

FILED

March 29, 2018

INDIANA UTILITY

REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF INDIANA-AMERICAN WATER)
COMPANY, INC. ("INDIANA AMERICAN") AND)
THE CITY OF LAKE STATION, INDIANA ("LAKE)
STATION") FOR APPROVAL AND)
AUTHORIZATION OF: (A) THE ACQUISITION BY)
INDIANA-AMERICAN OF LAKE STATION'S WATER)
UTILITY PROPERTIES (THE "LAKE STATION)
WATER SYSTEM") IN LAKE COUNTY, INDIANA IN)
ACCORDANCE WITH A PURCHASE AGREEMENT)
THEREFOR; (B) APPROVAL OF ACCOUNTING AND)
RATE BASE TREATMENT; (C) APPLICATION OF)
INDIANA AMERICAN'S AREA ONE RATES AND)
CHARGES TO WATER SERVICE RENDERED BY)
INDIANA AMERICAN IN THE AREA SERVED BY)
THE LAKE STATION WATER SYSTEM ("THE LAKE)
STATION AREA"); (D) APPLICATION OF INDIANA)
AMERICAN'S DEPRECIATION ACCRUAL RATES)
TO SUCH ACQUIRED PROPERTIES; AND (E) THE)
SUBJECTION OF THE ACQUIRED PROPERTIES TO)
THE LIEN OF INDIANA AMERICAN'S MORTGAGE)
INDENTURE)

CAUSE NO. 45041

OUCC PREFILED TESTIMONY

OF

EDWARD R. KAUFMAN, CRRA – PUBLIC'S EXHIBIT NO. 2

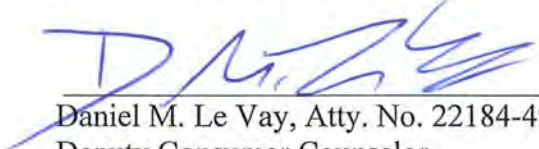
ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

MARCH 29, 2018

Respectfully Submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR



Daniel M. Le Vay, Atty. No. 22184-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

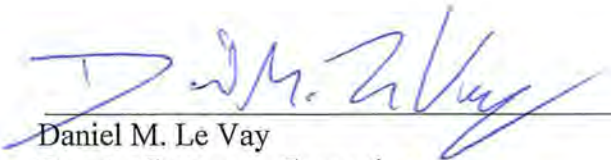
This is to certify that a copy of the foregoing *Office of Utility Consumer Counselor* **Prefiled Testimony of Edward R. Kaufman, CRRA** has been served upon the following counsel of record in the captioned proceeding by electronic service on March 29, 2018.

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TESTIMONY OF OUCC WITNESS EDWARD R. KAUFMAN, CRRA
CAUSE NO. 45041
INDIANA AMERICAN WATER COMPANY, INC. AND
THE CITY OF LAKE STATION, INDIANA

1 **Q: Please state your name and business address.**

2 A: My name is Edward R. Kaufman, and my business address is 115 W. Washington
3 St., Suite 1500 South, Indianapolis, IN 46204.

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

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as
6 the Water-Wastewater Division Assistant Director. My qualifications and
7 experience are set forth in Appendix A.

8 **Q: Does your testimony include schedules and attachments?**

9 A: Yes. Appendix B lists my schedules and attachments, which I sponsor along with
10 my testimony. The schedules listed, as well as the tables below, were prepared by
11 me or under my supervision.

12 **Q: Please describe the review and analysis you conducted to prepare your**
13 **testimony.**

14 A: I reviewed the Joint Petition initiating this Cause, the testimony, and the exhibits
15 filed by Joint Petitioners. I participated in conducting discovery and reviewed Joint
16 Petitioners' responses. I attended the OUCC's deposition of Indiana American
17 witness Matt Prine. I toured the Lake Station Municipal Water System and met
18 with representatives from the City of Lake Station and Indiana American Water. I
19 have also been involved with Indiana American's recent acquisitions of the
20 Georgetown and Charlestown water systems.

I. INTRODUCTION

1 **Q: What is the purpose of your testimony?**

2 A: My testimony addresses several topics related to the proposed acquisition. While
3 OUCC witness James Parks, P.E., focuses primarily on engineering aspects of the
4 OUCC's review, I cover several other issues this proceeding implicates. Among
5 them are the "used and useful" requirements, financial effects of the transaction,
6 and the cumulative impact of distressed utility acquisitions by Indiana American.
7 Admittedly, for a few issues I address, such as concerns with the appraisal, I address
8 them in order to demonstrate the OUCC has concerns and otherwise did not want
9 silence to be construed as acquiescence.

10 Joint Petitioners request ratemaking relief pursuant to Ind. Code § 8-1-
11 30.3-5(c) and (d). I discuss the proposed acquisition, and explain how Joint
12 Petitioners' proposal fails to comply with Ind. Code § 8-1-30.3-5(c)(1), which
13 requires a finding that "The utility property is used and useful in providing water,
14 wastewater service or both water and wastewater service." Indiana American
15 asserts it intends to operate the Lake Station treatment plant and water supply wells
16 only "during peak demand days or as emergency supply."¹ OUCC witness Parks,
17 P.E.,² explains, from an engineering perspective, that some of the Lake Station
18 System assets are not necessary to supply water services to either the current Lake
19 Station customers or any existing Indiana American customers. My testimony
20 explains that including these assets in rate base will cost Indiana American

¹ Joint Petitioner's Exhibit No. 1, Direct Testimony of Matthew Prine, page 17, lines 7-8.

² OUCC witness James Parks is the only Professional Engineer (P.E.) to file direct testimony in this cause.

1 ratepayers more than \$1,000,000 per year exclusive of any operating costs or future
2 capital costs (Schedule ERK-1). Because portions of Indiana American's proposed
3 acquisition of the Lake Station system are not used useful, the OUCC recommends
4 the Commission should not approve Indiana American to include the cost
5 differential as part of its rate base.³

6 My testimony also discusses Mr. VerDouw's estimated impact the proposed
7 acquisition will have on Indiana American's revenue requirements. While, Mr.
8 VerDouw estimates that Indiana American's proposed acquisition of Lake Station
9 could increase its revenue requirements 0.55% [GMV-2 (corrected)],⁴ my analysis
10 estimates Indiana American's acquisition will increase its revenue requirements by
11 0.98% (Schedule ERK-2). My testimony explains how I have calculated a higher
12 rate impact than Mr. VerDouw.

13 Moreover, based on the OUCC's review, Lake Station has failed to comply
14 with Ind. Code § 8-1.5-2-4. The two municipal resolutions that are specific to the
15 sale of its water utility do not list three Indiana residents to serve as appraisers and
16 they do not state the time the appraisal is due. The statute requires the resolution
17 to specify Indiana residents who will complete the appraisal. Further, the
18 resolutions have placeholders for dates to be inserted, but no return-by or due dates
19 are listed. Lake Station's failure to meet these requirements should be grounds to
20 deny the request in this proceeding from the perspective of whether the

³ Note Indiana American did not determine a "cost differential" in its direct testimony. It is because of the possibility that the Commission may not authorize a utility to include the cost differential as part of its rate base that a utility needs to determine the cost differential.

⁴ Also included with my testimony as Attachment ERK-7.

1 municipality complied with its statutory obligations spelled out in Ind. Code § 8-
2 1.5-2-4. My testimony points out that the Commission needs to decide if Lake
3 Station has fully complied with Ind. Code § 8-1.5-2-4.

4 My testimony expresses concerns with Joint Petitioners' "Summary Report
5 on the Valuation of Water Utility Assets" for the City of Lake Station (Valuation
6 Report) use to establish the purchase price. (Attachment CA-1 to Joint Petitioners'
7 Exhibit No. 3.)

8 Further, I note Indiana American's cost per customer has shown a steady
9 and significant increase resulting in an overall increase in rate base investment per
10 customer. My testimony compares the cost per customer Indiana American has
11 paid in acquisitions over the last fifteen years and its affect in increasing rates
12 Indiana American's customers must pay. My testimony also explains that when a
13 company acquires another company with a higher cost per customer than its current
14 average cost per customer, the acquisition will tend to increase rates to the existing
15 customers.

16 Finally, if the Commission otherwise approves the proposed transaction but
17 determines the treatment plant and supply wells are not used and useful, that
18 decision would result in a different journal transaction. I provide a revised journal
19 entry that reflects this outcome (Schedule ERK-3).

II. BACKGROUND INFORMATION

1 **Q: What section of Indiana Code Chapter 8-1-30.3 is most pertinent to your**
2 **testimony?**

3 A: Indiana Code § 8-1-30.3-5(c) sets forth eight facts the Commission must find in
4 order for a utility to include a cost differential in its rate base:

5 (1) The utility property is used and useful in providing water service,
6 wastewater service, or both water and wastewater service.

7 (2) The distressed utility failed to furnish or maintain adequate,
8 efficient, safe, and reasonable service and facilities.

9 (3) The utility company will make reasonable and prudent
10 improvements to ensure that customers of the distressed utility will
11 receive adequate, efficient, safe, and reasonable service.

12 (4) The acquisition of the utility property is the result of a mutual
13 agreement made at arms-length.

14 (5) The actual purchase price of the utility property is reasonable.

15 (6) The utility company and the distressed utility are not affiliated and
16 share no ownership interests.

17 (7) The rates charged by the utility company before acquiring the utility
18 property of the distressed utility will not increase unreasonably as a
19 result of acquiring the utility property.

20 (8) The cost differential will be added to the utility company's rate base
21 to be amortized as an addition to expense over a reasonable time with
22 corresponding reductions in the rate base.

23 As described in OUCC witness Parks' testimony, several of the assets Indiana
24 American proposes to acquire will not be used and useful in providing water
25 service. Thus, the proposed acquisition does not meet Indiana Code § 8-1-30.3-
26 5(c), subdivision 1.

III. USED AND USEFUL

1 **Q: Indiana Code § 8-1-30.3-5(c), subdivision 1, states: “The utility property is**
2 **used and useful in providing water service, wastewater service, or both water**
3 **and wastewater service.” Are there portions of the proposed acquisition that**
4 **do not meet the used and useful standard?**

5 A: Yes. OUCC witness Parks explains the technical and operational basis why Lake
6 Station’s water treatment facility and supply water wells will not be “used and
7 useful” in the provision of water service by Indiana American. Joint Petitioners’
8 witness Mathew Prine testified that Indiana American will not use the Lake Station
9 water treatment plant except during peak day demands or as emergency supply.
10 However, Indiana American provided no engineering witness testimony to support
11 that such otherwise unused treatment plant is needed for such purpose or otherwise
12 can fulfill such purpose. Indiana American has not provided evidence to support a
13 finding that Lake Station’s water treatment facility and supply water wells should
14 be considered “used and useful” in providing water service.

15 **Q: What did Mr. Prine say about how the Lake Station treatment facilities will**
16 **be used by Indiana American Water?**

17 A: On pages 16-17 of his testimony, Mr. Prine explained that Indiana American has
18 maintained an existing system interconnection with the Lake Station Water System,
19 which enables delivery of high quality treated Lake Michigan water:

20 This connection enables the provision of service reliability to Lake
21 Station from the Company’s existing Northwest Indiana District
22 treatment capacity of nearly 80 million gallons of water per day.
23 Through this connection, the Company will be able to provide daily
24 water service at a lower operational cost than to operate the existing
25 Lake Station treatment and softening plant as the primary source of
26 system delivery. The existing Lake Station water treatment facility
27 provides value to supplementing overall system treatment capacity
28 and service reliability. It is anticipated that the existing Lake Station
29 treatment facility will be maintained and regularly placed into

1 operation to ensure rapid reliability. However, due to the high cost
2 to operate the Lake Station water treatment plant, Indiana American
3 intends to only use the plant during peak demand days or as
4 emergency supply.

5 (emphasis added)

6 Mr. Prine's assertions on pages 16-17 represents the totality of evidence provided
7 by Indiana American to support its position that the existing Lake Station water
8 treatment facilities meet the "used and useful" standard.

9 **Q: Why do you contend Mr. Prine's testimony does not satisfy the used and useful**
10 **standard for the Lake Station water treatment facility and supply water wells?**

11 **A:** Mr. Prine has not provided a basis for the Commission to conclude that Lake
12 Station's water treatment facility and supply wells are reasonably necessary for the
13 provision of water service by Indiana American. The Indiana Court of Appeals
14 discussed the "used and useful" standard in *City of Evansville v. Southern Indiana*
15 *Gas & Electric Co.*, 339 N.E.2d 562, 589 (Ind. Ct. App., 1975):

16 A review of prior rate orders indicates that the Commission has
17 developed a bifurcated test for determining the "used and useful"
18 status of a utility's property. **The Commission's "used and useful"**
19 **standard requires: (1) that the utility plant be actually devoted**
20 **to providing utility service, and (2) that the plant's utilization be**
21 **reasonably necessary to the provision of utility service.** *See, e.g.,*
22 *In re Indianapolis Water Co.* (1964 Ind. Pub. Serv. Comm'n),
23 Docket No. 30,022, June 17, 1964 (property held for future use was
24 not "reasonably necessary"); *In re Indianapolis Water Co.* (1958
25 Ind. Pub. Serv. Comm'n), 26 P.U.R.3d 270 (plant used only during
26 peak demand period was "reasonably necessary"); *In re Indiana Gas*
27 *& Water Co.* (1952 Ind. Pub. Serv. Comm'n), Docket No. 23,584,
28 Sept. 25, 1952 (property under construction was not "actually in
29 service").

30 (emphasis added)

31 Even if Indiana American chooses to maintain Lake Station's water treatment
32 facility and supply water wells for peak demand and emergency supply, that choice

1 should not qualify Lake Station's water treatment facility and water supply wells
2 as plant whose utilization is reasonably necessary for the provision of utility
3 service.

