BEFORE THE

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF CWA AUTHORITY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WASTEWATER UTILITY SERVICE IN THREE PHASES AND APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO; (2) APPROVAL OF A LOW-INCOME CUSTOMER ASSISTANCE PROGRAM; AND (3) APPROVAL OF CERTAIN CHANGES TO ITS GENERAL TERMS AND CONDITIONS FOR WASTEWATER SERVICE.	))))))))))	**CAUSE NO. 45151**

DIRECT TESTIMONY
of
SABINE E. KARNER

On
Behalf of
Petitioner,
CWA Authority, Inc.

Petitioner's Exhibit No. 6

Contents

INTRODUCTION AND BACKGROUND

Q1. Please state your name and business address.

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

Q2. By whom are you employed and in what capacity?

A2. I am employed by the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis (the "Board"), which does business as Citizens Energy Group ("Citizens"), as its Vice President and Controller. Citizens owns the gas, steam and water utilities that respectively do business as Citizens Gas, Citizens Thermal and Citizens Water, in connection with their provision of utility service in and around Marion County, Indiana. Citizens is also affiliated with CWA Authority, Inc. ("CWA"), which owns the wastewater utility that provides wastewater collection and treatment utility services in Indianapolis and wastewater treatment services to surrounding communities. Pursuant to a Management and Operating Agreement approved by this Commission in Cause No. 43936, Citizens provides management and operational services necessary and desirable for the operation of the wastewater utility owned by CWA. CWA is the petitioner in this proceeding and is referred to interchangeably in my testimony as "CWA" or "Petitioner".

Q3. Please describe the duties and responsibilities of your present position.

A3. My duties include overall responsibility for the accounting, financial planning and reporting functions of Citizens.

Q4. How long have you been employed by the Board?

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

Q5. Please describe your educational background.

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

Q6. Please describe your prior business experience.

A6. I moved to the United States in 1995. I worked for R. T. Dodge Company in Dayton, Ohio in 1996 as an Office Manager. My responsibilities included reconciliation of cash accounts, processing payroll, accounts payable, accounts receivable, and miscellaneous general ledger entries.

From 1996 through 2000, I worked for Alexander, Root & Company, a CPA firm in Dayton, Ohio, in the capacity of a Staff Accountant. I prepared and reviewed individual, corporate, property, and payroll tax returns; prepared compilation reports in compliance with GAAP; prepared depreciation schedules; guided clients through year-end accounting processes, including preparation and review of adjusting entries; set up accounting systems for small businesses and provided technical support; trained non-financial client personnel on daily accounting tasks; performed investigative clean-up of accounting records for transfer clients; planned and executed special projects involving database systems; purchased, maintained, and supported the firm's PC network, server, and workstations, and participated in the selection and implementation of the firm's software.

During the period of time I was employed by Alexander, Root & Company, I also provided accounting services as an independent consultant to small businesses in the greater Dayton, Ohio area and taught various mainstream software applications at the Kettering Adult School in Ohio.

From 2000 through 2001, I worked as Project Manager for ACG Incorporated, a computer consulting company in Dayton, Ohio. I designed and implemented project plans to transition client accounting systems across platforms; planned and executed data import strategies to transfer databases across accounting systems; trained clients of all skill levels in the use of mid-range accounting systems and third party tools including financial reporting software; and designed custom financial reports.

From 2001 to date, I have been employed by Citizens in positions of increasing responsibility. From September 2001 to December 2003, I served as Senior Accountant. My responsibilities were comprised of all Property Records functions, including preparation of property tax returns, capital expenditures reporting, and maintenance of depreciation systems, as well as comprehensive subsidiary accounting, including preparation of consolidated financial statements.

From January 2004 to May 2005, I served as Accounting Supervisor. My duties included oversight of property records and subsidiary accounting functions; preparation of depreciation and property tax projections and subsidiary budgets;

preparation of federal and state subsidiary income tax returns; accounting for gas cost and gas cost adjustments, and preparation of regulatory reports.

From June 2005 to February 2006, I served as Accounting Manager. My duties included all of the assignments enumerated above and were expanded to include additional managerial responsibilities, such as drafting and revising internal accounting policies, research and interpretation of accounting standards, and management of process improvement projects.

From March 2006 to February 2009, I served as Divisional Controller for Citizens' gas and oil divisions. My duties included oversight and management of the financial closing process, review and presentation of divisional financial statements, preparation of divisional budgets and forecasts, participation in financial management teams, and analysis of variances.

From March 2009 to May 2011, I served as Executive Manager, Financial Planning and Analysis. I was accountable for the development and dissemination of financial trend analysis relating to all of Citizens' business units, and for researching, developing, and maintaining enterprise-wide standards for economic analysis. Additionally, I was responsible for adapting and executing processes for forecasts, financial reviews with senior management, and financial planning and budgeting.

From September 2010 to September 2011, I served as Interim Executive Director & Controller while the incumbent was fully dedicated to a strategic project.

From June 2011 to September 2015, I served as Director of Strategic Finance. I was responsible for directing and overseeing accounting support for regulatory proceedings and regulatory reporting, including preparation of certain pro forma adjustments to the revenue requirements in base rate cases. Furthermore, my duties included streamlining shared services cost allocations, financial planning, and Property Records functions and reporting.

From October 2015 to date, I have served as Vice President and Controller. In that capacity, I am responsible for overseeing the financial accounting, planning and reporting activities of Citizens and for ensuring an effective internal controls framework. I also direct the Director of Accounting Services and the Financial Accounting Manager for Property Records in the performance of their duties.

Q7. Have you previously testified before this Commission?

A7. Yes. I have sponsored testimony in base rate cases on behalf of Citizens Gas, Citizens Thermal, Citizens Water, CWA, Westfield Gas, and Westfield Wastewater, and in a depreciation accrual rate case.

Q8. What have you done to prepare yourself to testify in this proceeding?

A8. As Vice President & Controller, I am responsible for the review and dissemination of financial results for all Citizens business units, including the test year "Statement of Operations" or income statement, the "Statement of Financial Position", or balance sheet, and the "Statement of Cash Flows" for CWA. In the normal course of performing those duties, I met with certain members of Citizens' accounting staff who are responsible for making entries to the books and records, as well as those responsible for financial statement preparation, in order to understand the data presented in the financial statements. In addition, in the normal course of my duties I have become familiar with Citizens' internal control procedures related to financial statements. I have read the Verified Petition and direct testimony and attachments directly relating to CWA's revenue requirements filed in this proceeding. I have also familiarized myself with certain parts of the Indiana Code as it relates to utilities operated by the Board and I have relied upon the advice of counsel in interpreting said sections of the Code.

Purpose of Testimony

Q9. What is the purpose of your testimony in this Cause?

A9. The purpose of my testimony is to provide support for and sponsor the test year financial statements for CWA. In addition, I am sponsoring pro forma adjustments related to certain operating expenses, the test year allocation of Shared Services costs to CWA, and other income, net.

TEST YEAR FINANCIAL STATEMENTS

Q10. Please describe the financial system that generates the amounts on the financial statements.

A10. Citizens utilizes an enterprise-wide system or financial suite housing multiple integrated modules and interfaces to other systems that ultimately feed data to the general ledger upon which the financial statements are based. I have provided a detailed discussion of the financial suite in my Attachment SEK-7.

Q11. Please discuss the balance sheet as of the end of the test year.

A11. CWA's Statements of Financial Position, or balance sheets, as of May 31, 2018 (the last day of the test year) and May 31, 2017, are presented in Attachment SEK-1, page 1. The following discussion relates to the balance sheet as of the end of the test year.

Total assets were $2.2 billion, of which $1.8 billion was net utility plant (line 7). Investments totaled $257 million (line 10), of which $155 million was for bond-restricted funds and $102 million was for the balance remaining from the issuance of State Revolving Funds which are restricted exclusively for the financing of projects related to the consent decree.

Current assets of $81 million (line 16) were comprised mostly of $37 million in cash, $37 million in accounts receivable and accrued revenue, $4 million in material and supplies inventory, and $3 million in prepaid assets.

Deferred charges of $15 million (line 17) primarily consisted of $10 million in accrued system integrity adjustments and $4 million in regulatory assets.

Total capitalization and non-current liabilities were $2 billion (line 26), nearly all of which was long-term debt net of current maturities (lines 21 and 22). Petitioner's witness John R. Brehm discusses outstanding debt and debt service in more detail in his testimony. Also included are $72 million in contributions in aid of construction and $5 million in other long-term liabilities.

Current liabilities of $149 million (line 32) were comprised of short-term borrowings of $20 million, current maturities of long-term debt of $37 million, accounts payable and accrued expenses of $86 million, and customer deposits of $6 million.

Q12. Please discuss the Statement of Operations for the test year.

A12. CWA's Statements of Operations, or income statements, for the twelve months ended May 31, 2018 (the test year for this proceeding) and May 31, 2017, are presented in Attachment SEK-1, page 2. The following discussion relates to the income statement for the test year.

CWA generated operating revenues of $278 million (line 1) and operating income of $103 million (line 6).

Operations and maintenance ("O&M") expenses, shown on line 2, totaled $74 million. Major O&M expenditures included: employee related costs of $29 million, including wages and benefits, outside services of $17 million, purchased power of $10 million, material and supplies of $5 million, and chemicals of $3 million.

Of the $75 million in depreciation and amortization expenses (line 3), $77 million was for depreciation of utility plant in service. Net credits to expense of $2 million primarily were for amortization expense related to contributions in aid of construction and the acquisition adjustment.

Payments-in-lieu-of-taxes ("PILOT") made up $24 million of the total $26 million in taxes (line 4), the remainder was for payroll taxes.

CWA received $2 million of interest income and generated half a million of other income (lines 7 and 8).

Interest charges of $67 million (line 13) were composed of $88 million for interest on long-term debt (line 10), net credits of $6 million for amortization of bond premiums and bond issuance costs (line 11), and net credits of $14 million for other interest expense (line 12), most of which was for capitalized interest.

Petitioner's witness Korlon L. Kilpatrick uses the information from Attachment SEK-1, page 2 as the basis for determining the pro forma revenue requirements in this Cause as shown in Attachment KLK-1.

Q13. Please discuss the Statement of Cash Flows for the test year.

A13. CWA's Statement of Cash Flows for the test year is presented in Attachment SEK-1, page 3. CWA experienced net cash outflow of $50 million for the test year, as shown on line 22, ending with a cash balance of $37 million (reflected on line 24).

Investing activities consumed net cash of $302 million, of which $195 million was for construction activities, and $107 million for bond funds, including $91 million of State Revolving Funds dedicated to consent decree funding. Financing activities provided net cash of $151 million, primarily the result of $183 million in debt proceeds, both long-term and short-term, less repayment of debt principal of $40 million. Operating activities provided net cash of $101 million.

Q14. Are the financial records of Citizens and CWA subject to regular reviews and audits by an independent firm of certified public accountants?

A14. Yes. The Audit and Risk Committee of the Board of Directors engages the international certified public accounting firm of Deloitte & Touche, LLP ("D&T") to conduct interim reviews for each quarter-end as well as annual financial audits.

Q15. Are Citizens' and CWA's financial statements available for public review?

A15. Yes. Citizens' and CWA's combined quarterly and annual financial reports are available to the public via the Citizens website and the Electronic Municipal Market Access site ("EMMA"), including footnotes, which are considered an integral part of the financial statements. I have provided Citizens' and CWA's most recent combined annual financial report as workpaper 120.

SHARED SERVICES

Overview and Allocation Methodology

Q16. Please explain Shared Services.

A16. Shared Services is an organizational framework for the consolidation of resources and centralization of costs that provides process or knowledge-based and field services to Citizens' seven regulated utilities and its various other business units. Shared Services is designed to deliver high-quality services efficiently and effectively by streamlining high-volume, routine transactions and utilizing resources with specialized skill-sets who are dedicated to providing these services, including executive management, administrative, customer focused, engineering, meter reading, and field services.

Q17. How are Shared Services costs assigned to the seven regulated utilities and various other business units that are served by and benefit from the activities of Shared Services personnel?

A17. The first choice is to direct-charge all costs that can clearly be assigned to the business unit driving the cost. A prime example of this is the activity within the engineering group: most engineering personnel provide services for distinct projects within a given business unit; consequently, rather than charge their time to their Shared Services home area which would cause the associated costs to be allocated, they charge their time directly to the distinct project. Another example is the cost for lawn care at various facilities: these costs can be readily identified with the business unit whose facilities are being maintained and are therefore direct-charged to that business unit, even though the activity itself is managed by Shared Services personnel.

When it is not possible or practical to specifically identify costs as being attributable to a particular business unit, a comprehensive cost allocation methodology is utilized to assign Shared Services costs to the ultimate cost causer or consumer of a particular service based on numerous cost drivers. The objective of the cost allocation methodology is to assign the Shared Services costs as accurately as possible to the consumers or beneficiaries of each service. However, it is important to keep in mind that all allocations are inherently estimates.

