STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF STUCKER FORK CONSERVANCY DISTRICT FOR APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES FOR WATER SERVICE	)))))	**CAUSE NO. 46167**

PUBLIC'S EXHIBIT NO. 5

TESTIMONY OF JEROME D. MIERZWA

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

March 4, 2025

Respectfully submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

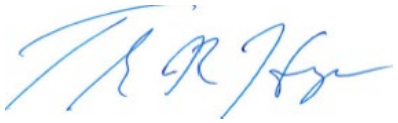
Thomas R. Harper, Attorney No. 16735-53
Deputy Consumer Counselor
Victor Peters, Attorney No. 38310-53
Deputy Consumer Counselor
OFFICE OF UTILITY CONSUMER COUNSELOR
115 W. Washington St., Suite 1500 South
Indianapolis, IN 46204
Email: thharper@oucc.in.gov
vipeters@oucc.in.gov

CERTIFICATE OF SERVICE

This is to certify that a copy of the ***Public's Exhibit No. 5 - Testimony of Jerome D. Mierzwa on behalf of the OUCC*** has been served upon the following captioned proceeding by electronic service on March 4, 2025:

J. Christopher Janak
Jacob Antrim
BOSE MCKINNEY & EVANS LLP
111 Monument Circle, Suite 2700
Indianapolis, IN 46204
Email: JJanak@boselaw.com
jantrim@boselaw.com

Attorneys for Morgan Foods, Inc.
Steven W. Krohne
Jennifer L. Schuster
Jack M. Petr
ICE MILLER LLP
One American Square, Suite 2900
Indianapolis, Indiana 46282-0200
Email: steven.krohne@icemiller.com
jennifer.schuster@icemiller.com
jack.petr@icemiller.com



Thomas R. Harper
Deputy Consumer Counselor

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
115 West Washington Street
Suite 1500 South
Indianapolis, IN 46204
infomgt@oucc.in.gov
317/232-2494 – Phone
317/232-5923 – Facsimile

DIRECT TESTIMONY OF JEROME D. MIERZWA
CAUSE NO. 46167
STUCKER FORK CONSERVANCY DISTRICT

I. INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Jerome D. Mierzwa. I am a Principal at and the President of Exeter Associates, Inc. ("Exeter"). My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-related consulting services.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I graduated from Canisius College in Buffalo, New York, in 1981 with a Bachelor of Science Degree in Marketing.[1] In 1985, I received a Master's Degree in Business Administration with a concentration in finance, also from Canisius College. In July 1986, I joined National Fuel Gas Distribution Corporation ("NFG Distribution") as a Management Trainee in the Research and Statistical Services Department ("RSS"). I was promoted to Supervisor RSS in January 1987. While employed with NFG Distribution, I conducted various financial and statistical analyses related to the Company's market research activity and state regulatory affairs. In April 1987, as part of a corporate reorganization, I was transferred to National Fuel Gas Supply Corporation's ("NFG Supply") rate department where my responsibilities included utility cost of service and rate design analysis, expense and revenue requirement forecasting, and activities related to federal regulation. I was also responsible for preparing NFG Supply's Federal Energy

[1] Effective August 1, 2023, Canisius College became Canisius University.

Regulatory Commission ("FERC") Purchase Gas Adjustment ("PGA") filings and developing interstate pipeline and spot market supply gas price projections. These forecasts were utilized for internal planning purposes as well as in NFG Distribution's state purchased gas cost review proceedings.

In April 1990, I accepted a position as a Utility Analyst with Exeter. In December 1992, I was promoted to Senior Regulatory Analyst. Effective April 1, 1996, I became a principal of Exeter. Since joining Exeter, my assignments have included water, wastewater, gas, and electric utility class cost of service and rate design analysis; evaluating the gas purchasing practices and policies of natural gas utilities; sales and rate forecasting; performance-based incentive regulation; revenue requirement analysis; the unbundling of utility services; and the evaluation of customer choice natural gas transportation programs.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS ON UTILITY RATES?

