 **COST, SHOULD THE FAIR RATE OF RETURN ON THE FAIR VALUE OF**
23 **PROPERTY RESULT IN THE SAME DOLLAR RETURN THAT WOULD BE**
24 **ALLOWED IF THE RATE BASE WAS VALUED AT ITS ORIGINAL COST?**

25 A43. No. If the property value increases and exceeds the original cost, Westfield Water is entitled
26 to benefit from the increase and, therefore, the dollar return should be greater. Conversely,

1 if the property value decreases and is less than the original cost, the dollar return should
2 also be less. This truth was embraced by the Commission in the Indiana Michigan Order
3 discussed above, Cause No. 39314. In that Order, the Commission explicitly rejected an
4 intervenor's proposal to essentially ignore fair value and the increase in the worth of the
5 utility's rate base by "backing into" a return based on original cost. The Commission stated:

6 [The witness], although disclaiming any specific rate base
7 recommendation, suggests that the Commission pay mere lip service
8 to "fair market value rate base", while actually establishing rates and
9 allowed return on a net original cost rate base....

10 This we cannot do. The Court's directives to this
11 Commission on fair value ratemaking are more than hollow words.
12 When utility property "has increased in value since it was acquired,
13 the Company is entitled [to] the benefit of such increase."
14 Columbus Gaslight Co. v. Public Service Commission (1923), 193
15 Ind. 399, 140 N.E. 538, 539 (quoting from Wilcox v. Consolidated
16 Gas Co. 212 U.S. 19, 52 (1909). As the North Carolina Supreme
17 Court stated in State ex. rel. Utilities Commission v. Duke Power
18 Co. (1974), N.C., 206 S.E.2d 269, 279:

19 The concept...of a fair rate of return on the fair value
20 of the property used in rendering the service clearly
21 contemplates the allowance of a greater dollar return
22 that would be allowed if the rate base were the
23 original cost, depreciated to the same properties,
24 assuming, as is here true, that the value of the
25 properties has been enhanced by inflation.
26 Otherwise, the exceedingly costly and laborious
27 determination of "fair value" as distinguished from
28 original cost would be a meaningless exercise.

29 Cause No. 39314 Order at pp. 43-44.

30 **Q44. SINCE THE FAIR VALUE RATE BASE AND FAIR RATE OF RETURN BOTH**
31 **INCLUDE THE EFFECTS OF INFLATION, IS WESTFIELD WATER DOUBLE**
32 **COUNTING A PORTION OF ITS RECOMMENDED DOLLAR RETURN?**

1 A44. No. An investor would expect to earn an unadjusted rate of return on an investment. Given
2 rate regulation is a substitute for competition, this suggests that the fair rate of return in
3 rate regulation should not be adjusted for inflation. Witness Malinak addresses this issue
4 further in his testimony for this Cause.

5 **Q45. WHAT IS WESTFIELD WATER'S PROPOSED FAIR RATE OF RETURN?**

6 A45. Westfield Water's proposed fair rate of return is 7.58% at June 30, 2024 (Link Period) and
7 7.651% at June 30, 2025 (Test Period), as shown on Attachment CLJ-2, Line 4.

8 **Q46. WHAT IS WESTFIELD WATER'S PROPOSED FAIR RETURN?**

9 A46. As discussed above, if the fair value of property exceeds the original cost of property,
10 Westfield Water is entitled to benefit from the increase and the return should be greater.
11 Based on this premise and the underlying terms of the Settlement Agreement and
12 subsequent Commission Order in Cause No. 44273 discussed earlier, the proposed fair
13 return, as of June 30, 2024 and June 30, 2025, is as follows (see Attachment CLJ-1, Lines
14 1 – 3):

| | Link Period (June 30, 2024) | Base Period (June 30, 2025) |
|--------------------------|-----------------------------------|-----------------------------------|
| Fair Value Rate Base | \$88,355,069 | 89,890,020 |
| Weighted Cost of Capital | 7.790% | 7.866% |
| Fair Return | \$6,883,137 | \$7,070,404 |