Consequently, Citizens strives to strike an optimal balance between the most accurate assignment of costs and the avoidance of overly complicated allocations.

Q18. Please identify the types of cost drivers used in allocating costs.

A18. Citizens uses three main types of cost drivers: (i) statistical drivers where feasible, (ii) estimates of time spent on activities for each business unit where statistical drivers cannot be obtained, or (iii) the Trust Administration driver when there is no other reasonable cost benefit relationship that can be determined.

For example, the costs associated with providing human resources services, such as benefits administration or payroll, are assigned to the different business units based upon the number of employees in each unit (a statistical driver). In the same manner, costs associated with the Citizens customer call center are assigned to CWA, Citizens Water, Citizens Gas and the regulated utilities owned by Citizens Resources based on the number of customers in each unit. A list of statistical cost drivers, including their derivation, is provided in my supporting workpaper 270.

In contrast, costs for most accounting functions have no correlation to any statistics that drive the amount of accounting activity for any given unit; the number of journal entries made or the dollar amounts reconciled are not indicators of the amount of time required to accomplish these activities for any business unit, to name but two well-known and frequent accounting activities. Thus, accounting personnel who are dedicated to an operating unit estimate how much time they spend on behalf of the applicable business units. The same concept is true for employees in other departments, such as Environmental Stewardship, Occupational Health and Safety, and others. Some employees may estimate a portion of their time to be allocated to Trust Administration, explained below, in addition to specific business units.

Q19. Please describe further the circumstances under which the Trust Administration driver is used.

A19. The Trust Administration driver is used to assign costs that cannot otherwise reasonably be assigned to any specific business unit, and for overall entity costs which are incurred to support Citizens. For example, the Financial Business Applications Analyst in Controllership Function is responsible for the functional administration of the General Ledger, involving activities such as maintaining the chart of accounts, posting and balancing interface transactions, researching and correcting posting errors, or managing system processes for consolidation or financial statement generation. These activities transcend individual business units and are therefore charged to Trust Administration.

Trust Administration costs are allocated to business units based on the respective business unit's percentage of prior year revenues to total Trust prior year revenues. Citizens has applied this methodology since fiscal year 2007, pursuant to the Order in Cause No. 42767 (Citizens Gas), pages 42 to 44.

Q20. Please give an overview of the process for establishing cost allocations.

A20. Citizens uses a multi-step model to determine the allocation of Shared Services costs. Because Shared Services costs are predominantly people-driven, the first step is to establish a person-by-person allocation of labor costs using the various cost drivers explained previously.

The second step is to establish a weighted average attributable to each business unit based on the aggregate of the individualized allocations weighted by the estimated expensed wages for each employee. This overall labor-based allocation is then also applied to the estimated payroll-related expenses such as benefits and payroll taxes that are, for the most part, not directly assignable to individual employees.

The third step is to estimate all non-labor expenses for each department and apply appropriate drivers to allocate the costs.

The fourth step is to summarize all of the allocated cost categories (labor, labor-related costs, and non-labor costs) by major department or function. The result is converted to a percentage of total cost for each department or function which is then used as the allocation factor for all charges generated by that department or function.

Q21. The Shared Services allocation to CWA includes a consideration for meter reading costs. Please describe this allocation in more detail.

A21. Meter reading costs are allocated based on the number of meters and an estimated 12 annual reads per meter. CWA, however, does not have meters; customers generally are billed based on their water usage. In order to provide for an equitable allocation, the percentage allocated to Citizens Water based on meters is modified to split that percentage between Citizens Water and CWA based on the number of customers served by each utility. This effectively reduces the meter reading allocation to Citizens Water and establishes a reasonable share of costs to CWA. Apart from meeting Citizens' goal of equitable cost allocations, this approach also is responsive to the Commission's Order in Cause No. 43936, page 36:

> […] Citizens and [CWA] further agree to equitably allocate water meter reading costs between the Water and Wastewater Systems.

Q22. How are allocated costs transferred to each business unit?

A22. The allocation factors are maintained in the enterprise financial suite (Oracle EBS) to effect an automated monthly allocation of expensed actual costs by account.

Q23. How often are allocation factors updated?

A23. Generally, Citizens updates allocation factors annually to establish factors for the new fiscal year, which begins on October 1st, though major organizational changes could warrant an interim update of the allocation factors. Such updates are normally forward-looking and not retroactive.

Q24. Please describe the reimbursement process for allocated costs.

A24. Shared Services has a cash account with which it funds expenditures, and business units reimburse allocated costs through ongoing sweeps of intercompany balances. Certain costs that are not unique to Shared Services are paid from the Shared Services cash account as a matter of efficiency and are reimbursed within a few business days by the appropriate business units. For example, payroll liabilities for all business units within Citizens are paid from the Shared Services cash account and reimbursed within three to four business days. Likewise, as a result of combined billing, all customer receipts are collected in the Shared Services cash account first and then disbursed to the appropriate business unit.

Test Year Allocations

Q25. Was there a change in allocation factors during the test year?

A25. Yes. Because the test year spans two fiscal years, there were two sets of allocation factors in use in the test year. From June through September, the allocation factors were based on the fiscal year 2017 estimates. From October through May, the allocation factors were based on the fiscal year 2018 estimates.

Q26. What share of Shared Services costs ultimately was allocated to CWA for the test year?

A26. CWA received approximately 22.31% of Shared Services allocations for the period from June through September, and approximately 23.56% for the period from October through May, yielding a blended effective rate of 23.13% for the test year. Test Year Shared Services allocations are presented in detail in workpaper 211, and I provided a high-level summary in Attachment SEK-3.

Pro Forma Allocations

Q27. What is the pro forma allocation for Shared Services charges?

A27. I used the effective overall allocation factor established for fiscal year 2019 which is 24.69%. The detail calculations that make up this overall percentage are presented in workpaper 201 and 202, and a high-level summary is presented in Attachment SEK-3.

Q28. Why are you using an overall allocation factor for pro forma purposes?

A28. It is not practical to use more disaggregated allocation factors in the pro forma. In the test year, Shared Services costs were allocated through more than 30 different allocation factors. While it is a simple matter to plug these factors into an enterprise system for automated allocations of actual costs, it would be unduly complex and burdensome to have to manually apply over 30 different factors in pro forma workpapers. For example, in order to faithfully imitate test year payroll transactions in my pro forma workpapers, I would have to create a complete set of workpapers for each Shared Services function that produced labor costs and then apply that function's aggregate allocation factor. In other words, each of my payroll workpapers would have to be presented 26 different times, as there are 26 different functions involved in labor costs. This would produce literally hundreds of pages of workpapers and endless difficulty in preparing and examining them: tedium for no discernible gain.

Q29. Do you have an idea of the impact that the use of an overall pro forma allocation factor might have compared to the use of more disaggregated pro forma allocation factors?

A29. Yes. The impact is immaterial: if test year Shared Services costs had been allocated using the budgeted overall factor instead of the individual disaggregated factors, the total test year allocations would have increased by approximately $27,000, or 0.1%[1]. Of course, in some years the difference may be a decrease instead of an increase; the point is that the fluctuation is not significant.

Q30. What other reason do you have for using an overall allocation factor for pro forma purposes?

A30. I think the use of an overall allocation factor aids in avoiding the potential illusion that allocations are a precise assignment of costs just because multiple factors are employed.

Allocations are, by nature, not a precise reckoning of costs: if it were possible to charge fractions of every Shared Services dollar incurred to the business unit that caused that fraction of the expenditure then there would be no need for allocations. Thus, a system of allocations seeks to provide a reasonable estimate of the aggregate expenditures incurred by each entity served, whereas at the individual transaction level, the causality between cost and consumer likely is not always intuitive. Shared Services costs are considered in total, and the overall allocation percentage reflects the allocation rate of the aggregate Shared Services framework.

Q31. Have you used an overall allocation factor in prior rate cases?

A31. Yes, I used this approach in prior rate cases for Citizens Water (Cause Nos. 44306, 44644) and CWA (Cause Nos. 44305, 44685), and it was accepted by the

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[1] All data necessary to be able to conduct this analysis is included in my Attachment SEK-3.

Commission in all instances. However, in Cause No. 44306 the allocation of certain immaterial costs had engendered some controversy, and thus the Commission addressed the use of the overall factor at length in its Order, ultimately endorsing the approach as a reasonable approximation of ongoing expenditures without the need to delve into the "minutia" (Order, page 53). The Commission further noted in its Order that overall allocation factors should be understood like composite depreciation rates: "a composite depreciation rate, by definition, has no relation to the actual depreciation rate of any one item. Instead, when all utility plant is considered in total, the composite rate reflects the depreciation rate of the aggregated plant. […] Accordingly, when looking at individual items, the allocation factor will most likely not reflect the actual amount of that individual item that should be allocated to the utility." (Order, page 53).

Q32. Why did you select the fiscal year 2019 budgeted allocation factor for pro forma allocations?

A32. The fiscal year 2019 budgeted allocation factor is based on the most current drivers and is therefore more representative of probable future experience than the test year allocation factors. As I explained above, Shared Services allocations are updated annually, and one of the statistical drivers used is the Trust Administration driver which is based on actual revenues. Since CWA has experienced annual rate increases, each fiscal year's allocations to CWA increase for that reason alone. The table below shows the progressive increase for CWA's share of the Trust Administration driver over the last five years:

FY2015	20.51%
FY2016	22.32%
FY2017	25.83%
FY2018	29.15%
FY2019	31.49%

The fiscal year 2019 Trust Administration allocation is based on fiscal year 2017 actual revenues. CWA's most recent rate increase became effective in August 2017, so that only two months of increased revenues are reflected in the fiscal year 2017 results, making it inevitable that the Trust Administration allocation will continue to rise for CWA once a full year of increased revenues is incorporated in the driver calculation. That cycle will, of course, continue as CWA implements future rate increases. My point is that the use of the 2019 allocation factors is quite reasonable and is in fact the lower cost choice among alternatives within the pro forma "fixed, known and measurable" framework.

Q33. You mentioned that the use of the 2019 allocation factor is a lower cost alternative for the pro forma. What other options are there?

A33. I could propose pro forma allocations that use a more current revenue-based driver than fiscal year 2017 results. For example, I could replace the actual fiscal year 2017 amounts with actual 12-month-to-date revenues through July 2018 to yield a Trust Administration allocation to CWA of 31.72% as opposed to 31.49%. This would be more realistic since the numbers would contain a full year of the most recent CWA rate increase, but it would cause the overall factor to be 24.75% instead of 24.69%. The impact of such a change would be about $127 thousand more in pro forma Shared Services allocations.

Q34. Why did you settle on allocation factors that yield lower pro forma expenses?

A34. It is my understanding that the pro forma revenue requirement is meant to be a *representative level*[2] of normal and ongoing costs. I have scrutinized test year expenditures and pursued adjustments at fairly low levels in order to obtain a good faith and reasonable representation of minimum going level costs. However, despite my best efforts, it is possible that a few minor transactions could have been overlooked. Utilizing a pro forma allocation factor that is reasonably representative while also yielding lower allocations appeared to me to bridge any perceived gap between the impossible (precise review of all transactions) and the practical (single factor allocations through lower cost alternative). I consider the impact of this lower allocation factor on the pro forma revenue requirement to be immaterial.

PRO FORMA ADJUSTMENTS

Overview

Q35. Please provide a high-level assessment of the pro forma adjustments to operating expenses and other income.

[2] PSI Energy, Inc. rate case Order, Cause No. 42359: "In making our determinations regarding an appropriate level of operating expenses to be used in setting Petitioner's rates, we are guided by our overall objective of achieving a level of expenses which are representative of probable future experience. The Indiana courts have emphasized the importance of viewing test year results and out of period adjustments in the context of estimating a representative ongoing level of utility expenses."

A35. In summary, the test year overall level of O&M expense and taxes of $100.1 million is not representative of current minimum going-level costs of approximately $109.0 million. I provide an overview and key drivers below (all amounts in millions):

	Test Year	Adjustment	Pro Forma
O&M			
Wages	21.0	1.5	22.5
Benefits	8.2	0.9	9.1
Bad debt	1.0	1.2	2.2
Various O&M expenses	44.3	0.2	44.5
	74.5	3.8	78.3
Taxes			
PILOT	24.0	5.0	29.0
Other taxes, incl. payroll	1.6	0.1	1.7
	25.6	5.1	30.7
Total O&M and Taxes	100.1	8.9	109.0

Labor increased by $1.5 million primarily due to a general pro forma pay adjustment coupled with increased shared services allocations, which I discussed extensively in a prior section of my testimony. Benefits increased by $0.9 million mostly due to anticipated increases in health care costs and because the test year did not contain a full year's worth of retirement benefits expenses as actuarial estimates were not available until fiscal year 2018, four months into the test year.

The bad debt increase of $1.2 million is sponsored and explained by Petitioner's witness Mr. Kilpatrick; briefly, the adjustment applies a 3-year average bad debt ratio to pro forma revenues.

