

INDIANA-AMERICAN WATER COMPANY, INC.

INDIANA UTILITY REGULATORY COMMISSION

CAUSE NO. 45032 S4

PHASE 1

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RESPONDENT'S
EXHIBIT NO. 1-8
DATE 7-28-18 REPORTER ue

REBUTTAL TESTIMONY

OF

JOHN M. WATKINS

OFFICIAL
EXHIBITS

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CAUSE NO. 45032 S4

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BACKGROUND

1 **Q. Please state your name.**

2 A. My name is John M. Watkins, and my business address is 131 Woodcrest Road,
3 Cherry Hill, New Jersey 08034.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by American Water Works Service Company, Inc. ("Service
6 Company") as Senior Director Regulatory Services.

7 **Q. Are you the same John M. Watkins who filed direct testimony in Phase 1 of**
8 **this Subdocket (Cause No. 45032 S4)?**

9 A. Yes.

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. My purpose is to state Indiana American's revised position on Phase 1 of this
12 investigation. As will be discussed in this rebuttal testimony, Indiana American is
13 submitting a revised tariff for approval via the 30-day filing process. Upon
14 approval of that tariff, Phase 1 of this investigation could be dismissed as to Indiana
15 American.

1 **Q. What is Indiana American's new position?**

2 A. As we prepare to file a general rate case and look at the potential for filing a DSIC
3 petition in January 2019, we have a better view of the impact of the reduction in the
4 federal income tax rate from the TCJA. We have determined that administrative
5 efficiency would be best served by proposing to implement 100% of the tax rate
6 reduction vs. the 62.5% I described in my direct testimony. The Company will
7 implement the effects of 100% of the tax rate reduction on the income tax expense
8 approved in Cause No. 44450 as soon as a revised 30-day submission can be
9 approved. Indiana American is filing a new submission pursuant to the
10 Commission's 30-day filing rules that would implement 100% of the tax rate
11 decrease as directed by the Commission's February 16, 2018 Order in this Cause.
12 We propose to implement the reduction by lowering the commodity charges for
13 base water rates and lowering all rates for public fire, private fire and sewer rates.

14

15 **Q. Ms. Stull has disagreed with the proposal in this Subdocket to implement the**
16 **reduction through a reduction of volumetric rates. Do you believe the**
17 **submission can be approved on a 30-day basis?**

18 A. That will be for the Commission Staff and the Commission to decide. I would note
19 that Mr. Sommer, on behalf of the Intervenors, agreed with our proposed
20 implementation. If the fact that the two Consumer Parties disagree on how the rate
21 reduction should be implemented means that it cannot be decided through the
22 30-day process, then the Commission can keep this docket open to decide that
23 issue. I understand, however, that at least one energy utility has implemented its

1 Phase 1 reduction completely through a reduction to the energy charge component
2 of its rates.

3 **Q. What do you propose to do with the tax on contributions in aid of construction**
4 **(“CIAC”)?**

5 A. We will continue to elect Option 3 in our 30-day submission of the revised tariff
6 discussed herein.

7 **Q. Ms. Stull has raised concerns about the result that Option 3 may produce. She**
8 **testifies that refunds of subsequent connector fees should be denied “only up**
9 **to the amount of income tax paid” and that this should not apply to the**
10 **three-year revenue allowance. Stull, p. 12. How do you respond?**

11 A. The Company followed up with the OUCC because we were confused by her
12 testimony and we learned that the position stated in our direct testimony had not
13 been understood. We intend to apply Option 3 as it is written. Under Option 3, if
14 the developer elects for Indiana American to pay the tax, then the developer forfeits
15 all right to refunds except for subsequent connector fees. So there would be no
16 refund of revenue allowances but we would still collect and refund subsequent
17 connector fees. When we clarified our position with the OUCC we learned that Ms.
18 Stull’s concerns had been addressed.

19 **Q. Ms. Stull also suggests the possibility of a tracker proceeding with regard to**
20 **taxes. How do you respond?**

21 A. We are open to discuss Ms. Stull’s suggestions, but she has not included sufficient
22 details for us to understand precisely what she is proposing or how and in what type
23 of docket it might be implemented.

1 **Q. Ms. Stull also raises a concern about taxes on system development charges.**

2 **How do you respond?**

3 A. As she has suggested, we will submit a 30-day filing to increase our system
4 development charge to include the income tax on those cash contributions.

5 **Q. What relief are you now seeking?**

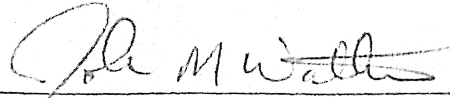
6 A. If our new tariff reflecting the rate reduction can be approved through the
7 Commission's 30-day filing process, we would ask that Phase 1 of this
8 investigation be dismissed as to Indiana American. If it cannot be approved
9 through the 30-day process, we would ask the Commission to issue an order telling
10 us which method we should use to implement the rate reduction – either the one we
11 are submitting as described in my testimony or the one that we filed on March 26,
12 2018.

13 **Q. Does this conclude your rebuttal testimony?**

14 A. Yes.

VERIFICATION

I, John M. Watkins, Senior Director Regulatory Services, American Water Works Service Company, Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.



John M. Watkins

Date: 6/28/2018