15

16 **CONCLUSION**

17 **Q47. PLEASE SUMMARIZE YOUR TESTIMONY.**

18 A47. Westfield Water's base rates and charges have been in place since the 2014 utility
19 acquisition approved by the Commission in Cause No. 44273. Since that time, Petitioner

1 has made significant investments in the utility plant necessary to serve the growth of the
2 City of Westfield, nearly doubling its rate base from 2017 to 2022. Moreover, Westfield
3 Water is experiencing cost pressures related to high inflation, supply chain disruptions, and
4 commodity price volatility. Such circumstances have negatively impacted Westfield
5 Water's financial integrity. Westfield Water needs to improve its financial integrity so that
6 it can access the public debt markets as a source of capital funding, comfortably meet its
7 debt service requirements, maintain strong credit ratings, and meet the growth expected to
8 continue in the Westfield community. Adjusting rates to allow the Petitioner an opportunity
9 to earn a fair return on the fair value of its rate base is an important step to that end. We
10 have taken a measured approach by proposing a reasonable fair value rate base and fair
11 rate of return. Based on the foregoing and the testimony of the other witnesses testifying
12 in support of Westfield Water's Petition, I respectfully request the Commission grant
13 Petitioner the relief it has requested.

14 **Q48. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

15 A48. Yes, this time.

VERIFICATION

The undersigned affirms under the penalties for perjury that the foregoing testimony is true to the best of his knowledge, information, and belief.



Craig Jackson

| Line No. | Item | Source | At June 30, 2023 (Base Period) | | | Proforma At June 30, 2024 (Link Period) | | | Proforma At June 30, 2025 (Test Period) | | |
|----------|--------------------------|---------------------------------|--------------------------------|---------------|---------------|-----------------------------------------|---------------|---------------|-----------------------------------------|---------------|---------------|
| | | | Pre-2012 | Post 2011 | Total | Pre-2012 | Post 2011 | Total | Pre-2012 | Post 2011 | Total |
| | | | Assets | Assets | | Assets | Assets | | Assets | Assets | |
| 1 | Fair Value Rate Base | Attachment CLJ-4, Lines 1 and 2 | \$ 7,312,651 | \$ 74,744,633 | \$ 82,057,284 | \$ 6,449,863 | \$ 81,905,206 | \$ 88,355,069 | \$ 5,601,205 | \$ 84,288,815 | \$ 89,890,020 |
| 2 | Weighted Cost of Capital | Attachment CLJ-2, Line 4 | 8.021% | 8.021% | 8.021% | 7.790% | 7.790% | 7.790% | 7.866% | 7.866% | 7.866% |
| 3 | Fair Value Return | Line 1 X Line 2 | 586,566 | 5,995,455 | 6,582,021 | 502,465 | 6,380,673 | 6,883,137 | 440,569 | 6,629,835 | 7,070,404 |

