STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF EVANSVILLE, INDIANA, FOR AUTHORITY TO ISSUE BONDS, NOTES, OR OTHER OBLIGATIONS, FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE, AND FOR APPROVAL OF NEW SCHEDULES OF WATER RATES AND CHARGES	)))))))	**CAUSE NO. 45073**

OUCC PREFILED TESTIMONY

OF

MARGARET A. STULL – PUBLIC'S EXHIBIT NO. 2

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JULY 20, 2018

Respectfully Submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

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 Prefiled Testimony Margaret A. Stull*** has been served upon the following counsel of record in the captioned proceeding by electronic service on July 20, 2018.

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TESTIMONY OF OUCC WITNESS MARGARET A. STULL
CAUSE NO. 45073
CITY OF EVANSVILLE

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Margaret A. Stull, and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, Indiana, 46204.

Q: By whom are you employed and in what capacity?

A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Chief Technical Advisor in the Water/Wastewater Division. My qualifications are set forth in Appendix A to this testimony.

Q: What is the purpose of your testimony?

A: The City of Evansville (hereinafter referred to as "Evansville" or "Petitioner") has requested an overall increase to its rates and charges of $16,183,493 or 48.9% based on *pro forma* present rate operating revenues of $34,030,241. I explain the OUCC's recommended $34,316,686 *pro forma* present rate operating revenues. I also describe and explain the OUCC's recommended adjustments to Evansville's Public Employee Retirement Fund (PERF) expense, periodic maintenance expense, bad debt expense, and utility receipts tax expense. I also describe and explain the OUCC's recommended revenue requirement for extensions and replacements ("E&R").

Q: What review and analysis did you perform?

A: I reviewed Evansville's petition, testimony, accounting report, and the workpapers it filed in this case. I also reviewed Evansville's Indiana Utility Regulatory

Commission ("Commission" or "IURC") annual reports for the years 2014 - 2017. I reviewed comments ratepayers sent to the OUCC. Finally, I prepared discovery questions and reviewed responses to those questions.

II. *PRO FORMA* PRESENT RATE OPERATING REVENUES

A. Evansville's Proposed Operating Revenues

Q: What amount of operating revenues does Evansville propose?

A: Evansville proposed *pro forma* operating revenues at present rates of $34,030,241.[1] This is an increase of $4,852,115 to test year operating revenues of $29,178,126.

Q: What adjustments did Evansville propose to test year operating revenues?

A: Evansville's proposed operating revenue adjustments consist of (1) an increase of $886,488 to reflect the Phase I 29.37% rate increase approved in Cause No. 44760; (2) an increase of $3,534,926 to reflect the Phase II 14.03% rate increase approved in Cause No. 44760; (3) a decrease of $437,165 to reflect Evansville's estimate of declining customer consumption; (4) an increase of $800,672 to reflect customer growth normalization; and (5) an increase to other operating revenues of $67,194 to reflect the reversal of a non-recurring 2016 year-end adjustment reconciling accounts receivable.

[1] See page 16 of Petitioner's Accountant's Report. Total normalized revenues of $41,401,827 less $7,371,586 (sewer utility portion of general expenses) = $34,030,241. The sewer utility's portion of general expenses are reflected as a revenue offset rather than as operating revenues in Petitioner's calculation of its revenue requirement.

Q: Evansville's capital improvement plan includes projects to increase capacity available to Gibson Water and other wholesale customers. Did Evansville propose any adjustment to operating revenues to reflect increased water sales as a result of these capital projects?

A: No. Evansville did make a $191,144 adjustment to increase its proposed Phase III revenue requirement offsets to include a "wholesale user capacity recovery charge" to reflect Gibson Water's allocated portion of the construction and non-construction costs for projects that can be directly attributable to Gibson Water Corporation. But Evansville did not forecast any increase in operating revenues to reflect an increase in water sales to Gibson Water Corporation or any other wholesale customers as a result of these construction projects.

