

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF CITIZENS WATER OF)
WESTFIELD, LLC FOR (1) AUTHORITY TO)
INCREASE RATES AND CHARGES FOR WATER)
UTILITY SERVICE AND APPROVAL OF A NEW)
SCHEDULE OF RATES AND CHARGES; (2))
AUTHORITY TO IMPLEMENT AND APPROVAL OF)
A SYSTEM DEVELOPMENT CHARGE; AND (3))
APPROVAL OF CERTAIN REVISIONS TO ITS)
TERMS AND CONDITIONS APPLICABLE TO)
WATER UTILITY SERVICE)

CAUSE NO. 46020

VERIFIED DIRECT TESTIMONY
of
SABINE E. KARNER

On
Behalf of
Petitioner,
Citizens Water of Westfield, LLC

Petitioner's Exhibit No. 6

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1 **INTRODUCTION AND BACKGROUND**

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

3 A1. My name is Sabine E. Karner. My business address is 2020 North Meridian Street,
4 Indianapolis, Indiana.

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

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

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

11 A3. My duties include overall responsibility for the accounting, financial planning, and
12 reporting functions of Citizens and the utilities it manages and controls, including Citizens
13 Water of Westfield, LLC ("Westfield Water").

14 **Q4. HOW LONG HAVE YOU BEEN EMPLOYED BY THE BOARD?**

15 A4. I have been employed by the Board since September of 2001.

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

17 A5. I graduated from a 5-year degree program at the Höhere Lehranstalt für wirtschaftliche
18 Berufe in Wiener Neustadt, Austria in 1990 with majors in Accounting and Foreign
19 Languages (English and French).

20 **Q6. PLEASE DESCRIBE YOUR PRIOR BUSINESS EXPERIENCE.**

21 A6. I moved to the United States in 1995. From 1996 through 2001, I worked in various
22 accounting, tax preparation and accounting software consulting capacities in the Dayton,

1 Ohio area. My responsibilities included, among other things, regular accounting activities
2 such as payroll, accounts payable, accounts receivable, or reconciliations, as well as the
3 preparation of depreciation schedules, financial statements, and training small business
4 owners in setting up and using accounting software. I also prepared and reviewed
5 individual, corporate, property, and payroll tax returns and taught various mainstream
6 software applications at an adult school. I trained clients of all skill levels in the use of mid-
7 range accounting systems and third-party tools including financial reporting software.

8 From 2001 to date, I have been employed by Citizens in positions of increasing
9 responsibility, including as Senior Accountant (2001-2003), Accounting Supervisor (2004-
10 2005), Accounting Manager (2005-2006), Divisional Controller, Gas & Oil (2006-2009),
11 Executive Manager, Financial Planning & Analysis (2009-2011), and Director of Strategic
12 Finance (2011-2015). My responsibilities comprised a wide variety of functions, including
13 Property Records, subsidiary accounting, budgeting and forecasting, compliance reporting,
14 accounting research, financial reporting, economic analysis, and preparing and sponsoring
15 pro forma adjustments for regulatory proceedings.

16 I have served as Vice President and Controller since 2015. In that capacity, I am
17 responsible for overseeing the financial accounting, planning and reporting activities of
18 Citizens and for ensuring an effective internal controls framework. I also direct the Director
19 of Accounting Services and the Senior Accounting Manager for Shared Services and
20 Financial Planning in the performance of their duties.

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

1 A7. Yes. I have sponsored testimony in base rate cases on behalf of Citizens Gas, Citizens
2 Thermal, Citizens Water, CWA Authority, Inc., Westfield Gas, LLC d/b/a Citizens Gas of
3 Westfield, and Citizens Wastewater of Westfield.

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

5 A8. The purpose of my testimony is to provide support for and sponsor the Utility's financial
6 statements for the base period ending June 30, 2023, the link period ending June 30, 2024,
7 and the forward test year ending June 30, 2025. In addition, I am sponsoring pro forma
8 adjustments related to certain operating expenses.

9 **FINANCIAL STATEMENTS**

10 **Q9. PLEASE DESCRIBE THE FINANCIAL SYSTEM THAT GENERATES THE**
11 **AMOUNTS ON THE FINANCIAL STATEMENTS.**

12 A9. Citizens utilizes an enterprise-wide system or financial suite housing multiple integrated
13 modules and interfaces to other systems that ultimately feed data to the general ledger upon
14 which the financial statements are based. I have provided a detailed discussion of the
15 financial suite in my Attachment SEK-6.

16 **Q10. ARE THE FINANCIAL RECORDS OF THE UTILITY SUBJECT TO REGULAR**
17 **AUDITS BY AN INDEPENDENT FIRM OF CERTIFIED PUBLIC**
18 **ACCOUNTANTS?**

19 A10. Yes. The Audit and Risk Committee of the Board of Directors engages the international
20 certified public accounting firm of Deloitte & Touche, LLP ("D&T") to conduct interim
21 reviews for each quarter-end as well as annual financial audits.

1 **Q11. HAVE YOU PROVIDED THE MOST RECENT AUDITED FINANCIAL**
2 **REPORT?**

3 A11. Yes. Citizens' quarterly and annual financial reports are available to the public via the
4 Citizens website and the Electronic Municipal Market Access site ("EMMA"), including
5 footnotes, which are considered an integral part of the financial statements. My workpaper
6 120 provides the web address to view the fiscal year 2023 audited financial report for
7 Citizens Energy Group. The financial statements of Citizens Westfield Utilities, LLC and
8 its subsidiaries, including Westfield Water, are presented in footnote 9.

9 **Q12. WERE THERE ANY UNUSUAL ACCOUNTING EVENTS THAT OCCURRED**
10 **DURING THE BASE PERIOD?**

11 A12. Yes. Effective June 30, 2023 and pursuant to the Order in Cause No. 45800, Citizens South
12 Madison merged with Westfield Water. Financial statements of Westfield Water, the
13 receiving and surviving entity, are reporting results of operations for the period in which
14 the merger occurred as though the merger had occurred at the beginning of the financial
15 period. Results of prior period operations and financial position for Westfield Water have
16 been recast to furnish comparative information in accordance with accounting standards.

17 **Q13. PLEASE DISCUSS THE BALANCE SHEET AS OF THE END OF THE BASE**
18 **PERIOD.**

19 A13. The Utility's Statements of Financial Position, or balance sheets, as of June 30, 2023 (the
20 last day of the base period) and June 30, 2022, are presented in Attachment SEK-1, page
21 1. The following discussion relates to the balance sheet as of the end of the base period.

1 Total assets were \$156 million (line 19), of which \$150 million was net utility plant.
2 Current assets of \$5 million were comprised mostly of \$3 million in cash and \$2 million in
3 accounts receivable and accrued revenues.

4 Total capitalization and non-current liabilities were \$153 million (line 28),
5 comprised of \$50 million equity and \$36 million long-term borrowings. Petitioner's
6 witness Craig Jackson discusses debt in more detail in his testimony. Contributions in aid
7 of construction (CIAC), net of amortization, totaled \$61 million. Other non-current
8 liabilities of \$6 million represent customer advances. Current liabilities of \$3 million (line
9 35) were essentially comprised of accounts payable and accrued expenses.

10 **Q14. PLEASE DISCUSS THE STATEMENT OF OPERATIONS FOR THE BASE**
11 **PERIOD.**

12 A14. The Utility's Statements of Operations, or income statements, for the twelve months ended
13 June 30, 2023 (the base period for this proceeding) and June 30, 2022, are presented in
14 Attachment SEK-1, page 2. The following discussion relates to the income statement for
15 the base period.

16 The Utility generated net income of \$3.7 million on revenues of \$13.8 million and
17 operating income of \$4.7 million.

18 Of the \$5.5 million in operations and maintenance (O&M) expenses shown on line
19 4, \$2.2 million was for employee-related costs, including wages and benefits. Other major
20 costs include purchased power of \$0.9 million, contractual services of \$0.7 million,
21 purchased water of \$0.5 million, chemicals of \$0.3 million, and administrative expenses of
22 \$0.3 million.