Adjustments to a variety of non-labor O&M expenses netted a $0.2 million increase, driven mostly by an increase in purchased power expense partially offset by an expected reduction in chemicals costs.

PILOT increased by $5.0 million compared to the test year level due to escalation in annual payments per the schedule of annual PILOT payments which was approved in the Order in Cause 43936. The increase in other taxes of $0.1 million relates to payroll taxes.

In addition to the above, I also made adjustments to Depreciation and Amortization expense, and Other Income, Net, summarized in the following table:

	Test Year	Adjustment	Pro Forma
Depreciation & Amortization			
Depreciation on plant in service	75.3	(19.2)	56.1
Amortization	(0.3)	0.3	0.0
	75.0	(18.9)	56.1
Other Income, Net			
Interest Income	2.1	-	2.1
Other Income (Expense)	0.5	(0.4)	0.1
	2.6	(0.4)	2.2

The decrease in depreciation expense is largely due to anticipated lower depreciation accrual rates which are the subject of the Stipulation and Settlement Agreement filed September 10, 2018 in Cause No. 45039.[3] The adjustment to amortization expense represents the removal of amortization of the acquisition adjustment and transaction costs for which CWA does not seek recovery.

Lastly, I evaluated the going level of Other Income, Net. I determined that the test year contained non-recurring transactions and proposed an adjustment to lower other income by $0.4 million. I found the test year amount of interest income to be reasonably representative and therefore made no adjustment.

[3] CWA includes an amount of Extensions & Replacements ("E&R") in its revenue requirement, and not depreciation expense. See Attachment KLK-1.

Q36. What steps did you take to determine pro forma adjustments to the test year?

A36. I reviewed the trial balances of CWA and Shared Services by account and by expense type. I discussed the test year financial statements with management and operations representatives to obtain their input on whether various expenses were reflective of normal and ongoing expenditure levels. Additionally, I reviewed transaction level detail for certain accounts and expense types where I thought the test year may have included unusual costs. I also reviewed 170 IAC 1-3 (Advertising Expenditures by Public Utilities), IC § 8-1.5-3-8 (Rates and Charges), IC § 8-1-2-6(c) (Valuation of Property), and Commission Orders for certain prior rate cases to determine allowable expenses.

Q37. Do you believe that the pro forma adjustments you have proposed are reasonable and materially complete?

A37. Yes. Of the $100 million in test year O&M and taxes, I made adjustments to $73 million, or 73%. For purposes of determining pro forma adjustments, to the best of my knowledge, I identified non-allowed expenditures at any level and generally used a materiality threshold of $5,000 for other types of adjustments. For example, I removed invoices for services rendered prior to the test year if they were above $5,000 each. This threshold represents my assessment of a cost-benefit limit based on my professional knowledge of the data and transactions of Shared Services and CWA.

There are close to 250,000 income statement transaction line items in the test year between the ledgers of CWA and Shared Services (excluding allocation transactions which would increase the number of total transactions). I believe using a materiality threshold of $5,000 is reasonable and conservative for a utility of this size, and does not misstate the revenue requirement in any way that would detract from the standard of reasonable and just rates and charges for services, as set forth in IC § 8-1.5-3-8. While there is no specific reference to accepted materiality thresholds in 170 IAC 1-5 (Minimum Standard Filing Requirements for an Expedited Rate Case), the regulations do establish a reporting threshold of $10,000 in the section on working papers and data for revenues, expenses and taxes (170 IAC 1-5-8, subdivision 20). I interpret this as further confirmation that a threshold of half that level to evaluate test year transactions for pro forma adjustments is reasonable.

Q38. Briefly explain your workpaper format and order.

A38. I used the following numbering scheme for workpapers related to accounting adjustments:

1xx:	Financial and Accounting Data
2xx:	Shared Services
3xx:	Pro Forma Adjustments to Payroll, Payroll Taxes, Benefits
40x-42x:	Pro Forma Adjustments to Operations & Maintenance
43x:	Non-Allowed and Non-Recurring
45x:	Pro Forma Adjustments to Taxes
47x:	Pro Forma Adjustments to Depreciation & Amortization
49x:	Pro Forma Adjustments to Other Income, Net
5xx:	Miscellaneous Informational Schedules

Where workpapers required additional supporting calculations, I have numbered these supporting workpapers the same as the workpaper in question and added the suffix –Sn, where n denotes the next sequential number (e.g. 301-S1 is a supporting workpaper for workpaper 301).

Q39. Did you include a summary of pro forma adjustments in your testimony?

A39. Yes. Attachment SEK-2, Part 1 presents a pro forma statement of income before interest charges, and Parts 2 through 5 contain detail references to the various workpapers that contribute to each pro forma adjustment for operating expenses and other income.

Description of Individual Pro Forma Adjustments

Q40. Did you provide a summary of pro forma adjustments to O&M expenses?

A40. Yes. Attachment SEK-2, Part 2 presents pro forma adjustments to O&M expenses. Following is a description of the adjustments sponsored by me.

<u>Payroll</u>

Q41. Please describe the pro forma adjustments you made for payroll expenses.

A41. The pro forma payroll was determined by obtaining a list of active positions in CWA and Shared Services at current pay as of July 31, 2018, a total of 900 positions[4]. I did not add any open and posted positions to the pro forma in order to account for an inherent hiring lag, at any given time, due to turnover. I then annualized the base pay for all positions by applying a 3% expected increase to

[4] The test year average was 908 positions. There were 905 positions filled at the end of the test year.

non-bargaining positions and a contractually stipulated 2% pay increase to bargaining unit positions. I further added overtime and supplemental pay to base pay based upon the level at which these expenses occurred during the test year. I added short-term variable pay at the percentages applicable to each position and accounted for the pro forma level of overtime pay which is also eligible for variable pay, and assumed 100% of target payout. Finally, I deducted the amount of pro forma payroll associated with capital projects, which is a capital cost recoverable as part of extensions and replacements. Overall payroll expenses increased by $1,554,407. The detailed calculations are presented in workpapers 300 through 309.

Benefits

Q42. Please summarize your adjustments to employee benefits.

A42. I made adjustments to four major categories of employee benefits (health care, pension, post-retirement, thrift) and corresponding benefit loadings which together accounted for approximately 97% of expensed benefits in the test year. These adjustments are presented in my workpapers 350 through 359. I considered the remaining 3% of various test year benefits representative of ongoing levels of expense. My workpaper 162 presents total test year benefits expenses incurred during the test year.

Health care costs

Q43. What are you proposing for pro forma health care costs?

A43. I am proposing an increase of 8.7% to test year expense, or $685,276. The percentage increase is derived from an analysis prepared by Citizens' employee benefits consultant, LHD Benefit Advisors. The organization-wide analysis is based on actual 12 month spending data for health care costs and shows an annual trend of 8% for medical claims and 12% for prescription claims for a blended rate of 8.7%; it then proceeds to project a nearly 15% total spending increase for the following 12 months. I elected to apply the actual rather than the projected trend in my pro forma calculation because it is a better fit for the "fixed, known and measurable" criterion. My calculations are presented in workpaper 351.

Pension

Q44. Please describe the pro forma adjustment for pension.

A44. The pro forma adjustment for pension replaces the accrual amount with the actuarially determined required funding amount. The test year included only 8 months of accruals for employees assigned to CWA because October 2017 (the start of fiscal year 2018) marked the first month of actuarial estimates to be recorded after in-sourcing operations as of January 2017. The funding amount (see workpaper 352-S2) was prepared by Citizens' actuary McCready & Keene. The adjustment results in an increase of $641,899 (see workpaper 352).

Post-retirement benefits

Q45. Please describe the pro forma adjustment for post-retirement benefits.

A45. Citizens provides post-retirement health and dental benefits to eligible retirees until age 65 (the "OPEB Plan" where OPEB stands for Other Post-Employment

Benefits, an acronym commonly used in accounting guidance).

The pro forma adjustment for the OPEB Plan is based on the results of the valuation study prepared by Citizens' actuary McCready & Keene (see workpaper 353-S1) and seeks to recover the post-retirement benefits on an accrual basis. Similar to pension expense, there are only 8 months of accruals for employees assigned to CWA in the test year due to the timing of in-sourcing versus actuarial estimates becoming available.

The Commission "previously has recognized that accrual accounting is a proper and preferred method" of recording OPEB expenses, and that "current recovery through rates" of the OPEB accruals "will provide a proper matching of revenues and expenses" (see Order in Cause No. 41605, page 6). The adjustment for the plan results in a decrease of $102,189 (see workpaper 353).

Thrift match

Q46. Please describe the pro forma adjustment for the employee thrift plan.

A46. I calculated the test year employer thrift match as a percentage of eligible compensation and applied that percentage to the pro forma amount of eligible compensation, resulting in an increase of $43,745 (see workpaper 354).

Benefits loadings

Q47. Please explain the remaining pro forma adjustments to employee benefits expenses.

A47. The remaining pro forma adjustments are related to loadings on wages, i.e.

percentage-based burden schedules designed to proportionally assign a reasonable estimate of benefits costs to capitalized and expensed wages. Additionally, a portion of paid absences is attributed to capitalized wages through a similar process.

Q48. Why are you loading costs on capitalized wages?

A48. When employees charge time to capital projects, only the wages for the time charged are capitalized. However, the cost of employment is not confined to just wages; compensation includes benefits provided to employees. It is appropriate that an estimate of such costs, which generally cannot be employee-specific, be capitalized along with the wages. Similarly, employees generally charge their paid absences to their home area because they are not actively working on a specific project, resulting in expensed costs. It stands to reason that a portion of paid absences should be capitalized because such costs are part of the cost of employment. A simple way to think of this is to consider an employee who works on capital projects exclusively: in that instance, it would be unreasonable to capitalize all but paid absences for an employee wholly dedicated to capital work. The same logic holds true for employees who spend only a portion of their time on capital projects.

Q49. What is the methodology for loading costs?

A49. For benefits loadings, percentages are established annually by calculating the ratio of estimated benefits to wages, including actuarially determined benefits costs. This ratio is then stored in Oracle EBS where it is used in an automated process which examines the amount of actual wages charged to every account combination, whether expense or capital, and adds a proportional amount of loadings to that same account combination based on the previously established ratio. The offsetting entry is a credit to a so-called benefits contra account in expense. Because all actual benefits costs are necessarily charged to expense when incurred, the sum of the actual benefits expense and the contra expense credit represents the net expense related to benefits.

Q50. Please describe the loadings pro forma adjustment.

A50. My Attachment SEK-8 presents a detail description of the process and rationale behind benefits loadings. In summary, I have simulated the actual systematic process of loading benefits onto wages by calculating a pro forma ratio and applying it to eligible pro forma payroll, resulting in a net pro forma expense decrease of $405,853 comprised of the following:

$1,001,958	increase for benefits loadings (workpaper 357)
$(1,430,139)	decrease for benefits allocations contra (workpaper 358)
$22,329	increase for capitalized paid absences (workpaper 359)

<u>Other Operations & Maintenance Expenses</u>

Purchased Power

Q51. Please describe the pro forma adjustment for purchased power expense.

A51. CWA's purchased power pro forma adjustment is an increase of $467,693 and has two main causes: (a) the base rate increase by Indianapolis Power & Light ("IPL") which was pending at the time of preparing the workpapers; and (b) major new assets that were put in service during the test year and require annualization of purchased power charges.

To calculate the anticipated effect of the IPL base rate increase, I consulted IPL's Settlement Agreement Attachment C in Cause No. 45029 to determine the proposed increase for each applicable rate class. I then applied the various increases to the test year amount of IPL charges, resulting in an increase of $210,086.

Next, I established the additional purchased power costs related to placing the Deep Rock Tunnel Connector Pump Station ("DRTCPS") in service in late December 2017. The DRTCPS is not separately metered by IPL, but is included in the service for the Southport treatment plant. Recognizing the need for tracking DRTCPS consumption separately, CWA installed its own submeter in March 2018. I used the data available since March 2018 to estimate the portion of purchased power expense attributable to the DRTCPS and establish a monthly average which I then used to annualize the DRTCPS consumption. This is of course not an exact science since the size of the DRTCPS load is contingent on weather events. However, since CWA began metering the usage, there were two high load months due to heavy rainfall, and three low load months due to drier conditions, providing a reasonably weighted average until a full year's worth of data becomes available.

After establishing the additional usage for the DRTCPS, I applied the IPL rate increase for that rate class to yield a total increase related to the new pump station of $267,771.

Finally, I applied the overall effect of the IPL rate increase to the test year amount of credits for capitalized purchased power which was considered representative of ongoing operations, yielding a pro forma decrease of $10,164. All these calculations are presented in workpaper 401.

Chemicals Expenses

Q52. Did you calculate an adjustment for chemicals expenses?