4 **Q: What will it cost to include the treatment plant and supply wells in rate base?**

5 A: The capital costs on Lake Station's water treatment facility and water supply wells
6 that would be imposed on Indiana American's ratepayers (including income and
7 property taxes) is more than \$1 million per year (Schedule ERK-1).⁵ This figure
8 does not include any operational costs that Indiana American would incur to
9 maintain this plant so that it could be rapidly employed as Mr. Prine indicated in
10 his testimony.

11 **Q: Does Indiana American maintain other "peaking plants"?**

12 A: No. In OUCC DR question 3.4 (Attachment ERK-1) the OUCC asked Indiana
13 American to identify all water treatment plants in the state that Indiana American
14 owns, or operates only during peak days or as emergency supply. Indiana American
15 responded "Currently none." It stands to reason that Indiana American does not
16 own or operate treatment plants that are used exclusively for peak-day or
17 emergency supply because it is not cost effective. In my experience, water utilities
18 do not typically maintain separate "peaking plants."

19 Moreover, Indiana American has provided no analysis to demonstrate that
20 maintaining the Lake Station treatment plant and water supply wells for peaking
21 and emergency supply is more cost effective than any other potential solution.

22 There is also no evidence that it is even feasible to use the plant for that purpose.

⁵ Data from Schedule ERK-1 is taken from Petitioner's Attachment CA-1 and Attachment GMV-2, Schedule 5, from Indiana American Cause No. 42351 DSIC-11, included in this cause as Attachment ERK-8.

1 And as indicated in Indiana American's response to OUCC DR 4-5 (Attachment
2 ERK 1), it has not taken any of steps to determine what operational steps are
3 necessary to run the Lake Station plant on a temporary basis.

4 **Q: Is it Indiana American's burden to provide credible evidence and to**
5 **demonstrate that the assets it proposes to acquire, including Lake Station's**
6 **water treatment facility and supply water wells, are reasonably necessary for**
7 **the provision of utility service?**

8 A: Yes. The Commission applied the two part "used and useful" standard discussed
9 by the Court of Appeals in *City of Evansville v. SIGECO, supra*. In applying the
10 test, the Commission found that 25% of the facility being leased to third parties and
11 50% of the facility being used as storage for the former information center is not
12 used and useful property for purposes of inclusion in rate base. In considering the
13 remaining 25% of the facility, the Commission placed the burden of proof on the
14 utility:

15 When acting in its role as the trier of fact [the Commission] must,
16 as would a trial court, consider the credibility of the witness and
17 determine the weight to be accorded the evidence. Having said this
18 we briefly reiterate that **the Petitioner has the burden of proving**
19 **by substantial evidence** that this facility is actually devoted to the
20 providing of utility service and that its utilization is reasonable and
21 necessary to the provision of utility service. (Emphasis added)

22 *Indiana Michigan Power Co.*, Cause No. 39314 – 11/12/93; 1993 Ind. PUC LEXIS
23 460, 126 (Ind. PUC , 1993).

24 On page 55 of the *Indiana Michigan Power Co.* order, the Commission also
25 explained:

26 Assuming arguendo, that we had found Petitioner's evidence on this
27 point to be credible its sufficiency would have been dubious.
28 Viewing the evidence as to the uses to which the Rockport Facility
29 was put in its best light **reveals only vagaries and generalities**. To
30 encounter such a summary evidentiary presentation in a case
31 otherwise so thoroughly prepared and orchestrated leads us to the

1 clear implication that no better evidence existed otherwise it would
2 have been presented. We mention this brief analysis of the evidence
3 only as it related to our consideration of the weight to be given the
4 evidence and not the sufficiency, (Underlined emphasis in original
5 – **Bolded** emphasis added).

6 Indiana American's evidence in this cause similarly contains only vagaries and
7 generalities. Indiana American's direct testimony provides no evidence that Lake
8 Station's water treatment facility and water wells utilization are reasonably
9 necessary for the provision of utility service to either Lake Station's current
10 customers or Indiana American's customers in its Northwest District.

IV. COST OF INCLUDING TREATMENT PLANT IN RATE BASE

11 **Q: Has Petitioner provided a cost analysis to demonstrate that it is cost effective**
12 **to maintain the Lake Station's water treatment facility and supply water wells**
13 **for peak demand days or as emergency supply?**

14 A: No. As discussed by OUCC witness Parks, Indiana American indicated it does not
15 know the operational costs it will incur to maintain Lake Station's water treatment
16 facility and water supply wells in ready condition.

17 **Q: What are the capital costs associated with including the cost of the treatment**
18 **plant and supply water wells in rate base?**

19 A: Based on OUCC witness Parks' testimony, Indiana American proposes to purchase
20 approximately \$7,366,043 in plant that is not used and useful. The pre-tax equity
21 return on the unnecessary plant is \$358,047 ($\$7,366,043 * 49.85% * 9.75%$).⁶
22 When this figure is grossed-up for income taxes, the after tax equity return is

⁶ Assuming a 49.85% investor-supplied equity ratio and a 9.75% cost of equity. The capital structure ratios and costs of debt and equity were taken from Attachment GMV-2, Schedule 5, from Indiana American Cause No. 42351 DSIC – 11 (Attachment ERK-8).

1 \$493,288 (358,047 * 1.3777)⁷. The debt return on the unnecessary plant is
2 \$224,581 (\$7,366,043 * 50.15% * 6.08%).⁸ Using Indiana American's proposed
3 depreciation rate of 2.86% (see IURC Cause No. 44992), the annual depreciation
4 on the unnecessary plant would be \$210,669. Next, assuming a property tax rate
5 of 1.0%, the annual property taxes on this plant would be approximately \$73,660.
6 Therefore, total capital costs, plus depreciation and property taxes, to own Lake
7 Station's water treatment facility and water supply wells for peaking and
8 emergency supply is approximately \$1,002,197 per year (Schedule ERK-1). This
9 figure does not include any costs for operations, maintenance, permitting, testing,
10 or future capital repairs. Indiana American has not demonstrated or provided any
11 analysis that explains or supports why it is reasonable for its ratepayers to pay more
12 than \$1,000,000 per year to maintain plant that is not used and useful to Indiana
13 American.

14 **Q: Has Indiana American justified using the treatment plant on standby?**

15 A: Indiana American did not provide the Commission any engineering study or
16 analysis to justify its purchase and maintenance of the Lake Station treatment plant
17 and supply wells. As such, there is no basis on which the Commission may find
18 the plant will be used and useful for the provision of water service by Indiana
19 American.

⁷ Assuming a gross revenue conversion factor of 1.3777.

⁸ Assuming a 50.15% investor supplied debt ratio and a 6.08% cost of debt.

1 **Q: If this acquisition is approved, who bears the burden of the excess costs created**
2 **by Indiana American purchasing and maintaining unnecessary plant?**

3 A: The cost of this acquisition, as proposed, will be socialized across all of Indiana
4 American's current ratepayers.

V. NON-COMPLIANCE WITH IND. CODE § 8-1.5-2-4

5 **Q: Are there other statutory requirements besides Ind. Code § 8-1-30.3-5 and Ind.**
6 **Code § 8-1.5-2-6.1 that may apply in this cause?**

7 A: Yes. Lake Station is a municipal entity that decided to sell non-surplus municipal
8 utility property (its water utility). Indiana Code chapter 8-1.5-2 establishes a
9 process that a municipality, such as Lake Station, must follow when it decides to
10 sell or otherwise dispose of its non-surplus utility property.

11 **Q: What did the OUCC find regarding Lake Station's compliance with its**
12 **statutory obligations under Indiana Code chapter 8-1.5-2?**

13 A: It appears that Lake Station did not follow Ind. Code § 8-1.5-2-4, which requires a
14 municipality to provide "a written document that shall be made available for
15 inspection and copying at the offices of the municipality's municipally owned
16 utility...." This statute requires the written document to contain three items: (1) the
17 appointment of three Indiana residents to serve as appraisers (a combination of
18 licensed engineers and appraisers), (2) the appraisal of the property, and (3) the
19 time that the appraisal is due.

20 In response to OUCC DR 3.1, Lake Station provided two municipal
21 resolutions that are specific to the sale of its water utility (Attachment ERK-9). I
22 understand one resolution relates to the original decision to sell Lake Station's
23 water utility and the second resolution pertains to the recertification provided by
24 the earlier-selected appraisal firms. A review of both documents reveals a common

1 flaw. Based on the OUCC's review of these documents, Lake Station did not satisfy
2 all three of the requirements of Ind. Code § 8-1.5-2-4. First, while the resolutions
3 describe the property to be appraised (the City's water utility), these documents do
4 not list three Indiana residents to serve as appraisers as required by the statute.
5 Rather, the resolutions merely list the name of the firms that employ the appraisers.
6 A reason to list the names of the appraisers is to ensure the appraisal does not violate
7 Ind. Code § 8-1.5-2-5, which states that the appraisers must not be a resident or
8 taxpayer of the municipality. Also, the resolutions do not disclose the date the
9 appraisal is due, which is also required by the statute. Instead, the resolutions have
10 placeholders for dates to be inserted. A lack of compliance with these requirements
11 may implicate whether Joint Petitioners are entitled to the ratemaking relief
12 requested in this Cause.

VI. EFFECT ON REVENUE REQUIREMENTS

13 **Q:** **On page 16 of his direct testimony, Mr. VerDouw asserts "Attachment GMV-**
14 **2 provides an analysis that shows the rates charged by Indiana American are**
15 **not expected to increase unreasonably as a result of acquiring the Lake Station**
16 **Water system." In his corrected attachment, Mr. VerDouw estimates the**
17 **potential effect of the Lake Station acquisition on Indiana American's revenue**
18 **requirements is 0.55%. Do you agree with Mr. VerDouw's analysis?**

19 **A:** No. Based on Indiana American's proposed transaction, I estimate the potential
20 effect of the Lake Station acquisition on Indiana American's revenue requirements
21 is 0.98%. While both calculations are still under 1.0%, it is important to understand
22 the full impact the acquisition of the Lake Station system will have on Indiana

1 American's future revenue requirements.⁹ Mr. VerDouw provided Attachment
2 GMV-2 (included as Attachment ERK-7) to support his assertion that Indiana
3 American's proposed purchase could lead to a 0.55% increase. In my calculation,
4 I used Mr. VerDouw's attachment, and accepted most of his inputs.

5 **Q: Why do you disagree with Mr. VerDouw's calculation?**

6 A: Typically, three components from an acquisition will increase the revenue
7 requirement for the acquiring utility: additional return, depreciation, and property
8 taxes. These three components, when added together, create the "Total Additional
9 Revenue Requirement for Lake Station Investment." To estimate the rate impact
10 of Indiana American's proposed acquisition, I used different figures for additional
11 return, depreciation, and property taxes.

12 **Q: How does your calculation of depreciation expense differ from Indiana**
13 **American's?**

14 A: Indiana American calculates a net depreciation per customer and subsequently
15 includes only \$188,883 (line 33) of depreciation expense to determine the impact
16 on Indiana American's revenue requirements. But the full impact of additional
17 depreciation on Indiana American's future revenue requirements is \$661,789 per
18 year ($\$23,139,471 * 2.86\%$).^{10, 11} Thus, Mr. VerDouw understates depreciation
19 expense in his calculation.

⁹ For example, on page 2 of Petitioner's Notice of Lack of Objection to Intervention Petitions, the filing refers to the calculation on Joint Petitioners' attachment GMV-2 to support its argument that the rate impact to Crown Point will be minimal.

¹⁰ Purchase price of \$20,339,470 + Additional Investment of \$2,800,000.

¹¹ In Mr. VerDouw's calculation, he uses Indiana American's proposed depreciation rate from Cause No. 44992 of 2.86%. For comparison purposes I have used the same depreciation rate in my analysis.

1 **Q: What figure did you use for property taxes?**

2 A: I use the total estimated Property Tax Expense for the Lake Station Acquisition of
3 \$250,000. In response to OUCC DR 8.7, Indiana American provided its response
4 to the City of Lake Station's request for proposal ("RFP") for the sale of its water
5 system. On page two of its presentation to Lake Station, Indiana American
6 indicated it would pay \$250,000 per year in property taxes. (Attachment ERK-2).

7 **Q: How does your property tax figure differ from the one sponsored by Mr.
8 VerDouw?**

9 A: Mr. VerDouw starts with the total estimated Property Tax Expense for the Lake
10 Station Acquisition of \$125,000 (Attachment GMV-2, line 37, also Attachment
11 ERK – 7). Next, Indiana American's calculation uses a *net* property tax expense.
12 Indiana American calculates property taxes per customer for both Lake Station
13 ($\$125,000 / 3,443 = \36.31) and Indiana American ($\$9,526,308 / 302,893 =$
14 $\$31.45$). Mr. VerDouw then calculates a net tax per customer of \$4.86 ($\$36.31 -$
15 $\$31.45 = \4.86). He then calculates total additional property taxes of \$16,733
16 ($\$4.86 * 3,443$ customers). Mr. VerDouw's property tax calculation materially
17 understates the impact property taxes for the Lake Station acquisition will have on
18 Indiana American's future revenue requirements.

19 **Q: Do you agree with Mr. VerDouw's calculation of annual additional capital
20 costs (return on equity and debt) that Indiana American's proposed
21 acquisition will have on its future revenue requirements?**

22 A: No. Mr. VerDouw calculates the after-tax capital cost (revenue requirement) from
23 Indiana American's proposed acquisition to be \$937,011 (Attachment GMV – 2,
24 Line 23). I have calculated this at \$1,122,732 (Schedule ERK-2, line 22). To
25 determine future capital costs, we both use \$11,520,344 (Line 17) as the "Gross

1 Difference – Average Difference Times total Lake Station Customers” (Net Capital
2 Investment). Mr. VerDouw multiplies the Net Capital Investment by Indiana
3 American’s weighted cost of capital, adjusts for interest synchronization, and then
4 grosses up the equity portion to estimate the future rate impact the acquisition will
5 have on its revenue requirements. In my calculation, I directly apply Indiana
6 American’s current cost of equity (9.75%) to the equity portion (based on an
7 investor-supplied capital structure of 49.85% equity) of the Net Capital Investment
8 and the cost of debt (6.08%) to the debt portion (based on an investor-supplied
9 capital structure of 50.15% debt) of Net Capital Investment. The equity portion is
10 grossed up for income taxes and then added to the debt portion.