1 Of the \$2.1 million in depreciation and amortization expenses, \$3.4 million was for
2 depreciation of utility plant in service. Amortization of CIAC provided a credit of \$1.4
3 million.

4 Of the \$1.4 million in taxes, \$1.3 million was for property tax and \$0.1 million for
5 payroll taxes.

6 The Utility received \$0.5 million of other income, net, and incurred \$1.5 million of
7 interest charges, mostly for long-term borrowings.

8 Petitioner's witness Debi Bardhan-Akala uses the information from Attachment
9 SEK-1, page 2 as the basis for determining the pro forma revenue requirements in this
10 Cause as shown in Attachment DBA-1.

11 **Q15. PLEASE DISCUSS THE STATEMENT OF CASH FLOWS FOR THE BASE**
12 **PERIOD.**

13 A15. The Utility's Statement of Cash Flows for the base period is presented in Attachment SEK-
14 1, page 3. Operating activities provided cash of \$6.0 million, whereas construction
15 expenditures used \$8.9 million of cash. Other financing activities used another \$1.1 million
16 of cash and are comprised of the net activity of customer advances and CIAC received and
17 capitalized to plant in service.

18 On a net basis, Petitioner experienced a net cash outflow of \$4.0 million for the
19 base period, as shown on line 23, ending with a cash balance of \$3.6 million (line 25), of
20 which \$0.4 million is restricted for bond interest payments and cannot be used for operating
21 activities.

22 **Q16. ARE YOU PROVIDING FORECASTED FINANCIAL STATEMENTS FOR THE**
23 **FORWARD TEST YEAR?**

1 A16. Yes. Attachment SEK-2, pages 1 through 3, provides forecasted balance sheets, income
2 statements, and statements of cash flow for the link period ending June 30, 2024, and the
3 forward test year ending June 30, 2025. The forecasted financial statements assume current
4 rates for the projected periods and utilize other standard financial forecasting assumptions
5 further explained below; they are not intended to, nor do they, reflect pro forma results.

6 **Q17. WHAT WAS YOUR METHOD OF PROJECTING FINANCIAL STATEMENTS**
7 **FOR THE LINK PERIOD AND FORWARD TEST YEAR?**

8 A17. Beginning with the income statement, I assumed an increase to customer revenues of 4.5%
9 in both periods to account for growth within the sales territory. For O&M expense, I
10 primarily used my pro forma adjustments as they represent the Utility's best estimate for
11 these time periods. I projected depreciation expense by using an estimate of plant additions
12 and retirements based on the pro forma workpapers for rate base. The depreciation rates
13 used for the projected financial statements are the current composite rates through
14 November 2024, and the 2016 study rates as of December 2024. Property taxes are
15 forecasted by using a historic effective rate of expense over plant in service. All other taxes
16 flow from other forecasted expenses using prescribed tax rates. The line items below
17 operating income were projected using best estimates for anticipated events, primarily
18 financing of new debt and fluctuations in capitalized interest and interest income.

19 The balance sheet was projected using a combination of capital spending
20 projections¹ and amounts used in pro forma workpapers for changes to rate base². I also

¹ The capital spending projections reflect currently anticipated cash outlays and not the pro forma amounts of CWIP going into service.

² Specifically, asset additions and retirements, including contributed property.

1 applied the 4.5% growth assumption for revenues to certain current assets and liabilities,
2 for example, accounts receivable and accounts payable. Pro forma assumptions relating to
3 long-term debt and deferred assets further informed the forecast. I estimated accrued
4 property taxes at the ratio of the actual accrued balance over annual expense as of the end
5 of the base period. The projected cash balance is the result of all the foregoing estimates,
6 supplemented by draws on the line of credit as necessary to maintain a prudent minimum.

7 The forecasted cash flow statement builds upon the transactions in the income
8 statement and balance sheet.

9 **Q18. BRIEFLY HIGHLIGHT THE MAJOR CHANGES IN THE PROJECTED**
10 **FINANCIAL STATEMENTS COMPARED TO THE BASE PERIOD.**

11 A18. Balance sheet changes in the projected periods are characterized by the significant
12 investment in plant, property and equipment: by the end of the forward test year, net utility
13 plant is projected to have increased by \$60 million or 40% compared to the base period. A
14 meaningful portion of this growth stems from contributed property, and the CIAC liability,
15 net of amortization, is forecast to increase by \$20 million or 32%. Long-term debt increases
16 by 56% to \$56 million, and equity by 29% to \$65 million; more than half of the increase
17 in equity relates to an infusion of capital received in September 2023 and discussed by
18 Petitioner's witness Craig Jackson.

19 The income statement reflects the substantial investment in utility plant: total
20 operating expenses increase by \$1.1 million or 13% in the forward test year compared to
21 the base period, a change driven primarily by depreciation expense and property taxes.
22 O&M expenses reflect a relatively small increase of only \$0.2M or 3%, the drivers are

1 discussed in more detail in my discussion of individual pro forma adjustments. Operating
2 income decreases 9% to \$4.3 million and net income 21% to \$2.9 million.

3 The statement of cash flows summarizes the activity described above. The most
4 notable events include the anticipated issuance of \$20 million of new debt and the receipt
5 of \$8 million of capital contribution, both in the link period ending June 30, 2024.
6 Construction expenditures are projected to total \$38 million between the end of the base
7 period and the end of the forward test year.

8 **PRO FORMA ADJUSTMENTS**

9 **Overview**

10 **Q19. WHAT STEPS WERE TAKEN TO DETERMINE PRO FORMA ADJUSTMENTS?**

11 A19. I reviewed the Utility's trial balance by account and by expense type. I discussed the base
12 period and forecasted financial statements with management and operations
13 representatives to obtain their input on whether various expenses were reflective of normal
14 and ongoing expenditure levels. Additionally, I reviewed transaction level detail for certain
15 accounts and expense types where I thought the base period may have included unusual
16 costs. I also reviewed 170 IAC 1-3 (Advertising Expenditures by Public Utilities), IC § 8-
17 1-2-6(c) (Valuation of Property), and Commission Orders from certain prior Citizens
18 business unit rate cases to determine allowable expenses. A summary of the pro forma
19 adjustments that I am sponsoring in this proceeding is attached as Attachment SEK-3.

20 **Q20. DO YOU BELIEVE THAT THE PROPOSED PRO FORMA ADJUSTMENTS ARE**
21 **REASONABLE AND MATERIALLY COMPLETE?**

1 A20. Yes. For purposes of determining pro forma adjustments, to the best of my knowledge, I
2 identified non-allowed expenditures at any level and generally used a materiality threshold
3 for most other types of adjustments. For example, I removed non-recurring expenses if they
4 were above \$5,000 each as direct-charged to the Utility, and \$10,000 each as direct-charged
5 to Shared Services (i.e. prior to the portion allocated to Westfield Water). This threshold
6 represents my assessment of a cost-benefit limit based on my professional knowledge of
7 the data and transactions of Shared Services and the Utility.

8 There are more than 680,000 income statement transaction line items in the base
9 period between the ledgers of the Utility and Shared Services, excluding allocation
10 transactions which increase the number of total transactions. I believe using the materiality
11 threshold I described is reasonable and conservative. While there is not specific reference
12 to accepted materiality thresholds in 170 IAC 1-5 (Minimum Standard Filing Requirements
13 for an Expedited Rate Case), the regulations do establish a reporting threshold of \$10,000
14 in the section on working papers and data for revenues, expenses and taxes (1-5-8,
15 subdivision 20). I interpret this as further confirmation that a threshold below that level to
16 evaluate base period transactions for pro forma adjustments is reasonable.

