

STATE OF INDIANA

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

PREFILED TESTIMONY

OF

JEROME D. MIERZWA- PUBLIC'S EXHIBIT NO. 6

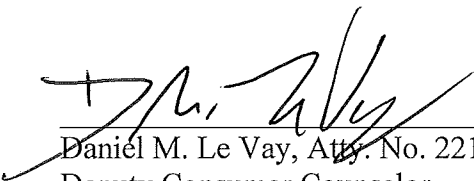
ON BEHALF

OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JANUARY 25, 2019

Respectfully Submitted,



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

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Office of Utility Consumer Counselor's Testimony of Jerome D. Mierzwa* has been served upon the following counsel of record in the captioned proceeding by electronic service on January 25, 2019.

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**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 SCHEDULE OF RATES AND)
CHARGES APPLICABLE THERETO; (2)) CAUSE NO. 45151
APPROVAL OF A LOW-INCOME)
CUSTOMER ASSISTANCE PROGRAM;)
AND (3) APPROVAL OF CERTAIN)
CHANGES TO ITS GENERAL TERMS)
AND CONDITIONS FOR)
WASTEWATER SERVICE)**

DIRECT TESTIMONY

of

JEROME D. MIERZWA

On Behalf of

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

January 25, 2019

EXETER

ASSOCIATES, INC.

10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

DIRECT TESTIMONY OF JEROME D. MIERZWA
CAUSE NO. 45151

I. INTRODUCTION

1
2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

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

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 A. I graduated from Canisius College in Buffalo, New York, in 1981 with a Bachelor of
10 Science Degree in Marketing. In 1985, I received a Master's Degree in Business
11 Administration with a concentration in finance, also from Canisius College. In July
12 1986, I joined National Fuel Gas Distribution Corporation ("NFG Distribution") as a
13 Management Trainee in the Research and Statistical Services Department ("RSS").
14 I was promoted to Supervisor RSS in January 1987. While employed with NFG
15 Distribution, I conducted various financial and statistical analyses related to the
16 Company's market research activity and state regulatory affairs. In April 1987, as part
17 of a corporate reorganization, I was transferred to National Fuel Gas Supply
18 Corporation's ("NFG Supply") rate department where my responsibilities included
19 utility cost of service and rate design analysis, expense and revenue requirement
20 forecasting and activities related to federal regulation. I was also responsible for
21 preparing NFG Supply's Purchase Gas Adjustment ("PGA") filings and developing
22 interstate pipeline and spot market supply gas price projections. These forecasts were

1 utilized for internal planning purposes as well as in NFG Distribution's state purchased
2 gas cost proceedings.

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

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

13 A. Yes. I have provided testimony on more than 300 occasions in proceedings before the
14 Federal Energy Regulatory Commission ("FERC"), utility regulatory commissions in
15 Arkansas, Delaware, Georgia, Illinois, Louisiana, Maine, Massachusetts, Montana,
16 Nevada, New Jersey, Ohio, Pennsylvania, Rhode Island, Texas, Utah and Virginia, as
17 well as before this Commission.

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

19 A. Exeter was retained by the Indiana Office of Consumer Counselor ("OUCC") to review
20 the class cost of service study and rate design proposals included in the application filed
21 by CWA Authority, Inc. ("CWA" or "the Company") in this proceeding. My testimony
22 addresses CWA's class cost of service study and rate design proposals.

23 **A. BRIEFLY DESCRIBE THE RATE INCREASES PROPOSED BY CWA IN ITS**
24 **APPLICATION.**

1 A. On October 12, 2018, CWA filed an application with the Commission to increase its
2 rates in three phases. In Phase I, which is anticipated to take effect in August 2019,
3 CWA has proposed to increase rates by \$39.5 million, or 14.7 percent, on a total
4 revenue basis. In Phase II, which is anticipated to take effect August 2020, CWA has
5 proposed to increase rates by an additional \$14.7 million, or 4.8 percent, on a total
6 revenue basis. In Phase III, which is anticipated to take effect August 2021, CWA has
7 proposed to increase rates by \$11.3 million, or 3.5 percent, on a total revenue basis.

8 **Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.**

9 A. My review found the class cost of service study presented by CWA witness Prabha N.
10 Kumar of Black & Veatch Corporation ("B&V") to be reasonable. With certain
11 exceptions which I discuss in my testimony, I recommend that the Phase I, II, and III
12 revenue increases proposed by CWA for each class be scaled back proportionately to
13 the extent the increases authorized by the Commission are less than those requested by
14 CWA. I also recommend that CWA's existing Non-Industrial monthly customer charge
15 be maintained and not be increased as proposed by CWA, and that Non-Industrial
16 volumes rates be proportionately increased to recover the revenue requirement of the
17 Non-Industrial class.