Citizens Water of Westfield
Capitalization and Cost of Capital

Attachment CLJ-2

| Line No. | Capitalization | Source | Capitalization and Cost of Capital at June 30, 2023 (Base Period) | | | | Proforma Capitalization and Cost of Capital at June 30, 2024 (Link Period) | | | | Proforma Capitalization and Cost of Capital at June 30, 2025 (Test Period) | | | |
|----------|---------------------------------------------------|------------------------------------------|----------------------------------------------------------------------|------------------|---------------------|--------------------------|-------------------------------------------------------------------------------|------------------|---------------------|--------------------------|-------------------------------------------------------------------------------|------------------|---------------------|--------------------------|
| | | | Amount | Percent of Total | Cost of Capital | Weighted Cost of Capital | Amount | Percent of Total | Cost of Capital | Weighted Cost of Capital | Amount | Percent of Total | Cost of Capital | Weighted Cost of Capital |
| 1 | Common Equity | Attachments SEK-1 and 2, page 1, Line 23 | \$ 50,311,637 | 58.28% | 10.90% ¹ | 6.352% | \$ 61,846,295 | 52.47% | 10.90% ¹ | 5.719% | \$ 64,771,317 | 53.62% | 10.90% ¹ | 5.845% |
| 2 | Long-Term Debt | Attachments SEK-1 and 2, page 1, Line 24 | 36,000,000 | 41.70% | 4.00% ² | 1.668% | 56,000,000 | 47.51% | 4.36% ² | 2.070% | 56,000,000 | 46.36% | 4.36% ² | 2.020% |
| 3 | Customer Deposits | Attachments SEK-1 and 2, page 1, Line 34 | 19,747 | 0.02% | 4.50% ³ | 0.001% | 19,747 | 0.02% | 4.50% ³ | 0.001% | 19,747 | 0.02% | 4.50% ³ | 0.001% |
| 4 | Prepaid Pension Asset or Post Retirement Liabilit | N/A | - | 0.00% | 0.00% | 0.000% | - | 0.00% | 0.00% | 0.000% | - | 0.00% | 0.00% | 0.000% |
| 5 | Deferred Income Taxes | N/A | - | 0.00% | 0.00% | 0.000% | - | 0.00% | 0.00% | 0.000% | - | 0.00% | 0.00% | 0.000% |
| 6 | Post 1970 Investment Tax Credit | N/A | - | 0.00% | 0.00% | 0.000% | - | 0.00% | 0.00% | 0.000% | - | 0.00% | 0.00% | 0.000% |
| 4 | Total Capitalization | | \$ 86,331,384 | 100.00% | | 8.021% | \$ 117,866,042 | 100.00% | | 7.790% | \$ 120,791,064 | 100.00% | | 7.866% |

(1) Testimony of Petitioner's Witness Malinak (Add page reference).

(2) Attachment CLJ-3, Lines 3 and 5

(3) IURC GAO 2022-03

(4) The proforma common equity adjustment includes the following:

- a. Equity contribution from CWU, LLC to Westfield Water in September 2023
- b. Proforma incremental retained earnings, at current rates, for the 12 months ending June 30, 2024 and June 30, 2025
- c. Total Proforma Common Equity Adjustments

| | |
|---------------------|----------------------------------|
| \$8,000,000 | |
| \$3,534,658 | (Source: SEK-2, page 2, line 14) |
| <u>\$11,534,658</u> | |

| | |
|--------------------|----------------------------------|
| \$0 | |
| \$2,925,022 | (Source: SEK-2, page 2, line 14) |
| <u>\$2,925,022</u> | |

(5) See footnote (1) from Attachment CLJ-3.

Citizens Water of Westfield
Average Cost of Debt

Attachment CLJ-3

| Line No. | Debt Series | Debt Outstanding | Interest Rate % | Annualized Interest |
|----------|-------------------------------------------------------------------|---------------------|-----------------|---------------------|
| 1 | Series 2019A Revenue Bonds due 2048 | \$20,000,000 | 4.00% | \$800,000 |
| 2 | Series 2022A Revenue Bonds due 2052 | \$16,000,000 | 4.00% | \$640,000 |
| 3 | Total Debt @ June 30, 2023 | \$36,000,000 | 4.00% | \$1,440,000 |
| 4 | Proposed New Debt ⁽¹⁾ | \$20,000,000 | 5.00% | \$1,000,000 |
| 5 | Total Proforma Debt @ June 30, 2024 and 2025⁽²⁾ | \$56,000,000 | 4.36% | \$2,440,000 |

(1) Citizens Water of Westfield recently received a Commission Order (Cause No. 45968; Final Order issued February 21, 2024) granting approval for it to raise \$20 million of new long-term debt ("New Debt"). Based on current market conditions, the New Debt is projected to have a 30 year term, 5% coupon rate, and a bullet maturity.