17 **Q21. BRIEFLY EXPLAIN YOUR WORKPAPER FORMAT AND ORDER.**

18 A21. I used the following numbering scheme for workpapers related to accounting adjustments:

19 1xx: Financial and Accounting Data
20 3xx: Pro Forma Adjustments to Payroll, Payroll Taxes, Benefits
21 40x-41x: Pro Forma Adjustments to Non-Labor Expenses
22 43x: Non-Allowed and Non-Recurring
23 5xx: Miscellaneous Informational Schedules
24

25 Where workpapers required additional supporting calculations, I have numbered
26 these supporting workpapers the same as the workpaper in question and added the suffix –

1 Sn, where n denotes the next sequential number (e.g. 301-S1 is a supporting workpaper for
2 workpaper 301).

3 **Shared Services Allocations**

4 **Q22. WESTFIELD WATER RECEIVES SHARED SERVICES ALLOCATIONS**
5 **THROUGHOUT THE YEAR. HOW DID YOU DETERMINE THE**
6 **PERCENTAGES TO USE IN YOUR PRO FORMA ADJUSTMENTS?**

7 A22. I used the effective base period allocation percentage for each type of expenditure.
8 Petitioner's witness Camela Johnson explains Shared Services in more detail in her
9 testimony.

10 **EMPLOYEE-RELATED COSTS**

11 **Payroll**

12 **Q23. PLEASE DESCRIBE YOUR PRO FORMA ADJUSTMENT TO PAYROLL.**

13 A23. The pro forma payroll was determined by obtaining a list of active employees of Citizens
14 Energy Group as of June 30, 2023 for a net total of 1,241 positions. Westfield Water does
15 not have employees per se; instead, Citizens employees are able to direct-charge to the
16 Utility as they perform specific work on its behalf. I considered the level of direct-charged
17 labor incurred during the base period representative of the Utility's needs through the end
18 of the forward test year.

19 I did not add any new positions to this list even though a variety of positions are
20 posted and actively recruited at all times. I judged it appropriate to view the overall number
21 of employees as stable, although the mix of individual positions may change over time.

1 Next, I applied pro forma pay increases to all positions. I added overtime pay at the
2 level incurred during the base period. In addition, I added supplemental pay to base pay
3 based upon the level at which these expenses occurred during the base period. I added
4 short-term variable pay at the percentages applicable to each position and assumed 100%
5 of target payout, and I adjusted capitalized loadings for variable pay and paid absences
6 based on the pro forma payroll amounts. Finally, I deducted the amount of pro forma
7 payroll associated with capital projects to obtain the amount of expensed pro forma payroll.
8 The detail calculations are presented in my workpapers 300 through 309, below is a
9 summary:

	Link Period	Test Year
Beginning of Period	\$1,702,050	\$1,805,132
Adjustment	103,082	71,791
End of Period	\$1,805,132	\$1,876,923

10
11 **Payroll Taxes**

12 **Q24. HAVE YOU MADE A COMPUTATION REGARDING PRO FORMA PAYROLL**
13 **TAXES?**

14 A24. Yes. I tabulated the various types of payroll taxes recorded during the base period,
15 including capitalized credits, calculated the effective overall payroll tax rate on expensed
16 base period payroll, and applied that same percentage to the pro forma expensed payroll.

17 The detail calculations are presented in my workpaper 330, below is a summary:

	Link Period	Test Year
Beginning of Period	\$122,855	\$130,210
Adjustment	7,355	5,178
End of Period	\$130,210	\$135,388

18

1 **Benefits**

2 **Q25. PLEASE SUMMARIZE YOUR ADJUSTMENTS TO EMPLOYEE BENEFITS**
3 **EXPENSES.**

4 A25. First, I'd like to clarify that, as I mentioned above, Westfield Water does not have
5 employees and therefore does not incur direct benefits expenses. The Utility's benefits
6 expenses are either allocated through Shared Services or loaded onto direct-charged wages.
7 All amounts discussed represent the portion charged to Westfield Water through
8 allocations or loadings.

9 I made adjustments to major categories of employee benefits, based on pro forma
10 payroll and actuarial studies or projections provided by consultants charged with such
11 matters. These adjustments also necessitated adjustments to the benefit loadings. I present
12 the adjustments to benefits in my workpapers 350 through 357 and discuss each type of
13 adjustment in detail below.

14 **Q26. WHAT ARE YOU PROPOSING FOR PRO FORMA HEALTH CARE COSTS?**

15 A26. I applied an increase of 8.82% to the base period health insurance expense to obtain the
16 link period total, and an increase of 8.32% to the link period amount to obtain the forward
17 test year total. The link period percentage increase is based on a medical trend cost
18 projection provided by Citizens' consultant USI Insurance Services ("USI", see workpaper
19 351-S1). The projection is based on USI's review of Citizens' medical experience reporting
20 during the base period. The forward test year percentage reduces the link period estimate
21 by 50 basis points to align with annual changes typically projected by actuaries for long-
22 term health care trends. The detail calculations are presented in my workpaper 351, below
23 is a summary:

	Link Period	Test Year
Beginning of Period	\$226,215	\$245,812
Adjustment	19,597	20,452
End of Period	\$245,812	\$266,264

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 2 **Q27. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENT FOR PENSION,**
 3 **QUALIFIED GOVERNMENTAL EXCESS BENEFIT ARRANGEMENT**
 4 **(QGEBA), AND OTHER POST-EMPLOYMENT BENEFITS (OPEB).**

5 A27. The pro forma adjustment is based on the most current available actuarial studies for the
 6 various plans. These studies provide service costs and non-service costs projected through
 7 September 2024. For the period October 2024 through June 2025, I applied a 4% increase
 8 to service costs to account for a general increase in compensation, which is a key
 9 component of service costs. For the non-service costs, I averaged the preceding three years
 10 of actuarially determined levels of expense. Non-service costs are greatly influenced by
 11 market forces which I cannot predict; consequently, a three-year average seemed as
 12 reasonable as any other forecasting technique. The detail calculations are presented in my
 13 workpaper 352, below is a summary:

	Link Period	Test Year
Beginning of Period	\$145,387	\$47,841
Adjustment	(97,546)	9,935
End of Period	\$ 47,841	\$57,776

14
 15 **Q28. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENT RELATED TO THRIFT**
 16 **PLAN EXPENSES.**

17 A28. I calculated the base period employer thrift match as a percentage of base period payroll
 18 eligible for thrift match and applied that percentage to the eligible pro forma payroll. The
 19 detail calculations are presented in my workpaper 354, below is a summary:

Link Period Test Year

Beginning of Period	\$30,124	\$32,810
Adjustment	2,686	1,317
End of Period	<u>\$32,810</u>	<u>\$34,127</u>

1
2 **Q29. PLEASE EXPLAIN THE REMAINING PRO FORMA ADJUSTMENTS TO**
3 **EMPLOYEE BENEFITS EXPENSES.**

4 A29. The remaining pro forma adjustments are related to loadings on wages, i.e. percentage-
5 based burden schedules designed to proportionally assign a reasonable estimate of benefits
6 costs to capitalized and expensed wages. Additionally, a portion of paid absences is
7 attributed to capitalized wages through a similar process.

8 **Q30. WHY ARE YOU LOADING COSTS ON CAPITALIZED WAGES?**

9 A30. When employees charge time to capital projects, only the wages for the time charged are
10 capitalized. However, the cost of employment includes benefits provided to employees. It
11 is appropriate that an estimate of such costs, which generally cannot be employee-specific,
12 be capitalized along with the wages.

13 **Q31. WHAT IS THE METHODOLOGY FOR LOADING COSTS?**

14 A31. For benefits loadings, percentages are established annually by calculating the ratio of
15 estimated benefits to wages, including actuarially determined benefits costs. This ratio is
16 then stored in Oracle EBS where it is used in an automated process which examines the
17 amount of actual wages charged to every account combination, whether expense or capital,
18 and adds a proportional amount of loadings to that same account combination based on the
19 previously established ratio. The offsetting entry is a credit to a so-called benefits contra
20 account in expense. Because all actual benefits costs are necessarily charged to expense
21 when incurred, the sum of the actual benefits expense and the contra expense credit
22 represents the net expense related to benefits.