Table 1: Summary of Evansville's Proposed Present Rate Revenue Adjustments

Test Year Operating Revenues			$ 29,178,126
	Pet Ref		
(1) 44760 Phase I Rate Increase	Adj. 1(a)		886,488
(2) 44760 Phase II Rate Increase	Adj. 1(b)		3,534,926
(3) Declining Consumption	Adj. 1(b)		(437,165)
(4) Growth Normalization			
Residential	Adj. 2	62,596	
Public Authority	Adj. 3	37,116	
Public Fire Protection (Inside City)	Adj. 4(a)	415,052	
Public Fire Protection (Outside City)	Adj. 4(b)	188,233	
Private Fire Protection	Adj. 4(c)	82,807	
Commercial	Adj. 7	14,868	
			800,672
(5) Reverse 2016 YE Adjustment	Adj. 6		67,194
Present Rate *Pro Forma* Operating Revenues			$ 34,030,241

B. OUCC Proposed Operating Revenues

Q: Do you accept any of Evansville's proposed operating revenue adjustments?

A: Yes. I accept Evansville's proposed operating revenue adjustment to reflect Cause No. 44760 Phase I rate increase as well as its proposed adjustment to other operating revenues to reverse a 2016 year-end adjustment. I also accept Evansville's proposed growth normalization adjustment for public fire protection (inside city limits) and private fire protection revenues. While I don't agree with Evansville's calculations of growth normalization for its commercial customer class, the difference is immaterial, and I therefore accept this adjustment.

I did not accept Petitioner's proposed declining consumption adjustment. As a result, I did not accept Petitioner's proposed operating revenue adjustment to reflect the Phase II rate increase approved in Cause No. 44760 because Petitioner applied the declining consumption adjustment when it calculated operating revenue adjustment. I also did not accept Petitioner's proposed growth normalization adjustment for public fire protection for customers located outside the city limits.

Q: What level of operating revenues do you propose in this Cause?

A: I propose *pro forma* operating revenues at present rates of $34,316,686. This is an increase of $5,138,560 to test year water operating revenues of $29,178,126 and $286,445 greater than Evansville's proposed present rate operating revenues.

Table 2: <u>Summary of OUCC Proposed Present Rate Revenue Adjustments</u>

Test Year Operating Revenues			$ 29,178,126
	OUCC Ref		
(1) 44760 Phase I Rate Increase	PET		886,488
(2) 44760 Phase II Rate Increase	5-1		3,596,260
(3) Declining Consumption			-
(4) Test Year Growth Normalization			
Residential	5-2	168,448	
Public Authority	5-3	42,406	
Public Fire Protection (Inside City)	PET	415,052	
Public Fire Protection (Outside City)	5-4	(134,963)	
Private Fire Protection	PET	82,807	
Commercial	PET	14,868	
			588,618
(5) Reverse 2016 YE Adjustment	PET	34,030,241	67,194
Present Rate *Pro Forma* Operating Revenues		286,445	$ 34,316,686

1. <u>Declining Consumption</u>

Q: Please describe Evansville's proposed declining consumption adjustment.

A: While Evansville never refers to its adjustment as "declining consumption," Evansville proposed a decrease to operating revenues of $457,165 to "account for a historical decline in the base line metered revenues." (See Baldessari Testimony, page 20, lines 8-10, and operating revenue adjustment 1(b), pages 17 – 19 of the Accountants' Report (Attachment DLB-1.) Table 3 presents Evansville's proposed declining consumption adjustment by customer class.

Table 3: Evansville Proposed Declining Consumption Adjustment

	Test Year	44760 Phase I	Total		Declining Consumption
Residential	$ 13,696,042	$ 469,210	$ 14,165,252	-4.00%	$ (566,610)
Commercial	6,197,076	248,648	6,445,724	2.70%	174,035
Industrial	2,120,285	72,674	2,192,959	-0.70%	(15,351)
Public Authority	929,528	26,133	955,661	-1.80%	(17,202)
Sale for Resale	1,655,288	64,366	1,719,654	-0.70%	(12,037)
Total	$ 24,598,219	$ 881,031	$ 25,479,250	-1.72%	$ (437,165)

Q: How did Evansville calculate its proposed declining consumption adjustment?

A: Evansville calculated its proposed declining consumption adjustment by customer class, based on the average of the annual increase or decrease in "base line" operating revenues from 2014 through September 30, 2017. Evansville calculated "base line" operating revenues by removing the rate increases implemented in 2015, 2016, and 2017 to factor out changes to revenues not related to customer usage. Evansville then calculated the percent increase or decrease in revenues for each customer class for each of the three years (1) 2014 to 2015, (2) 2015 to 2016, and (3) 2016 to 2017. Evansville then calculated the average percent increase or decrease for each customer class by totaling the percent increases and (decreases) and dividing by three. See Attachment DLB-1, Accountants' Report, Operating Revenue Adjustment No. 1(b), pages 17 – 19. Overall, Evansville's proposed declining consumption adjustment reduces operating revenues by 1.72% after adjusting for the Cause No. 44760 Phase I rate increase.