A52. Yes. I determined the test year volume of various chemicals and applied the most current purchase order pricing to each. There are a number of minor pricing changes that are nearly offsetting in effect except for polymer purchases where CWA established a lower cost commitment over a 3-year period. Accordingly, I used the 3-year average unit price for that purchase order as it is fixed, known and measurable. I also applied the overall effect of the pricing changes to the test year amount of capitalized credits. In total, the pro forma adjustment for chemicals expenses represents a decrease of $404,262. My calculations are presented in workpaper 403.

Normalized O&M Expenses

Q53. Please describe your pro forma adjustment to normalize certain O&M expenses.

A53. I made pro forma adjustments to normalize certain O&M expenses for which ongoing costs were not fully represented in the test year. There are four types of adjustments totaling a net decrease of $52,270 and which are summarized in workpaper 411.

First, I evaluated business insurance expensed during the test year for any anticipated changes in premiums, based on input from various insurance brokers. The net pro forma adjustment for the 15 insurance policies is a $60,799 decrease (see workpaper 411-S1).

Second, I identified a number of transactions in the test year where the expense covered a period of more than 12 months, for example software support agreements covering two years. I determined the cost applicable for a twelve month period for each of these transactions, netting a pro forma decrease of $43,971 (see workpaper 411-S2).

Third, I made an adjustment to reflect anticipated financial audit fees as the test year contained some timing anomalies in terms of audit fees billed. The resulting pro forma adjustment is a decrease of $69,098 (see workpaper 411-S3).

Last, I moved certain transactions between NARUC accounts because the test year balances were inadvertently mapped to the wrong NARUC account. There was no impact to the revenue requirement resulting from this particular adjustment (see workpaper 411-S4).

Out of Period Expenses

Q54. Please describe your adjustment for out-of-period expenses.

A54. I made a pro forma adjustment to various operating expenses to account for out-of-period charges. Generally, only transactions greater than $5,000 each were selected for this adjustment, which I believe to be a reasonable threshold. The only exception to this approach was for chemicals expenses where invoices under $5,000 each were not burdensome to identify and their inclusion lowered the pro forma adjustment. I listed all test year credits to expense for reversals of prior year accruals, all charges that were expensed in the test year for prior period invoices, and all expensed accruals at the end of the test year for invoices not yet received. This establishes the net test year amount for out-of-period charges. Next, I added amounts for invoices expensed after the test year where services were rendered during the test year. This is the pro forma amount. The resulting adjustment is an increase of $240,220 (see workpaper 413).

Non-Recurring Expenses (O&M)

Q55. Did you review the test year transactions for non-recurring expenses?

A55. Yes. I generally applied the $5,000 materiality threshold in my review of non-recurring transactions. However, I included transactions below that threshold if they were easily identified or otherwise known to me. These transactions are presented in workpaper 431.

I made a pro forma adjustment to add back a total of $272,796 in non-recurring transactions which breaks down as follows:

$ (55,993)	decrease to O&M expenses
$ (1,205)	decrease to Taxes
$329,994	increase to Other Income, net

I discuss the items related to Taxes and Other Income, Net, in a later section of my testimony. Following is a description of the individual components of the

O&M portion of the adjustment:

I reduced the test year expenses by $122,406 for expenditures that should have been capitalized per Citizens' capitalization policy. I have included the policy as workpaper 523. I declined to adjust pro forma depreciation expense for this adjustment as the impact on overall depreciation expense would be negligible.

I removed $13,856 in expenses for software support that has been discontinued.

During the test year, a number of accounting adjusting entries and corrections were made in the course of normal reconciliation and review procedures, totaling $1,757.

I removed another $31,930 which was expensed in the course of engaging a vendor to assist in the selection of a new customer information system.

In addition, I reduced expenses by $28,826 for consulting costs related to the startup of Citizens' Lean Six Sigma program.

Finally, I added back $142,782 in credits related to a correction of disallowed prior rate case costs which had inadvertently mapped to O&M expenses in the NARUC ledger.

Non-Allowed Expenses

Q56. How did you determine non-allowed expenses?

A56. I reviewed IC § 8-1-2-6(c) which provides: "In determining the amount of allowable operating expenses of a utility, the commission may not take into consideration or approve any expense for institutional or image building advertising, charitable contributions, or political contributions." I reviewed the general ledger for the occurrence of such transactions in the test year and I inquired of personnel familiar with the books and records whether they were aware of non-allowed expenses in the test year. I relied upon the advice of counsel to help interpret prior Commission rulings on this subject.

Q57. Please describe your adjustment to non-allowed expenses.

A57. I attempted to locate non-allowed expenses at all transaction levels and did not confine my search to a $5,000 threshold. Non-allowed expenses are presented in workpaper 432, a total decrease to pro forma expenses of $28,211.

I reviewed dues statements from the National Association of Clean Water Agencies ("NACWA"), the Greater Indianapolis Chamber of Commerce, and the Indiana Chamber of Commerce for lobbying percentages and also searched the websites for these organizations to determine the lobbying percentage, if any, that may need to be excluded from such dues. I removed a total of $3,753 as the non-allowed portion of dues for these organizations. I provided a list of all dues paid during the test year in workpaper 152 for informational purposes.

Further, I removed $24,458 of expenses incurred for a registered lobbying firm.

<u>Taxes</u>

Q58. Did you provide a summary of pro forma adjustments to Taxes?

A58. Yes. Attachment SEK-2, Part 4 presents pro forma adjustments to tax expenses. Following is a description of these adjustments.

Payroll Taxes

I determined the percentage of test year payroll taxes, net of capitalized amounts, to expensed payroll and applied that percentage to expensed pro forma payroll. The total adjustment to payroll taxes is a pro forma increase of $105,368. The calculation is shown in workpaper 330.

Non-Recurring Expenses (Taxes)

I removed $1,205 of expense related to a reconciliation adjustment that was made in the course of normal reconciliation and review procedures. This adjustment is reflected as part of workpaper 431.

PILOT

Q59. Please discuss the nature of PILOT and how you arrived at your pro forma adjustment for it.

A59. CWA is subject to a PILOT schedule through 2039 which was approved by the Commission, provided such payments are less than property taxes otherwise would have been (Order in Cause No. 43936, page 25):

> […] Therefore, we order [CWA] to include in its annual report to the Commission a calculation of the difference between the amount paid under the PILOT schedule and the amount of property tax that would have been levied […]. Subject to the caveat above, the Commission finds the schedule of PILOT payments attached to Special Ordinance No. 5, 2010 is reasonable, in the public interest and recoverable in rates.

In CWA's prior rate case (Cause No. 44685), the parties reached a settlement agreement in which the annual step-up in PILOT was broken into

Phase 1 and Phase 2 components, commensurate with the phases of the base rate increase. Since CWA proposes a 3-step increase in this Cause, my pro forma adjustment follows that same approach over three phases: I determined the semi-annual payment amounts per the PILOT calendar year schedule (payments are due on June 1 and December 1 of each year), assumed that the 3-step increase in this Cause would become effective in the month of August, added together the semi-annual payments for each annual phase that falls between August and July, and compared those payments to the respective prior period to determine the needed adjustment. These calculations are reflected in workpaper 451. The result is a total pro forma increase of $5,000,639, broken down into the individual phases as follows:

$2,832,631	Phase 1
$1,546,015	Phase 2
$621,993	Phase 3

CWA also receives allocations for Shared Services property taxes for which I did not propose a pro forma adjustment as it would have been negligible.

<u>Depreciation & Amortization</u>

Q60. Did you provide a summary of pro forma adjustments to depreciation and amortization expense?

A60. Yes, it is presented in Attachment SEK-2, Part 3. Following is a description of these adjustments:

Amortization Expense

I made two adjustments to amortization expense (workpaper 471). First, I added back $576,938 in test year credits to expense for amortization of the acquisition adjustment for which CWA is not seeking recovery in accordance with the Settlement Agreement in Cause No. 43936, as described in the Order, page 32:

> The Settlement Agreement provides that no ratemaking treatment will be requested in the future as a result of any acquisition adjustment recorded in connection with [CWA's] purchase of the wastewater utility or Citizens's purchase of the water utility assets.

Second, I removed $274,282 in test year expense for amortization of transactional costs, which are being recovered through debt service as approved by the Commission in its Order in Cause No. 43936, page 23:

> […] Those payments, along with the debt service payments for debt issued to fund the Purchase Price and transaction costs incurred to consummate the transactions, are a necessary component of the transactions.

Depreciation Expense

Q61. Please describe your pro forma adjustment to depreciation expense.

A61. First, I established the annual amount of depreciation expense on depreciable utility plant in service as of May 31, 2018, including contributed plant ("CIAC"). Then, I calculated the net of annual depreciation expense on an adjusted balance for plant in service after expected asset additions less expected retirements. I present my calculations in workpaper 473. Consistent with prior Commission determinations, I did not subtract CIAC amortization from these amounts.[5]

For asset additions, I obtained a list of capital projects that are either already in service but not yet recorded as assets pending final charges, or that have a reasonable certainty, due to their high level of completion status, of being in service within the pro forma adjustment period.

For asset retirements, I obtained a list of assets which will be retired within the adjustment period. Only assets within the General Plant Amortization ("GPA") asset types can have a predictable retirement date, as the concept of GPA is to automatically retire the asset at the end of its estimated useful life.

After summarizing all of the above, the net adjustment results in a pro forma decrease of $19,203,713.

Q62. What are the depreciation rates used during the test year?

A62. CWA is using a 2.5% depreciation rate on all plant in service, as approved by the Commission in its Order in Cause No. 43936, page 30:

> […] The Commission further finds [CWA] should be authorized to use, for ratemaking purposes, a 2.5% depreciation rate for wastewater utility plant in service until such time as the Commission may order or authorize the use of a different depreciation rate for ratemaking purposes.

Shared Services is using group depreciation rates that vary by asset class and that were approved by the Commission in its Order in Cause No. 43975, page 32:

[5] Indiana-American Water rate case Order, Cause No. 43680: "[…] we again reject the OUCC's proposal to amortize CIAC."

> […] we also approve and authorize Petitioner to use the revised depreciation accrual rates described in Petitioner's depreciation study (Petitioner's Exhibit JJS-1).

The Commission approved this approach in its Order in Cause No. 44306 (page 59).

Q63. What are the depreciation rates used for pro forma purposes?

A63. I used the proposed depreciation accrual rates from a currently pending Joint Depreciation Case (Cause No. 45039) for which a settlement agreement was filed on September 10, 2018.

<u>Other Income, Net</u>

Q64. Did you provide a summary of pro forma adjustments to Other Income, Net?

A64. Yes. Attachment SEK-2, Part 5 presents pro forma adjustments to Other Income Net, resulting in a net expense increase of $405,654. Following is a description of these adjustments:

Non-recurring expenses (below-the-line)

I added back $329,994 in credits to expense related to a correction of disallowed prior rate case costs (see workpaper 431).

Normalize Other Income

I reviewed the test year transactions contributing to Other Income and determined that they included two annual payments for solar energy lease income. I averaged the two payments to arrive at the annual pro forma amount, resulting in a decrease to Other Income of $75,660. I considered all other test year transactions in Other Income to be representative of going-forward levels, including permits and fees, billing insert income, and fiber optics lease income. My calculations are presented in workpaper 491.

Interest Income

I reviewed the test year level of interest income of $2,069,372 and found it representative of probable future experience.

CONSERVATION AND SAFETY MESSAGES

Q65. Did you provide a summary of allowed advertising expenses incurred during the test year?

A65. Yes. Attachment SEK-4 presents the allowed test year advertising expenses related to safety and conservation messages. I reviewed 170 IAC 1-3-3 (Allowable expenditures; includable costs) and 170 IAC 1-3-4 (Material benefit defined) to determine the type of advertising costs allowed. Personnel of our Community Relations area, which is responsible for branding and advertising, was consulted to ascertain the nature of the charges, and I reviewed associated invoices over $10,000 each. Lastly, I obtained representative samples of the items being charged to provide further support for them in accordance with 170 IAC 1-3-5 (Material benefit; burden of proof).

Of the $84,066 in allowed advertising expenses allocated to CWA by Shared Services in the test year, $55,330 was spent on conservation messaging. All media used (print, TV, radio, billboard, and an LED sign inside a stadium) provided messaging related to the conservation of water or energy. The remaining $28,736 was spent primarily on messaging that combines conservation and safety topics through the WTHR Weather Academy which includes a school program that teaches students how to conserve energy and water at home.

In addition, CWA incurred direct charges of $59,230, of which $7,564 related to a variety of print advertising for public notices, surface work communications, or similar items. The remaining $51,666 was for communications expenses related to DigIndy Tunnel, including a virtual reality tour made available to the public to help provide context for the magnitude of this project and allow for a safe and cost-effective way to provide an overview of the tunnel work to a larger number of people.

In my opinion, the total test year amount of advertising expenses is minimal at $143,296 which represents less than 0.2% of test year O&M expenses. I provided representative samples in workpaper 551.

CONCLUSION

Q66. Did you provide a comprehensive cross-reference of your pro forma adjustments?