1 **Q32. PLEASE DESCRIBE THE LOADINGS PRO FORMA ADJUSTMENT.**

2 A32. Similar to the methodology I used for payroll taxes, I tabulated the various types of loadings
3 recorded during the base period, calculated the effective overall loadings rate on benefit
4 costs includable in loadings for the base period, and applied that same percentage to the
5 pro forma benefit costs. The detail calculations are presented in my workpaper 357, below
6 is a summary:

	Link Period	Test Year
Beginning of Period	\$106,427	\$82,020
Adjustment	(24,407)	8,040
End of Period	\$ 82,020	\$90,060

7

8 **OTHER O&M EXPENSES**

9 **Chemicals**

10 **Q33. DID YOU MAKE AN ADJUSTMENT FOR CHEMICALS EXPENSE?**

11 A33. Yes. I applied the most current purchase order pricing for each type of chemical and
12 increased the base period quantity by 4.5% annually to account for the increase in sales
13 which I projected in the financial statements. In addition, I assumed a price increase of
14 3.5% upon renewal of the currently valid purchase orders. The detail calculations are
15 presented in my workpaper 401, below is a summary:

	Link Period	Test Year
Beginning of Period	\$254,155	\$268,596
Adjustment	14,441	10,973
End of Period	\$268,596	\$279,569

16

17 **Purchased Water**

18 **Q34. PLEASE DESCRIBE YOUR ADJUSTMENT FOR PURCHASED WATER**
19 **EXPENSE.**

1 A34. During the base period, Westfield Water purchased water from and sold water to Citizens
2 Water via a water exchange arrangement pursuant to which the net volume delivered is
3 billed on a quarterly basis. As a result of the merger of Citizens South Madison into
4 Westfield Water and the attendant additional water supply, the net volume needing to be
5 purchased from Citizens Water is expected to be much less than it was historically. The
6 pro forma adjustment estimates the net purchases from Citizens Water. The detail
7 calculations are presented in my workpaper 403, below is a summary:

	Link Period	Test Year
Beginning of Period	\$458,638	\$128,251
Adjustment	(330,387)	49,412
End of Period	\$128,251	\$177,664

8 **Electric Power**

9 **Q35. PLEASE DISCUSS YOUR ADJUSTMENT FOR ELECTRIC POWER EXPENSE.**

10 A35. Westfield Water is served by multiple energy providers, but the focus of my pro forma
11 adjustments are costs attributable to Duke Energy, which represent the overwhelming
12 portion of electric power expense incurred.

13 First, I established the detail for each invoice in the base period, including the
14 individual riders and rates applicable to the KWH used, other charges, and bill cycle dates.
15 Based on the meter reading dates, I established the primary usage month: if the meter
16 reading cycle ended on the 15th or later, the primary usage month is the month of the end
17 date, otherwise it is the prior month. For example, a meter reading cycle starting on August
18 19 and ending on September 20 would mean September is the primary usage month;
19 whereas a meter reading cycle starting on August 11 and ending on September 12 would
20 mean August is the primary usage month. I selected this cutoff to avoid complexity in
21 attributing representative usage to 12-month period.

1 Using this methodology, I listed the amounts charged during the base period,
2 removed invoices with primary usage months prior to the base period, and added invoices
3 with primary usage months after the base period, to obtain a view of KWH used during the
4 base period.

5 For the link period electric power costs, I created a pro forma schedule using that
6 same detail and applied the relevant rates and riders to the base period volume, with the
7 exception of a new facility which went into service during the base period: for that facility,
8 I added the missing months of actual usage to obtain twelve full months. Many of the riders
9 should be valid through the end of the link period, and some can be expected to be reset
10 during that time frame. Since I cannot predict the new rates for these riders, I assumed the
11 most current rate throughout the link period. For pro forma purposes, I removed any late
12 charges which may have been assessed during the base period, as well as any residual
13 utility receipts tax charges following the repeal of the tax as of July 1, 2022.

14 I followed the same approach for the forward test year electric power costs. In
15 addition, for both the link period and the forward test year, I applied an increase of 4.5%
16 to account for system growth.

17 **Q36. WHAT IS THE RESULTING ADJUSTMENT FOR ELECTRIC COSTS?**

18 A36. Compared to the base period, the forward test year represents a decrease. This is chiefly
19 relatable to reduced rider charges for Duke Energy's fuel cost adjustment, which was billed
20 at a much higher rate during the base period than the most recent and current rates. The
21 detail calculations are presented in my workpaper 404, below is a summary:

	Link Period	Test Year
Beginning of Period	\$910,954	\$778,242
Adjustment	<u>(132,712)</u>	<u>77,646</u>

End of Period \$778,242 \$855,888

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Outside Services

Q37. PLEASE EXPLAIN YOUR ADJUSTMENT TO OUTSIDE SERVICES COSTS.

A37. I applied an annual increase of 3.5% to all outside services costs incurred during the base period, excluding lobbying services. I did this under the premise that vendors can be expected to pass on their own increases in costs which are conceivably primarily labor oriented. The percentage increase I used is less than the 4.0% median salary increase in the United States projected by WorldatWork for 2024³.

The detail calculations are presented in my workpaper 405, below is a summary:

	Link Period	Test Year
Beginning of Period	\$730,831	\$756,410
Adjustment	25,579	26,474
End of Period	\$756,410	\$782,884

Inflation-Adjusted Costs

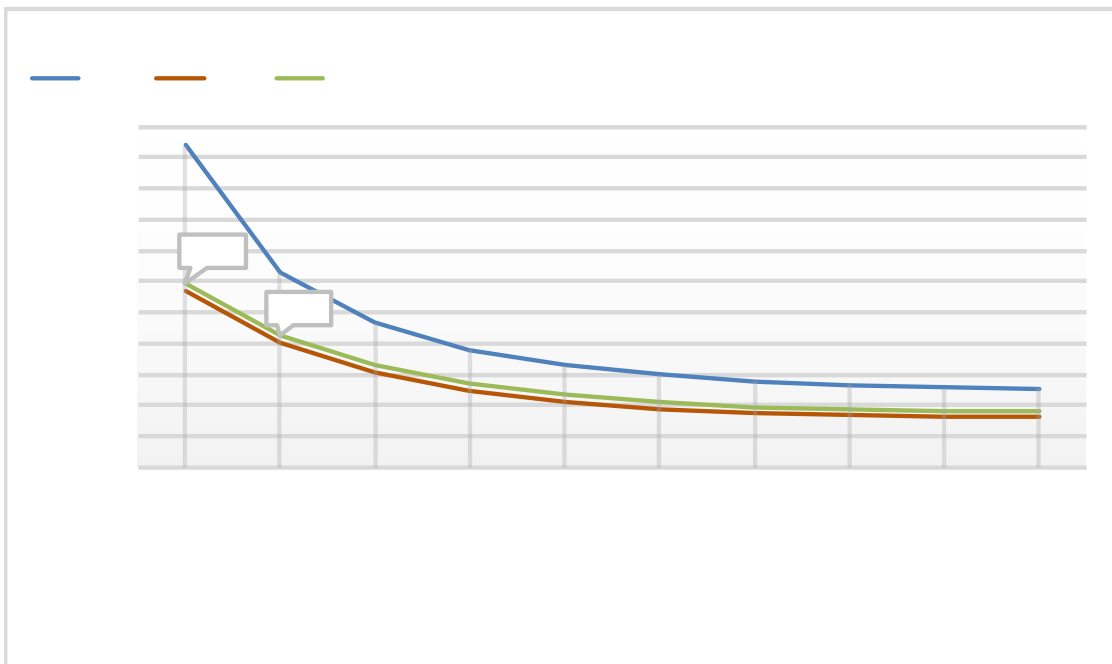
Q38. ARE YOU PROPOSING AN INFLATION ADJUSTMENT TO CERTAIN NON-LABOR COSTS?

A38. Yes. It is reasonable to assume that costs will generally rise over the next two years. Accordingly, I have applied a 2.5% annual inflation increase to various non-labor expense categories, primarily material and supplies.

Q39. HOW DID YOU SELECT THE 2.5% INFLATION FACTOR?