Q: Do you agree with Evansville's calculation of declining consumption?

A: No. Evansville's calculation relies solely on revenue dollars without any consideration given to the impact of customer growth or actual consumption.

Further, there is an overlap in the data used by Evansville such that any changes occurring from October through December 2016 are inappropriately counted twice. (Such changes are included in the calculation of the 2016 percentage <u>and</u> in the calculation of the 12 months ended 9/30/17 percentage.) Finally, to support its declining usage adjustment, Evansville relies on an inadequate number of data points – *only three years of annual revenues*. Even if it was reasonable to estimate declining consumption only from revenues, three data points is insufficient to establish a trend. Too many factors can influence year to year revenues over such a short period of time.

Q: How have other utilities calculated declining consumption adjustments?

A: The analysis was based on actual customer usage, and the calculation was based on monthly usage over at least a 10 year period. Also, some utilities further refine their analysis to consider only the decline in "base water usage" by using only winter water consumption to factor out variations driven by seasonal factors such as rainfall. Establishing a trend requires a thoughtful and complete analysis. Evansville has provided neither in this case.

Q: Has the Commission discussed declining consumption in prior rate cases?

A: Yes. In Cause No. 44022, the Commission found that Indiana American Water Company's declining usage adjustment "does not meet the fixed, known, and measurable standard, and should not be included as a pro forma operating revenue adjustment." (See Final Order, Cause No. 44022, page 61 - 62.) In that case, Indiana American Water Company provided a ten-year regression analysis to support its adjustment, a more extensive analysis than Evansville has done in the present case. Specifically, in that case the Commission stated:

> While Petitioner's evidence may suggest a historical downward trend in residential customer usage, we do not agree that such a trend is sufficiently predictive of future usage to meet the fixed, known, and measurable standard…In addition, Petitioner's request relied solely on the argument that its total revenues will decline based on a decline in per customer usage. Petitioner's analysis does not take into account other sources of additional revenues that might offset the decline, for example, growth in the number of residential customers, increased usage due to weather, and the possibility of increased usage by other customer classes. Further, because Petitioner has traditionally filed base rate cases every two years and anticipates continuing to do the same, any change in actual usage from rate case to rate case is captured on a regular basis and reflected in Petitioner's base rates. Therefore, we conclude that Petitioner's declining usage adjustment does not meet the fixed, known, and measurable standard, and should not be included as a pro forma operating revenue adjustment.
>
> *(Final Order, Cause No. 44022, Indiana American Water Corporation, pages 60-61.)*

2. <u>Cause No. 44760 Phase II Rate Increase</u>

Q: How did Evansville calculate its Cause No. 44760 Phase II rate increase adjustment?

A: The Phase II rate increase approved in Cause No. 44760 was implemented on January 1, 2018, after the end of the test year in this case. Evansville applied the 14.03% Phase II rate increase from Cause No. 44760 to test year operating revenues after adjusting for (1) the Phase I rate increase from Cause No. 44760 and (2) the declining consumption adjustment discussed above. Table 4 presents this calculation.

Table 4: Evansville Phase II Rate Increase (Cause No. 44760)

Residential	$ 13,696,042		
Commercial	6,197,076		
Industrial	2,120,285		
Public Authority	929,528		
Sale for Resale	1,655,288		
Late Fees	147,946		
Test Year Operating Revenues		$ 24,746,165	
Cause No 44760 - Phase I Rate Increase		886,488	
Declining Consumption		(437,165)	
Sub-total		25,195,488	(A)
Times: 14.03%		14.03%	
Cause No 44760 - Phase II Rate Increase		$ 3,534,926	

(A) Excludes public and private fire protection. Evansville included the rate adjustments for these revenues in its Operating revenue Adjustment No. 4.

Q: Do you accept Evansville's calculation of the Cause No. 44760 Phase II rate increase?

A: No. I don't dispute the percentage of rate increase applied but, because I reject Evansville's declining consumption adjustment, I apply the approved Phase II rate increase to a larger amount of revenues and, therefore, propose a larger Phase II rate increase adjustment.

Q: What Cause No. 44760 Phase II rate increase adjustment do you propose?