11 **Q: Do both calculations recognize the tax shield provided by interest**
12 **synchronization?**

13 A: Yes. Because I grossed up only the equity portion of capital costs, my calculation
14 accounts for the tax shield (interest synchronization) from interest expense.

15 **Q: Why does your methodology produce a different result?**

16 A: Indiana American’s capital structure and weighted cost of capital includes deferred
17 taxes (Attachment ERK-8 provides a copy of Indiana American’s capital structure
18 that Mr. VerDouw included in DSIC-11). Deferred taxes reduce Indiana
19 American’s weighted cost of capital. By using Indiana American’s weighted cost
20 of capital to estimate the rate impact of the acquisition, Mr. VerDouw implicitly
21 assumes that Indiana American’s deferred taxes will be used to fund the Lake
22 Station acquisition. Because I have directly applied the cost of equity and the cost
23 of debt to the Net Capital Investment my analysis assumes Indiana American’s
24 proposed acquisition of Lake Station will be funded by equity and debt. It is not

1 reasonable to assume deferred taxes can be used as a source of capital to fund future
2 capital expenditures.

3 **Q: How did you recognize the impact of the tax deductibility of interest expense**
4 **in your calculation?**

5 A: I separately calculated the equity return and the debt return that would be created
6 by Indiana American's proposed acquisition, and then grossed up only the equity
7 return for income taxes. The average rate base per Lake Station customer
8 (including additions) is \$6,721 (line 14). Indiana American's average rate base per
9 customer is \$3,375 (line 4). The difference in rate base per customer is \$3,346
10 (Line 16). Because Lake Station has 3,443 customers, the average difference in
11 rate base multiplied by the number of Lake Station customers is \$11,520,344 (Line
12 17). Indiana American's revenue requirements will need to be increased to provide
13 a return on \$11,520,344. Based on data provided by Indiana American in DSIC-
14 11, it has an investor provided capital structure that is 49.85% equity (Line 8 c) and
15 50.15% long term debt (Line 8 d). Indiana American has a cost of equity of 9.75%
16 (Line 8 a) and a cost of debt of 6.08% (Line 8 b). The pre-tax equity return is
17 \$559,932 ($\$11,520,344 * 49.85% * 9.75%$ [Line 18 a]) and the debt return is
18 \$351,269 ($\$11,520,344 * 50.15% * 6.04%$ [Line 18 b]). When the equity portion
19 of the return is grossed up, the total required return is \$1,122,697 (Line 22).¹²

20 **Q: Based on your analysis, what is the total impact the Lake Station acquisition**
21 **will have on Indiana American's future revenue requirements?**

22 A: Based on my analysis, Indiana American's proposed acquisition of the Lake Station
23 system will increase its future revenue requirements by \$2,034,521 (Schedule

¹² The capital structure ratios and costs of debt and equity were taken from Attachment GMV-2, Schedule 5, from Indiana American Cause No. 42351 DSIC – 11 (Attachment ERK-8).

1 ERK-2, line 43). This will increase Indiana American's future revenue
2 requirements by 0.98% (line 45). The anticipated increase in Indiana American's
3 future revenue requirements is based on an estimated increase in an additional
4 return of \$1,122,697, plus additional depreciation of \$661,789 and additional
5 property taxes of \$250,000.

6 **Q: Are you concerned about the cumulative effect of Indiana American's recent**
7 **acquisitions?**

8 A: Yes. If completed, the Lake Station acquisition will be the third acquisition by
9 Indiana American during the last 18 months. Indiana American's acquisitions are
10 starting to accumulate. In its final order in the Georgetown case, the Commission
11 noted that acquisition could increase Indiana American's revenue requirements by
12 0.24%. In the Charlestown case, the Commission noted the acquisition could
13 increase Indiana American's revenue requirements by 0.965%. In the immediate
14 case, and based on Indiana American's revised Attachment GMV-2, the increase to
15 Indiana American's revenue requirements would be 0.55% (According to the
16 OUCC this figure is 0.98%). The combined effect of Indiana American's
17 acquisitions is now over 1.75% (2.18% based on the OUCC's calculations). Indiana
18 American has also filed a Petition to acquire the water and wastewater utility assets
19 from the Town of Sheridan. The Sheridan acquisition could further increase the
20 impact of Indiana American's rates. Moreover, it is reasonable to presume that
21 Indiana American will continue to look for additional acquisitions, and these
22 acquisitions will further add to its revenue requirements.

VII. JOINT PETITIONERS' VALUATION REPORT

A. Overview

1 **Q: Did the OUCC find deficiencies in the Valuation Report?**

2 A: Yes. The Commission stated in its final order in the Charlestown acquisition case
3 that it lacks the authority to disturb the judgement of the appraisers. And while the
4 OUCC is not contesting the valuation per se, if the OUCC does not comment on
5 the appraisal in this case, Joint Petitioners and the Commission may conclude that
6 the OUCC has no concerns. We do.

B. Stale Appraisal

7 **Q: Is the Appraisal potentially stale?**

8 A: Yes. The Appraisal was completed by June 8, 2016, and will be more than two
9 years old by the time an order is issued in this Cause. Simply applying Indiana
10 American's overall depreciation rate to Lake Station's estimated "Total
11 Replacement Cost" would reduce the "Depreciated Replacement cost" by
12 approximately \$1,000,000 per year.

C. Replacement versus Reproduction Cost

13 **Q: In what other ways does the Valuation Report overstate the value of the assets**
14 **to be acquired by Indiana American?**

15 A: Simply defined, a Reproduction Cost Study is the cost of duplicating the existing
16 plant and equipment at current prices, while a Replacement Cost Study is the cost
17 of replacing the old plant with the modern technology version. While Joint
18 Petitioners describe the Valuation Report as a "Replacement Cost" analysis, the
19 Valuation Report combines elements of both a reproduction cost study and a
20 replacement cost study. While both reproduction cost studies and replacement cost

1 studies have flaws, this hybrid approach overstates the initial “Total Replacement
2 Cost,” the condition of the plant, and the subsequent valuation.

3 There are several complexities with this hybrid approach. It assumes the old
4 plant, in its entirety, is replaced with current costs for the same plant. There are
5 pitfalls created by mixing both approaches:

- 6 a. In a Replacement Cost Study, obsolete or duplicative plant has no value
7 because it would not be replaced. Thus, the analysis is not genuinely a
8 Replacement Cost Study, and if obsolete and duplicative plant were removed
9 from the Valuation Report, Joint Petitioners’ “Total Replacement Cost” and
10 subsequent “Depreciated Replacement Cost” would be reduced.
- 11 b. In a Reproduction Cost Study, the actual plant in the ground is valued and is
12 trended forward to recognize inflation. Joint Petitioners’ Valuation Report
13 starts with the actual plant, but instead of trending specific plant forward to
14 today’s cost, it assumes plant will be replaced with modern technological
15 versions of the assets. This methodology overstates the condition of the asset
16 being valued.

D. Soft Costs

17 **Q: Does the Appraisal include non-construction (soft) costs?**

18 **A:** Yes. The appraisers added \$1,836,287 in unspecified non-construction costs to the
19 “Depreciated Replacement Cost” of the Joint Appraisal. However, there is no
20 supporting evidence for this figure (OUCC DR 5.4 and 5.5 – Attachment ERK-3).
21 The soft costs included in the Appraisal are hypothetical and merely serve to inflate
22 the cost of the appraised assets.

E. Negative Net Salvage Value

23 **Q: What is negative net salvage value?**

24 **A:** At the end of an asset’s life it may need to be taken out of service. If the cost to
25 take an asset out service exceeds the salvage value of an asset, the asset is

1 considered to have a negative net salvage value. In a depreciation case if a utility
2 proposed a high negative net salvage value ratio on specified assets, that proposal
3 would reveal the utility expected to incur significant expenses when that asset
4 reached the end of its useful life. I raise this point because if an asset (or group of
5 assets) is expected to incur a large future cost of removal at the end of its life, that
6 cost should be considered in an appraisal. These anticipated future costs, should
7 reduce the appraised value of assets that will incur removal costs. Yet the Appraisal
8 of the Lake Station system makes no reduction/recognition for removal cost Indiana
9 American expects to incur on the assets it proposes to purchase (Attachment ERK-
10 6).

F. Ground Storage Tank

11 **Q: Are there any mistakes that may cause the Appraisal to be understated?**

12 A: Yes. According to the Appraisal, Lake Station's ground storage reservoir has a
13 capacity of 1.5 million gallons. Yet, based on analysis conducted by OUCC witness
14 Parks, Lake Station's ground storage reservoir has a capacity of 2.0 million gallons.
15 If the Appraisal correctly recognized the size of Lake Station's ground water
16 storage reservoir, that correction would have increased its appraised value.

G. Other

17 **Q: Are there other flaws in the Appraisal?**

18 A: Yes. Page 4 of the Appraisal states that Lake Station began purchasing water from
19 Gary Hobart Corporation (now Indiana American) in the mid-1960's to supplement
20 its ground water supply and that this practice continues today with about 20 percent

1 of the City's total supply currently being purchased from Indiana American Water
2 Company. However, Indiana American does not currently provide wholesale water
3 to Lake Station on a contracted basis. I do not know how or if this assumption
4 affected the outcome of the Appraisal, but that assumption is misstated.

H. Single Appraisal and Methodology

5 **Q: The purchase price for the Lake Station municipal water system is based on**
6 **two appraisers using a single methodology, and numerous simplifying**
7 **assumptions. Is this combination a critical flaw in the Appraisal?**

8 A: The flaws described in the question above are not by themselves critical. However,
9 if the purchase price had been based on multiple (separate) appraisals and those
10 appraisals were based on multiple methods, such a process may have avoided some
11 or most of the problems described above.

VIII. APPRAISAL PROCESS

12 **Q: In his testimony, Mr. Parks provides his perspective on the usefulness of**
13 **certain assets within the proposed acquisition. If plant is not used and useful,**
14 **could you address that concern by challenging the appraisal?**

15 A: No. On pages 31-32 of its final order in Cause No. 44976, the Commission found
16 it lacks the authority to review even fundamental and sizable errors in an appraisal
17 process so long as the proposed purchase price does not exceed the appraised value:

18 The Commission recognizes that potentially overstating a \$13.4
19 million appraisal is a significant amount, but under the statutory
20 framework pursuant to which the Joint Petition was filed, if the
21 purchase price does not exceed the appraised value determined
22 under Indiana Code § 8-1.5-2-5, the Legislature has directed that it
23 "shall be considered reasonable."

1 Changes to the distressed utility statute effected under Senate Bill 411 further
2 implicate the Commission's ability to review an appraisal. In its quote above, the
3 Commission appeared to recognize the appraisal may be overstated by \$2.6 million,
4 but also concluded that the statute did not allow the Commission to take corrective
5 action if such an error existed.

6 While simplified, in a typical transaction the purchaser seeks the lowest
7 purchase price and the seller seeks the highest purchase price. However, because a
8 purchasing utility is permitted to earn a return on and of its full purchase price and
9 at the value set by the appraisers,¹³ a purchaser's incentive to obtain a lower
10 purchase price is effectively diminished. Thus, the purchaser (Indiana American in
11 this case) does not have an incentive to challenge mistakes in an appraisal. This
12 lack of incentive was demonstrated during the OUCC's cross examination of Mr.
13 VerDouw during the Indiana American – Charlestown acquisition case (Cause No.
14 44976), where Mr. VerDouw explained that Indiana American did not review the
15 appraisal in that cause.

IX. COST PER CUSTOMER

16 **Q: Has the OUCC reviewed the acquisition cost per customer in this case?**

17 **A:** Yes. The acquisition cost, based upon the proposed \$20,339,470¹⁴ purchase price
18 and 3,443¹⁵ customers, yields a per customer cost of approximately \$5,907.

19 **Q: How does this cost per customer compare to other acquisitions by Indiana**
20 **American?**

¹³ Which must be considered reasonable as a matter of Indiana law.

¹⁴ VerDouw direct testimony, GMV-2. Includes incidental expenses.

¹⁵ *Id.*

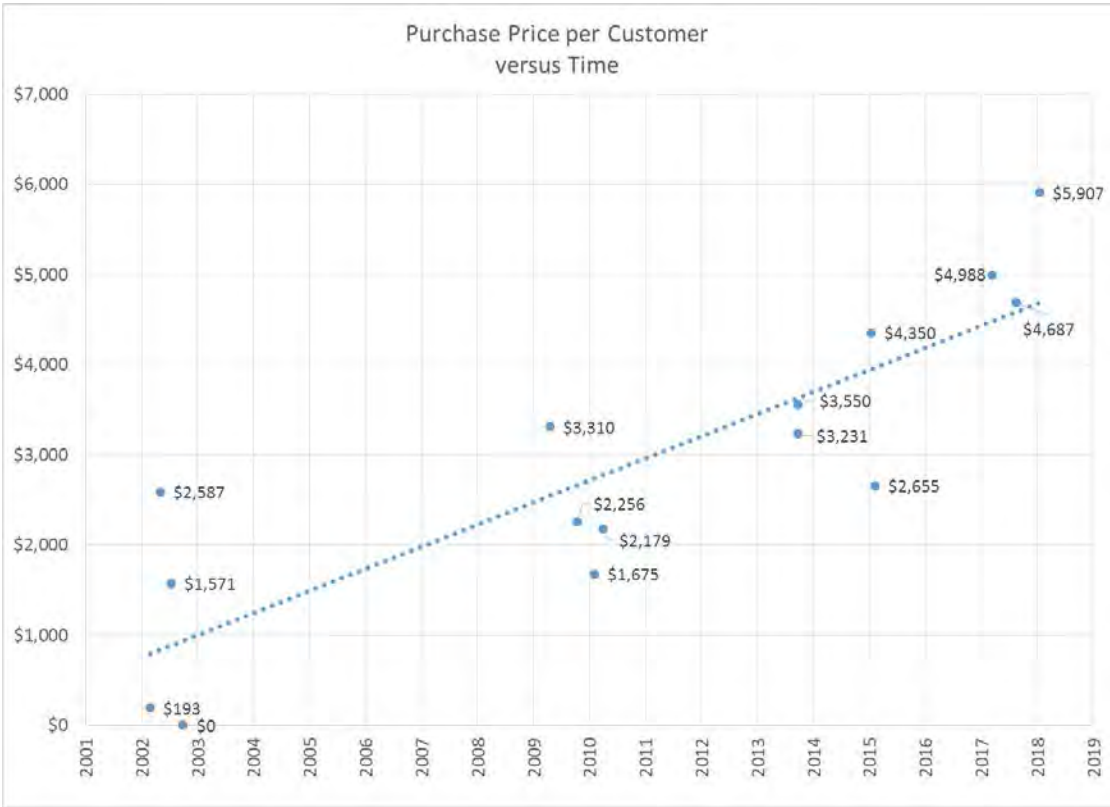
- 1 A: As shown in Table 1, the acquisition cost per customer (\$5,907) of the Lake Station
2 system exceeds previous acquisitions by Indiana American.