³ Permission to reproduce or redistribute the survey as a workpaper was not obtained in time for this filing. The free summary of the 2023-2024 salary budget survey can be viewed at <https://worldatwork.org/resources/research/salary-budget-survey>

1 A39. I largely based it on the expected inflation as modeled by the Federal Reserve Bank of
2 Cleveland, which updates its projections for the next 30 years on a monthly basis. The
3 November 2023 projection shows expected inflation rates of 2.8% and 2.6% for 2024 (Year
4 1) and 2025 (Year 2), respectively. Below is a chart which shows the model's estimates for
5 expected inflation at horizons of 1 to 10 years at three points in time: the current month,
6 the previous month, and the previous year. The 30-year chart and the underlying data are
7 updated monthly and are available at [https://www.clevelandfed.org/indicators-and-](https://www.clevelandfed.org/indicators-and-data/inflation-expectations)
8 [data/inflation-expectations](https://www.clevelandfed.org/indicators-and-data/inflation-expectations).



9
10 I ultimately selected a rate of 2.5% for the link period and the forward test year
11 which falls well within the range of inflation forecasts provided by the Federal Reserve
12 Bank of Cleveland and other commonly available online sources.

13 The detail calculations are presented in my workpaper 406, below is a summary:

	Link Period	Test Year
Beginning of Period	\$546,764	\$560,433
Adjustment	13,669	14,010
End of Period	\$560,433	\$574,443

1

2 **Business Insurance**

3 **Q40. PLEASE EXPLAIN THE PRO FORMA ADJUSTMENT YOU MADE TO**
4 **BUSINESS INSURANCE EXPENSE.**

5 A40. I made pro forma adjustments to business insurance expense to account for the most current
6 or anticipated coverages and premiums, nearly all of which are increasing compared to the
7 base period. Key drivers for this trend include significant increases in premiums for
8 property, fleet, and liability insurance.

9 The detail calculations are presented in my workpaper 411, below is a summary:

	Link Period	Test Year
Beginning of Period	\$163,716	\$182,916
Adjustment	19,200	28,592
End of Period	\$182,916	\$211,508

10

11 **Reclassification**

12 **Q41. WHAT IS THE PURPOSE OF YOUR PRO FORMA ADJUSTMENT TO RECLASS**
13 **CERTAIN TRANSACTIONS?**

14 A41. The purpose of this adjustment is to improve the accuracy of the pro forma income
15 statement by correcting the NARUC account designation for certain transactions which
16 posted to the incorrect NARUC account during the base period. This adjustment does not
17 result in an additional pro forma increase or decrease of costs. The detail calculations are
18 presented in my workpaper 419.

1 **Non-Recurring Expenses**

2 **Q42. DID YOU REMOVE NON-RECURRING EXPENSES?**

3 A42. Yes. I generally applied a \$5,000 threshold in my search for non-recurring transactions.
4 However, I included transactions below that threshold if they were easily identified or
5 otherwise known to me. The following non-recurring expenses were removed for pro forma
6 purposes:

7 (a) Utility receipts tax expense: the base period contained remnant expenses for
8 utility receipts tax which was repealed effective July 1, 2022.

9 (b) Costs related to discontinued supplemental pay.

10 The detail calculations are presented in my workpaper 431, below is a summary:

	Link Period	Test Year
Beginning of Period	\$7,924	-
Adjustment	(7,924)	-
End of Period	-	-

11

12 **Non-Allowed Expenses**

13 **Q43. HOW DID YOU DETERMINE NON-ALLOWED EXPENSES?**

14 A43. I reviewed IC § 8-1-2-6(c) which provides: "In determining the amount of allowable
15 operating expenses of a utility, the commission may not take into consideration or approve
16 any expense for institutional or image building advertising, charitable contributions, or
17 political contributions." I reviewed the general ledger for the occurrence of such
18 transactions in the base period and I inquired of other personnel familiar with the books
19 and records whether they were aware of non-allowed expenses in the base period. I relied
20 upon the advice of counsel to help interpret prior Commission rulings on this subject.

21 **Q44. PLEASE DESCRIBE YOUR ADJUSTMENTS TO NON-ALLOWED EXPENSES.**

1 A44. I attempted to find non-allowed expenses at all transaction levels and did not confine my
2 search to a minimum threshold:

3 I reviewed dues statements from the Indy Chamber and the Indiana Chamber of
4 Commerce for lobbying percentages, if any, that may need to be excluded from such dues.
5 I provided a list of all dues paid during the base period in workpaper 152 for informational
6 purposes.

7 Additionally, I identified image advertising costs to be removed.

8 Last, I removed expenses incurred for a registered lobbying firm.

9 The detail calculations are presented in my workpaper 432, below is a summary:

	Link Period	Test Year
Beginning of Period	\$9,155	-
Adjustment	(9,155)	-
End of Period	-	-

10

11 **CONSERVATION AND SAFETY MESSAGES**

12 **Q45. DID YOU PROVIDE A SUMMARY OF ALLOWED ADVERTISING EXPENSES**
13 **INCURRED DURING THE BASE PERIOD?**

14 A45. Yes. Attachment SEK-4 presents the allowed base period advertising expenses related to
15 safety and conservation messages. I reviewed 170 IAC 1-3-3 (Allowable expenditures;
16 includable costs) and 170 IAC 1-3-4 (Material benefit defined) to determine the type of
17 advertising costs allowed, and I obtained representative samples of the items being charged
18 in accordance with 170 IAC 1-3-5 (Material benefit; burden of proof).

19 Of the \$2,794 in allowed advertising expenses allocated to the Utility by Shared
20 Services in the base period, \$2,474 was spent on conservation messaging. All media used

1 (print, TV, radio, billboard, and an LED sign inside a stadium) provided messaging related
2 to the conservation of energy or water (see workpaper 551 for representative samples).

3 Another \$229 was spent on safety messaging, for which I provided representative
4 samples in workpaper 552. The remaining amount of \$91 represents charges for public
5 notices and similar expenses.

6 **CONCLUSION**

7 **Q46. DID YOU INCLUDE A LIST OF ALL WORKPAPERS SUPPORTING YOUR**
8 **TESTIMONY AND ATTACHMENTS?**

9 A46. Yes, I present such a list in Attachment SEK-5.

10 **Q47. DO YOU BELIEVE THAT THE PRO FORMA ADJUSTMENTS YOU**
11 **PRESENTED ARE JUST AND REASONABLE?**

12 A47. Yes. I made adjustments to obtain representative going-level costs and believe I have done
13 so reasonably and in accordance with acceptable standards, laws, and prior Commission
14 rulings. I made a good faith effort to review the transactions during the base period and
15 remove any non-recurring or non-allowed items, and to make adjustments to project the
16 expected going-level of costs in the forward test year.

17 **Q48. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 A48. Yes, at this time.

VERIFICATION

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

A handwritten signature in black ink, appearing to be 'SK' with a flourish, positioned above a horizontal line.

Sabine E. Karner

Westfield Water
Statements of Financial Position
as of June 30

Line No.	<u>Assets</u>	2022	2023
	Utility Plant		
1	Utility plant in service, original cost	\$ 145,447,764	\$ 174,930,188
2	Acquisition adjustment, net	3,984,448	3,906,126
3	Accumulated depreciation	(27,981,292)	(30,945,813)
4	Net plant in service	121,450,920	147,890,501
5	Construction work in progress	9,020,758	2,478,650
6	Net Utility Plant	130,471,678	150,369,151
7			
8	Bond Restricted Funds	262,788	367,709
9			
10	Current Assets		
11	Cash on hand	7,284,507	3,218,478
12	Accounts receivable, net	2,171,964	1,547,969
13	Accrued utility revenue	273,473	311,023
14	Prepayments and deposits	158,427	167,152
15	Total Current Assets	9,888,371	5,244,622
16			
17	Deferred Charges	763	-
18			
19	Total Assets	\$ 140,623,600	\$ 155,981,482
20			
21	Capitalization and Liabilities		
22	Capitalization and Non-Current Liabilities		
23	Equity	46,615,024	50,311,637
24	Long-term debt	36,000,000	36,000,000
	Unamortized long-term debt premiums, discounts and issuance costs	(1,139,061)	(1,241,930)
25	Contributions in Aid of Construction, net	50,057,455	61,543,969
26	Other non-current liabilities	5,403,752	6,122,066
27	Total Capitalization and Non-Current Liabilities	136,937,170	152,735,742
28			
29			
30	Current Liabilities		
31	Short-term borrowings	-	-
32	Accounts payable and accrued expenses	2,300,016	1,755,016
33	Accrued taxes	1,355,173	1,470,977
34	Customer deposits	31,241	19,747
35	Total Current Liabilities	3,686,430	3,245,740
36			
37	Total Capitalization and Liabilities	\$ 140,623,600	\$ 155,981,482