(2) The Proforma financial projections are based on current rates and include short-term borrowing balance of \$1,591,000 at June 30, 2025 (See Attachment SEK-2, page 1, line 31). The drawn amount is seasonal and therefore, it has been excluded from the proforma debt schedule above.

**Citizens Water of Westfield
Fair Value Rate Base**

| Line No. | Item | Source | At June 30, 2023 (Base Period) |
|-----------------|----------------------------------------------|------------------------------------------------------------------------|-------------------------------------------|
| 1 | Pre-2012 Assets Original Cost ⁽¹⁾ | Petitioner Witness Johnson Attachment CAJ-4, Line 9 | \$ 7,312,651 |
| 2 | Post 2011 Assets Fair Value | Petitioner Witness Bui Attachment ATB-1, Page 1 (Lines 41, 46, and 51) | <u>74,744,633</u> |
| 3 | Total Fair Value Rate Base | Line 1 + Line 2 | <u><u>\$ 82,057,284</u></u> |

⁽¹⁾ The Pre-2012 assets values are per the terms of the Westfield Water acquisition Settlement Agreement and subsequent IURC Order

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF CITIZENS WATER OF)
WESTFIELD, LLC, CITIZENS WASTEWATER OF)
WESTFIELD, LLC AND THE CITY OF WESTFIELD,)
INDIANA FOR APPROVALS IN CONNECTION)
WITH THE PROPOSED TRANSFER OF CERTAIN)
WATER UTILITY ASSETS TO CITIZENS WATER)
OF WESTFIELD, LLC AND THE PROPOSED)
TRANSFER OF CERTAIN WASTEWATER UTILITY)
ASSETS TO CITIZENS WASTEWATER OF)
WESTFIELD, LLC, INCLUDING: (1) APPROVAL OF)
THE ACQUISITION BY CITIZENS WATER OF)
WESTFIELD, LLC AND CITIZENS WASTEWATER)
OF WESTFIELD, LLC OF CERTAIN WATER AND)
WASTEWATER UTILITY ASSETS; (2) APPROVAL)
OF ACCOUNTING AND RATE BASE TREATMENT)
OF THE WATER AND WASTEWATER ASSETS; (3))
APPROVAL OF THE ISSUANCE OF DEBT AND)
EQUITY BY CITIZENS WATER OF WESTFIELD,)
LLC AND CITIZENS WASTEWATER OF)
WESTFIELD, LLC; (4) APPROVAL OF INITIAL)
RATES AND RULES FOR WATER AND)
WASTEWATER SERVICE; (5) TO THE EXTENT)
NECESSARY, APPROVAL OF CERTAIN)
OPERATING AND AFFILIATE AGREEMENTS; (6))
APPROVAL OF DEPRECIATION RATES; (7))
APPROVAL OF A CERTIFICATE OF)
TERRITORIAL AUTHORITY FOR THE PROVISION)
OF WASTEWATER UTILITY SERVICE BY)
CITIZENS WASTEWATER OF WESTFIELD, LLC)
TO CUSTOMERS LOCATED IN RURAL AREAS;)
AND (8) ANY OTHER APPROVALS NEEDED IN)
CONNECTION THEREWITH)

CAUSE NO. 44273

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement ("Settlement Agreement") is made as of this
 15th day of October, 2013 and entered into by and among the City of Westfield ("Westfield"),
 Citizens Water of Westfield, LLC ("Citizens Water of Westfield"), Citizens Wastewater of

Westfield, LLC ("Citizens Wastewater of Westfield"), and the Indiana Office of Utility Consumer Counselor ("OUCC") (collectively the "Settling Parties"). Westfield, Citizens Water of Westfield and Citizens Wastewater of Westfield are sometimes referred to collectively herein as the "Joint Petitioners." Citizens Water of Westfield and Citizens Wastewater of Westfield are sometimes referred to collectively herein as the Citizens Joint Petitioners.