18

19 **II. OVERVIEW OF CWA CLASS COST OF SERVICE STUDY**

20 **Q. WHAT IS THE OBJECTIVE OF A CLASS COST OF SERVICE STUDY?**

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

1 **Q. PLEASE IDENTIFY AND DESCRIBE THE VARIOUS CUSTOMER CLASSES**
2 **INCLUDED IN THE COST OF SERVICE STUDY.**

3 A. The Non-Industrial class consists of customers that generally discharge domestic
4 strength wastewater and are billed based on their metered water consumption. Typical
5 customers in this class are residential, commercial, or multi-family type customers.
6 This class also includes the unmetered residential and commercial customers.
7 Residential and multi-family customers are currently billed based on their actual usage
8 during the winter months (i.e., November through April) and winter period average
9 usage during the summer months (i.e., May through October).

10 The Self-Reporter and Industrial class generally consists of industrial and other
11 customers who measure their wastewater discharge to the CWA system and self-report
12 the volumes to CWA on a monthly basis. The volume charge for these customers
13 includes a surveillance charge related to CWA's cost for monitoring these self-
14 reporting customers. Self-Reporter customers also report excess loadings or
15 concentrations of Biochemical Oxygen Demand ("BOD"), Total Suspended Solids
16 ("TSS"), and Ammonia-Nitrogen ("NH₃-N") above CWA's established limits of 250
17 milligrams per liter (mg/l) BOD; 300 mg/l TSS; and 20 mg/l of NH₃-N.

18 Wastewater Haulers consist of Septic and Non-grease Haulers who bring
19 trucked waste directly to the Belmont Advanced Wastewater Treatment Plant where it
20 is discharged for treatment and disposal. The concentration of discharge BOD, TSS,
21 and NH₃-N in wastewater from these customers is typically much higher than normal
22 strength wastewater.

23 Fats, Oil, and Grease ("FOG") customers are generally Non-Industrial,
24 commercial-type customers that are licensed to cook and prepare food. CWA monitors
25 these customers for the proper disposal of grease from their operations.

1 Satellite customers are communities adjacent to the CWA system that own and
2 operate their own wastewater collection systems. These customers discharge their
3 wastewater to CWA for conveyance and treatment. CWA provides service to some of
4 these customers via Special Contracts for service and to others via Sewer Rate No. 6.

5 The Surcharge class includes Self-Reporter customers and Satellite customers
6 that exceed one or more of the BOD, TSS, or NH₃-N strength or concentration limits
7 and are charged for the additional pounds of BOD, TSS, or NH₃-N.

8 **Q. PLEASE SUMMARIZE THE COST OF SERVICE STUDY PREPARED BY**
9 **B&V.**

10 B&V followed the cost of service allocation and rate design procedures recommended
11 by the Water Environment Federation (“WEF”) in its Manual of Practice Number 27
12 *“Financing and Charges for Wastewater Systems”* (“WEF MOP 27”). B&V first
13 determined the total annual pro forma operation and maintenance (“O&M”) and capital
14 test year cost of service to be recovered through wastewater rates and charges based on
15 data provided by CWA. Next, a detailed breakdown of the annual O&M expenses and
16 utility plant investment was identified by various system functional elements
17 (collection mains, collection pumping, preliminary treatment, primary sedimentation,
18 aeration/nitrification, and sludge handling). The costs for each of the various system
19 functional elements were then allocated to functional cost components (volume,
20 capacity, extra strength (BOD, TSS, and NH₃-N), billing and collecting, meters, and
21 surveillance) using the design basis methodology outlined in WEF MOP 27. B&V then
22 determined the units of service for each functional cost component by retail customer
23 class and satellite customer, and derived the O&M and capital unit costs for each
24 functional cost component based on the O&M and capital net revenue requirements
25 that were allocated to functional cost components. These functionalized costs were

1 then distributed to individual user classes in accordance with their respective service
2 requirements for each functional component, using the unit costs, to determine each
3 customer class's cost of service responsibility.

4 **Q. DID YOUR REVIEW FIND THAT THE CLASS COST OF SERVICE STUDY**
5 **PREPARED BY B&V TO BE REASONABLE?**

6 A. Yes, I found B&V's class cost of service study to be reasonable.

7 **Q. WHAT DO THE RESULTS OF THE B&V COST OF SERVICE STUDY**
8 **INDICATE, AND HOW DO THE RESULTS COMPARE TO REVENUES**
9 **UNDER THE COMPANY'S PROPOSED RATES?**