Westfield Water
Statements of Operations
12 months ended June 30

Line No.		2022	2023
1	Operating Revenues	\$ 12,339,322	\$ 13,772,529
2			
3	Operating Expenses:		
4	Operations & maintenance	4,806,138	5,531,916
5	Depreciation and amortization	1,850,857	2,093,709
6	Taxes	1,537,271	1,438,314
7	Total Operating Expenses	<u>8,194,266</u>	<u>9,063,939</u>
8			
9	Operating Income	4,145,056	4,708,590
10			
11	Other Income (Expense), Net	237,468	459,931
12	Interest Charges	908,379	1,471,908
13			
14	Net Income	<u>\$ 3,474,145</u>	<u>\$ 3,696,613</u>

Westfield Water
Statement of Cash Flows
12 months ended June 30

Line No.		2023
	Operating Activities:	
1	Net income	\$ 3,696,613
2	Depreciation and amortization	1,964,703
3	Changes in operating assets and liabilities:	
4	Accounts receivable and accrued utility revenue	586,444
5	Prepayments and deposits	(8,725)
6	Accounts payable and accrued expenses	(100,545)
7	Net change in deferred charges	-
8	Other operating activities	<u>(128,291)</u>
9	Net cash provided by operating activities	6,010,199
10		
11	Investing Activities:	
12	Construction expenditures	<u>(8,850,354)</u>
13	Net cash used by investing activities	(8,850,354)
14		
15	Financing Activities:	
16	Proceeds from bank line of credit	
17	New debt issuance	-
18	Bond issuance costs	-
19	Cash contributions	-
20	Other financing activities	<u>(1,120,953)</u>
21	Net cash provided by financing activities	(1,120,953)
22		
23	Net change in cash & restricted cash	(3,961,108)
24	Cash & restricted cash, beg. of period	<u>7,547,295</u>
25	Cash & restricted cash, end of period	<u><u>\$ 3,586,187</u></u>
26		
27	Reconciliation	
28	Cash & cash equivalents	\$ 3,218,478
29	Bond restricted funds	367,709
30	Total cash & restricted cash	<u>\$ 3,586,187</u>

Westfield Water
Statements of Financial Position
as of June 30

		Unaudited Current Rates	
		Forecasted GAAP	
		Link Period	Forward Test Year
		2024	2025
Line No.	Assets		
	Utility Plant		
1	Utility plant in service, original cost	\$ 199,995,101	\$ 218,500,314
2	Acquisition adjustment, net	3,827,804	3,749,483
3	Accumulated depreciation	(33,088,107)	(36,550,483)
4	Net plant in service	170,734,798	185,699,314
5	Construction work in progress	11,000,701	24,862,287
6	Net Utility Plant	181,735,499	210,561,601
7			
8	Bond Restricted Funds	534,376	656,598
9			
10	Current Assets		
11	Cash on hand	15,301,127	1,500,906
12	Accounts receivable, net	1,617,628	2,238,026
13	Accrued utility revenue	325,019	449,671
14	Prepayments and deposits	167,152	167,152
15	Total Current Assets	17,410,926	4,355,755
16			
17	Deferred Charges	1,300,000	1,047,222
18			
19	Total Assets	\$ 200,980,801	\$ 216,621,176
20			
21	Capitalization and Liabilities		
22	Capitalization and Non-Current Liabilities		
23	Equity	61,846,295	64,771,317
24	Long-term debt	56,000,000	56,000,000
	Unamortized long-term debt premiums, discounts and issuance costs	(1,411,838)	(1,376,189)
26	Contributions in Aid of Construction, net	72,168,981	81,415,358
27	Other non-current liabilities	8,498,321	9,938,321
28	Total Capitalization and Non-Current Liabilities	197,101,759	210,748,807
29			
30	Current Liabilities		
31	Short-term borrowings	-	1,591,000
32	Accounts payable and accrued expenses	2,045,876	2,188,004
33	Accrued taxes	1,813,419	2,073,618
34	Customer deposits	19,747	19,747
35	Total Current Liabilities	3,879,042	5,872,369
36			
37	Total Capitalization and Liabilities	\$ 200,980,801	\$ 216,621,176

**Westfield Water
Statements of Operations
12 months ended June 30**

		Unaudited Current Rates	
		Forecasted GAAP	
Line No.		Link Period 2024	Forward Test Year 2025
1	Operating Revenues	\$ 13,884,623	\$ 14,500,656
2			
3	Operating Expenses:		
4	Operations & maintenance	5,119,314	5,692,022
5	Depreciation and amortization	2,353,816	2,458,710
6	Taxes	1,807,312	2,046,632
7	Total Operating Expenses	<u>9,280,442</u>	<u>10,197,364</u>
8			
9	Operating Income	4,604,181	4,303,292
10			
11	Other Income (Expense), Net	569,052	894,550
12	Interest Charges	1,638,575	2,272,820
13			
14	Net Income	<u>\$ 3,534,658</u>	<u>\$ 2,925,022</u>

Westfield Water
Statement of Cash Flows
12 months ended June 30

Line No.		Unaudited Current Rates	
		Forecasted GAAP	
		Link Period 2024	Forward Test Year 2025
	Operating Activities:		
1	Net income	\$ 3,534,658	\$ 2,925,022
2	Depreciation and amortization	2,217,422	2,320,923
3	Changes in operating assets and liabilities:		
4	Accounts receivable and accrued utility revenue	(83,654)	(745,049)
5	Prepayments and deposits	-	-
6	Accounts payable and accrued expenses	633,301	402,328
7	Net change in deferred charges	(1,300,000)	252,777
8	Other operating activities	-	-
9	Net cash provided by operating activities	<u>5,001,727</u>	<u>5,156,001</u>
10			
11	Investing Activities:		
12	Construction expenditures	<u>(19,225,000)</u>	<u>(19,225,000)</u>
13	Net cash used by investing activities	<u>(19,225,000)</u>	<u>(19,225,000)</u>
14			
15	Financing Activities:		
16	Proceeds from bank line of credit	-	1,591,000
17	New debt issuance	20,000,000	-
18	Bond issuance costs	(200,000)	-
19	Cash contributions	8,000,000	-
20	Other financing activities	<u>(1,327,411)</u>	<u>(1,200,000)</u>
21	Net cash provided by financing activities	<u>26,472,589</u>	<u>391,000</u>
22			
23	Net change in cash & restricted cash	12,249,316	(13,677,999)
24	Cash & restricted cash, beg. of period	3,586,187	15,835,503
25	Cash & restricted cash, end of period	<u>\$ 15,835,503</u>	<u>\$ 2,157,504</u>
26			
27	Reconciliation		
28	Cash & cash equivalents	\$ 15,301,127	\$ 1,500,906
29	Bond restricted funds	534,376	656,598
30	Total cash & restricted cash	<u>\$ 15,835,503</u>	<u>\$ 2,157,504</u>