WHEREAS, on November 20, 2012, in Cause No. 44273 the Joint Petitioners filed their Verified Joint Petition requesting approvals from the Indiana Utility Regulatory Commission ("Commission") relating to the proposed acquisition of certain Westfield water and wastewater utility assets by Citizens Water of Westfield and Citizens Wastewater of Westfield pursuant to Asset Purchase Agreements that were admitted into evidence as Joint Petitioners' Exhibit ADJ-2 ("Water Asset Purchase Agreement") and ADJ-3 ("Wastewater Asset Purchase Agreement") (collectively the "Asset Purchase Agreements");

WHEREAS, the Settling Parties have engaged in communications and exchanged information related to the relief requested by Joint Petitioners in the Verified Joint Petition and other matters; and

WHEREAS, as a result of communication and negotiations, the Settling Parties agree that the Terms and Conditions set forth in this Settlement Agreement represent a fair, just and reasonable resolution of the issues raised in this Cause;

NOW THEREFORE, subject to the Commission's approval of this Settlement Agreement in its entirety without modification, or imposition of any other term or condition that is unacceptable to any Settling Party, the Settling Parties agree as follows:

A. NET ORIGINAL COST OF CERTAIN UTILITY PLANT AND FAIR VALUE INCREMENT

1. The Settling Parties stipulate and agree that the net original cost of Utility Plant that will be conveyed to Citizens Water of Westfield and Citizens Wastewater of Westfield, respectively, as it existed as of December 31, 2011, as set forth on Part (a) of Schedule 12.10(b) of each Asset Purchase Agreement, is deemed to be \$12,470,000 for the water utility and \$30,530,000 for the wastewater utility net of contributions of plant or cash (contributions-in-aid of construction or "CIAC") and net of accumulated depreciation. The foregoing stipulation is for purposes of this Settlement Agreement and for ratemaking purposes in the future. The Settling Parties further agree that the foregoing stipulation will not constitute an acceptance by any party of any other party's methodology for defining and accounting of items as contributions-in-aid of construction or contributed property. The Settling Parties further agree that no determination will be made in this proceeding regarding whether Citizens Water of Westfield's or Citizens Wastewater of Westfield's contributions-in-aid of construction ("CIAC") should be amortized or how any such amortization would affect ratemaking.

2. Within 60 days of the Closing Date, Citizens Water of Westfield and Citizens Wastewater of Westfield shall each file in this Cause a report listing the Utility Plant conveyed to Citizens Water of Westfield and Citizens Wastewater of Westfield respectively pursuant to the applicable Asset Purchase Agreement. The report shall also identify the Utility Plant conveyed that existed as of December 31, 2011 and included in the Utility Plant for purposes of Part (a) of Schedule 12.10(b) of the applicable Asset Purchase Agreement. Citizens Water of Westfield and Citizens Wastewater of Westfield shall have one year from the date of closing within which to prepare their opening balance sheets, which shall be provided to the OUCC within 10 days of completion.

3. The Settling Parties agree that the acquisitions are reasonable and in the public interest. The Settling Parties stipulate and agree that in addition to any return Citizens Water of Westfield and Citizens Wastewater of Westfield are authorized in future rate cases to earn on their respective utility plant, each utility should be allowed to earn a return on, but not of, a fair value increment in the amount of \$6,960,000 for the water utility and \$17,040,000 for the wastewater utility. The Settling Parties agree that no determination shall be made in this proceeding as to a methodology to be used to establish a rate of return to be applied to the fair value increment agreed to herein.

4. Citizens Water of Westfield and Citizens Wastewater of Westfield will each amortize its fair value increment over 40 years from the date of closing. Until the end of the foregoing amortization period, Citizens Water of Westfield and Citizens Wastewater of Westfield will each be authorized to earn a return on, but not of, the unamortized portion of its fair value increment.