A66. Yes, in Attachment SEK-5 I present a list of all pro forma adjustments to operating expenses and Other Income, Net by NARUC account. For each income statement account, I show the test year ending balance, the test year amount selected for adjustment and the corresponding pro forma amount, the resulting pro forma balance, and the net change or pro forma adjustment. For ease of use I have added workpaper references in multiple lines for accounts where necessary. Thus, the sum total for one account may be shown over more than one line.

Q67. Did you include a list of all workpapers supporting your testimony and attachments?

A67. Yes, I present such a list in Attachment SEK-6.

Q68. Do you believe that the pro forma adjustments you presented are just and reasonable?

A68. Yes. I have made adjustments for all items known or made known to me and believe I have done so reasonably and in accordance with acceptable standards, laws, and prior Commission rulings. I have made a good faith effort to review the massive amount of transactions during the test year and remove any unusual, non-recurring, or non-allowed items.

Q69. Does this conclude your direct testimony?

A69. 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.

Sabine E. Karner

CWA Authority | **Attachment SEK-1**
Statements of Financial Position | page 1
as of May 31

Line No.		2018	2017
	Assets		
	Utility Plant:		
	Plant in service at original cost		
1	Utility plant in service	$3,177,320,127	$ 2,653,848,915
2	Accumulated depreciation	(1,639,852,580)	(1,568,476,171)
3	Net plant in service at original cost	1,537,467,547	1,085,372,744
4	Acquisition adjustment, net	(943,158)	(1,520,096)
5	Net plant in service	1,536,524,389	1,083,852,648
6	Construction work in progress	287,548,189	610,784,813
7	Net Utility Plant	1,824,072,578	1,694,637,461
	Investments:		
8	Bond restricted funds	155,111,395	138,567,905
9	Other investments	101,600,043	10,779,321
10	Total Investments	256,711,438	149,347,226
	Current Assets:		
11	Cash on hand	37,127,586	87,572,258
12	Accounts receivable, net	25,681,917	21,918,493
13	Accrued utility revenue	10,850,078	12,113,398
14	Materials and supplies	3,733,914	3,327,270
15	Prepayments and deposits	3,308,373	3,343,572
16	Total Current Assets	80,701,868	128,274,991
17	Deferred Charges	15,067,450	5,067,597
18	Total Assets	$2,176,553,334	$ 1,977,327,275
	Capitalization and Liabilities		
	Capitalization and Non-Current Liabilities:		
19	Retained earnings	32,464,676	(5,900,590)
20	Accumulated Other Comprehensive Income	(765,845)	-
21	Long-term debt	1,791,812,389	1,665,750,000
22	Unamortized long-term debt premiums & bond issuance costs	126,467,721	132,701,916
23	Retirement benefits	1,009,803	2,515
24	Contributions in aid of construction	72,263,197	63,365,322
25	Other long-term liabilities	4,138,759	2,687,478
26	Total Capitalization and Non-Current Liabilities	2,027,390,700	1,858,606,641
	Current Liabilities:		
27	Current maturities of long-term debt	37,464,450	39,958,000
28	Short-term borrowings	20,000,000	-
29	Accounts payable and accrued expenses	51,885,101	45,101,105
30	Accrued taxes	33,621,321	29,193,720
31	Customer deposits	6,191,762	4,467,809
32	Total Current Liabilities	149,162,634	118,720,634
33	Total Capitalization and Liabilities	$2,176,553,334	$ 1,977,327,275

CWA Authority
Statements of Operations
12 months ended May 31

Line No.		2018	2017
1	Total Operating Revenues	$ 277,912,032	$ 252,256,478
	Operating Expenses:		
2	Operations & maintenance	74,529,220	77,742,938
3	Depreciation & amortization	74,958,701	69,244,769
4	Taxes	25,574,047	22,011,929
5	Total Operating Expenses	175,061,968	168,999,636
6	**Operating Income**	**102,850,064**	**83,256,842**
	Other Income (Expense), Net		
7	Interest Income	2,069,372	182,828
8	Other	516,531	(301,625)
9	Total Other Income (Expense), Net	2,585,903	(118,797)
	Interest Charges		
10	Interest on Long-Term Debt	87,698,704	81,708,858
11	Amortization of Bond Financing	(6,151,924)	(5,214,045)
12	Other Interest Expense, Net	(14,476,079)	(17,734,225)
13	Total Interest Charges	67,070,701	58,760,588
14	**Net Income**	**$ 38,365,266**	**$ 24,377,457**

CWA Authority
Statement of Cash Flow
12 months ended May 31, 2018

Line No.			
	Operating Activities:		
1	Net income	$	38,365,266
2	Depreciation and amortization		66,724,856
	Changes in operating assets and liabilities:		
3	Accounts receivable and accrued utility revenue		(2,500,103)
4	Prepayments and deposits		35,199
5	Other current assets		(406,645)
6	Accounts payable and accrued expenses		5,769,928
7	Retirement benefits		241,443
8	Net change in deferred charges		(10,660,599)
9	Other long-term liabilities		1,451,281
10	Other operating activities		1,705,426
11	Net cash provided by operating activities		100,726,052
	Investing Activities:		
12	Construction expenditures		(194,738,450)
13	Other investing activities		(107,256,352)
14	Net cash used by investing activities		(301,994,802)
	Financing Activities:		
15	Proceeds from bank line of credit		20,000,000
16	Repayment of bank line of credit		-
17	Proceeds from long-term debt		163,526,839
18	Principal payments of long-term debt		(39,958,000)
19	Bond issuance costs		(191,131)
20	Contributions in aid of construction		7,446,370
21	Net cash provided by financing activities	$	150,824,078
22	Net change in cash and cash equivalents	$	(50,444,672)
23	Cash and cash equivalents at beginning of period		87,572,258
24	Cash and cash equivalents at end of period	$	37,127,586

CWA Authority **Attachment SEK-2**
Pro Forma Income Before Interest Charges Part 1
This schedule may reflect rounding differences

NARUC #	O&M Account	Test Year	Adjustments	Pro forma proposed rates	Reference for adjustments
5xx	Revenues	277,912,032	56,012,325	333,924,357	wp 630 series
	Operations & Maintenance				
701	Salaries & Wages	21,041,897	1,554,407	22,596,304	wp 300
704	Employee Benefits & Pensions	8,202,387	816,337	9,018,724	wp 350, 413, 431
711	Sludge Removal Expense	-	547,845	547,845	wp 411
715	Purchased Power	10,148,578	436,118	10,584,696	wp 401, 413
716	Fuel for Power Production	1,243,161	(4,383)	1,238,778	wp 413
718	Chemicals	3,475,030	(603,210)	2,871,820	wp 403, 413
720	Materials and Supplies	4,651,862	(166,411)	4,485,451	wp 411, 413, 431
732	Contractual Services-Accounting	249,459	(69,098)	180,361	wp 411
733	Contractual Services-Legal	376,837	147,615	524,452	wp 413, 431
735	Contractual Services-Testing	13,666	-	13,666	
736	Contractual Services-Other	16,551,082	578,916	17,129,998	wp 411, 413, 431, 433
742	Rental of Equipment	152,588	(3,785)	148,803	wp 413
750	Transportation Expenses	455,512	(27,161)	428,351	wp 413
756	Insurance-Vehicle	-	51,253	51,253	wp 411
757	Insurance-General Liability	815,086	27,829	842,915	wp 411
758	Insurance-Workman's Comp	111,992	43,074	155,066	wp 411
759	Insurance-Other	1,421,745	(61,358)	1,360,387	wp 411
760	Advertising Expense	143,295	-	143,295	
766	Reg. Comm. Exp.-Amort. of Rate Cas	387,465	15,498	402,963	wp S640-2
767	Reg. Comm. Exp.-Other	6,000	(6,000)	-	wp 411
770	Bad Debt Expense	1,030,032	1,207,262	2,237,294	KLK-1
775	Miscellaneous Expense	4,051,546	(677,527)	3,374,019	wp 411, 413, 431, 433
		74,529,220	3,807,221	78,336,441	
	Depreciation & Amortization				
403	Depreciation Expense	75,261,358	(19,203,713)	56,057,645	wp 473
406 & 407	Amortization Expense	(302,656)	302,656	-	wp 471
		74,958,702	(18,901,057)	56,057,645	
	Taxes				
408	Payroll Taxes	1,501,017	104,163	1,605,180	wp 330
408	PILOT	23,945,082	5,000,639	28,945,721	wp 451
408	Property Taxes other than PILOT	127,947	-	127,947	
		25,574,046	5,104,802	30,678,848	
	Net Operating Income	**102,850,064**	**66,001,359**	**168,851,423**	
421 & 426	Other Income (Expenses)	516,531	(405,654)	110,877	wp 431, 491
419	Interest Income	2,069,372	-	2,069,372	
		2,585,903	(405,654)	2,180,249	
	Income Before Interest Charges	**105,435,967**	**65,595,705**	**171,031,672**	
	Other Funds Requirements & Offsets				
	Debt Service			155,210,405	JRB-2
	Extensions & Replacements			80,000,000	JRB-2
	Connection Fee Offset			(8,121,088)	wp S640-1
	Depreciation & Amortization Offset			(56,057,645)	KLK-1
				171,031,672	

CWA Authority **Attachment SEK-2**

Schedule of pro forma adjustments to Operations & Maintenance Expenses Part 2

This schedule may reflect rounding differences

NARUC #	Description	Adjustment $	Impact to revenue requirement	Reference	Witness
701	Salaries & Wages				
	Base Payroll	1,311,075	increase	wp 300 (302)	Karner
	Overtime	83,500	increase	wp 300 (303)	Karner
	Supplemental Pay	15,796	increase	wp 300 (304)	Karner
	Short-Term Incentive Pay	38,767	increase	wp 300 (306)	Karner
	Capitalized Variable Pay Loading Credits	132,477	increase	wp 300 (308)	Karner
	Capitalized Paid Absence Credits	111,192	increase	wp 300 (309)	Karner
	Capitalized Payroll	(138,400)	decrease	wp 300 (305)	Karner
		1,554,407			
704	Employee Benefits & Pensions				
	Employee Health Insurance	685,276	increase	wp 350 (351)	Karner
	Pension	641,899	increase	wp 350 (352)	Karner
	Post Retirement Benefits	(102,189)	decrease	wp 350 (353)	Karner
	Employee Thrift Plan	43,744	increase	wp 350 (354)	Karner
	Benefit Loadings	1,001,958	increase	wp 350 (357)	Karner
	Benefit Allocations Contra	(1,430,139)	decrease	wp 350 (358)	Karner
	Loadings on Capitalized Paid Absences	22,329	increase	wp 350 (359)	Karner
	Out of period expenses	(57,227)	decrease	wp 413 (S5)	Karner
	Non-recurring expenses	10,686	increase	wp 431 (S1)	Karner
		816,337			
711	Sludge Removal Expense				
	Reclass from account 775	547,845	increase	wp 411 (S4)	Karner
715	Purchased Power				
	IPL rate increase	210,086	increase	wp 401 (S2)	Karner
	Additional charges for new assets	267,771	increase	wp 401 (S3)	Karner
	Capitalized purchased power	(10,164)	decrease	wp 401	Karner
	Out of period expenses	(31,575)	decrease	wp 413 (S5)	Karner
		436,118			
716	Fuel for Power Production				
	Out of period expenses	(4,383)	decrease	wp 413 (S5)	Karner
718	Chemicals				
	Pricing changes	(404,262)	decrease	wp 403	Karner
	Out of period expenses	(198,948)	decrease	wp 413 (S5)	Karner
		(603,210)			
720	Materials and Supplies				
	Normalize multi-period expenses	(12,448)	decrease	wp 411 (S2)	Karner
	Out of period expenses	(63,812)	decrease	wp 413 (S5)	Karner
	Non-recurring expenses	(90,151)	decrease	wp 431	Karner
		(166,411)			
732	Contractual Services-Accounting				
	Normalize audit fees	(69,098)	decrease	wp 411 (S3)	Karner
733	Contractual Services-Legal				
	Out of period expenses	4,833	increase	wp 413 (S5)	Karner
	Non-recurring expenses	142,782	increase	wp 431	Karner
		147,615			
736	Contractual Services-Other				
	Normalize multi-period expenses	(2,588)	decrease	wp 411 (S2)	Karner
	Out of period expenses	673,160	increase	wp 413 (S5)	Karner
	Non-recurring expenses	(73,199)	decrease	wp 431	Karner
	Non-allowed expenses	(24,457)	decrease	wp 433 (S2)	Karner
	Reclass from account 767	6,000	increase	wp 411 (S4)	Karner
		578,916			

CWA Authority **Attachment SEK-2**
Schedule of pro forma adjustments to Operations & Maintenance Expenses Part 2
This schedule may reflect rounding differences