Westfield Water
 Pro Forma Adjustments sponsored
 by Sabine Karner

Attachment SEK-3

Description	Reference	Link Period Adjustment	Test Year Adjustment	Total Adjustment
O&M				
Payroll	wp 30x	103,082.09	71,791.73	174,873.82
Payroll Taxes	wp 330	(55.13)	-	(55.13)
Employee Benefits	wp 35x	(99,670.51)	39,743.34	(59,927.17)
Chemicals	wp 401	14,440.97	10,973.25	25,414.22
Purchased Water	wp 403	(330,387.13)	49,412.46	(280,974.67)
Purchased Power	wp 404	(132,712.42)	77,645.91	(55,066.51)
Outside Services	wp 405	25,579.07	26,474.35	52,053.42
Inflation adjustment to misc costs	wp 406	13,669.09	14,010.81	27,679.90
Business insurance	wp 411	19,199.88	28,592.04	47,791.92
Reclassification	wp 419	(18,180.41)	-	(18,180.41)
Non-Recurring Expenses	wp 431	356.38	-	356.38
Non-Allowed Expenses	wp 432	(9,154.97)	-	(9,154.97)
Taxes				
Reclassification	wp 330	7,410.45	5,177.91	12,588.36
Payroll Taxes	wp 419	18,180.41	-	18,180.41
Non-Recurring Expenses	wp 431	(8,280.49)	-	(8,280.49)
Total		(396,522.72)	323,821.80	(72,700.92)

Westfield Water
Allowed Advertising included in Operations & Maintenance Expenses

Attachment SEK-4

Line	Description	WFW	<u>SS</u> <i>at WFW share</i>	Total
	Conservation Messaging			
1	Indianapolis Colts messaging		2,077.96	2,077.96
2	Indianapolis Indians messaging		77.70	77.70
3	Be WaterWise irrigation messaging		109.70	109.70
4	Earth Day events		208.60	208.60
5	Total Conservation Messaging	-	2,473.96	2,473.96
6				
7	Conservation/Safety Messaging			
8	WTHR Weather Academy conservation/safety messaging		228.93	228.93
9	Total Conservation/Safety Messaging	-	228.93	228.93
10				
11	Misc. charges			
12	Print media/public notices	14.99	76.13	91.12
13				
14	Total Allowed Advertising	14.99	2,779.02	2,794.01

Topic	Workpaper	MSFR	Description
Financial & Accounting Data	100	170 IAC 1-5-8 (7)	Test Year operating expenses by account and subaccount
Financial & Accounting Data	101	170 IAC 1-5-8 (7)	Test Year income statement trial balance by GL accounts
Financial & Accounting Data	102	170 IAC 1-5-8 (7)	Test Year income statement trial balance by expense types
Financial & Accounting Data	103	170 IAC 1-5-6 (1)(A)	Statements of Financial Position
Financial & Accounting Data	104	170 IAC 1-5-6 (1)(C)	Statements of Operations - by GL account
Financial & Accounting Data	110	170 IAC 1-5-7 (2)	Standard monthly journal entries
Financial & Accounting Data	120	170 IAC 1-5-7 (3)	Audited Financial Statements Fiscal Year 2023
Financial & Accounting Data	131	170 IAC 1-5-7 (6) and (7)	Fiscal Year 2023 Operating Budget
Financial & Accounting Data	132	170 IAC 1-5-7 (6) and (7)	Fiscal Year 2024 Operating Budget
Financial & Accounting Data	141	170 IAC 1-5-8 (18)	Monthly amounts of injury and damage for the test year
Financial & Accounting Data	151	170 IAC 1-5-8 (20)	Schedule of outside services
Financial & Accounting Data	152	170 IAC 1-5-8 (23)	Schedule of dues and memberships
Financial & Accounting Data	153	170 IAC 1-5-8 (29)	Schedule of taxes recorded
Financial & Accounting Data	161	170 IAC 1-5-8 (10)	Actual payroll charged and allocated for the test year
Financial & Accounting Data	162	170 IAC 1-5-8 (13)	Charges for benefits provided to employees for the test year
Financial & Accounting Data	171	170 IAC 1-5-8 (25)(A) and (26)	Test Year Charges to Advertising Expenses
Pro Forma Workpapers	300	170 IAC 1-5-8 (2)	Summary of Payroll Adjustments
Pro Forma Workpapers	300-S1	170 IAC 1-5-8 (2)	Distribution of Expensed Payroll to NARUC Accounts
Pro Forma Workpapers	300-S2	170 IAC 1-5-8 (2)	Distribution of Expensed Payroll to GL Accounts
Pro Forma Workpapers	301	170 IAC 1-5-8 (2)	Summary of Total Payroll in Test Year
Pro Forma Workpapers	301-S1	170 IAC 1-5-8 (2)	Determination of Test Year Expensed Payroll
Pro Forma Workpapers	301-S2	170 IAC 1-5-8 (2)	Determination of Test Year Capitalized Payroll
Pro Forma Workpapers	302-L PF	170 IAC 1-5-8 (2)	Determination of Total Payroll for Link Period ending June 30, 2024
Pro Forma Workpapers	302-LS1 PF	170 IAC 1-5-8 (2)	Payroll for Link Period ending June 30, 2024
Pro Forma Workpapers	302-T PF	170 IAC 1-5-8 (2)	Determination of Total Payroll for Test Year ending June 30, 2025
Pro Forma Workpapers	302-TS1 PF	170 IAC 1-5-8 (2)	Payroll for Test Year ending June 30, 2025
Pro Forma Workpapers	303	170 IAC 1-5-8 (2)	Determination of Pro Forma Overtime Payroll
Pro Forma Workpapers	304	170 IAC 1-5-8 (2)	Determination of Pro Forma Supplemental Payroll
Pro Forma Workpapers	304-S1	170 IAC 1-5-8 (2)	Test Year Supplemental Pay Detail
Pro Forma Workpapers	305	170 IAC 1-5-8 (2)	Determination of Capitalized Payroll
Pro Forma Workpapers	306	170 IAC 1-5-8 (2)	Determination of Short Term Incentive Plan (STIP)
Pro Forma Workpapers	308	170 IAC 1-5-8 (2)	Determination of Capitalized Variable Pay Credits to Expense
Pro Forma Workpapers	309	170 IAC 1-5-8 (2)	Determination of Capitalized Paid Absence Credits to Expense
Pro Forma Workpapers	330	170 IAC 1-5-8 (2)	Determination of Expensed Payroll Tax Adjustment
Pro Forma Workpapers	330-S1	170 IAC 1-5-8 (2)	Distribution of Expensed Payroll Taxes to GL Accounts
Pro Forma Workpapers	350	170 IAC 1-5-8 (2)	Determination of Total Employee Benefits Adjustment
Pro Forma Workpapers	351	170 IAC 1-5-8 (2)	Determination of Pro Forma Employee Health Insurance
Pro Forma Workpapers	351-S1	170 IAC 1-5-8 (2)	Projection of health care costs for 2024
Pro Forma Workpapers	352	170 IAC 1-5-8 (2)	Determination of Pension & OPEB Expense
Pro Forma Workpapers	352-S1	170 IAC 1-5-8 (2)	Monthly Pension & OPEB Expense in Shared Services
Pro Forma Workpapers	354	170 IAC 1-5-8 (2)	Determination of Employee Thrift Plan Expense
Pro Forma Workpapers	357	170 IAC 1-5-8 (2)	Determination of net expensed benefit loadings
Pro Forma Workpapers	357-S1	170 IAC 1-5-8 (2)	Distribution of Expensed Benefit Loadings to NARUC Accounts
Pro Forma Workpapers	357-S2	170 IAC 1-5-8 (2)	Distribution of Expensed Benefit Loadings to GL Accounts
Pro Forma Workpapers	401	170 IAC 1-5-8 (2)	Determination of Chemicals Expense
Pro Forma Workpapers	401-S1	170 IAC 1-5-8 (2)	Monthly projected chemicals expense
Pro Forma Workpapers	403	170 IAC 1-5-8 (2)	Determination of Purchased Water Expense
Pro Forma Workpapers	404	170 IAC 1-5-8 (2)	Determination of Duke Energy Electric Costs
Pro Forma Workpapers	404-S1	170 IAC 1-5-8 (2)	Duke Energy bill detail for Test Year ended June 30, 2023
Pro Forma Workpapers	404-S2	170 IAC 1-5-8 (2)	Duke Energy bill detail for Link Period ended June 30, 2024
Pro Forma Workpapers	404-S3	170 IAC 1-5-8 (2)	Duke Energy bill detail for Test Year ended June 30, 2025
Pro Forma Workpapers	404-S4	170 IAC 1-5-8 (2)	Duke Riders
Pro Forma Workpapers	404-S5	170 IAC 1-5-8 (2)	Distribution of Duke Energy costs to NARUC accounts
Pro Forma Workpapers	404-S6	170 IAC 1-5-8 (2)	Distribution of Duke Energy electric costs to GL accounts
Pro Forma Workpapers	405	170 IAC 1-5-8 (2)	Determination of Outside Services Costs
Pro Forma Workpapers	405-S1	170 IAC 1-5-8 (2)	Distribution of outside services costs to NARUC accounts
Pro Forma Workpapers	405-S2	170 IAC 1-5-8 (2)	Distribution of outside services costs to GL accounts
Pro Forma Workpapers	406	170 IAC 1-5-8 (2)	Determination of Various Costs Subject to Inflationary Pressures
Pro Forma Workpapers	406-S1	170 IAC 1-5-8 (2)	Distribution of inflation-adjusted costs to NARUC accounts
Pro Forma Workpapers	406-S2	170 IAC 1-5-8 (2)	Distribution of inflation-adjusted costs to GL accounts
Pro Forma Workpapers	411	170 IAC 1-5-8 (2)	Determination of Business Insurance Expense
Pro Forma Workpapers	411-S1	170 IAC 1-5-8 (2)	Business Insurance Detail
Pro Forma Workpapers	419	170 IAC 1-5-8 (2)	Reclassification of certain transactions between NARUC accounts
Pro Forma Workpapers	431	170 IAC 1-5-8 (2)	Determination of Non-Recurring Expenses
Pro Forma Workpapers	431-S1	170 IAC 1-5-8 (2)	Non-Recurring Expenses Detail
Pro Forma Workpapers	432	170 IAC 1-5-8 (2)	Determination of Non-Allowed Expenses
Pro Forma Workpapers	432-S1	170 IAC 1-5-8 (2)	Non-Allowed Expenses Detail: Dues, Image Advertising
Pro Forma Workpapers	432-S2	170 IAC 1-5-8 (2)	Non-Allowed Expenses Detail: Lobbying Consultant
Misc. Informational	501	170 IAC 1-5-8 (9)	Number of employees by month for the test year
Misc. Informational	503	170 IAC 1-5-8 (11)	Payroll increases during the test year
Misc. Informational	505	170 IAC 1-5-8 (12)	Description of other employee compensation programs, including performance bonuses and incentive payments
Misc. Informational	511	170 IAC 1-5-7 (1)	Segment Values: Business Units & Inter Business Units
Misc. Informational	512	170 IAC 1-5-7 (1)	Segment Values: Areas
Misc. Informational	513	170 IAC 1-5-7 (1)	Segment Values: Accounts (FERC)
Misc. Informational	515	170 IAC 1-5-7 (1)	Segment Values: Expense Types
Misc. Informational	516	170 IAC 1-5-7 (1)	Expense Type Coding Guide
Misc. Informational	551	170 IAC 1-5-8 (25)(B)	Representative samples of conservation messaging
Misc. Informational	552	170 IAC 1-5-8 (25)(B)	Representative samples of safety messaging