Table 1

Cause	Utilities	File Date	Order Date	Purchase Price	Cust Nos	Cost/Cust	Notes
45041	IA Lake Station	1/19/2018		\$ 20,339,470	3,443	\$5,907	
44976	IA Charlestown	8/17/2017	3/14/2018	\$ 13,583,711	2,898	\$4,687	
44915	IA Georgetown	3/16/2017	10/11/2017	\$ 6,529,000	1,309	\$4,988	
44592	IA ASU	2/9/2015	8/5/2015	\$ 153,987	58	\$2,655	(1)
44584	IA Russiaville	1/16/2015	7/22/2015	\$ 1,870,500	430	\$4,350	
44400	IA Yankeetown	9/27/2013	3/26/2014	\$ 2,045,000	633	\$3,231	
44399	IA Merom	9/26/2013	1/29/2014	\$ 436,609	123	\$3,550	
44222	IA Mecca	7/16/2002	12/19/2012	\$ 495,000	315	\$1,571	(2)
43883	IA New Whiteland	4/1/2010	3/2/2011	\$ 4,575,000	2,100	\$2,179	
43855	IA Riley	2/5/2010	4/5/2011	\$ 1,060,500	633	\$1,675	
43817	IA Marion Heights	10/15/2009	3/10/2010	\$ 925,000	410	\$2,256	
43671	IA Waveland	4/22/2009	9/23/2009	\$ 705,000	213	\$3,310	
42298	IA Westwood	9/30/2002	1/15/2003	\$ 1	63	\$0	
42226	IA Dune Acres	5/3/2002	9/18/2002	\$ 406,149	157	\$2,587	
42191	IA Turkey Creek	2/28/2002	11/20/2002	\$ 193,000	1,000	\$193	
(1) - Reflects IURC downward adjustment, includes transaction costs of 25k							
(2) - IA adjusted price down from calculated \$587,585 due to improvements needed							

- 3 **Q: How has Indiana American's acquisition cost per customer changed over**
4 **time?**
- 5 A: Table 2 below provides a graphical representation of historical acquisition costs per
6 customer, showing each acquisition case as an individual point. The Excel-
7 generated linear regression line suggest a fairly strong rate of increase in acquisition
8 cost per customer over the past fifteen (15) years.

Table 2



1 **Q: Why is cost per customer an important metric when reviewing acquisitions?**

2 A: In Cause No. 43883, Indiana American's acquisition of the Town of New
3 Whiteland's utility properties, Indiana American's witness (Mr. Jeffery C. Henson)
4 made the following statement in response to the OUCC's concern about acquisition
5 purchase prices growing too high:

6 There are two responses. First, we are not going to be willing to
7 engage in consolidation that does not make good business sense.
8 There is a rather straightforward method for determining the point
9 where an acquisition is one we should pursue. We know that Indiana
10 American presently has invested in rate base an amount of
11 approximately \$2,400 per customer. So long as the net investment
12 we are making per customer is less than our current average
13 investment per customer, the acquisition is a consolidation that we
14 should all want Indiana American to pursue. In this case, the cost of
15 the acquisition per customer to be added is \$2,195. While the impact

1 will be minimal given its size, it will decrease our total investment
2 per customer. It presents a win-win situation.

3 Second, the Commission will have the opportunity to approve such
4 acquisitions. If we should present a proposal where the purchase
5 price is too high such that the acquisition is not in the public interest,
6 the Commission can decline to approve. (p. 14, Petitioner's Exhibit
7 JCH-R, Cause No. 43883, August 5, 2010)

8 Based on Mr. Henson's testimony in the New Whiteland case, Indiana American
9 used the average investment per New Whiteland customer to determine whether the
10 acquisition made "good business sense." In that acquisition, the investment per
11 acquired customer was less than Indiana American's overall average investment
12 per customer. Thus, based on Indiana American's metric, the New Whiteland
13 acquisition did make "good business sense." However, in the immediate case, the
14 average investment per Lake Station customer (\$5,907) is significantly higher than
15 Indiana American's current average investment per customer (\$3,375).¹⁶ Applying
16 Indiana American's historical metric to this acquisition, it would not make "good
17 business sense." Moreover, a higher than average investment per customer may
18 signal that the acquiring utility's existing ratepayers may experience higher rates as
19 a result of the acquisition.

20 **Q: Does Indiana American still use average investment per customer as a metric**
21 **to determine whether an acquisition makes "good business sense."**

22 **A:** In response to OUCC DR 2-9, (Attachment ERK-4) the OUCC asked Indiana-
23 American what set of metrics it uses to determine if a proposed acquisition is viable.
24 Petitioner asserted that "Each proposed transaction is different and there is no fixed
25 set of metrics to determine viability of a proposed acquisition." In OUCC DR 7-3

¹⁶ Attachment GMV-2, line 4.

1 (Attachment ERK-5) the OUCC sought further clarification regarding metrics used
2 by Indiana American Water or its parent company, but Indiana American did not
3 provide additional information to explain how it determines if a proposed
4 acquisition is viable.

5 **Q: Is the average investment per customer an appropriate metric in a proposed**
6 **acquisition?**

7 A: Yes. As is shown in GMV-2, if rate base (average investment) per customer of the
8 target company exceeds rate base per customer of the purchasing company the
9 proposed acquisition will likely increase the rates (revenue requirements) to the
10 purchasing utility's existing customers. Additionally, rate base per customer is a
11 metric that can be used to determine if acquisitions are getting more expensive.
12 Finally, absent other metrics that could be used in place of cost per customer,
13 Indiana American has not provided a basis to discard it as a metric to review
14 acquisitions.

X. ECONOMIES OF SCALE

15 **Q: Do larger water utilities always produce economies of scale?**

16 A: No. While size is an important factor that affects a water utility's revenue
17 requirements, it is by no means the only factor. For example, page 25 of the 2016
18 IFA report included in Mr. Prine's testimony recognizes that the largest utilities
19 have somewhat higher operating costs:

20 As seen elsewhere in this report, average CRUC decreases as the
21 utility size increases. The only exception to this trend is in the very
22 large utilities that have somewhat higher average costs than the large
23 systems. This difference is partly explained by the local factors
24 faced by each system and the fact that there are only a handful of
25 very large communities in the State.

1 The benefits of regionalization and economies of scale do not just happen, they only
2 occur if the growing company makes them happen. For example, increasing layers
3 of bureaucracy can lead to dis-economies of scale. More specifically in this case,
4 as explained by OUCC witness Parks, by maintaining Lake Station's treatment
5 plant and water supply wells, Indiana American reverses the economies of scale it
6 gains from providing water to Lake Station from Indiana American's existing
7 facilities.

8 **Q: Are there other areas where Indiana American does not achieve economies of**
9 **scale by increasing its size?**

10 A: Yes. By paying a higher rate base per customer than its current average rate base
11 per customer, as explained above, Indiana American and its ratepayers fail to garner
12 the benefits of Indiana American increasing size. If economies of scale were
13 automatic, the Lake Station acquisition should lead to lower costs per customer, not
14 higher costs per customer.

15 Also, Indiana American's largest operating expense is the Service Company
16 Expense (more than 25.0%) that its Parent Company pushes down to Indiana
17 American. The service company expense is based on the number of customers
18 Indiana American serves and increases proportionately as Indiana- American
19 increases its customer base.

XI. ADDITIONAL INVESTMENT

20 **Q: On page 17 of his testimony, Mr. Prine testifies that Indiana American**
21 **estimates it will invest \$2.8 million in capital improvements in the Lake Station**
22 **system over the first five years of its ownership. What is your opinion of**

1 **Indiana American's commitment to make additional investment in the Lake**
2 **Station system?**

3 A: Indiana American's commitment to make additional investment in the Lake Station
4 system fails to keep pace with depreciation. Based on Indiana American's proposed
5 depreciation rate of 2.86% the annual depreciation on the Lake Station system will
6 be \$581,709 ($\$20,339,407 * 2.86\%$). Over five years, the total depreciation on the
7 Lake Station system is approximately \$2.9 million. Thus, Indiana American would
8 collect more in depreciation than it plans to invest in the Lake Station plant.

XII. JOURNAL TRANSACTION

9 **Q: If Lake Station's treatment and water supply wells were removed from the**
10 **proposed transaction, what would Indiana American's journal transaction**
11 **look like?**

12 A: Schedule ERK-3 shows what Indiana American's journal transaction would look
13 like if the Lake Station treatment plant and supply wells were removed from the
14 transaction.¹⁷ I used the Excel file of Mr. VerDouw's proposed transaction and
15 removed the plant described by OUCC witness Parks to adjust the transaction.

XIII. SUMMARY AND CONCLUSION

16 **Q: Please summarize the OUCC's case.**

17 A: The Commission's "used and useful" standard requires: (1) that the utility plant be
18 actually devoted to providing utility service, and (2) that the plant's utilization be
19 reasonably necessary to the provision of utility service. Lake Station's water
20 treatment facility and water supply wells are not reasonably necessary for the
21 provision of utility service in either the Lake Station service territory or Indiana

¹⁷ Attachment ERK-3 shows the 400,000 gallon elevated tank highlighted in yellow as shown in Petitioner's original attachment.

1 American's Northwest District service territory. The cost of Lake Station's water
2 treatment facility and supply water wells is significant. Indiana American's current
3 ratepayers should not be required to bear these unnecessary costs.

4 **Q: Please state the OUCC's recommendations.**

5 A: The OUCC recommends the Commission deny Indiana American's request to
6 include the cost differential in its rate base because assets included in the proposed
7 acquisition are not used and useful. The OUCC recognizes the Commission may
8 determine the statute provides it discretion to exclude portions of the acquisition
9 that are not used and useful. If the Commission makes this determination, the
10 Commission should approve an order that excludes Lake Station's water treatment
11 plant and supply wells, and reduce the amount Indiana American is authorized to
12 recover in its rate base by approximately \$7,366,043.

13 **Q: Does this conclude your testimony?**

14 A: Yes.

APPENDIX A

1 **Q: Please describe your educational background and experience.**

2 A: I graduated from Bentley College in Waltham, Massachusetts, with a Bachelor's
3 degree in Economics & Finance and an Associate's degree in Accounting. Before
4 attending graduate school, I worked as an escheatable property accountant at State
5 Street Bank and Trust Company in Boston, Massachusetts. I was awarded a
6 graduate fellowship to attend Purdue University where I earned a Master's of
7 Science degree in Management with a concentration in finance.

8 I was hired as Utility Analyst in the Economics and Finance Division of the
9 OUCC in October 1990. Since then, my primary areas of responsibility have been
10 in utility finance, utility cost of capital, and regulatory policy. I was promoted to
11 Principal Utility Analyst in August 1993 and to Assistant Chief of Economics and
12 Finance in July 1994. As part of an agency-wide reorganization in July 1999, my
13 position was reclassified as Lead Financial Analyst within the Rates/Water/Sewer
14 Division. In October 2005, I was promoted to Assistant Director of the
15 Water/Wastewater Division. In October 2012, I was promoted to Chief Technical
16 Advisor. I have participated in numerous conferences and seminars regarding
17 utility regulation and financial issues. I was awarded the professional designation
18 of Certified Rate of Return Analyst (CRRA) by the Society of Utility and
19 Regulatory Financial Analysts (SURFA). This designation is awarded based upon
20 experience and the successful completion of a written examination. In April 2012,
21 I was elected to SURFA's Board of Directors and continue to serve on SURFA's
22 Board.

1 **Q: Have you previously testified before the Indiana Utility Regulatory**
2 **Commission?**

3 A: Yes. I have testified before the Indiana Utility Regulatory Commission (“IURC”
4 or “Commission”) in a number of different cases and issues. I have testified in
5 water, wastewater, natural gas, telecommunication and electric utility cases. While
6 my primary areas of responsibility have been in cost of equity, utility financing, fair
7 value, utility valuation and regulatory policy, I have provided testimony on
8 trackers, guaranteed performance contracts, declining consumption adjustments,
9 and other issue

APPENDIX B – LIST OF ATTACHMENTS

1 **Q: Please list the schedules and attachments included with your testimony:**

2 A: My testimony includes the following schedules and attachments:

3 Schedule ERK-1 Calculates the revenue requirement on Indiana American's
4 ratepayers that will be caused by Indiana American purchasing and maintaining
5 Lake Station's treatment plant and supply wells.

6 Schedule ERK-2 Calculates the increase to Indiana American's other ratepayers
7 that would occur as a result of this proposed acquisition.