5. With respect to the fair value increments agreed to in this Cause, the OUCC acknowledges Citizens Water of Westfield and Citizens Wastewater of Westfield may seek a fair rate of return in future rate cases. However, the Settling Parties agree that if either utility seeks a finding that the fair value of the Utility Plant set forth on Part (a) of Schedule 12.10(b) of the applicable Asset Purchase Agreement as of December 31, 2011 exceeds the amounts stipulated to in Paragraph A.3 above, the OUCC shall not be precluded from providing evidence as to any fair value of the utility's rate base. Notwithstanding the preceding sentence, the Settling Parties agree that before depreciation and amortization, (a) the sum of the net original cost of Utility Plant that will be conveyed to Citizens Water of Westfield as of December 31, 2011, as set forth on Part(a) of Schedule 12.10(b) of the Water Asset Purchase Agreement and the fair value

increment for Citizens Water of Westfield will not be greater than \$21,581,800 or less than \$19,430,000; and (b) the sum of the net original cost of Utility Plant that will be conveyed to Citizens Wastewater of Westfield, respectively, as of December 31, 2011, as set forth on Part(a) of Schedule 12.10(b) of the Wastewater Asset Purchase Agreement, and the fair value increment for Citizens Wastewater of Westfield will not be greater than \$52,838,200 or less than \$47,570,000.

B. RATE PROVISIONS

1. The Settling Parties recommend that the Commission authorize, as just and reasonable, Citizens Water of Westfield's and Citizens Wastewater of Westfield's implementation of the schedules rates and charges as approved by the Westfield City Council and effective on the date of closing. Westfield will include all applicable rate ordinances in its supplemental testimony to be filed in support of the Settlement Agreement.

2. Citizens Water of Westfield agrees not to file for a Distribution System Improvement Charge prior to January 1, 2018.

3. Prior to January 1, 2017, Citizens Water of Westfield and Citizens Wastewater of Westfield may not implement new rates other than the rates referenced in Paragraph B.1 above except in the case of an emergency as set forth in I.C. §8-1-2-113 including for instance rate increases necessary to make make bond payments to avoid a default. .

4. At closing, Westfield will assign its cell tower rental contracts to Citizens Water of Westfield. In subsequent general rate case proceedings, Citizens Water of Westfield will recognize cell tower rental revenue and use such revenue to offset the Utility's revenue requirement.

C. PUBLIC INTEREST OF TRANSACTIONS

1. The Settling Parties recommend that the Commission find that Citizens Water of Westfield and Citizens Wastewater of Westfield have the technical, managerial, operational and financial capabilities to own and operate successfully the Westfield water and wastewater utilities and therefore approve, as in the public interest, the proposed acquisitions as reflected in the Water and Wastewater Asset Purchase Agreements.

2. The Settling Parties recommend that the Commission authorize, as in the public interest, the issuance of equity and debt (debt to be issued at an interest rate not to exceed 5.5 percent) as proposed by the Citizens Joint Petitioners to fund the acquisitions. Citizens Water of Westfield and Citizens Wastewater of Westfield each will file a written report in this Cause within thirty (30) days of any debt issuance it makes to fund the acquisitions that provides the debt amount, interest rate, terms and conditions and other information the Citizens Joint Petitioners deem relevant.

3. The Settling Parties recommend that the Commission issue to Citizens Wastewater of Westfield a Certificate of Territorial Authority to provide wastewater service within any "rural area" that Westfield serves, i.e., areas in Washington Township outside the incorporated city limits, which do not include the area served by Intervenor JLB Development, Inc. as authorized by the Commission in Cause Nos. 39868 and 43916.

4. The Settling Parties recommend that the Commission consent to Hamilton County granting the Citizens Joint Petitioners permits or franchises or licenses for the use of county-owned property in connection with the provision of water and wastewater utility service.