10 A. The results of the B&V study and revenues under the rates proposed by CWA for Phase
11 I are presented in Table 1:

Table 1.			
Comparison of Class Cost of Service and Proposed Rates			
Phase I			
Class	Cost of Service	Proposed Rates	Difference
Non-Industrial	\$259,009,000	\$257,883,700	(\$1,125,300)
Self-Reporter	24,514,900	24,514,700	(200)
Strength Surcharge	13,676,700	13,677,600	900
Septic Haulers	135,700	152,600	16,900
Commercial FOG	266,700	1,374,600	1,107,900
Satellite-Special Contract	7,045,100	7,045,100	0
Satellite-Tariff	858,900	858,900	0
Other Revenue	2,373,100	2,373,100	0
Total	\$307,880,100	\$307,880,300	\$200

12 I would note that the actual cost of serving the Satellite-Special Contract class is much
13 higher than that indicated in Table 1. The cost of service for the Satellite-Special
14 Contract class identified in Table 1 reflects the terms and conditions of the Settlement
15 Agreement approved by the Commission in Cause No. 44685-S1, which specifies the

1 rates to be charged to Satellite-Special Contract customers for the period January 1,
2 2019 through November 31, 2025. Pursuant to that Settlement Agreement, the
3 difference between the revenues to be collected from the Satellite-Special Contract
4 class and the indicated cost of service, or Satellite Subsidy, is to be collected through
5 the rates assessed to the Non-Industrial and Self-Reporter classes. The cost of service
6 indicated in Table 1 for the Non-Industrial and Self-Reporter classes includes a
7 Satellite Subsidy of \$15.5 million.

8 **III. RATE DESIGN**

9 **Q. WHAT WAS CWA'S APPROACH TO RATE DESIGN IN THIS**
10 **PROCEEDING?**

11 A. CWA claims that its approach to rate design in this proceeding was to design a schedule
12 of rates and charges that attempted to achieve cost of service recovery from each
13 customer class, while at the same time mitigating significant increases in customer bills
14 that can result when transitioning to cost of service rates.

15 **Q. HOW HAS CWA PROPOSED TO DISTRIBUTE ITS REQUESTED REVENUE**
16 **INCREASE TO EACH CUSTOMER CLASS?**

17 A. CWA's proposed distribution of the revenue increase to each customer class for Phase
18 I, II, and III is summarized in Schedule JDM-1 which is attached to my testimony.

19 **Q. DO YOU FIND CWA'S PROPOSED DISTRIBUTION OF ITS REQUESTED**
20 **INCREASE FOR PHASE I, II, AND III TO BE REASONABLE?**

21 A. Yes.

22 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE REVENUE**
23 **INCREASE DISTRIBUTION FOR PHASE I, II, AND III IN THIS**
24 **PROCEEDING?**

1 A. To the extent the increases authorized by the Commission in Phases I, II, and III are
2 less than those requested by CWA, I recommend that the increases proposed for the
3 Non-Industrial, Self-Reporter, and Satellite-Tariff classes, as well as the Extra Strength
4 Surcharges be scaled back proportionately. CWA has proposed no change to the rates
5 for Septic Haulers and Commercial FOG and, therefore, I also recommend that these
6 rates remain unchanged. The increase proposed by CWA for Satellite-Special Contract
7 customers is specified by the Settlement Agreement approved in Cause No. 44685-S1
8 and, therefore, should not change if the Commission authorizes an increase which
9 differs from CWA's requested increase.

10 **Q. WHAT CHANGE TO THE NON-INDUSTRIAL MONTHLY CUSTOMER**
11 **CHARGE IS CWA PROPOSING IN THIS PROCEEDING?**

12 A. CWA is proposing to increase the monthly customer charge of Non-Industrial
13 customers from \$18.75 to \$21.95 in Phase I, to \$22.99 in Phase II, and \$23.74 in Phase
14 III.

15 **Q. DO YOU AGREE WITH THIS INCREASE?**

16 A. No.

17 **Q. HAS CWA CALCULATED THE COSTS IT CLAIMS SHOULD BE**
18 **RECOVERED THROUGH A CUSTOMER CHARGE?**

19 A. Yes. As shown on Attachment PNK-3, Schedule 1, CWA claims that a cost-based
20 customer charge for Phase I would be \$52.15. The components of this calculated cost
21 are customer billing and collecting costs (\$3.39 per bill) and inflow and infiltration
22 ("I/I") related costs (\$48.76 per bill).

23 **Q. WHAT IS I/I?**

1 A. I/I consists of ground water or rainfall that enters the wastewater system through direct
2 connections, manhole covers, service laterals, or cracks that exist in the collection and
3 conveyance system.

4 **Q. HOW DID CWA ALLOCATE THE COSTS ASSOCIATED WITH I/I IN ITS**
5 **COST OF SERVICE STUDY?**

6 A. In a wastewater cost of service study, the costs associated with I/I would typically be
7 allocated to those customer classes that use the collection and conveyance system. For
8 CWA, this would include the Non-Industrial, Self-Reporter, and Satellite customer
9 classes. Pursuant to the Settlement Agreement approved in Cause No. 44685-S1,
10 Satellite customers are to be excluded from the allocation of I/I costs. Therefore, in
11 CWA's cost of service study, the costs associated with I/I are allocated to the Non-
12 Industrial and Self-Reporter classes. As shown in Attachment PNK-7, CWA
13 determined to allocate the costs associated with I/I to the Non-Industrial and Self-
14 Reporter classes 75 percent based on the number of customers and 25 percent based on
15 contributed volumes. The \$48.76 per bill I/I component of CWA's claimed cost-based
16 customer charge reflects the I/I related costs that were allocated based on the number
17 of customers.