A. Yes. I have provided testimony on more than 450 occasions in proceedings before the FERC, utility regulatory commissions in Arkansas, Connecticut, Delaware, Georgia, Illinois, Louisiana, Maine, Massachusetts, Montana, Nevada, New Hampshire, New Jersey, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Utah, and Virginia, as well as before this Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. On November 25, 2024, Stucker Fork Conservancy District ("Stucker Fork" or "Petitioner") filed a Petition with the Indiana Utility Regulatory Commission ("Commission") for authority to increase its rates and charges for water service by $1,574,927, or 31.5%. Exeter was retained by the Indiana Office of Consumer Counselor

("OUCC") to review Stucker Fork's cost of service study ("COSS") and rate design proposals included in Stucker Fork's Petition. My testimony addresses Stucker Fork's COSS and rate design proposals.

Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A. My evaluation and review generally found the COSS presented by Stucker Fork to be reasonable. However, rather than establishing rates in this proceeding based on the results of its COSS, Stucker Fork has adjusted the results of its COSS and is proposing rates that provide subsidies to the Industrial and Wholesale customer classes. Stucker Fork is proposing to recover these subsidies from the Residential and Government customer classes. As discussed in greater detail in my testimony, the subsidies approved in this proceeding should be limited to subsidies provided to Morgan Foods, a large Industrial customer. The subsidies provided to Morgan Foods should be recovered from the Residential, Commercial, Government, Wholesale customer classes and from all Industrial customers with the exception of Morgan Foods.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. Following this introductory section, my testimony is divided into three additional sections. The first additional section provides an overview of water utility cost of service methodologies. Next, I address Stucker Fork's COSS. In the final section, I address the distribution of the revenue increase authorized by the Commission in this proceeding to the various customer classes served by Stucker Fork and the rates proposed by Stucker Fork.

Q. DO YOU HAVE ANY PRELIMINARY MATTERS TO ADDRESS BEFORE ASSESSING AND EVALUATING STUCKER FORK'S COSS AND RATE DESIGN PROPOSALS?

A. Yes. My testimony and analyses are generally based on Stucker Fork's proposed revenue requirement. This is a standard practice because it allows the class cost of service and rate design recommendations of different parties to be compared on a comparable basis. This should not be taken, however, as an endorsement of the Petitioner's proposed revenue requirement claims in this proceeding.

II. OVERVIEW OF WATER COST OF SERVICE STUDY METHODOLOGIES

Q. WHAT IS THE OBJECTIVE OF A COSS?

A. A COSS is conducted to assist a utility or commission in determining the level of costs properly recoverable from each of the various customer classes to which the utility provides service. Allocation of recoverable costs to each class of service is generally based on cost causation principles.

Q. WHAT ARE THE PRIMARY COSS METHODOLOGIES UTILIZED FOR WATER UTILITIES?

A. The two most commonly used and widely recognized methods of allocating costs to customer classes for water utilities are the base-extra capacity method and the commodity-demand method. Both of these methods are set forth in the American Water Work Association's ("AWWA") Principals of Water Rates, Fees, and Charges ("AWWA M1 Manual"). Of these two methods, the base-extra capacity is the most commonly used.

Q. PLEASE SUMMARIZE EACH OF THESE METHODS AS DESCRIBED IN THE AWWA M1 MANUAL.

A. Under the base-extra capacity method, investment and costs are generally first assigned to utility functional cost centers, which include source of supply, pumping, storage, treatment, distribution, customer, and general administration. These functional costs are then allocated into four primary cost categories: base or average capacity, extra capacity,

customer, and direct fire protection. Customer costs are commonly further divided between meter and service-related costs and account or bill-related costs. Extra capacity costs may also be divided between maximum day and maximum hour costs. Once investment and costs are classified to these primary cost categories, they are then allocated to customer classes. Base costs are allocated according to average water use, and extra capacity costs are allocated based on the excess of peak demands over average demands. Meter and service-related customer costs are allocated based on relative meter and service investment or a proxy thereof. Account-related customer costs are allocated in proportion to the number of customers or the number of bills. The COSS presented by the Stucker Fork in this proceeding utilizes the base-extra capacity methodology and is sponsored by Mr. Douglas L. Baldessari, a principal with the firm Baker Tilly Municipal Advisors, LLC. The COSS is presented in Petitioner's Exhibit 4, pages 22-54.

The commodity-demand method follows the same general procedures. However, usage-related costs are classified as commodity- and demand-related rather than as base- and extra capacity-related. Commodity-related costs are allocated to customer classes on the basis of total water use (which is equivalent to average demand) and demand-related costs are allocated on the basis of each class's contribution to peak demand rather than on the basis of class demands in excess of average use.