8 Schedule ERK-3 Provides a revised journal transaction for the proposed
9 acquisition.

10 Attachment ERK-1 is Joint Petitioners' response to OUCC data request 4.5, 3.3,
11 3.4, 3.5, 3.6, 3.7, 3.8, and 3.10.

12 Attachment ERK-2 is a copy of the cover page and page 2, of Indiana American's
13 response to Lake Station's request for an RFP on its sale of the water system.

14 Attachment ERK-3 is Joint Petitioners' response to OUCC data requests 5.4 and
15 5.5.

16 Attachment ERK-4 is Joint Petitioners' response to OUCC data request 2.9.

17 Attachment ERK-5 is Joint Petitioners' response to OUCC data requests 7.3

18 Attachment ERK-6 is Joint Petitioners' response to OUCC data request 5.3.

19 Attachment ERK-7 is a copy of Indiana American's attachment GMV-2 (corrected)
20 from this cause.

21 Attachment ERK-8 is a copy of Attachment GMV-2, Schedule 5, from Indiana
22 American Cause No. 42351 DSIC – 11 (Attachment ERK-8).

23 Attachment ERK-9 is Joint Petitioners' supplemental response to OUCC data
24 request 3.1.

OUCC DR 4.5

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

On page 17 of his testimony, Mr. Prine states as follows:

It is anticipated that the existing Lake Station treatment facility will be maintained and regularly placed into operation to ensure rapid reliability. However, due to the high cost to operate the Lake Station water treatment plant, Indiana American intends to only use the plant during peak demand days, or as emergency supply.

- a) What is the basis of Mr. Prine's opinion about what is anticipated? Please explain and provide any reports or communication on which Mr. Prine relied.
- b) When will Indiana-American make the determination as to whether the existing Lake Station treatment facility will be maintained and regularly placed in service into operation?
- c) Who will make the determination as to whether the existing Lake Station treatment facility will be maintained and regularly placed in service into operation?
- d) How many "peak" days (each year) does Indiana American anticipate will occur requiring it to operate the Lake Station Treatment facility? Please provide any studies relied upon to answer this request.
- e) Please describe the process of placing the existing Lake Station treatment facility into operation including necessary lead time.
- f) Please provide the protocol, including applicable criteria, for determining that the existing Lake Station treatment facility should be put into operation.

Information Provided:

- a. Please refer to replies to OUCC DRs 3.2, 3.3, and 3.5.

- b. The decision has already been made. Indiana American has determined to maintain the facility and regularly place it in service.
- c. Please see reply to OUCC 4.5.b.
- d. Currently none; however, demands resulting from new customers, future sale-for-resale agreements, or acquisitions could also require use of the Lake Station plant.
- e. Indiana American hasn't determined this.
- f. Please refer to replies to OUCC DRs 3.2, 3.3, and 3.5. Indiana American has not yet determined other criteria.

OUCC DR 3.3

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

Mr. Prine testified that “due to the high cost to operate the Lake Station water treatment plant, Indiana American intends to only use the plant during peak demand days or as emergency supply.”

- a. Please provide any study or report that supports such use of the Lake Station water treatment plant.
- b. Please describe the level of demand that would necessitate using the Lake Station water treatment plant.
- c. What is Lake Station’s current cost of operating the Lake Station water treatment plant?
- d. What is Indiana-American’s prospective cost of operating the Lake Station water treatment plant? Please include any study, analysis or report estimating Indiana-American’s cost of operating the Lake Station water treatment plant.
- e. What has Indiana-American determined to be the amount of time required to bring the plant into use in the event of an emergency. Please describe the steps involved.

Information Provided:

- a. See reply to OUCC DR 3.2. Additionally any extended local area distribution system failure could also require use of the Lake Station plant.
- b. See reply to OUCC DR 3.2. Demands resulting from future sale-for-resale agreements or acquisitions could also require use of the Lake Station plant.
- c. To be provided. Lake Station City Hall is closed for President’s Day and did not realize that State Offices were open. Therefore, Lake Station had mis-calendared the due date as Tuesday, February 20.

OUCC DR 3.4

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

Please identify all water treatment plants in the state that Indiana-American owns or operates which it “only use[s] . . . during peak demand days or as emergency supply.”

Information Provided:

Currently none.

OUCC DR 3.5

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

Please identify the locations within Indiana-American's distribution system that may be able to use Lake Station treatment plant as emergency supply. Please provide any studies establishing same.

Information Provided:

Indiana American hasn't studied this question, however it is expected that the Lake Station treatment plant could serve as a supply for customers currently served by this plant in emergencies and in circumstances contemplated in CONFIDENTIAL Attachment OUCC 3.2-R1, and in reply to OUCC DR 3.3. Thereby at least that portion of the distribution system that Indiana American will own after the acquisition could be served by the Lake Station Plant. This would also result in more capacity from other plants to be available for other customers in other portions of the distribution system in the circumstances described. Additionally, the Lake Station plant has some capacity above its service area average day demand that could likely be distributed to the Indiana American system with construction of a small pump station. The water would be delivered in to areas of the Indiana American system in vicinities adjacent to Lake Station where the water would be consumed.

OUCC DR 3.6

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

Please identify the locations within Indiana-American's distribution system that may be able to use Lake Station treatment plant during peak demand days.

Information Provided:

See response to OUCC DR 3.5.

OUCC DR 3.7

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

Please identify and describe what infrastructure improvements will be needed to convey water from Lake Station water treatment plant to Indiana-American's existing distribution system during peak demand days.

Information Provided:

Please see response to OUCC DR 3.5.

OUCC DR 3.8

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

Has Indiana-American been unable to meet peak day demand during the last ten years in the distribution area to be served by the Lake Station water treatment plant during Peak demand days? Please explain.

Information Provided:

No.

OUCC DR 3.10

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

When was the interconnection between Indiana-American and the Lake Station Water System first accomplished.

Information Provided:

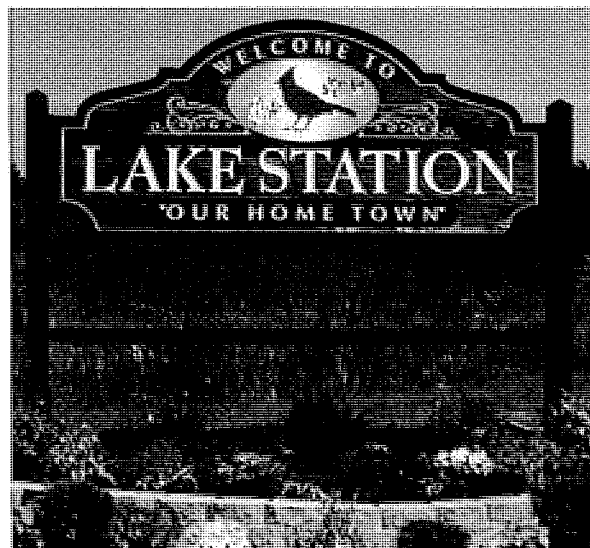
1965

OFFER FOR THE CITY'S WATER SYSTEM

RESPONSE TO THE CITY OF LAKE STATION'S RFP



INDIANA
AMERICAN WATER



December 1, 2016

CITY OF LAKE STATION, INDIANA
PROPOSAL FOR PURCHASE OF WATER SYSTEM

OFFER

Indiana - American Water Company, Inc. (the "Company"), a wholly owned subsidiary of American Water Works Company ("American Water"), proposes to purchase the water system ("System") of the City of Lake Station ("Lake Station" or the "City.")



Indiana American Water is committed to providing high-quality service to Lake Station.

We intend to treat the purchase of the System as a distressed utility acquisition and petition for such treatment with the Indiana Utility Regulatory Commission ("IURC") based on the system having less than 5,000 customers. This treatment allows the recovery of contributed property in rate base and allows the value of contributed property to be included in the purchase price.

We propose to offer Lake Station \$20,680,000 cash payment for their System. At close, customers will receive the benefit of our single-tier water rates, at least \$2,800,000 in infrastructure improvements through a five-year capital plan, and lower water rates. This will allow the City to pay off outstanding bonds with a value at the end of 2016 of approximately \$11,148,000 for the water system with proceeds from the sale. Considering the cash and working capital it retains after repaying its liabilities, Lake Station will net nearly \$9,532,000 in proceeds. The Company also becomes a tax contributor through property tax assessment and would pay approximately \$250,000 annually.

Acquisition approval at the IURC will be similar to other municipal acquisitions with an appraisal of the System per Indiana statute. The City's valuation of its System of \$20,380,000 is based on replacement cost new less depreciation ("RCNLD") value, which serves the basis for historically IURC approved acquisitions. Our proposed purchase price of \$20,680,000 for the system is greater than the RCNLD. Our cost savings, economies of scale, purchasing power and single tariff pricing allows us to pay greater than the RCNLD value without increasing Lake Station's customer rates.

At this time, we have evaluated the City's desire to remove an existing elevated storage tank to allow for redevelopment of the site for commercial purposes. Based on limited information and the potential to impact water pressure and fire flows, additional testing is required to remove the tank without adversely impacting customers. We will work directly with Lake Station's Fire Department to evaluate, measure and plan to remove the tank at an appropriate point in time. Our offer price excludes the purchase of the tank, tank piping or land related to its location. If the testing concludes the tank must remain in service to maintain fire flow levels and ISO ratings requested by the City, the Company will purchase or lease the tank until the end of its useful life.

The Company's current rate for 4,000 gallons per month is \$33.25, as compared to the City's current rate of \$39.33/month for the same usage. The Company's rate is \$6.08/month (15.46%) less than the City's current rate for the same usage level. The Company's projected rate for 4,000 gallons of monthly usage in the year 2020 is still 3.9% less than the Lake Station's current rate. Additional information and rate analysis can be found in the Rate Expectations section on page 18.

OUCC DR 5.4

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

What is the basis for the 10% non-construction costs included in the Appraisal?

Information Provided:

It is assumed the Request refers to the costs listed in Table 1 of the Appendices to the independent valuation of Mr. Buczek under Mr. Pozen's direction and supervision and included in Attachment CA-1 (p. 14). The 10% non-construction cost listed there is an amount one of the appraisers deemed to be appropriate to include based on his experience and qualifications as licensed engineers in the state of Indiana as required by IC 8-1.5-2-4.

OUCC DR 5.5

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

How was the 10% non-construction cost figure determined?

Information Provided:

Joint Petitioners are unaware how the cost figure was determined, but presume it was originally determined by Mr. Buczek and confirmed by Mr. Pozen, both qualified, licensed engineers as required by IC 8-1.5-2-4, based on their education, training and experience.

OUCC DR 2.9

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

What metrics does Indiana American or its parent company use to decide if a proposed acquisition is viable?

Information Provided:

Each proposed transaction is different and there is no fixed set of metrics to determine viability of a proposed acquisition.

OUCC DR 7.3

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

In OUCC DR 2.9 the OUCC asked “What metrics does Indiana American or it [sic] parent company use to decide if a proposed acquisition is viable? Petitioner responded: “Each proposed transaction is different and there is no fixed set of metrics to determine viability of a proposed acquisition.” Please answer the following questions regarding Petitioner’s response to OUCC DR 2-9.

- A) Recognizing that “Each proposed transaction is different and there is not [sic] fixed set of metrics to determine viability of a proposed acquisition.” Who at Indiana American evaluates the viability of a proposed acquisition?
- B) Recognizing that “Each proposed transaction is different and there is not [sic] fixed set of metrics to determine viability of a proposed acquisition.” How does Indiana American evaluate the viability of a proposed acquisition?
- C) Recognizing that “Each proposed transaction is different and there is not [sic] fixed set of metrics to determine viability of a proposed acquisition.” What analysis did Indiana American conduct to determine if its proposed acquisition of the City of Lake Station water system was viable? Please provide a copy of any reports, memos or analyses, Indiana American prepared to evaluate if its proposed acquisition of the City of lake Station Water System was viable?
- D) According to Indiana American what factors would make a potential acquisition not viable?
- E) Recognizing that “Each proposed transaction is different and there is not [sic] a fixed set of metrics to determine viability of a proposed acquisition.” How does Indiana American’s parent Company evaluate the viability of a proposed acquisition?

Objection:

Indiana American objects to OUCC 7.3 on the grounds and to the extent it is irrelevant and not reasonably calculated to lead to the discovery of admissible evidence. The statutory elements for consideration in this case are those specifically listed in IC 8-1-30.3-5(c) and (d). The identity of people who may have participated in the decision to pursue this transaction and what process might apply in transactions that are not before the Commission is therefore beyond the scope of this proceeding. Indiana American further objects on the separate and independent ground that the information requested may seek information protected by attorney client privilege. Indiana American further objects on the separate and independent ground that information concerning Indiana American's internal processes for deciding to pursue a particular acquisition is highly confidential, proprietary and trade secret to such an extent that it would not be produced pursuant to a nondisclosure agreement.

Information Provided:

Subject to and without waiver of the foregoing objections, Indiana American states as follows:

In response to OUCC Data request 2.9, Indiana American Water explained that metrics are not fixed and are fact dependent on each proposed acquisition. To the extent that the OUCC rephrases the same request without the necessary factual predicate, the answer is the same: "Each proposed transaction is different and there is no fixed set of metrics to determine viability of a proposed acquisition." Indiana American Water cannot speculate at the hypothetical factual basis for acquisitions which have not been proposed, cannot be more specific, and the question is not designed to lead to any relevant evidence in this matter. That said:

- A) Indiana American used the word "viable" as meaning capable of working successfully or feasible. Who evaluates whether an acquisition is feasible or capable of working successfully depends on the proposed acquisition.
- B) See the answer to A.
- C) See objection. Indiana American Water reviewed the price, location, system, current operations, and other factors to determine whether the acquisition is feasible or capable of working successfully and therefore its interest in pursuing the Lake Station proposed transaction. Indiana American does a financial model which has input from various business functions within Indiana American, and the purpose of the model is to inform Indiana American's General Counsel for purposes of negotiating a proposed asset purchase agreement. It is therefore absolutely protected by attorney-client privilege and is also highly confidential, proprietary and trade secret. There are no non-privileged written reports, memos or analyses that Indiana American prepared in determining that the Lake Station acquisition is feasible or capable of working successfully.