A: I propose an increase to test year operating revenues of $3,596,261 to reflect the Phase II rate increase from Cause No. 44760 (OUCC Schedule 5, Adjustment No. 1). This represents an increase of $61,335 over Evansville's proposed adjustment. Table 5 reflects the calculation of my proposed adjustment.

Table 5: OUCC Phase II Rate Increase (Cause No. 44760)

Test Year Operating Revenues	(See Table 4)	$ 24,746,165
Cause No 44760 - Phase I Rate Increase		886,488
Sub-total		25,632,653
Times: 14.03%		14.03%
Cause No 44760 - Phase II Rate Increase		$ 3,596,260

3. Customer Growth Normalization

Q: Did Evansville propose a test year customer growth normalization adjustment?

A: Yes. Evansville proposed a test year customer growth normalization adjustment for its residential and public authority customer classes of $62,596 and $37,116, respectively.

Q: How did Evansville calculate its proposed test year customer growth normalization adjustment?

A: For both residential and public authority customer classes, Evansville calculated the number of additional bills that would have been generated had all of the customers at 9/30/17 been customers of the utility for the entire year. Evansville estimated average test year water consumption for each customer class – 3,676 gallons per month for residential customers and 122,189 gallons per month for public authority customers – and used this average consumption to calculate the average billing amount. Evansville then multiplied the average billing amount times the additional number of bills that would be generated to calculate its proposed test year customer growth normalization adjustment.

3(a). Residential Test Year Customer Growth Normalization

Q: Do you agree with Evansville's calculation of its residential test year customer growth normalization adjustment?

A: No. Evansville used the incorrect tariff rates to calculate the value of the adjustment. In addition, Evansville's methodology was otherwise unclear and confusing and, therefore, should be considered unreliable.

Q: What adjustment to the residential test year billing data did Evansville propose?

A: Evansville adjusted its residential test year billing data for irrigation meters and temporary shut-offs according to its Accountants' Report and Workpapers filed with its case-in-chief (Attachment MAS-1). Evansville provided no testimony to explain why these adjustments were necessary or appropriate. Further, it doesn't appear the adjustments were calculated correctly. The adjustments are reflected on page 251 of Evansville's workpapers, and the calculation of these adjustments is reflected on page 252 of Petitioner's workpapers. As page 252 reflects, the net impact of the adjustments is zero, which is inconsistent with information reflected on page 251. Moreover, twelve months of data are provided for both "Installs" and "Removals," but it is unclear whether the same 12-month period was used for each. In any case, Evansville did not include all twelve months of data in its adjustment on page 251, which reflects an addition of 72 users rather than the "zero" reflected on page 252.

Q: Other than the anomaly identified above, do you have any other disagreement with how Evansville determined test year residential customer growth?

A: Yes. Based on my review and analysis of Evansville's adjustment, the "math" used in the adjustment doesn't work. There are two ways to calculate a test year customer growth adjustment, and both ways should provide the same answer. When I attempted to check Evansville's calculation using the other methodology, the numbers did not tie out.

Q: What is the "other method" for calculating a test year customer growth adjustment?

A: First, you determine total test year customer billings. Then you calculate the normalized customer billings - the number of billings that would result if all the customers at the end of the test year had been customers of the utility for the entire test year. This is done by multiplying the number of billings in the last month of the test year by 12. The difference between the total normalized billings and the total actual billings yields the increase or decrease in customer billings due to test year customer growth. Table 6 presents this alternative customer growth calculation using Evansville's "adjusted" numbers. It's unclear why the math doesn't work in Evansville's proposed adjustment, but I suspect it is related to the billing adjustment reflected on pages 250 and 251 of its workpapers.

Table 6: Alternative Customer Growth Calculation

Total Test Year Residential Customer Billings		706,237	
Add: Petitioner's Add Back Adjustment		72	
Total Adjusted Test Year Residential Customer Billings		706,309	**(B)**
Customers as of 9/30/17	59,465		
Add: Petitioner's Add Back Adjustment	(16)		
	59,449		
Times: 12 months	12		
		713,388	**(A)**
Increase in Residential Customer Billings		7,151	**(A) - (B)**
Increase in Residential Billings per Accountants' Report		3,117	
Difference		4,034	

Q: Why do you say Evansville used incorrect tariff rates in the calculation of its proposed residential test year customer growth adjustment?