Q. PLEASE DESCRIBE IN GREATER DETAIL THE FOUR PRIMARY COST CATEGORIES AND HOW THEY ARE ALLOCATED TO THE VARIOUS CUSTOMER CLASSES UNDER THE BASE-EXTRA CAPACITY METHOD.

A. **Base Costs** are costs that tend to vary with the quantity of water used, plus costs associated with supplying, treating, pumping and distributing water to customers under

average load conditions. Base costs are allocated to customer classes on the basis of average daily usage under the base extra-capacity method and in the Petitioner's COSS.

Extra capacity Costs are costs associated with meeting usage requirements in excess of average day usage. This includes operating and capital costs for additional plant and system capacity beyond that required for average day usage. Under the base-extra capacity method and in the Petitioner's COSS, extra capacity costs can be subdivided into costs necessary to meet maximum day extra demand and maximum hour extra demand. These extra capacity costs are allocated to customer classes on the basis of each class's maximum day and maximum hour usage in excess of average day and average hour usage, respectively.

Customer Costs are costs associated with serving customers regardless of their usage or demand characteristics. Customer costs include the operating costs related to meters and services, meter reading costs, and billing and collecting costs. Customer costs are allocated on the basis of the capital cost of meters and services and the number of customer bills.

Fire Protection Costs are costs associated with providing the facilities necessary to meet the potential peak demand of fire protection service. In the Petitioner's study, fire protection costs have been subdivided into the costs associated with meeting Public Fire Protection and Private Fire Protection demands. The extra-capacity costs assigned to fire protection are allocated to Public and Private Fire Protection based on the total relative demands of hydrants and fire service lines.

III. STUCKER FORK COST OF SERVICE STUDY

Q. PLEASE IDENTIFY THE CUSTOMER CLASSES INCLUDED IN THE PETITIONER'S COSS.

A. Stucker Fork has separately identified the cost of serving seven (7) customer classes in its COSS: Residential, Commercial, Industrial, Government, Wholesale, Public Fire Protection, and Private Fire Protection.

Q. PLEASE IDENTIFY THE FUNCTIONAL COST CENTERS TO WHICH UTILITY PLANT AND OPERATIONS AND MAINTENANCE ("O&M") EXPENSES HAVE BEEN ASSIGNED IN STUCKER FORK'S COSS.

A. The Petitioner's COSS includes four functional cost centers for utility plant:

- Source of Supply;
- Treatment;
- Transmission and Distribution; and
- General.

These four functional cost centers are further subdivided as shown on Petitioner's Exhibit 4, page 30.

The Petitioner's COSS also includes four functional cost centers for O&M expenses:

- Treatment
- Transmission and Distribution;
- Customer Accounts; and
- Administrative and General.

These four functional cost centers are further subdivided as shown on Petitioner's Exhibit 4, page 32. The costs assigned to each of these utility plant and O&M cost centers were subsequently assigned to a primary cost category.

Q. PLEASE IDENTIFY THE PRIMARY COST CATEGORIES INCLUDED IN STUCKER FORK'S COSS.

A. The primary cost categories included in the Petitioner's COSS are:

- Base;
- Maximum Day Extra Capacity;
- Maximum Hour Extra Capacity;
- Meters and Services;
- Billing and Collection; and
- Direct Fire Protection.

Under the base-extra capacity method described in the AWWA M1 Manual, customer costs, such as meters and services, and direct fire protection costs, such as hydrants, are directly assigned to their respective cost category. Remaining costs are allocated to the base, maximum day, and maximum hour cost categories based on the degree to which they are associated with meeting system-wide service requirements. Costs that meet base (average day) service requirements are allocated 100 percent to base category. Costs that meet system-wide maximum day service requirements are allocated between the base and the maximum day cost categories. Costs that meet system-wide maximum hour service requirements are allocated to the base, maximum day, and maximum hour cost categories. System-wide coincident peak demands are used under the base-extra capacity method to assign extra capacity costs to the maximum day and maximum hour cost categories.

Q. DID YOUR EVALUATION AND REVIEW FIND STUCKER FORK'S COSS TO BE REASONABLE?

A. Yes. My evaluation and review generally found the COSS presented by Mr. Baldessari to be reasonable. The cost of service for each customer class and the revenues under existing rates for each customer class are presented in Petitioner's Exhibit 4, page 43.