NARUC #	Description	Adjustment $	Impact to revenue requirement	Reference	Witness
742	Rental of Equipment				
	Out of period expenses	(3,785)	decrease	wp 413 (S5)	Karner
750	Transportation Expenses				
	Out of period expenses	(27,161)	decrease	wp 413 (S5)	Karner
756	Insurance-Vehicle				
	Normalize expenses	51,253	increase	wp 411 (S1)	Karner
757	Insurance-General Liability				
	Normalize expenses	27,829	increase	wp 411 (S1)	Karner
758	Insurance-Workman's Comp				
	Normalize expenses	43,074	increase	wp 411 (S1)	Karner
759	Insurance-Other				
	Normalize expenses	(61,358)	decrease	wp 411 (S1)	Karner
766	Reg. Commission Exp.-Amort. of Rate Case				
	Amortize rate case costs	15,498	increase	wp S640-2	Kilpatrick
767	Reg. Commission Exp.-Other				
	Reclass to account 736	(6,000)	decrease	wp 411 (S4)	Karner
770	Bad Debt Expense				
	Normalize expenses	767,833	increase	KLK-1	Kilpatrick
	Phase 1 increase	264,932	increase	KLK-1	Kilpatrick
	Phase 2 increase	98,585	increase	KLK-1	Kilpatrick
	Phase 3 increase	75,912	increase	KLK-1	Kilpatrick
		1,207,262			
775	Miscellaneous Expense				
	Normalize multi-period expenses	(28,935)	decrease	wp 411 (S2)	Karner
	Out of period expenses	(50,884)	decrease	wp 413 (S5)	Karner
	Non-recurring expenses	(46,111)	decrease	wp 431	Karner
	Non-allowed expenses	(3,753)	decrease	wp 433 (S1)	Karner
	Reclass to account 711	(547,844)	decrease	wp 411 (S4)	Karner
		(677,527)			
	Total adjustments	**3,807,221**			
		-			

CWA Authority **Attachment SEK-2**

Schedule of pro forma adjustments to Depreciation and Amortization Expenses Part 3

This schedule may reflect rounding differences

NARUC #	Description	Adjustment $	Impact to revenue requirement	Reference	Witness
403	Depreciation Expense				
	Normalize depreciation expense	(19,203,713)	decrease	wp 473	Karner
406 & 407	Amortization Expense				
	Remove amortization expense	302,656	increase	wp 471	Karner
	Total adjustments	**(18,901,057)**			
		-			

CWA Authority **Attachment SEK-2**
Schedule of pro forma adjustments to Taxes Part 4
This schedule may reflect rounding differences

NARUC #	Description	Adjustment $	Impact to revenue requirement	Reference	Witness
408	Payroll Taxes				
	Normalize for pro forma payroll	105,368	increase	wp 330	Karner
	Non-recurring expenses	(1,205)	decrease	wp 431	Karner
		104,163			
408	PILOT				
	Phase 1 increase	2,832,631	increase	wp 451	Karner
	Phase 2 increase	1,546,015	increase	wp 451	Karner
	Phase 3 increase	621,993	increase	wp 451	Karner
		5,000,639			
	Total adjustments	**5,104,802**			
		-			

CWA Authority **Attachment SEK-2**
Schedule of pro forma adjustments to Other Income, Net Part 5
This schedule may reflect rounding differences

NARUC #	Description	Adjustment $	Impact to revenue requirement	Reference	Witness
421	Nonutility Income				
	Normalize solar energy lease payments	(77,144)	increase	wp 491	Karner
	Adjust Shared Services to pro forma allocation	1,484	decrease	wp 491	Karner
		(75,660)			
426	Miscellaneous Nonutility Expenses				
	Non-recurring expenses	(329,994)	increase	wp 431	Karner
	Total adjustments	**(405,654)**			
		-			

Credits reflect a reduction to other income or an increase to other expense on this schedule

CWA Authority **Attachment SEK-3**

Summary of Shared Services Allocations

	A	B	C	D	E	F	G
		DETERMINATION OF ALLOCATION FACTORS					
Line	**Description**	**Gas**	**Water**	**CWA**	**Steam**	**Other**	**Total**
	Test Year (June 2017 - May 2018 Actual)						
1	June 2017 - September 2017	$ 13,629,730	$ 9,609,258	**$ 7,998,415**	$ 1,904,504	$ 2,715,438	$ 35,857,345
2	Actual effective overall allocation factor	38.01%	26.80%	**22.31%**	5.31%	7.57%	100.00%
3	Budgeted overall allocation factor	37.82%	26.65%	**22.33%**	5.21%	7.99%	100.00%
4	October 2017 - May 2018	$ 24,041,354	$ 19,576,777	**$ 15,901,498**	$ 3,124,698	$ 4,842,928	$ 67,487,255
5	Actual effective overall allocation factor	35.62%	29.01%	**23.56%**	4.63%	7.18%	100.00%
6	Budgeted overall allocation factor	35.74%	29.00%	**23.59%**	4.55%	7.12%	100.00%
7	Total Shared Services Costs	$ 37,671,084	$ 29,186,035	**$ 23,899,913**	$ 5,029,202	$ 7,558,367	$ 103,344,600
8	Actual effective overall allocation %	36.45%	28.24%	**23.13%**	4.87%	7.31%	100.00%
	Pro Forma (Fiscal Year 2019 Budget)						
9	Budgeted Shared Services Costs	$ 34,928,014	$ 29,130,967	**$ 24,788,928**	$ 4,897,563	$ 6,640,134	$ 100,385,606
10	Overall allocation %	34.79%	29.02%	**24.69%**	4.88%	6.61%	100.00%

		ALLOCATION $ TO CWA				
	Amount of Total Pro Forma Allocations	**O&M**	**Depreciation**	**Taxes**	**Other, net**	**Total**
11	Test Year Amount	20,717,737	2,469,386	753,085	(40,294)	**23,899,913**
	Pro Forma Adjustments					**-**
12	Payroll	793,186				**793,186**
13	Benefits	322,032				**322,032**
14	Purchased power	(12,166)				**(12,166)**
15	Normalized expenses	(77,288)				**(77,288)**
16	Out-of-period expenses	(49,861)				**(49,861)**
17	Non-recurring	(69,721)		(1,205)		**(70,926)**
18	Non-allowed	(26,236)				**(26,236)**
19	Payroll taxes			52,030		**52,030**
20	Depreciation		(1,310,217)			**(1,310,217)**
21	Other Income, Net				(1,484)	**(1,484)**
22	Pro Forma Amount	**21,597,683**	**1,159,169**	**803,909**	**(41,778)**	**23,518,984**

CWA Authority **Attachment SEK-4**

Allowed Advertising included in Operations & Maintenance Expenses

This schedule may reflect rounding differences

Line	Description	CWA	Shared Services	Total
	Conservation Messaging			
1	Be WaterWise/Irrigation messaging		$ 7,408	$ 7,408
2	Indianapolis Colts messaging		$ 46,223	$ 46,223
3	Indianapolis Indians messaging		$ 1,699	$ 1,699
4	Total Conservation Messaging	$ -	$ 55,330	$ 55,330
5	Conservation/Safety Messaging		$ 23,724	$ 23,724
6	Safety Campaign		$ 2,427	$ 2,427
7	DigIndy Tunnel education	$ 51,666		$ 51,666
8	Various other, incl. newsprint	$ 7,564	$ 2,585	$ 10,149
9	**Total Allowed Advertising**	**$ 59,230**	**$ 84,066**	**$ 143,296**

CWA Authority **Attachment SEK-5**

Pro Forma Trial Balance - Operating Expenses and Other Income, Net

This schedule reflects accounting debits and credits

	A		B	C	D	E	F	G
					Adjustments made			
Line	**Account**	**Description**	**Test Year balance**	**Reference**	**Test Year amount**	**Pro Forma amount**	**Pro Forma balance Col B - D + E**	**Pro Forma Adjustment Col F - B**
	Operations & Maintenance Expense							
1	701011	Salary - Collection Exp, Ops	1,575,488	wp 300	1,575,488	1,682,226	1,682,226	106,739
2	701021	Salary - Collection Exp, Mtce	(18,408)	wp 300	(18,408)	(19,638)	(19,638)	(1,230)
3	701031	Salary - Pumping Exp, Ops	714,358	wp 300	714,358	762,160	762,160	47,802
4	701041	Salary - Pumping Exp, Mtce	1,831	wp 300	1,831	1,954	1,954	123
5	701051	Short-Term Incentive Plan	218,784	wp 300	218,784	233,424	233,424	14,640
6	701053	Salary - T&D, Primary, Ops	5,078,222	wp 300	5,078,222	5,422,012	5,422,012	343,789
7	701063	Salary - T&D, Primary, Mtce	212	wp 300	212	229	229	17
8	701071	Salary - Customer Accts	2,670,514	wp 300	2,670,514	2,889,652	2,889,652	219,138
9	701081	Salary - Admin & General	9,556,572	wp 300	9,556,572	10,285,916	10,285,916	729,344
10	701084	Short-Term Incentive Plan	1,244,325	wp 300	1,244,325	1,338,371	1,338,371	94,045
11	704011	Benefits - Collection Exp, Ops	889				889	-
12	704031	Benefits - Pumping Exp, Ops	267				267	-
13	704053	Benefits - T&D, Primary, Ops	7,917				7,917	-
14	704071	Benefits - Customer Accts	330				330	-
15	704081	Benefits - Admin & General	241,468	wp 413	590	13,307	254,185	12,717
16	704081	Benefits - Admin & General		wp 431	(10,686)	-	10,686	10,686
17	704082	Employee Medical Insurance	4,976,331	wp 413	70,036	8	4,906,302	(70,029)
18	704082	Employee Medical Insurance		wp 350	4,976,331	5,661,607	685,276	685,276
19	704083	Employee Thrift Plan	635,860	wp 350	635,860	679,605	679,605	43,745
20	704083	Employee Thrift Plan		wp 413	(86)	-	86	86
21	704084	Post Retirement Benefits	454,193	wp 350	454,193	352,004	352,004	(102,189)
22	704085	CEG Employees Pension	3,067,955	wp 350	3,067,955	3,709,854	3,709,854	641,899
23	704087	Fringe Benefits Allocations Contra	(1,192,516)	wp 350	(1,192,516)	(1,598,369)	(1,598,368)	(405,853)
24	704089	Disability Insurance	9,693				9,693	-
25	711055	Sludge Removal - T&D, Secondary, Ops	-	wp 411-S4	-	547,845	547,845	547,845
26	715011	Prch Pwr - Collection Exp, Ops	5,347				5,347	-
27	715031	Prch Pwr - Pumping Exp, Ops	1,655,609	wp 401	1,499,662	1,572,129	1,728,076	72,467
28	715031	Prch Pwr - Pumping Exp, Ops		wp 413	318,004	255,731	(62,274)	(62,274)
29	715053	Prch Pwr - T&D, Primary, Ops	8,362,092	wp 401	8,428,032	8,835,292	8,769,352	407,261
30	715053	Prch Pwr - T&D, Primary, Ops		wp 413	235,432	265,638	30,206	30,206
31	715081	Prch Pwr - Admin & General	125,530	wp 401	128,754	116,719	113,496	(12,034)
32	715081	Prch Pwr - Admin & General		wp 413	(492)	-	492	492
33	716031	Fuel-Pwr - Pumping Exp, Ops	884				884	-
34	716053	Fuel-Pwr - T&D, Primary, Ops	1,242,278	wp 413	93,918	89,534	1,237,894	(4,383)
35	718031	Chemicals - Pumping Exp, Ops	36,051	wp 403	36,051	31,857	31,857	(4,194)
36	718041	Chemicals - Pumping Exp, Mtce	58,967	wp 403	58,967	52,107	52,107	(6,860)
37	718041	Chemicals - Pumping Exp, Mtce		wp 413	2,780	-	(2,780)	(2,780)
38	718053	Chemicals - T&D, Primary, Ops	96,779	wp 403	96,779	85,520	85,520	(11,259)
39	718055	Chemicals - T&D, Secondary, Ops	3,112,224	wp 403	3,112,224	2,750,168	2,750,168	(362,056)
40	718055	Chemicals - T&D, Secondary, Ops		wp 413	413,764	239,127	(174,636)	(174,636)