- D) Any number of factors could make a potential acquisition not feasible or capable of working successfully, including price, location, condition of system, impact on current operations or rates, and other factors.
- E) See objection. See also response to 7.3(e).

OUCC DR 5.3

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

Does the Joint Appraisal provided by Petitioners, recognize negative net salvage value to determine the “Depreciated Replacement Costs”?

- a. If yes, explain how negative net salvage values are recognized in the Appraisal.
- b. If no, explain why negative net salvages value is excluded from the Appraisal.
- c. Explain why it is appropriate to include negative net salvage value to determine depreciation rates, while excluding them to value assets in an acquisition.

Information Provided:

Joint Petitioners are unsure what is meant by “Joint Appraisal” in the request. If what is meant is the Return of Appraisalment, which is Attachment CA-1, p. 87, Joint Petitioners are unaware how the Return recognizes negative net salvage. The Return is signed by three appraisers possessing the requisite qualifications and certifications. One of the independent valuations upon which the Return was based states the following at Page 3 (see Attachment CA-1, p. 4):

Based upon filed investigations and observations made of the physical condition of the water utility assets, reviews of available water utility maps and records, determinations of typical asset average service life and replacement cost, calculations of depreciated replacement cost; exclusive of the value of utility-owned real estate properties, contributions-in-aid-of-construction, and grant funded improvements, it is the opinion of this appraiser that the value of the water utility assets owned by the City is **\$20,200,000.**

OUCC DR 5.7 (Supplemental)

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

Who from Indiana American (or American Water) inspected the assets of the Lake Station water system as part of Indiana American's proposed acquisition? When did this inspection take place? Please describe the scope of the inspection. Please provide any reports, memos or analyses that Indiana American created resulting from its inspection of the Lake Station water system.

Objections: Joint Petitioners object to the Request as vague and ambiguous on the grounds and to the extent the term "inspection" is undefined and could be interpreted in many different ways, and therefore the Request provides no basis upon which Joint Petitioners can reasonably determine what information is being sought.

Supplemental Information Provided:

OUCC subsequently provided the following definition for the term "inspection." Webster's Random House Unabridged Dictionary's defines *inspection* as "the act of inspecting or viewing, esp. carefully or critically." While Joint Petitioners renew their objection to the Request as vague and ambiguous and providing no basis upon which Joint Petitioners can reasonably determine what information is being sought insofar as the definition provided uses the term "inspecting" without providing further definition thereof, Joint Petitioners respond as follows, subject to and without waiver of the foregoing objections:

Joint Petitioners consulted Merriam Webster's online dictionary for a definition of inspecting and found the following definition: "to view closely in critical appraisal; look over."

As indicated in the response to OUCC DRs 5.9, 5.10 and 5.11, the statutorily appointed and qualified appraisers spent more than 160 hours inspecting the system within the meaning provided in this response. Indiana American has familiarity with the system given its proximity to and interconnection with Indiana American's Northwest Indiana Operations. In addition, the Asset Purchase Agreement provides standard representations and warranties from the seller about the assets and the system and protections for the buyer related to those representations and warranties. Indiana American also sent a team to physically inspect the system prior to submitting its bid in response to Lake Station's Request for Proposals. See attachments provided herewith containing information noted during a field visit.

The approval sought from the Commission in this case is only one step in the transaction process. Indiana American's due diligence is ongoing and extends throughout the process until closing. Nothing throughout the process has suggested to Indiana American that the Lake Station water utility is not "distressed" within the meaning of IC ch. 8-1-30.3. *See* pages 2-3 of the Direct Testimony of Mayor Anderson describing the water main break experienced on New Year's Day 2018; *see also* the response to OUCC DR 1.6 describing the critical shortage in the city's water supply reserves during the summer of 2017, and the supplemental response to OUCC DR 3.9 indicating that as of February 20, 2018, the city was experiencing an outage of two of its water pumps, likely necessitating the purchase of water from Indiana American through the existing interconnection.

Attachments:

OUCC DR 5.7-R1.pdf

OUCC DR 5.7-R2.pdf

City of Lake Station water utility
PWSID# INxxxxxxx
Due Diligence Field Visit – July 12, 2016

INAW – Mary Cossey, Chris Johnsen, Martin Wille, Kevin Conley, Dave Elmer
Aqua – Steven Fejes, Operator (219) 798-5112

Observations: Elmer, Johnsen, Conley

Water Treatment Facility

- Placed in-service in 2014 (American StructurePoint and Thieneman Construction)
- Rated capacity is 2MGD, Firm capacity is 1MGD
- 6 wells ranging from 175 gpm to 400 gpm with significant interference; each with individual mag meters; 1000 gpm total raw water capacity; well motors are equipped with VFDs; no emergency power supply available for off-site wells. Two wells on site cannot be run at the same time, unsure if on-site wells have emergency power available.
- Treatment includes softening with two 700 gpm sand catalyst reactors and two 700 gpm recarbonation tanks; 400 ppm reduced to 180 ppm (typical NWI finished water is about 140 ppm); spent catalyst stored in underground tank and removed twice per year – The catalyst was stored in an above-ground bin. The city has been using the material for traction on roads in the winter.
- Chemical feed systems for chlorine gas (150 lb cylinders), sodium hydroxide liquid, carbon dioxide gas, sodium fluoride (bags); sodium hydroxide feed uses about 300 gal/day
- Two Tonka 700 gpm pressure filters (two cells) for Fe and Mn removal, 240 SF per filter, permitted at 3 gpm/sf
- Clearwell volume is 75,000 gallons
- High Service pumps – 3 vertical turbine @ 1000 gpm with 50 hp motors on VFDs; 168 ft TDH; pump discharge is equipped with surge relief
- Plant effluent meter is mag meter
- Plant discharge pressure is 38 psi and almost all water is pumped to GST
- Free chlorine disinfection for distribution system (NWI is chloramines) – Chlorine is currently fed after sand catalyst and carried through balance of treatment and filtration is quantity sufficient for distribution. Pre-catalyst and post injection points are available.
- Filters are backwashed with vertical turbine pump – 2000 gpm with 30 hp motor (no spare) – At present, no option for filter to waste; backwash done every other day; filter material understood to be sand, anthracite and activated carbon; no inspections of media have been conducted since go-live.
- Backwash holding tank has capacity to hold two filter backwashes; recycle at 100 gpm with submersible pumps; residuals removed twice per year, disposal location unknown

Elevated Storage Tank

- 400,000 or 500,000 gal multi-leg tank (c.1954); appears to be in good condition
- HWL = 782.50
- Used to maintain system pressure and provide fire flow
- Has cellular antenna and possibly other communications equipment mounted on structure

- Has non-functioning altitude valve
- Overflow has storm drain under discharge, but most water would not be captured during full overflow event, stream is nearby, so overflow could reach waters of state before free chlorine is consumed.
- In the past, NWI system pressure has caused this tank to overflow

Ground Storage tank and Pump Station

- 1.5 MG welded steel tank (c.1962); appears to be in good condition
- HWL = 674.60, empty = 644.10
- Has cathodic protection system, unsure if functional
- All distribution system water passes through this tank
- Tank was overflowing at the time of our visit; tank is near river, overflow may reach waters of state before free chlorine is consumed
- Two 700 gpm pumps at pump station
- Electrical panel has quick connect for portable generator
- Discharge from tank pump station averages 65 psi

Requests:

- Record drawings of treatment plant, wells, elevated storage tank, ground storage tank and pump station. Including property plats
- Maps/drawings of distribution system showing mains, valves, hydrants and interconnections.
- All operating permits – none observed to be required, but would like to confirm
- IDEM Construction Permit for the treatment plant
- Most recent 12 months of water quality data
- Hydrogeological studies and well maintenance records
- Chemical analysis and other documentation of spent catalyst clearing it for street application
- Agreements for cellular lease and any other antenna mounted on tank
- SMF from IDEM, and documentation that IDEM has determined wells to not be under the influence of surface water
- Backwash sludge disposal documentation – chemical analysis and tickets from either landfill, waste treatment plant or land application
- MSDS for chemicals and names of suppliers

OUCC DR 5.8

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

Who from Indiana American (or American Water) inspected the books and records of the Lake Station water system as part of Indiana American's proposed acquisition? When did this inspection take place? Please describe the scope of the inspection. Please provide any report, memos or analyses that Indiana American created resulting from its inspection of the books and records of the Lake Station water system.

Objections:

Joint Petitioners object to the Request as vague and ambiguous on the grounds and to the extent the term "inspection" is undefined and could be interpreted in many different ways. In addition, the phrase "books and records" is undefined and could be interpreted in different ways. Therefore, the Request provides no basis upon which Joint Petitioners can reasonably determine what information is being sought.

Information Provided:

Subject to and without waiver of the foregoing objection, Joint Petitioners respond as follows:

Indiana American made no effort to conduct any sort of review of the accounting books and records of the Lake Station water system.

Indiana American Water Company
Cause No. 42351 D51C-11
Distribution System Improvement Charge
Rate of Return Calculation
Based on Capital Structure as Approved in Cause No. 44450

Line Number	Class of Capital	Amount as of 11/30/2014	Percent of Total	(%) Cost	Weighted Cost	Pre-Tax Weighted Cost	
1.	Long Term Debt	\$ 354,987,636	41.80%	6.08%	2.54%	2.54%	
2.	Short Term Debt	-	0.00%	0.00%	0.00%	0.00%	
3.	Deferred Income Taxes	143,650,219	16.91%	0.00%	0.00%	0.00%	
4.	Accumulated Depreciation on Contributed Utility Plant for Muncie Sewer	72,694	0.01%	0.00%	0.00%	0.00%	
5.	Prepaid Pension Asset	(5,541,209)	-0.65%	0.00%	0.00%	0.00%	
6.	Post Retirement Benefits, Net	2,579,644	0.30%	0.00%	0.00%	0.00%	
7.	Accumulated Deferred Investment Tax Credits - Pre 1971	12,033	0.00%	0.00%	0.00%	0.00%	
8.	Job Development Investment Tax Credits (JIDTC) - Post 1970	618,706	0.07%	7.34%	0.01%	0.01%	
9.	Preferred Stock	-	0.00%	0.00%	0.00%	0.00%	
10.	Common Equity	352,922,680	41.55%	9.75%	4.05%	5.58%	
11.	Total Capitalization	\$ 849,302,403	100.00%		6.60%	8.13%	
12.	Tax Gross-Up Calculations:						
13.	Gross Revenue Change		100.0000%				
14.	Less: Uncollectible Expense		0.8453%				
15.	Total Before Gross Income and IURC Fees (Line 24 - Line 25)		99.1547%				
16.	Less: 2017 IURC Fee (from INAWC IURC Billing Statement as of 7/1/2017)		0.1338381%				
17.	Total Before Gross Income Taxes (Line 26 - Line 28)		99.0209%				
18.	Less: State Income Tax @ 5.8125% (See calculation below) (5.8125 X Line 29)		5.7556%				
19.	Less: Gross Income Taxes @ 1.40% (1.4 % X Line 29)		1.3863%				
20.	Total before Federal Income Taxes (Line 29 - Line 31 - Line 32)		91.8784%				
21.	Less: Federal Income Taxes @ 21% (21% X Line 33)		19.2945%				
22.	Total after Income Taxes (Line 33 - Line 35)		72.5839%				
23.	Gross Revenue Conversion Factor (1 / Line 37)		137.7717%				

Calculation of Blended Indiana State Income Tax Rate:

Description	Rate Year	Income Tax Rate	Number of Months at Rate	Percentage of Months at Rate	Weighted Rate
6.0% Tax Rate Effective 7/1/2017 - 6/30/2018 (assumes three months at this rate)	2017	6.00%	3	25.0%	1.5000%
5.75% Tax Rate Effective 7/1/2018 - 6/30/2019 (assumes nine months at this rate)	2018	5.75%	9	75.0%	4.3125%
					<u>5.8125%</u>

Gross Up From Settlement Appendix B1, Line 17, Cause No. 44450 adjusted for current Federal and Blended State Income Tax Rate. ROE From Final Order Cause No. 44450.