IV. REVENUE DISTRIBUTION AND RATE DESIGN

Q. WHAT ARE SOME OF THE PRINCIPLES OF A SOUND REVENUE ALLOCATION AND RATE DESIGN?

A. A sound revenue allocation should:

- Utilize COSS results as a guide;
- Provide stability and predictability of the rates themselves, with a minimum of unexpected changes seriously adverse to ratepayers or the utility (gradualism);
- Yield the total revenue requirement;
- Provide for simplicity, certainty, convenience of payment, understandability, public acceptability, and feasibility of application; and
- Reflect fairness in the apportionment of the total cost of service among the various customer classes.[2]

Q. IS THE PETITIONER PROPOSING TO ALLOCATE OR DISTRIBUTE THE REVENUE REQUIREMENT INCREASE IT IS REQUESTING IN THIS PROCEEDING AND ESTABLISH RATES BASED DIRECTLY ON THE COST OF SERVING EACH CUSTOMER CLASS AS DETERMINED BY ITS CCOS?

A. No. The Petitioner is proposing a revenue distribution and to establish rates which subsidize, or recover less than the indicated direct cost of service from certain customer classes. These subsidies will be recovered by establishing rates for other customer classes which recover more than the indicated direct cost of service. The Petitioner refers to the

[2] *Principles of Public Utility Rates*, Second Edition, James C. Bonbright, Albert L. Danielsen, David R. Kamerschen; Public Utility Reports, Inc. 1988, pages 383-384.

cost of service for each customer class, inclusive of various subsidies, as the adjusted cost of service. These proposed subsidies and the collection of the proposed subsidies are summarized on Petitioner's Exhibit 4, pages 48, 49, and 50.

Q. PLEASE EXPLAIN WHY THE PETITIONER IS PROPOSING THESE VARIOUS REVENUE SUBSIDIES?

A. As explained in greater detail in the testimony of Mr. Baldessari (Petitioner's Exhibit 3, pages 24-25), the Petitioner and one of its large Industrial customers, Morgan Foods, entered into an *Agreement Regarding Implementation of Cost of Service Study* ("COSS Agreement")[3] concerning future rate increases for Morgan Foods. Under the COSS Agreement, Stucker Fork and Morgan Foods have agreed to implement cost of service rate increases for Morgan Foods in two phases. In the first phase, 50% of the cost of service increase beyond an across-the-board increase will be implemented in this proceeding, and 50% will be implemented in 5 years or in Stucker Fork's next rate case, whichever occurs later. As a result of this agreement, as calculated on Petitioner's Exhibit 4, page 49, and reflected in the adjusted cost of service of the Industrial class as shown on Petitioner's Exhibit 4, page 50, the rates for the Industrial class are being subsidized by $68,531. Although the Wholesale class was not a party to the COSS Agreement, Stucker Fork has also applied the terms of the COSS Agreement to the Wholesale class. Because of this, as shown on Petitioner's Exhibit 4, pages 49 and 50, the rates for the Wholesale class are being subsidized by $44,692 for a total subsidy of $113,223. To offset the revenues lost by the Petitioner due to the subsidies, as shown on Petitioner's Exhibit 4, pages 49 and 50, Stucker Fork is proposing to recover $110,740 of the subsidy from the Residential customer class and $2,483 from the Government customer class.

[3] Petitioner's Exhibit 5.

Q. WHY DID THE PETITIONER ENTER INTO THE COSS AGREEMENT WITH MORGAN FOODS?

A. As explained by Mr. Baldessari in Petitioner's Exhibit 3, page 25, lines 2-7, in prior rate cases, Stucker Fork, Morgan Foods, the OUCC, and the Commission have spent significant resources litigating and deciding cost of service issues. Mr. Baldessari contends that the COSS Agreement eliminates any cost of service-related issues between Stucker Fork and Morgan Foods, which should reduce the amount of resources expended by all parties involved.

Q. DOES THE OUCC AGREE WITH THE SUBSIDIES PROPOSED BY STUCKER FORK FOR MORGAN FOODS AND STUCKER FORK'S PROPOSAL FOR THE RECOVERY OF THOSE SUBSIDIES?