18 **Q. SHOULD CWA'S PROPOSED INCREASES IN NON-INDUSTRIAL**
19 **MONTHLY CUSTOMER CHARGES BE APPROVED?**

20 A. No. A customer charge should only reflect the direct costs that are incurred to connect
21 a customer to the system and to provide the customer with a bill each month. I/I costs
22 are not incurred because a new account is added to the system. I/I causes increases in
23 costs related to the conveyance and treatment of wastewater. For example, customer
24 billing and collecting costs are not affected by I/I. Since CWA's existing Non-
25 Industrial monthly customer charges already significantly exceed its direct customer

1 costs of \$3.39, I recommend that the existing charges for Non-Industrial customers be
2 maintained and not increased. Any increase assigned to the Non-Industrial class in this
3 proceeding should be recovered through proportional increases to the current volume
4 charges.

5 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

6 A. Yes, it does. However, I reserve the right to revise or modify my testimony to reflect
7 additional or new information that may become available.

CWA AUTHORITY, INC.

Comparison of Present and Proposed Rates

PHASE I				
Class	Present Rates	Proposed Rates	Increase	Percent Increase
Non-Industrial	\$220,283,400	\$257,883,700	\$37,600,300	17.1%
Sdelf-Reporter	22,939,500	24,514,700	1,575,200	6.9%
Strength Surcharge	14,758,600	13,677,600	(1,081,000)	-7.3%
Septic Haulers	152,600	152,600	0	0.0%
Commercial FOG	1,374,600	1,374,600	0	0.0%
Satellite-Special Contract	5,769,900	7,045,100	1,275,200	22.1%
Satellite-Tariff	686,100	858,900	172,800	25.2%
Other Revenue	2,373,100	2,373,100	0	0.0%
TOTAL	<u>\$268,337,800</u>	<u>\$307,880,300</u>	<u>\$39,542,500</u>	<u>14.7%</u>

PHASE II				
Class	Phase I Rates	Proposed Rates	Increase	Percent Increase
Non-Industrial	\$257,883,700	\$270,071,600	\$12,187,900	4.7%
Sdelf-Reporter	24,514,700	25,546,900	1,032,200	4.2%
Strength Surcharge	13,677,600	13,677,600	0	0.0%
Septic Haulers	152,600	152,600	0	0.0%
Commercial FOG	1,374,600	1,374,600	0	0.0%
Satellite-Special Contract	7,045,100	8,497,200	1,452,100	20.6%
Satellite-Tariff	858,900	900,800	41,900	4.9%
Other Revenue	2,373,100	2,373,100	0	0.0%
TOTAL	<u>\$307,880,300</u>	<u>\$322,594,400</u>	<u>\$14,714,100</u>	<u>4.8%</u>

PHASE III				
Class	Phase II Rates	Proposed Rates	Increase	Percent Increase
Non-Industrial	\$270,071,600	\$278,882,400	\$8,810,800	3.3%
Sdelf-Reporter	25,546,900	26,274,900	728,000	2.8%
Strength Surcharge	13,677,600	13,677,600	0	0.0%
Septic Haulers	152,600	152,600	0	0.0%
Commercial FOG	1,374,600	1,374,600	0	0.0%
Satellite-Special Contract	8,497,200	10,256,700	1,759,500	20.7%
Satellite-Tariff	900,800	932,700	31,900	3.5%
Other Revenue	2,373,100	2,373,100	0	0.0%
TOTAL	<u>\$322,594,400</u>	<u>\$333,924,600</u>	<u>\$11,330,200</u>	<u>3.5%</u>

VERIFICATION

STATE OF INDIANA)
)
) ss:
COUNTY OF MARION)

The undersigned, Jerome D. Mierzwa, under penalties of perjury and being first duly sworn on his oath, says that he is a Consultant for the Indiana Office of Utility Consumer Counselor; that he caused to be prepared and read the foregoing; that the representations set forth therein are true and correct to the best of his knowledge, information and belief.



By: Jerome D. Mierzwa
Indiana Office of
Utility Consumer Counselor

Subscribed and sworn to before me, a Notary Public, this 25 day of Jan 2019.



Signature

Deborah M Adams

Printed Name

My Commission Expires: 2/2019

My County of Residence: Howard

DEBORAH M ADAMS
Notary Public
State of Maryland
Howard County