Indiana American Water Company
Calculation that shows that City of Lake Station, IN Water Utility Acquisition will not cause more than a 1% overall rate Increase
to Indiana American Customer Base Now or During the Next Rate Case Filing

Line Number	Description	Amount	Source of Information
1.	Indiana American Rate Base/Customer:		
2.	Net Original Cost Rate Base as of November 30, 2017:	\$ 1,022,176,000	Indiana American Balance Sheet as of November 30, 2017
3.	Indiana American Customer Count as of December 31, 2016:	302,893	Indiana American Customer Count as of November 30, 2017
4.	Rate Base/Customer (Line 2 / Line 3):	<u>\$ 3,375</u>	
5.	Authorized Rate Information:		
6.	Authorized Revenue Requirement:	<u>\$ 207,529,092</u>	Cause No. 42351 DSIC-11, Attachment GMV-2, Schedule 1, Line 22
7.	Authorized Weighted Average Cost of Capital:	6.60%	Cause No. 42351 DSIC-11, Attachment GMV-2, Schedule 5, Line 21
8.	Authorized Gross Revenue Conversion Factor:	137.7717%	Cause No. 42351 DSIC-11, Attachment GMV-2, Schedule 5, Line 39 (adjusted for Final Order and changes in State and Federal tax rates (2018))
9.	City of Lake Station, IN Water Utility Information:		
10.	Total Purchase Price with Transaction Costs:	\$ 20,339,470	Lake Station Acquisition, VerDouw Testimony, Page 6, Line 8
11.	Indiana American Planned Investment over the next five years:	2,800,000	Lake Station Acquisition, Prine Testimony, Page 16, Line 23
12.	Total Purchase Price and Additional Investment:	<u>\$ 23,139,470</u>	
13.	Number of Customers to be Acquired:	3,443	Lake Station Acquisition, Prine Testimony, Page 5, Line 10
14.	Total Rate Base/Customer (Line 12 / Line 13):	<u>\$ 6,721</u>	
15.	Calculation of 1% Difference in Rates:		
16.	Difference in Lake Station and Indiana American Average Rate Base/Customer (Line 14 - Line 4):	\$ 3,346	
17.	Gross Difference - Average Difference Times Total Lake Station Customers (Line 16 X Line 13):	<u>\$ 11,520,344</u>	
18.	Additional Return Required for Difference in Average Rate Base (Line 17 X Line 7):	<u>\$ 760,343</u>	
19.	Interest Synchronization Rate (Line 10 of Response to IURC DR 01-004, Cause No. 44976):	2.54%	Response to IURC DR 01-004, Line 10, Cause No. 44976
20.	Interest Synchronization Deduction Calculation (Line 17 X Line 19):	<u>\$ (292,617)</u>	
21.	Adjusted Total for Revenue Requirement Gross-up Calculation (Line 18 + Line 20):	<u>\$ 467,726</u>	
22.	Revenue Requirement for Difference in Average Rate Base (Line 21 X Line 8):	<u>\$ 644,394</u>	
23.	Revenue Requirement with Add-Back of Interest Synchronization Deduction Calculation (Line 22 + Line 20)	<u>\$ 937,011</u>	
24.	Calculation of Additional Depreciation Expense for Acquisition:		
25.	Total proposed Indiana American Depreciation Expense per Cause No. 44992:	\$ 41,603,398	Cause No. 44992, Attachment GMV-1, Page 3, Line 145
26.	Indiana American Customer Count as of December 31, 2016 (Line 3 Above):	302,893	Indiana American 2016 Annual Report to the IURC
27.	Proposed Depreciation Expense per customer, Per Cause No. 44992 (Line 25 / Line 26):	<u>\$ 137.35</u>	
28.	Proposed Composite Depreciation Rates from Cause No. 44992:	2.86%	Cause No. 44992, Spanos Testimony, Page 3, Line 56
29.	Lake Station Depreciation on Purchase Price and Potential Additional Investment (Line 12 X Line 28):	\$ 661,789	Line 12 Above
30.	Number of Lake Station Customers to be Acquired (Line 13 Above):	3,443	Lake Station Acquisition, Prine Testimony, Page 5, Line 10
31.	Total Lake Station Depreciation Expense/Customer (Line 29 / Line 30):	<u>\$ 192.21</u>	
32.	Difference in Depreciation Expense per customer (Line 31 - Line 27):	<u>\$ 54.86</u>	
33.	Total Additional Depreciation Expense causing Increase In rates (Line 32 X Line 30):	<u>\$ 188,883</u>	
34.	Calculation of Additional Property Tax Expense for Acquisition:		
35.	Total Indiana American Property Tax Expense for the 12 Months Ending December 31, 2016:	\$ 9,526,308	Indiana American Income Statement for YE 2016
36.	Indiana American Customer Count as of November 30, 2017 (Line 3 Above):	302,893	Indiana American Customer Count as of November 30, 2017
37.	Property Tax Expense per Indiana American customer (Line 36 / Line 35):	<u>\$ 31.45</u>	
38.	Total Estimated Property Tax Expense for Lake Station Acquisition and Improvements:	\$ 125,000	Initial Estimate of Property Tax Expense
39.	Number of Lake Station Customers to be Acquired (Line 13 Above):	3,443	Lake Station Acquisition, Prine Testimony, Page 5, Line 10
40.	Total Lake Station Depreciation Expense/Customer (Line 38 / Line 39):	<u>\$ 36.31</u>	
41.	Difference in Property Tax per customer (Line 40 - Line 37):	<u>\$ 4.86</u>	
42.	Total additional Property Tax Expense Causing Increase In Rates (Line 41 X Line 39):	<u>\$ 16,733</u>	
43.	Total Additional Revenue Requirement Required for Lake Station Investment (Line 23 + Line 33 + Line 42):	<u>\$ 1,142,627</u>	
44.	One Percent (1%) of Current Authorized Base Revenues (Line 6 X .01):	<u>\$ 2,075,291</u>	
45.	Effect of Lake Station Additional Revenue Requirement on Overall Revenue Requirement (Line 43 / Line 6):	<u>0.551%</u>	

Note: All assumptions used are based on current authorized revenue requirement, weighted average cost of capital, and gross revenue conversion factor. Revenue requirements, weighted average cost of capital, and gross revenue conversion factor will all change with the next rate case filing.

Note also: current authorized revenue level excludes DSIC

OUCC DR 3.1 (Supplemental)

DATA REQUEST
Indiana-American Water Company, Inc.
and
City of Lake Station, Indiana

Cause No. 45041

Information Requested:

Attachment CA-1 page 1 of 86 indicates the Mayor of Lake Station, Indiana selected Thomas S. Bochnowski, Kenneth L. Buczek, P.E., and Judith M. Cleland, P.E. as the three appraisers to make a just and true valuation. Attachment CA-1 page 87 of 87 indicates the Mayor of Lake Station, Indiana selected Thomas S. Bochnowski, Russell Jacob Pozen, P.E., and Judith M. Cleland as the three appraisers to make a just and true valuation.

- a. Please state when each appraiser was so selected.
- b. Please provide all documents establishing the foregoing as the selected appraisers.
- c. Please describe the steps taken to make the selection available for public viewing.

Information Provided:

To be provided. Lake Station City Hall is closed for President's Day and did not realize that State Offices were open. Therefore, Lake Station had mis-calendared the due date as Tuesday, February 20.

Supplemental Response:

- a-c. The Mayor's testimony is in error and will need to be corrected. The Council first adopted a resolution providing for the appointment of the appraisers on March 17, 2016. The original appraisal was conducted by Thomas S. Bochnowski, Kenneth L. Buczek, P.E., and Judith M. Cleland, P.E. The appraisal was returned June 24, 2016. Negotiations following the return of the appraisal and the City's consideration of its options were so in-depth given the significance of a decision to sell its water utility that too much time had passed following the return of the original appraisal in order to proceed. Once the City had made the determination to proceed, it again adopted a resolution providing for the appointment of appraisers on February 23, 2017. The appraisal was returned March 13, 2017.

Both resolutions are attached. Lake Station's method for providing for the appointment of appraisers was to list three firms who are in the business of engineering and/or real estate appraisal and by listing the qualifications required by statute for the individuals with those firms who would conduct the appraisal. Both resolutions have been available at City Hall and at Lake Station's utility offices for inspection and copying since adoption. The firms listed in the resolutions are the same. In between the return of the original appraisal and the reappointment of the appraisers, Mr. Buczek had retired. The firm instead designated Mr. Pozen to complete the work.

Attachments:

OUCC DR 3.1 Supplemental.pdf

CITY OF LAKE STATION

RESOLUTION NO. 10

RESOLUTION AUTHORIZING THE APPRAISAL OF THE WATER UTILITY

Be It Resolved by the City Council of the City of Lake Station, Indiana

WHEREAS, the Lake Station City Council desires to have an appraisal of the water utility performed for purposes of potential sale of the same;

WHEREAS, in order to explore a potential sale of the water utility, the City must comply with Indiana statutory law and obtain appraisals in accordance with I.C. 8-1.5-2;

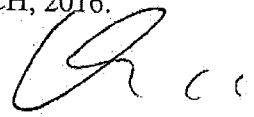
WHEREAS, Indiana-American Water Company, Inc. ("IAW") has committed to bearing the costs associated with obtaining the appraisals in the event (1) it is determined by the City that the sale of the utility is not practical based upon the values included in the appraisals or, (2) it is determined that a sale of the utility is practical and it is sold to IAW.

BE IT RESOLVED the Lake Station City Council has authorized the appointment of three (3) appraisers who are residents of the State of Indiana in accordance with I.C. 8-1.5-2-4 to perform an appraisal of the water utility owned by the City of Lake Station. In accordance with I.C. 8-1.5-2-4, the group of appraisers shall include one (1) disinterested engineer licensed under I.C. 25-34-1; one (1) disinterested appraiser who is licensed under I.C. 35-34.1 and one (1) disinterested licensed appraiser or engineer.

NOW, THEREFORE BE IT RESOLVED BY THE CITY OF LAKE STATION, INDIANA:

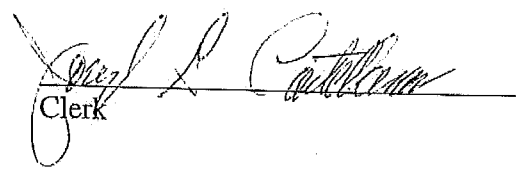
1. The following appraisers are hereby appointed to perform an appraisal for the City of Lake Station's water utility property:
(Insert 3 appraisal companies) **BOCHNOWSKI APPRAISAL COMPANY
DVL, INC; and
CLELAND ENVIRONMENTAL ENGINEERING, INC.**
2. The appraisal shall be submitted to this Council on or before (insert date); and
3. This Resolution is effective immediately and shall continue to such time as required to complete the water utility appraisals.

PASSED AND ADOPTED BY THE COMMON COUNCIL OF THE CITY OF LAKE
STATION, INDIANA THIS 17 DAY OF MARCH, 2016.

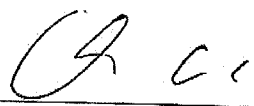


Presiding Officer

ATTEST:


Clerk

PRESENTED by me to the Mayor of the City of Lake Station on the 17 day of March, 2016 at
the hour of 9:00 (A.M.) P.M.



Mayor

ATTEST:


Clerk

RETURN OF APPRAISEMENT


The undersigned appraisers, Thomas S. Bochnowski, Kenneth L. Buczek, P.E., and Judith M. Cleland, P.E., authorized by the Mayor of Lake Station, Indiana were selected as the three appraisers to make a just and true evaluation of the Lake Station Water Utility facilities including the following assets:

- Water Supply Wells,
- Water Treatment Plant,
- Water Transmission and Distribution System,
- Elevated and Ground Storage Tanks,
- Inventory, and
- Property.

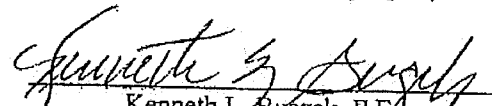
The above facilities were appraised on the basis of facilities in existence as of the date of this return of appraisement.

Having made on-site inspection of the Lake Station water facilities; having reviewed all necessary and pertinent books, maps, records and reports; and having discussions with City representatives about the water utility assets and the scope of appraisal, we, the undersigned, now find that the just and true valuation of the Lake Station Water Utility as listed above is \$20,380,600 and return this appraisement in said amount to the Lake Station City Council this 24th day of June, 2016.

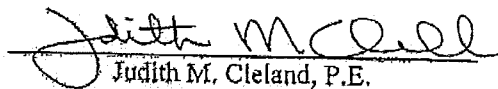
I, Thomas S. Bochnowski, swear and affirm that this is a just and true valuation of the property.


Thomas S. Bochnowski
Indiana Certified General Appraiser

I, Kenneth L. Buczek, swear and affirm that this is a just and true valuation of the property.


Kenneth L. Buczek, P.E.
Indiana Registered Professional Engineer
PE 60017455

I, Judith M. Cleland, swear and affirm that this is a just and true valuation of the property.


Judith M. Cleland, P.E.
Indiana Registered Professional Engineer
PE 60018101

CITY OF LAKE STATION
RESOLUTION NO. 2017-04

RESOLUTION AUTHORIZING THE APPRAISAL OF THE WATER UTILITY

Be It Resolved by the City of Lake Station, Indiana

WHEREAS, the Lake Station City Council desires to have an appraisal of the water utility performed for purposes of potential sale of the same;

WHEREAS, in order to explore a potential sale of the water utility, the City must comply with Indiana statutory law and obtain appraisals in accordance with I.C. 8-1.5-2;

WHEREAS, Indiana-American Water Company, Inc. ("IAW") has committed to bearing the costs associated with obtaining the appraisals in the event (1) it is determined by the City that the sale of the utility is not practical based upon the values included in the appraisals or, (2) it is determined that a sale of the utility is practical and is sold to IAW.

BE IT RESOLVED the Lake station City Council has authorized the appointment of three (3) appraisers who are residents of the State of Indiana in accordance with I.C. 8-1.5-2-4 to perform an appraisal of the water utility owned by the City of Lake Station. In accordance with I.C. 8-1.5-2-4, the group of appraisers shall include one (1) disinterested engineer licensed under I.C. 25-34-1; one (1) disinterested appraiser who is licensed under I.C. 35-35.1 and one (1) disinterested appraiser or engineer.

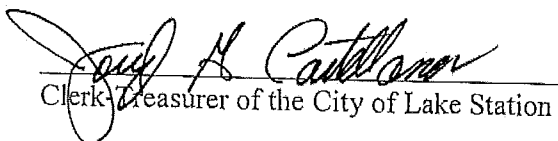
NOW, THEREFORE BE IT RESOLVED BY THE CITY OF LAKE STATION, INDIANA:

1. The following appraisers are hereby appointed to perform an appraisal for the City of Lake Station's water utility property:
 - a. Bochnowski Appraisal Company;
 - b. DVG, Inc.; and
 - c. Cleland Environmental Engineering, Inc.
2. The appraisal shall be submitted to this Council on or before _____; and
3. This Resolution is effective immediately and shall continue to such time as required to complete the water utility appraisals.

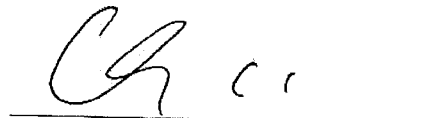
PASSED AND ADOPTED BY THE COMMON COUNCIL OF THE CITY OF
LAKE STATION, INDIANA THIS 23 DAY OF FEBRUARY, 2017.