A. The OUCC accepts the COSS Agreement entered into by Stucker Fork and Morgan Foods as it pertains to Morgan Foods, the only customer signatory, and, therefore, accepts the subsidy proposed for Morgan Foods. However, Stucker Fork has extended the subsidy per the terms of the COSS Agreement to all Industrial customers and to Wholesale customers. The parties to the COSS Agreement are Stucker Fork and Morgan Foods and there is no basis to extend the terms of the COSS Agreement to all Industrial customers and to Wholesale customers. In addition, there is no basis to limit the recovery of any subsidy from the Residential and Government customer classes. The subsidy provided to Morgan Foods should also be recovered from Commercial and Wholesale customers, and all other Industrial customers.

Q. HAVE YOU REVISED STUCKER FORK'S PROPOSED SUBSIDY RECOMMENDATIONS AS PRESENTED IN PETITIONER'S EXHIBIT 4, PAGE 49, TO REFLECT YOUR SUBSIDY RECOMMENDATIONS?

A. Yes. Table 1 below revises Petitioner's Exhibit 4, page 49 to reflect my subsidy recommendations.

TABLE 1
STUCKER FORK CONSERVANCY DISTRICT

Customer Class	Revenue Under Existing Rates	Required Revenues with Across the Board Increase	Allocated Cost of Service	Subsidy	Adjusted Cost of Service	Revenue Increase
Residential	$2,405,430	$3,162,670	$2,999,621	$30,983	$3,030,604	26.0%
Commercial	108,908	143,193	145,392	1,502	146,894	34.9%
Morgan Foods	993,554	1,306,329	1,408,482	(51,077)	1,357,406	36.6%
Other Industrial	339,525	446,409	481,318	4,972	486,289	43.2%
Government	67,542	88,805	67,253	695	67,948	0.6%
Wholesale	883,755	1,161,965	1,251,349	12,925	1,264,274	43.1%
Fire Protection	204,160	268,430	224,386	0	224,386	9.9%
Totals	$5,002,874	$6,577,801	$6,577,801	$0	$6,577,801	31.5%

Q. WHAT IS STUCKER FORK'S PROPOSAL WITH RESPECT TO THE SCALE-BACK OF RATES IN THE EVENT THAT THE COMMISSION AUTHORIZES AN INCREASE WHICH IS LESS THAN THE $1,574,927 INCREASE REQUESTED BY STUCKER FORK?

A. As indicated in the response to OUCC data request Q-5-20, if Stucker Fork's proposed rate increase is reduced by the Commission, Stucker Fork proposes to rerun its COSS with the new lower revenue requirement to scale-back rates.

Q. IS THE PETITIONER'S SCALE-BACK PROPOSAL REASONABLE?

A. Yes, provided the COSS is revised to reflect my recommendations with respect to providing subsidies and the recovery of those subsidies. I would note that as indicated on Petitioner's Exhibit 4, pages 53 and 54, the customer charges proposed by Stucker Fork provide for the recovery of the subsidies it had initially proposed for the Industrial and

Wholesale customer classes. The customer charges developed in the COSS should also be revised to reflect my recommendations with respect to providing subsidies and the recovery of those subsidies.

Q. EARLIER IN YOUR TESTIMONY YOU INDICATED THAT A SOUND REVENUE ALLOCATION SHOULD PROVIDE FOR GRADUALISM; ARE THE RATE INCREASES UNDER YOUR PROPOSED SUBSIDY RECOMMENDATIONS AS REFLECTED ON TABLE 1 CONSISTENT WITH THE CONCEPT OF GRADUALISM?

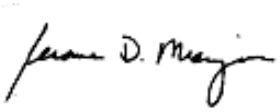
A. Yes. While there is no hard and fast rule with respect to applying the concept of gradualism, typically an increase of 1.5 to 2.0 times the system average increase is considered consistent with the concept of gradualism. As shown in Table 1, Stucker Fork is requesting an overall-system average increase in rates of 31.5%. Therefore, an increase of approximately 56% or less, which is 1.5 times the system average increase, would be consistent with the concept of gradualism. As further shown in Table 1, all of the resulting rate increase under my subsidy recommendations would be less than 56% and, therefore, consistent with the concept of gradualism.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

AFFIRMATION

I affirm the representations I made in the foregoing testimony are true to the best of my knowledge, information, and belief.



By: Jerome D. Mierzwa,
Cause No. 46167
OUCC Consultant

Date: March 4, 2025