CWA Authority **Attachment SEK-5**

Pro Forma Trial Balance - Operating Expenses and Other Income, Net

This schedule reflects accounting debits and credits

	A		B	C	D	E	F	G
					Adjustments made			
Line	Account	Description	Test Year balance	Reference	Test Year amount	Pro Forma amount	Pro Forma balance Col B - D + E	Pro Forma Adjustment Col F - B
41	718057	Chemicals - T&D, Tertiary, Ops	170,569	wp 403	170,569	150,726	150,726	(19,843)
42	718057	Chemicals - T&D, Tertiary, Ops		wp 413	30,595	9,063	(21,532)	(21,532)
43	718063	Chemicals - T&D, Primary, Mtce	440	wp 403	440	389	389	(51)
44	720011	Mat/Sply - Collection Exp, Ops	1,365,722	wp 431	65,320	-	1,300,402	(65,320)
45	720021	Mat/Sply - Collection Exp, Mtce	29,225	wp 413	17,099	-	12,126	(17,099)
46	720031	Mat/Sply - Pumping Exp, Ops	35,199				35,199	-
47	720041	Mat/Sply - Pumping Exp, Mtce	258,848				258,848	-
48	720053	Mat/Sply - T&D, Primary, Ops	245,997				245,997	-
49	720055	Mat/Sply - T&D, Secondary, Ops	2,178				2,178	-
50	720063	Mat/Sply - T&D, Primary, Mtce	913,850	wp 413	53,836		860,014	(53,836)
51	720065	Mat/Sply - T&D, Secondary, Mtce	103,258	wp 413	5,012	-	98,247	(5,012)
52	720071	Mat/Sply - Customer Accts	30,792				30,792	-
53	720081	Mat/Sply - Admin & General	1,666,793	wp 411-S2	18,941	6,493	1,654,345	(12,448)
54	720081	Mat/Sply - Admin & General		wp 413	81,730	93,865	12,135	12,135
55	720081	Mat/Sply - Admin & General		wp 431	24,831	-	(24,831)	(24,831)
56	732081	OS-Acct - Admin & General	249,459	wp 411-S3	249,459	180,360	180,360	(69,098)
57	733071	OS-Lgl - Customer Accts	25,857				25,857	-
58	733081	OS-Lgl - Admin & General	350,979	wp 413	1,285	6,118	355,813	4,833
59	733081	OS-Lgl - Admin & General		wp 431	(142,782)	-	142,782	142,782
60	735081	OS-Test - Admin & General	13,666				13,666	-
61	736011	OS-Other - Collection Exp, Ops	7,695,146	wp 413	143,873	492,657	8,043,931	348,785
62	736012	OS-Other - Collection Exp, Line Locates	113,056	wp 413	113,056	-	-	(113,056)
63	736021	OS-Other - Collection Exp, Mtce	1,061,221	wp 413	(232,883)	17,627	1,311,731	250,510
64	736041	OS-Other - Pumping Exp, Mtce	1,058,439	wp 413	-	8,163	1,066,603	8,163
65	736053	OS-Other - T&D, Primary, Ops	2,900,130	wp 413	46,456	98,353	2,952,028	51,897
66	736054	United Water Fee	6,648	wp 431	6,648	-	-	(6,648)
67	736055	OS-Other - T&D, Secondary, Ops	719				719	-
68	736063	OS-Other - T&D, Primary, Mtce	85,685	wp 413	-	61,168	146,852	61,168
69	736065	OS-Other - T&D, Secondary, Mtce	278,011				278,011	-
70	736071	OS-Other - Customer Accts	250,411	wp 413	10,091	13,444	253,764	3,354
71	736071	OS-Other - Customer Accts		wp 431	31,930	-	(31,930)	(31,930)
72	736081	OS-Other - Admin & General	3,097,929	wp 411-S2	4,957	2,369	3,095,341	(2,588)
73	736081	OS-Other - Admin & General		wp 413	16,704	79,044	62,339	62,339
74	736081	OS-Other - Admin & General		wp 431	34,621	-	(34,621)	(34,621)
75	736081	OS-Other - Admin & General		wp 433	24,458	-	(24,458)	(24,458)
76	736081	OS-Other - Admin & General		wp 411-S4		6,000	6,000	6,000
77	736086	OS-STEP Communication/Outreach	3,686				3,686	-
78	742011	Rent-Eq - Collection Exp, Ops	21,661				21,661	-
79	742041	Rent-Eq - Pumping Exp, Mtce	2,000				2,000	-
80	742050	Rental of Equipment-Treatment & Disposal, Operati	17,989				17,989	-
81	742053	Rent-Eq - T&D, Primary, Ops	37,698				37,698	-

CWA Authority **Attachment SEK-5**

Pro Forma Trial Balance - Operating Expenses and Other Income, Net

This schedule reflects accounting debits and credits

Line	Account	Description	Test Year balance	Reference	Test Year amount	Pro Forma amount	Pro Forma balance	Pro Forma Adjustment
	A		B	C	D	E	F	G
					Adjustments made			
							Col B - D + E	Col F - B
82	742081	Rent-Eq - Admin & General	73,239	wp 413	3,785	-	69,454	(3,785)
83	750011	Transp - Collection Exp, Ops	100,752	wp 413	44,620	-	56,131	(44,620)
84	750021	Transp - Collection Exp, Mtce	16,968				16,968	-
85	750053	Transp - T&D, Primary, Ops	322,812	wp 413	-	16,108	338,921	16,108
86	750071	Transp - Customer Accts	14,450	wp 413	-	1,351	15,801	1,351
87	750081	Transp - Admin & General	531				531	-
88	756081	Ins-Vehicles	-	wp 411-S1	-	51,254	51,254	51,254
89	757081	Ins-Gen - Admin & General	815,086	wp 411-S1	702,109	729,938	842,916	27,830
90	758081	Ins-WC - Admin & General	111,991	wp 411-S1	34,523	77,597	155,064	43,074
91	759081	Ins-Other - Admin & General	1,421,745	wp 411-S1	1,397,145	1,335,787	1,360,387	(61,358)
92	760081	Advertising Expense - Admin & General	143,296				143,296	-
93	766081	Amortization of Rate Case Expense	387,465	wpS640-2	387,465	402,963	402,963	15,498
94	767081	Reg Comm - Admin & General	6,000	wp 411-S4	6,000		-	(6,000)
95	770071	Bad Debt Expense - Customer Accts	1,030,032	KLK-1	1,030,032	2,237,294	2,237,294	1,207,262
96	775011	Misc - Collection Exp, Ops	164,224	wp 413	2,807	-	161,417	(2,807)
97	775011	Misc - Collection Exp, Ops		wp 431	19,580	-	(19,580)	(19,580)
98	775021	Misc - Collection Exp, Mtce	5,766				5,766	-
99	775041	Misc - Pumping Exp, Mtce	37,919				37,919	-
100	775053	Misc - T&D, Primary, Ops	511,694	wp 413	3,619	3,461	511,536	(158)
101	775053	Misc - T&D, Primary, Ops		wp 431	5,150	-	(5,150)	(5,150)
102	775055	Misc - T&D, Secondary, Ops	626,019	wp 413	91,722	13,548	547,845	(78,174)
103	775055	Misc - T&D, Secondary, Ops		wp 411-S4	547,845	-	(547,845)	(547,845)
104	775063	Misc - T&D, Primary, Mtce	819				819	-
105	775065	Misc - T&D, Secondary, Mtce	274				274	-
106	775071	Misc - Customer Accts	756,905	wp 413	50,418	54,128	760,615	3,711
107	775072	Service Recovery	(4,667)				(4,667)	-
108	775081	Misc - Admin & General	1,675,650	wp 411-S2	45,358	16,423	1,646,715	(28,935)
109	775081	Misc - Admin & General		wp 413	17,330	43,875	26,545	26,545
110	775081	Misc - Admin & General		wp 431	21,381	-	(21,381)	(21,381)
111	775081	Misc - Admin & General		wp 433	3,753	-	(3,753)	(3,753)
112	775085	Bank Fees	276,945				276,945	-
113	**Total Operations & Maintenance**		**74,529,220**		**48,658,334**	**52,465,556**	**78,336,442**	**3,807,222**
	Depreciation & Amortization							
114	403001	Amortization CIAC	(1,920,536)	wp 473	(1,920,536)	-	-	1,920,536
115	403010	Depreciation	77,181,894	wp 473	77,181,894	56,057,645	56,057,645	(21,124,249)
116	406010	Amortization Acquisition Adjustment	(576,938)	wp 471	(576,938)	-	-	576,938
117	407410	Amortization of Transactional Costs	274,282	wp 471	274,282	-	-	(274,282)
118	**Total Depreciation & Amortization**		**74,958,701**		**74,958,701**	**56,057,645**	**56,057,645**	**(18,901,056)**
	Taxes							

CWA Authority **Attachment SEK-5**

Pro Forma Trial Balance - Operating Expenses and Other Income, Net

This schedule reflects accounting debits and credits

	A		B	C	D	E	F	G
					Adjustments made			
Line	**Account**	**Description**	**Test Year balance**	**Reference**	**Test Year amount**	**Pro Forma amount**	**Pro Forma balance Col B - D + E**	**Pro Forma Adjustment Col F - B**
119	408111	Tax Expense - Property	24,073,029	wp 451	23,945,082	28,945,721	29,073,668	5,000,639
120	408121	Tax Expense - FICA	1,498,578	wp 330	1,498,067	1,603,435	1,603,946	105,368
121	408132	Tax Expense - Misc.	2,440	wp 431	1,205	-	1,235	(1,205)
122	**Total Taxes**		**25,574,047**		**25,444,354**	**30,549,155**	**30,678,848**	**5,104,801**
	Other (Income) / Expenses							
123	419010	Bond Interest Fund	(133,081)				(133,081)	-
124	419020	Bond Principal Fund	(112,201)				(112,201)	-
125	419030	Bond Reserve Fund	(1,765,160)				(1,765,160)	-
126	419080	Temp Cash Investments Interest Income	(34,810)				(34,810)	-
127	419090	Interest & Dividend Income	(24,120)				(24,120)	-
128	421010	Misc. Non-Operating Income	(186,537)	wp 491	(186,537)	(110,877)	(110,877)	75,660
129	426550	Excluded Rate Case Expenses	(329,994)	wp 431	(329,994)	-	0	329,994
130	**Total Other (Income) / Expense**		**(2,585,903)**		**(516,531)**	**(110,877)**	**(2,180,250)**	**405,654**

CWA Authority **Attachment SEK-6**

Workpapers submitted by Petitioner's Witness Sabine E. Karner

Topic	Workpaper	MSFR	Description
Financial & Accounting Data	100	170 IAC 1-5-8 (7)	Trial Balance by account - all accounts
Financial & Accounting Data	101	170 IAC 1-5-8 (7)	Test Year O&M summary by NARUC account
Financial & Accounting Data	102	170 IAC 1-5-8 (7)	Test Year Income Statement trial balance by expense type
Financial & Accounting Data	103	170 IAC 1-5-6 (1)(A)	Balance Sheet, account level detail
Financial & Accounting Data	104	170 IAC 1-5-6 (1)(C)	Income Statement, account level detail
Financial & Accounting Data	110	170 IAC 1-5-7 (2)	Standard monthly journal entries
Financial & Accounting Data	120	170 IAC 1-5-7 (3)	Annual Report Fiscal Year 2017
Financial & Accounting Data	121	170 IAC 1-5-7 (3)	Web address to view annual and quarterly reports
Financial & Accounting Data	131	170 IAC 1-5-7 (6) and (7)	Operating budget test year
Financial & Accounting Data	132	170 IAC 1-5-7 (6) and (7)	Operating budget/projection for year following test year
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)	Expenditures of more than $10,000 for outside services, consulting and legal services
Financial & Accounting Data	152	170 IAC 1-5-8 (23)	Schedule of memberships paid during test year
Financial & Accounting Data	153	170 IAC 1-5-8 (29)	Schedule of taxes recorded
Financial & Accounting Data	155	170 IAC 1-5-10 (2)	Schedule of utility plant in service and accum depr by subaccount
Financial & Accounting Data	156	170 IAC 1-5-10 (4)	Annual summary of plant additions and retirements by subaccount
Financial & Accounting Data	157	170 IAC 1-5-8 (30)	Schedule of book value and assessed value
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
Shared Services	201	170 IAC 1-5-8 (17)	Determinaton of Pro Forma Shared Services Allocation Factor
Shared Services	202	170 IAC 1-5-8 (17)	Shared Services Allocations Fiscal Year 2019, by category
Shared Services	211	170 IAC 1-5-8 (17)	Test Year Shared Services Allocation
Shared Services	211-S1	170 IAC 1-5-8 (17)	Shared Services Allocation October 2017 to May 2018 (using FY2018 allocation factors)
Shared Services	211-S2	170 IAC 1-5-8 (17)	Shared Services Allocation June 2017 to September 2017 (using FY2017 allocation factors)
Shared Services	211-S3	170 IAC 1-5-8 (17)	Shared Services Allocations Fiscal Year 2018 Budget
Shared Services	211-S4	170 IAC 1-5-8 (17)	Shared Services Allocations Fiscal Year 2017 Budget
Shared Services	270	170 IAC 1-5-8 (17)	Statistical drivers used in Shared Services allocations
Pro Forma Workpapers	300	170 IAC 1-5-8 (2)	Determination of Total Payroll Adjustment
Pro Forma Workpapers	300-S1	170 IAC 1-5-8 (2)	Distribution of Payroll to Pro Forma Accounts
Pro Forma Workpapers	301	170 IAC 1-5-8 (2)	Determination of Total Test Year Payroll
Pro Forma Workpapers	301-S1	170 IAC 1-5-8 (2)	Determination of Test Year Expensed Regular Payroll
Pro Forma Workpapers	301-S2	170 IAC 1-5-8 (2)	Determination of Test Year Capitalized Payroll
Pro Forma Workpapers	302	170 IAC 1-5-8 (2)	Determination of Total Pro Forma Payroll
Pro Forma Workpapers	302-S1	170 IAC 1-5-8 (2)	Pro Forma Payroll Detail
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
Pro Forma Workpapers	305	170 IAC 1-5-8 (2)	Determination of Pro Forma Capitalized Payroll
Pro Forma Workpapers	306	170 IAC 1-5-8 (2)	Determination of Pro Forma Short Term Incentive Plan (STIP)
Pro Forma Workpapers	308	170 IAC 1-5-8 (2)	Determination of Pro Forma Capitalized Variable Pay
Pro Forma Workpapers	309	170 IAC 1-5-8 (2)	Determination of Pro Forma Capitalized Paid Absences
Pro Forma Workpapers	330	170 IAC 1-5-8 (2)	Determination of Expensed Payroll Tax Adjustment
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