Presiding Officer

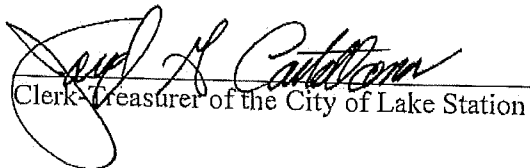
ATTEST:


Clerk-Treasurer of the City of Lake Station

PRESENTED by me to the Mayor of the City of Lake Station on the 24th day of February,
2017 at the hour of 9:00 A.M./P.M.


Mayor Christopher A. Anderson

ATTEST:


Clerk-Treasurer of the City of Lake Station

RETURN OF APPRAISEMENT

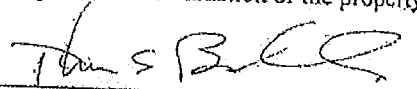
The undersigned appraisers, Thomas S. Bochnowski, Russell Jacob Pozen, P.E., and Judith M. Cleland, P.E., authorized by the Mayor of Lake Station, Indiana were selected as the three appraisers to make a just and true evaluation of the Lake Station Water Utility facilities including the following assets:

- Water Supply Wells,
- Water Treatment Plant,
- Water Transmission and Distribution System,
- Elevated and Ground Storage Tanks,
- Inventory, and
- Property.

The above facilities were appraised on the basis of facilities in existence as of the date of this return of appraisement.

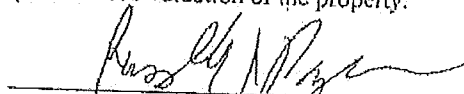
Having made on-site inspection of the Lake Station water facilities; having reviewed all necessary and pertinent books, maps, records and reports; and having discussions with City representatives about the water utility assets and the scope of appraisal, we, the undersigned, now find that the just and true valuation of the Lake Station Water Utility as listed above is \$20,380,600 and return this appraisement in said amount to the Lake Station City Council this 13th day of March, 2017.

I, Thomas S. Bochnowski, swear and affirm that this is a just and true valuation of the property.



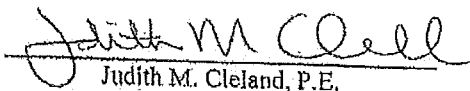
Thomas S. Bochnowski
Indiana Certified General Appraiser

I, Russell Jacob Pozen, swear and affirm that this is a just and true valuation of the property.



Russell Jacob Pozen, P.E.
Indiana Registered Professional Engineer
PE 10910667

I, Judith M. Cleland, swear and affirm that this is a just and true valuation of the property.



Judith M. Cleland, P.E.
Indiana Registered Professional Engineer
PE 60018101

Annual Cost to Indiana American Ratepayers
 of Purchasing and Maintaining the
 Lake Station Treatment Plant and Wells

Plant

Wells		\$	250,629
Well equipment		\$	360,000
Main Building		\$	3,369,563
Clear Well tank		\$	340,426
Filter Backwash Tank		\$	359,113
Pumps motors		\$	675,840
Plant Piping/Valves		\$	146,020
Chemical Feed		\$	918,317
SCADA		\$	179,055
Emergency Power		\$	97,440
Sub - Total		\$	6,696,403
Non operating costs	10%	\$	669,640
Total		\$	<u>7,366,043</u>

Data

Unnecessary Plant		\$	7,366,043
Cost of Equity			9.750%
Cost of Debt			6.080%
Equity Ratio			49.854%
Debt Ratio			50.146%
Gross Up Conversion factor			1.377717
Depreciation Rate			2.86%
Property Tax Rate			1.00%

Calculation

Equity Return (pre tax)		\$	358,047.14
Equity Return (post tax)		\$	493,287.63
Debt Return		\$	224,580.91
Depreciation		\$	210,668.84
Property Tax		\$	<u>73,660.43</u>
Annual Increase in Revenue Requirements		\$	<u>1,002,197.81</u>

OUCC Calculation
Indiana American Water Company
Calculation that shows that City of Lake Station, IN Water Utility Acquisition Understates Overall Rate Increase
to Indiana American Customer Base Now or During the Next Rate Case Filing

Line Number	Description	Amount	Source of Information
1.	Indiana American Rate Base/Customer:		
2.	Net Original Cost Rate Base as of November 30, 2017:	\$ 1,022,176,000	Indiana American Balance Sheet as of November 30, 2017
3.	Indiana American Customer Count as of December 31, 2016:	<u>302,893</u>	Indiana American Customer Count as of November 30, 2017
4.	Rate Base/Customer (Line 2 / Line 3):	<u>\$ 3,375</u>	
5.	Authorized Rate Information:		
6.	Authorized Revenue Requirement:	<u>\$ 207,529,092</u>	Cause No. 42351 DSIC-11, Attachment GMV-2, Schedule 1, Line 22
7.	Authorized Weighted Average Cost of Capital:	6.60%	Cause No. 42351 DSIC-11, Attachment GMV-2, Schedule 5, Line 21
8.	Authorized Gross Revenue Conversion Factor:	137.7717%	Cause No. 42351 DSIC-11, Attachment GMV-2, Schedule 5, Line 39
8 a.	Indiana American Cost of Equity (1)	9.750%	Cause No. 42351 DSIC-11, Attachment GMV-2, Schedule 5, Line 19
8 b.	Indiana American Cost of Debt (1)	6.080%	Cause No. 42351 DSIC-11, Attachment GMV-2, Schedule 5, Line 1
8 c.	Investor Supplied Equity Ratio (1)	49.854%	Cause No. 42351 DSIC-11, Attachment GMV-2, Schedule 5, [Line 19 / (Line 19 + Line 1)]
8 d.	Investor Supplied Debt Ratio (1)	50.146%	Cause No. 42351 DSIC-11, Attachment GMV-2, Schedule 5, [Line 1 / (Line 19 + Line 1)]
9.	City of Lake Station, IN Water Utility Information:		
10.	Total Purchase Price with Transaction Costs:	\$ 20,339,470	Lake Station Acquisition, VerDow Testimony, Page 6, Line 8
11.	Indiana American Planned Investment over the next five years:	<u>2,800,000</u>	Lake Station Acquisition, Prine Testimony, Page 16, Line 23
12.	Total Purchase Price and Additional Investment:	<u>\$ 23,139,470</u>	
13.	Number of Customers to be Acquired:	<u>3,443</u>	Lake Station Acquisition, Prine Testimony, Page 5, Line 10
14.	Total Rate Base/Customer (Line 12 / Line 13):	<u>\$ 6,721</u>	
14 a	Lake Station Depreciation	n.a.	
14 b	Lake Station Property Taxes	\$ 250,000	
15.	Calculation of 1% Difference in Rates:		
16.	Difference in Lake Station and Indiana American Average Rate Base/Customer (Line 14 - Line 4):	<u>\$ 3,346</u>	
17.	Gross Difference - Average Difference Times Total Lake Station Customers (Line 16 X Line 13):	<u>\$ 11,520,344</u>	
18 a.	Additional Equity Return Required for Difference in Average Rate Base (Line 17 X Line 8a X 8c):	\$ 559,979	
18 b.	Additional Debt Required for Difference in Average Rate Base (Line 17 X Line 8b X 8d):	<u>\$ 351,240</u>	
19.	Interest Synchronization Rate (Line 10 of Response to IURC DR 01-004, Cause No. 44976):	<u>2.54%</u>	Response to IURC DR 01-004, Line 10, Cause No. 44976
20.	Interest Synchronization Deduction Calculation (Line 17 X Line 19):	<u>\$ (292,617)</u>	
21.	Adjusted Total for Revenue Requirement Gross-up Calculation (Line 18 + Line 20):	<u>\$ 267,362</u>	
22.	Additional Revenue Requirement for Difference in Average Rate Base (Line 18 a * 8 + 18 b)	<u>\$ 1,122,732</u>	
23.	Revenue Requirement with Add-Back of Interest Synchronization Deduction Calculation (Line 22 + Line 20)	<u>\$ 1,415,349</u>	
24.	Calculation of Additional Depreciation Expense for Acquisition:		
25.	Total proposed Indiana American Depreciation Expense per Cause No. 44992:	<u>\$ 41,603,398</u>	Cause No. 44992, Attachment GMV-1, Page 3, Line 145
26.	Indiana American Customer Count as of December 31, 2016 (Line 3 Above):	<u>302,893</u>	Indiana American 2016 Annual Report to the IURC
27.	Proposed Depreciation Expense per customer, Per Cause No. 44992 (Line 25 / Line 26):	<u>\$ 137.35</u>	
28.	Proposed Composite Depreciation Rates from Cause No. 44992:	<u>2.86%</u>	Cause No. 44992, Spanos Testimony, Page 3, Line 56
29.	Lake Station Depreciation on Purchase Price and Potential Additional Investment (Line 12 X Line 28):	\$ 661,789	
30.	Number of Lake Station Customers to be Acquired (Line 13 Above):	<u>3,443</u>	Lake Station Acquisition, Prine Testimony, Page 5, Line 10
31.	Total Lake Station Depreciation Expense/Customer (Line 29 / Line 30):	<u>\$ 192.21</u>	
32.	Difference in Depreciation Expense per customer (Line 31 - Line 27):	<u>\$ 54.86</u>	
33.	Total Additional Depreciation Expense causing increase in rates (Line 32 X Line 30):	<u>\$ 188,883</u>	
34.	Calculation of Additional Property Tax Expense for Acquisition:		
35.	Total Indiana American Property Tax Expense for the 12 Months Ending December 31, 2016:	<u>\$ 9,526,308</u>	Indiana American Income Statement for YE 2016
36.	Indiana American Customer Count as of November 30, 2017 (Line 3 Above):	<u>302,893</u>	Indiana American Customer Count as of November 30, 2017
37.	Property Tax Expense per Indiana American customer (Line 36 / Line 35):	<u>\$ 31.45</u>	
38.	Total Estimated Property Tax Expense for Lake Station Acquisition and Improvements:	\$ 250,000	OUCC DR 8-7 - Included as Attachment ERK-2
39.	Number of Lake Station Customers to be Acquired (Line 13 Above):	<u>3,443</u>	Lake Station Acquisition, Prine Testimony, Page 5, Line 10
40.	Total Lake Station Depreciation Expense/Customer (Line 38 / Line 39):	<u>\$ 72.61</u>	
41.	Difference in Property Tax per customer (Line 40 - Line 37):	<u>\$ 41.16</u>	
42.	Total additional Property Tax Expense Causing Increase in Rates (Line 38):	<u>\$ 250,000</u>	
43.	Total Additional Revenue Requirement Required for Lake Station Investment (Line 22 + Line 29 + Line 38):	<u>\$ 2,034,521</u>	
44.	One Percent (1%) of Current Authorized Base Revenues (Line 6 X .01):	<u>\$ 2,075,291</u>	
45.	Effect of Lake Station Additional Revenue Requirement on Overall Revenue Requirement (Line 43 / Line 6):	<u>0.980%</u>	

Note: All assumptions used are based on current authorized revenue requirement, weighted average cost of capital, and gross revenue conversion factor. Revenue requirements, weighted average cost of capital, and gross revenue conversion factor will all change with the next rate case filing.

Note also: current authorized revenue level excludes DSIC

(1) Attachment ERK - 8

General Note Regarding Methodology for ERK-2: When I needed to insert additional lines into my Schedule ERK-2, I added a letter after the line number. By doing that, all of the original line numbers from Mr. VerDow's schedule remain unchanged on Schedule ERK-2. Thus, it should be easier to directly compare my calculation with Mr. VerDow's. Mr. VerDow's schedule uses many figures that were not necessary for my calculation. But, instead of eliminating the lines that I did not need for my calculation, I struck through the figure.



JOURNAL ENTRY REQUEST

131 Woodcrest Rd, Cherry Hill, NJ 08003
(866) 777-8426

Batch # (SSC USE):		Document Type	UA
Company Code:	1010 - Indiana American	Journal # (SSC USE):	
Prepared By (Operating Unit):		Document Date	
Prepared By (SSC):		Posting Date	
		(Operating Unit):	
		Approved By (SSC):	

Quarter Impacted **#N/A**

This is not a Reversing Entry

Doc Header Text

Lake Station Acquisition

JOURNAL ENTRY DESCRIPTION:

To record the purchase of the Lake Station, Indiana water utility assets.

Please add rows as necessary to the table below in order to complete your requested journal entry.

Company Code	Subsidiary Account	NARUC Account	Explanation	Cost Center	Profit Center	B S	Internal Order	Assignment	Debit Amount	Credit Amount
1010		131	Cost of assets per closing documents							13,313,957.00
1010		131	Allowable closing costs							140,000.00
1010		104	Utility plant acquired						13,453,957.00	
1010		104	Distribute utility plant to detail							13,453,957.00
1010	304200	304	Pumps/Motors/Electrical Equipment						148,354.00	
1010	304300	304	Water Treatment Plant Main Building						0.00	
1010	307000	307	Wells						0.00	
1010	310000	310	Emergency Power Generation Equipment						0.00	
1010	311521	311	Wells Equipment						0.00	
1010	320190	320	Clearwell Tank						0.00	
1010	320191	320	Plant Piping/Valves						0.00	
1010	320192	320	Filter Backwash Tank						0.00	
1010	320193	320	Chemical Feed Equipment						0.00	
1010	330000	330	1,500,000 Gallon Ground Storage Tank						228,095.00	
1010	330100	330	400,000 Gallon Elevated Tank						0.00	
1010	330200	330	Tank Piping						86,695.00	
1010	331001	331	TD Mains Not Classified by Size						2,052,677.00	
1010	331200	331	TD Mains 6in to 8in						6,116,344.00	
1010	333000	333	Service Lines						2,768,731.00	
1010	334100	334	Meters						648,134.00	
1010	334300	334	Meter Vaults						263,340.00	
1010	335000	335	Hydrants						319,260.00	
1010	346190	346	SCADA Equipment and Software						105,797.00	
1010		151	Inventory						59,400.00	
1010	303200	303	Land and Land Rights SS						176,600.00	
1010			Cost of Removal for Elevated Tank							50,000.00
1010		114	Acquisition Adjustment						530,530.00	
Totals									26,957,914.00	26,957,914.00