D. APPROVAL OF OPERATING AND RAW WATER PURCHASE AGREEMENTS

1. Within 30 days of closing, Citizens Water of Westfield and Citizens Wastewater of Westfield both agree to have separate Management and Operating Agreements with Citizens Energy Group ("CEG") and file such agreements, each of which will include a list and definition of services, which list will be similar to the list included in the service agreement between Citizens Gas of Westfield, LLC and CEG, and which it will file with the Commission along with any updates or amendments and provide copies of the same to the OUCC. Citizens Water currently purchases raw water from the City of Westfield. Joint Petitioners have requested that this agreement be transferred from the City of Westfield to Citizens Water of Westfield. The OUCC agrees the proposed transfer of the Raw Water Purchase Agreement should be approved.

E. DEPRECIATION RATES

1. The Settling Parties recommend the Commission authorize Citizens Water of Westfield to use, for ratemaking purposes, a two (2) percent depreciation rate for water utility plant in service until such time as the Commission orders a different depreciation rate for ratemaking purposes. However, the depreciation rate recommended by this paragraph shall, once approved, remain effective until at least implementation of rates following Citizens Water of Westfield's first rate case

2. The Settling Parties recommend the Commission authorize Citizens Wastewater of Westfield to use, for ratemaking purposes, a two and one-half (2.5) percent depreciation rate for wastewater utility plant in service until such time as the Commission orders a different depreciation rate for ratemaking purposes. However, the depreciation rate recommended by this

paragraph shall, once approved, remain effective until at least implementation of rates following Citizens Wastewater of Westfield's first rate case..

F. MISCELLANEOUS PROVISIONS

1. Subject to the modifications discussed below, the Settling Parties recommend the Commission authorize Citizens Water of Westfield and Citizens Wastewater of Westfield to implement the Terms and Conditions for water and wastewater utility service proposed by the Citizens Joint Petitioners in their case-in-chief testimony until such time as the Commission approves revised Terms and Conditions for service. Citizens Wastewater of Westfield will modify its Terms and Conditions by eliminating language that indicates the utility may compel homeowners to connect to the utility system. Citizens Water of Westfield shall modify its tariff and Terms and Conditions by eliminating any reference to the Lawn Irrigation Permit Fee.

2. For purposes of the Joint Petitioners' requests for approval of financing, the OUCC agrees the capital plans of Citizens Water of Westfield and Citizens Wastewater of Westfield provide sufficient support for the requested authority for financing.

3. Within thirty days of closing, Westfield shall refund customer deposits held by Westfield as of the closing date to those respective customers or turned over to Citizens Joint Petitioners to be held as deposits on the respective customers' accounts.

G. PRESENTATION OF THE SETTLEMENT AGREEMENT TO THE COMMISSION

1. The Settling Parties shall support this Settlement Agreement before the Commission and request that the Commission expeditiously accept and approve the Settlement Agreement. Evidence shall be offered into the record of this proceeding without objection and

subject to agreement on the settlement testimony to be offered, the Settling Parties hereby waive cross-examination of each others' witnesses. The Settling Parties propose to submit this Settlement Agreement and the supporting evidence conditionally, and if the Commission fails to approve this Settlement Agreement in its entirety without any change or with condition(s) unacceptable to any Party, the Settlement Agreement and supporting evidence shall be withdrawn and the proceedings in Cause No. 44273 shall resume at the point they were suspended by the filing of this Settlement Agreement.

2. The Settling Parties shall prepare and file an agreed order with the Commission. This Settlement Agreement is contingent upon the filing of said order. If the Settling Parties do not submit an agreed order in this proceeding, the Settlement Agreement and supporting evidence shall be withdrawn and the proceedings in Cause No. 44273 shall resume at the point they were suspended by the filing of this Settlement Agreement.

3. A Final Order approving this Settlement Agreement shall be effective immediately, and the agreements contained herein shall be unconditional, effective and binding on all Settling Parties as an Order of the Commission.