CWA Authority **Attachment SEK-6**
Workpapers submitted by Petitioner's Witness Sabine E. Karner

Topic	Workpaper	MSFR	Description
Pro Forma Workpapers	351-S1	170 IAC 1-5-8 (2)	Projected Health Care Costs
Pro Forma Workpapers	351-S2	170 IAC 1-5-8 (2)	LHD Analysis
Pro Forma Workpapers	352	170 IAC 1-5-8 (2)	Determination of Pro Forma Pension
Pro Forma Workpapers	352-S1	170 IAC 1-5-8 (2) and (14)	Valuation study for CEG pension plan
Pro Forma Workpapers	352-S2	170 IAC 1-5-8 (2) and (15)	CEG pension disclosure
Pro Forma Workpapers	353	170 IAC 1-5-8 (2)	Determination of Pro Forma Post Retirement Benefits
Pro Forma Workpapers	353-S1	170 IAC 1-5-8 (2) and (16)	Actuarial Study for Post-Retirement Benefits
Pro Forma Workpapers	354	170 IAC 1-5-8 (2)	Determination of Pro Forma Employee Thrift Plan
Pro Forma Workpapers	357	170 IAC 1-5-8 (2)	Determination of Pro Forma Benefits Loadings
Pro Forma Workpapers	357-S1	170 IAC 1-5-8 (2)	Determination of Pro Forma Benefits Loadings Rate
Pro Forma Workpapers	358	170 IAC 1-5-8 (2)	Determination of Pro Forma Fringe Benefits Allocations Contra
Pro Forma Workpapers	359	170 IAC 1-5-8 (2)	Determination of Pro Forma Capitalized Paid Absences
Pro Forma Workpapers	401	170 IAC 1-5-8 (2)	Determination of Pro Forma IPL charges for Purchased Power
Pro Forma Workpapers	401-S1	170 IAC 1-5-8 (2)	Reconciliation of Test Year Charges for Purchased Power to General Ledger
Pro Forma Workpapers	401-S2	170 IAC 1-5-8 (2)	Pro Forma IPL charges applied to test year purchased power
Pro Forma Workpapers	401-S3	170 IAC 1-5-8 (2)	Estimated purchased power costs for Deep Rock Tunnel Connector Pump Station (DRTCPS)
Pro Forma Workpapers	403	170 IAC 1-5-8 (2)	Determination of Pro Forma Chemical Expense
Pro Forma Workpapers	403-S1	170 IAC 1-5-8 (2)	Pro Forma Usage and Cost for Chemicals
Pro Forma Workpapers	411	170 IAC 1-5-8 (2)	Adjustment to Normalize Certain Test Year Expenses
Pro Forma Workpapers	411-S1	170 IAC 1-5-8 (2)	Determination of Pro Forma Business Insurance
Pro Forma Workpapers	411-S2	170 IAC 1-5-8 (2)	Determination of Multi-Period Support Expenses in the Test Year
Pro Forma Workpapers	411-S3	170 IAC 1-5-8 (2)	Normalization of audit fees
Pro Forma Workpapers	411-S4	170 IAC 1-5-8 (2)	Reclassification of transactions between NARUC accounts
Pro Forma Workpapers	413	170 IAC 1-5-8 (2)	Determination of Out-of-Period Expenses
Pro Forma Workpapers	413-S1	170 IAC 1-5-8 (2)	Prior period reversed accrual estimates
Pro Forma Workpapers	413-S2	170 IAC 1-5-8 (2)	Prior period actual expenses in test year
Pro Forma Workpapers	413-S3	170 IAC 1-5-8 (2)	Accrual estimates at end of test year
Pro Forma Workpapers	413-S4	170 IAC 1-5-8 (2)	Test year expenses charged after test year
Pro Forma Workpapers	413-S5	170 IAC 1-5-8 (2)	Summary by NARUC account
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)	Test Year Non-Recurring Expenses Detail
Pro Forma Workpapers	433	170 IAC 1-5-8 (2)	Determination of Non-Allowed Expenses
Pro Forma Workpapers	433-S1	170 IAC 1-5-8 (2)	Test Year Non-Allowed Expenses Detail - Lobbying portion in dues
Pro Forma Workpapers	433-S2	170 IAC 1-5-8 (2)	Test Year Non-Allowed Expenses Detail - Lobbying Consultant
Pro Forma Workpapers	451	170 IAC 1-5-8 (2)	Determination of Pro Forma PILOT
Pro Forma Workpapers	451-S1	170 IAC 1-5-8 (2)	Calculation of annual PILOT payments
Pro Forma Workpapers	450-S2	170 IAC 1-5-8 (2)	PILOT schedule
Pro Forma Workpapers	471	170 IAC 1-5-8 (2)	Removal of Non-Recoverable Amortization Expense
Pro Forma Workpapers	473	170 IAC 1-5-8 (2)	Determination of Depreciation Expense
Pro Forma Workpapers	473-S1	170 IAC 1-5-8 (2)	Depreciation on Utility Plant in Service
Pro Forma Workpapers	473-S2	170 IAC 1-5-8 (2)	Determination of Expected Asset Additions
Pro Forma Workpapers	473-S3	170 IAC 1-5-8 (2)	Determination of Expected Asset Retirements
Pro Forma Workpapers	491	170 IAC 1-5-8 (2)	Determination of Other (Income)/Expense
Pro Forma Workpapers	491-S1	170 IAC 1-5-8 (2)	Determination of Other (Income)/Expense in account 421010, excluding allocations
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

CWA Authority **Attachment SEK-6**

Workpapers submitted by Petitioner's Witness Sabine E. Karner

Topic	Workpaper	MSFR	Description
Misc. Informational	510	n/a	Oracle E-Business Suite Modules Flowchart
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	514	170 IAC 1-5-7 (1)	Segment Values: Accounts (NARUC)
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	520	170 IAC 1-5-8 (27)	Description of utility's methodology for capitalizing construction overhead
Misc. Informational	522	170 IAC 1-5-10 (7)	Policies and procedures for capitalization of AFUDC
Misc. Informational	523	n/a	Capitalization policy
Misc. Informational	551	170 IAC 1-5-8 (25)(B)	Representative samples of conservation and safety messaging

FINANCIAL SYSTEM AND ACCOUNTING RECORDS

High-level overview

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, accounts payable, purchasing, inventory, projects, fixed assets, time & labor, payroll, human resources, and treasury. In addition, there are interfaces to other systems, such as Customer Suite (billing system). Citizens is continually evaluating improvements to its many processes, therefore, the mix of interfaces and modules changes periodically. I have included a flowchart of the current Oracle EBS modules as workpaper 510.

Oracle EBS General Ledger Account Structure and Transaction Flow

Citizens's 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 "92.7833.408121.0202.00" denotes:

1. Business Unit: CWA Authority
2. Cost Center: Wastewater Pumping
3. Account: Tax Expense – FICA
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 in the Citizens transaction 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 wastewater 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, 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 701 Salaries and Wages, 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 CWA 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.

EXPLANATION OF BENEFIT LOADINGS

Process for pro forma adjustment

The pro forma adjustment for benefit loadings is a two-step process. First, the pro forma loadings percentage is established based on the ratio of pro forma benefits costs to pro forma base payroll (see workpaper 357-S1). Only base payroll is used because the benefits are independent of payroll beyond base wages; in other words, paying overtime or supplemental pay to employees does not, for example, cause Citizens to incur a greater amount of health insurance costs or retirement costs. The only benefit cost that increases with pay beyond base pay is Thrift matching, but the effect on the overall loadings estimate is immaterial and therefore has not been given special treatment.

Next, the pro forma benefit loadings ratio is applied to pro forma expensed payroll for the general ledger unit. The pro forma adjustment is the difference between the pro forma expensed benefit loadings amount and the test year expensed benefit loadings amount (see workpaper 357). Benefit loadings on capitalized paid absences function similarly in that the pro forma benefit loadings ratio is applied to the pro forma capitalized paid absences credits (see workpaper 359).

The pro forma adjustment for the benefit loadings contra account applies the pro forma loadings ratio to total pro forma base payroll for the home unit, including the capitalized portion. This amount is then treated as a credit to expense (see workpaper 358).

General ledger unit versus home unit

Every employee is necessarily assigned to one business unit in the payroll system as his or her home base: this is the home unit. Most employees generally charge their time to projects within their home unit. However, there are some employees who routinely direct-charge time to units other than their home unit, and others do so sporadically as projects require it: this is the general ledger unit, because the general ledger reflects the cost where it was charged, rather than where the employee is home-based.

The pro forma benefit loadings are calculated for the general ledger unit because benefit loadings follow wages, wherever they are charged. The pro forma benefit loadings contra is calculated for the home unit because the contra credit is charged to the employee’s home unit, regardless of where the wages are charged. This approach is based on the logic that all benefits are expensed to the unit which is listed as the employee’s home base; consequently, all credits should be expensed there as well.

Is the pro forma adjustment for benefits loadings duplicating the pro forma adjustments for individual benefits costs?

No. At most, in the unlikely circumstance that there are no cross-charges and no capitalized wages, the pro forma adjustment for benefits loadings would be redundant in conjunction with the pro forma adjustment for the loadings contra credit, as both would be mutually offsetting. However, since employees of all units can at any point charge other units or capital projects, the loadings entries are impacted by these actions. The mechanism is not complicated but is best explained with a simple three-scenario example, as shown below, that highlights the validity of making a pro forma adjustment to all benefits-related transactions.

The base assumptions for all scenarios are the same: $100 in wages is being paid to employees home-based in Unit A, benefit loadings are 50% of wages, and all costs experience a 10% pro forma increase.

Scenario 1: Employees from Unit A charge expensed wages only to Unit A.

	Test Year	Pro Forma	Adjustment
Unit A Expense:			
Wages	100.00	110.00	10.00
Actual Benefits	70.00	77.00	7.00
Loadings	50.00	55.00	5.00
Contra	(50.00)	(55.00)	(5.00)
Total Unit A Expense	**170.00**	**187.00**	**17.00**

In this scenario, making a $7 pro forma adjustment to actual benefits *only* would be sufficient to account for the total expense increase of $17. The pro forma adjustments to loadings and contra expenses are offsetting.

Scenario 2: Employees from Unit A charge to Unit A only, both capital and expense.

	Test Year	Pro Forma	Adjustment
Unit A Capital:			
Wages	40.00	44.00	4.00
Loadings	20.00	22.00	2.00
Total Unit A Capital	**60.00**	**66.00**	**6.00**
Unit A Expense:			
Wages	60.00	66.00	6.00
Actual Benefits	70.00	77.00	7.00
Loadings	30.00	33.00	3.00
Contra	(50.00)	(55.00)	(5.00)
Total Unit A Expense	**110.00**	**121.00**	**11.00**
All Costs generated by Unit A:	170.00	187.00	17.00

In this scenario, making a $7 pro forma adjustment to actual benefits *only* would not be sufficient to account for the total expense increase of $11.

Scenario 3: Employees from Unit A charge to Unit A and Unit B, both capital and expense.

	Test Year	Pro Forma	Adjustment
Charges to Unit B by Unit A:			
Wages	10.00	11.00	1.00
Loadings	5.00	5.50	0.50
	15.00	**16.50**	**1.50**
Unit A Capital:			
Wages	40.00	44.00	4.00
Loadings	20.00	22.00	2.00
	60.00	**66.00**	**6.00**

	Test Year	Pro Forma	Adjustment
Unit A Expense:			
Wages	50.00	55.00	5.00
Actual Benefits	70.00	77.00	7.00
Loadings	25.00	27.50	2.50
Contra	(50.00)	(55.00)	(5.00)
Total Unit A Expense	**95.00**	**104.50**	**9.50**
All Costs generated by Unit A:	170.00	187.00	17.00

In this scenario, the one most likely to occur, making a $7 pro forma adjustment to actual benefits *only* would not be sufficient to account for the total expense increase of $9.50.

Note that in all three scenarios the total cost generated by Unit A remains the same, but the cost that remains within Unit A, subject to pro forma adjustment, changes depending on where employees charge their time. Consequently, it is necessary to adjust all three components relating to benefits (actual costs, benefit loadings, and loadings contra credit) in order to capture the total change.