FINANCIAL SYSTEM AND ACCOUNTING RECORDS

High-level overview

Citizens Energy Group (“Citizens”) utilizes Oracle E-Business Suite (“Oracle EBS”) for its financial recordkeeping. The system originally was implemented in 2006 and currently comprises modules for general ledger, billing, accounts payable, purchasing, inventory, projects, fixed assets, time & labor, payroll, human resources, and treasury. Citizens is continually evaluating improvements to its many processes; therefore, the mix of interfaces and modules changes periodically.

Oracle EBS General Ledger Account Structure and Transaction Flow

The general ledger account string is divided into five segments for a total of 18 digits:

1. Business Unit (2 digits)
2. Area/Cost Center (4 digits)
3. Account (6 digits)
4. Expense Type (4 digits)
5. Inter-Business Unit (2 digits)

For example, the account string “48.7083.408121.0202.00” denotes:

1. Business Unit: Westfield Water Utility
2. Area: Westfield Water Distribution
3. Account: Payroll Tax Expense
4. Expense Type: Employer portion of Social Security Taxes
5. Inter-Business Unit: None

A complete list of all currently active segment values and their descriptions can be found in my workpapers 511 through 516.

Oracle EBS was implemented as a project-centric system to enable FERC-based accounting (at the time of system implementation in 2006, Citizens owned only energy utilities). The result of this setup is that the average user is not required to understand 18-digit general ledger account codes, as he or she is only asked to select a “project” and a descriptive “task.” The combination of these two items, the project and the task, determine programmatically where on the general ledger the transaction will post, including which business unit receives the charge, as each project is unique to a specific business unit. An expense type is added to provide a more detailed description of the transaction itself.¹ The expense type aids in analysis of costs by providing a further breakdown of the charge, particularly in the FERC accounting structure which accumulates a variety of types of charges in the same account representing a function (the project and task). For example, FERC account 910 “shall include the cost of labor, materials used and expenses incurred in connection with customer service [...]”. The project and task combination determines that the charge posts to FERC account 910. The expense type delineates whether it is labor, office supplies, or a variety of other expenditures.

¹ Expense types are defaulted in by system interfaces and sub-modules for the majority of general ledger transactions. For purchasing transactions, which comprise a relatively low percentage of total transactions, end-users must select from a limited list of expense types to categorize their purchases.

Compatibility Challenges between FERC and NARUC

The NARUC Uniform System of Accounts (“USoA”) for water utilities is similar to the FERC USoA for energy utilities in many ways, but there are some marked structural differences, primarily in the treatment of operation and maintenance expense accounts. Where FERC provides accounts by function to accumulate types of charges, NARUC provides accounts by types of charges which are then subdivided into functions. In this respect, NARUC requirements are designed exactly opposite to those of FERC. To appreciate this contrast, please consider the following example of an employee in Customer Service charging time to project “Billing,” Task “Clerical Support.” The expense type is defaulted in by the payroll system as “Labor-Regular.” In FERC-based reporting, the project and task tell the system to post the charge to account 903 Customer Records and Collection Expenses. The expense type simply provides the additional analysis, in this case that it is a labor charge; and account 903 could also have postage charges, bank charges, cash over and short, etc. In NARUC-based reporting, however, the *expense type* is an important determinant of the account to which the labor charge posts, and the project and task generally determine the subaccount. In this case, the transaction posts to account 601 Salaries and Wages-Employees, subaccount 7 Customer Accounts.

In addition, many NARUC balance sheet accounts bearing the same description as their FERC counterparts are numbered differently. This becomes a reporting and maintenance challenge, not to mention a potential source of confusion for users of the financial system. For example, account 105 in NARUC is “Construction Work in Progress” but in FERC it signifies “Plant Held for Future Use.” In NARUC, account 141 is “Customer Accounts Receivable” but in FERC it is “Notes Receivable.”

Citizens’ Solution

Citizens is using its original FERC-based structure as the primary accounting structure, not only to reduce the potential for confusion but also because certain system processes require the use of only one default account, which necessarily is a FERC account. In order to provide the required NARUC-based reporting, a second set of books has been created where every transaction in the books of Citizens Water is mapped to the appropriate NARUC account. This NARUC set of books can be thought of as an exact duplicate of the original set of books, with all transaction detail intact, but with all FERC accounts having been converted to the NARUC numbering scheme. The numbering scheme indicates the NARUC subaccount, where applicable, via the fourth digit of the six-digit account number. Citizens updates the mapping each month as new account combinations are created, or better mapping options are found. The monthly mapping process cannot be standardized or fully automated and at times can involve subjective judgment.

Conclusion

Citizens maintains a sophisticated, constantly evolving enterprise-wide financial system which incorporates advances in technology to help make associated processes more efficient and cost-effective, and which supports a solid internal controls environment. Financial reporting is monitored constantly and provides accurate information in all material respects. Improvement opportunities are continually evaluated and pursued as feasible.