H. The Settling Parties shall jointly agree or coordinate on the form, wording and timing of any public/media announcements of this Settlement Agreement and the terms thereof. No Party shall release any information to the public or media prior to the aforementioned announcement or coordination. However, the parties may post on their respective websites without delay this executed stipulation and any settlement documents filed with the Commission. The Settling Parties may respond individually without prior approval of the other Settling Parties to questions from the public or media, provided that such responses are consistent with such announcement and do not disparage any of the Settling Parties.

I. EFFECT AND USE OF SETTLEMENT AGREEMENT

1. It is understood that this Settlement Agreement is reflective of a negotiated settlement and neither the making of this Settlement Agreement nor any of its provisions shall constitute an admission by any Party to this Settlement Agreement in this or any other litigation or proceeding. It is also understood that each and every term of this Settlement Agreement is in consideration and support of each and every other term.

2. This Settlement Agreement shall not constitute and shall not be used as precedent by any person in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce the terms of this Settlement Agreement.

3. This Settlement Agreement is solely the result of compromise in the settlement process and except as provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the items resolved here and in any future regulatory or other proceedings.

4. The Settling Parties agree that the evidence in support of this Settlement Agreement constitutes substantial evidence sufficient to support this Settlement Agreement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of this Settlement Agreement, as filed.

5. The communications and discussions during the negotiations and conferences and any materials produced and exchanged concerning this Settlement Agreement all relate to offers of settlement and shall be privileged and confidential, without prejudice to the position of any Party, and are not to be used in any manner in connection with any other proceeding or otherwise.

6. The undersigned Settling Parties have represented and agreed that they are fully authorized to execute the Settlement Agreement on behalf of their designated clients, and their successors and assigns, who shall be bound thereby.


7. The Settling Parties shall not appeal or seek rehearing, reconsideration or a stay of the Final Order approving this Settlement Agreement in its entirety and without change or condition(s) unacceptable to any Party (or related orders to the extent such orders are specifically implementing the provisions of this Settlement Agreement). The Settling Parties shall support or not oppose this Settlement Agreement in the event of any appeal or a request for a stay by a person not a party to this Settlement Agreement if this Settlement Agreement is the subject matter of any other state or federal proceeding.

8. The provisions of this Settlement Agreement shall be enforceable by any Party before the Commission and thereafter in any state court of competent jurisdiction as necessary.

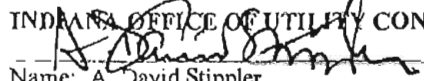
9. This Settlement Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

ACCEPTED and AGREED as of the 15th day of October, 2013.

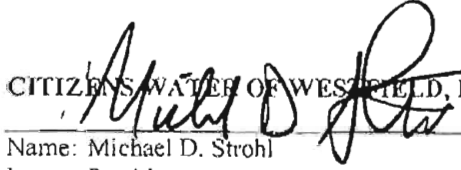
CITY OF WESTFIELD, INDIANA


Name: Todd Burtron
Its: Chief of Staff

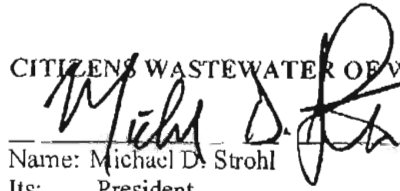
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR


Name: A. David Stippler
Its: Utility Consumer Counselor

CITIZENS WATER OF WESTFIELD, LLC


Name: Michael D. Strohl
Its: President

CITIZENS WASTEWATER OF WESTFIELD, LLC


Name: Michael D. Strohl
Its: President



Petitioner's Exhibit No. 2, Attachment CLJ-6 (CONFIDENTIAL)

Westfield Water A&R Credit and Continuing Covenant Agreement

This Agreement is confidential and trade secret, and will be submitted confidentially to the Commission upon the issuance of a Docket Entry granting preliminary confidential treatment to materials of the type contained in this Attachment.