A: In calculating the dollar value of its test year residential customer growth adjustment, Evansville used the tariff rate in effect in the month its calculation determined would have increased (or decreased) customer billings. Using this methodology understates the amount of revenues that would be generated from a growth adjustment because the full effect of the Cause No. 44760 Phase I and Phase II rate increases implemented during and after the end of the test year are not being captured.

Q: Did you include Evansville's residential billing adjustment in the determination of your residential test year customer growth normalization adjustment?

A: No. Because Evansville's residential billing adjustment calculation is not clear or transparent and because the numbers in its proposed adjustment do not tie out, I did not include this adjustment in the calculation of my proposed residential test year customer growth normalization adjustment.

Q: What residential test year customer growth adjustment do you propose?

A: Using the base customer billing information provided in Evansville's workpapers (page 251) and assuming average monthly consumption of 3,676 gallons, I propose a $168,448 increase to operating revenues to reflect residential test year customer growth (OUCC Schedule 5, Adjustment No. 2). This represents an increase of $105,852 ($168,448 - $62,596) over the adjustment proposed by Evansville.

Table 7: OUCC Residential Test Year Customer Growth Adjustment

Total Test Year Residential Customer Billings		706,237	**(B)**
Customers as of 9/30/17	59,465		
Times: 12 months	12		
		713,580	**(A)**
Increase in Residential Customer Billings		7,343	**(A) - (B)**
Times: Billing for 3,676 Gallons		$ 22.94	
Residential Test Year Customer Growth		$ 168,448	
Monthly Service Charge	$ 6.47		
Volumetric Charge at $4.48 per thousand gallons	16.47		
	$ 22.94		

3(b). Public Authority Test Year Customer Growth Normalization

Q: Do you agree with Evansville's method for calculating its public authority test year customer growth normalization adjustment?

A: No. Evansville generally followed the standard calculation for this adjustment, but it made the same tariff error discussed above to calculate the value of the adjustment.

Q: What public authority test year customer growth adjustment do you propose?

A: Using the customer billing information provided in Evansville's workpapers (page 254) and assuming average monthly consumption of 122,189 gallons, I propose a $42,406 increase to operating revenues to reflect residential test year customer growth (OUCC Schedule 5, Adjustment No. 3). This represents an increase of $5,290 ($42,406 - $37,116) over the adjustment proposed by Evansville.

Table 8: OUCC Public Authority Test Year Customer Growth Adjustment

Total Test Year Public Authority Customer Billings		2,739	**(B)**
Customers as of 9/30/17	236		
Times: 12 months	12		
		2,832	**(A)**
Increase in Residential Customer Billings		93	**(A) - (B)**
Times: Billing for 122,189 Gallons		$ 455.98	
Residential Test Year Customer Growth		$ 42,406	
Monthly Service Charge	$ 7.70		
Volumetric Charge at $4.48 per thousand gallons	89.60		
Volumetric Charge at $3.51 per thousand gallons	358.68		
	$ 455.98		

4. Outside City Limits Public Fire Protection

Q: Do you agree with Evansville's outside city limits public fire protection adjustment?

A: No. While I accept the methodology Evansville used to calculate its public fire protection adjustments, I disagree with the tariff rates used to calculate its outside city limits public fire protection adjustment. Evansville used the current tariff rates for outside city limits public fire protection, which include a surcharge being eliminated in this rate case.

Q: Why is it incorrect to use the current outside city limits public fire protection rates?

A: The public fire protection charge currently billed to customers located outside Evansville's city limits includes a surcharge. This surcharge has been decreased in increments in Evansville's last two rate cases and will be completely eliminated in this case. The elimination of this surcharge represents a decrease in revenues and should be captured in the determination of *pro forma* present rate revenues in this rate case. If this adjustment is not made, Evansville's rates will not generate the revenues needed to cover its revenue requirements.

Q: What adjustment do you propose to both capture customer growth and eliminate the surcharge included in outside city limits public fire protection revenues?

A: I propose a $134,963 decrease to test year operating revenues to reflect the current customer count for outside city limits public fire protection as well as the elimination of the surcharge imposed on these customers (OUCC Schedule 5, Adjustment No. 4). This is a decrease of $323,196 ($188,233 (Pet) + $134,963 (OUCC)) as compared to Evansville's proposed adjustment.

Q: Do you have any other comments regarding Evansville's public fire protection charges?

A: Yes. Evansville's proposed tariff (Attachment DLB-1, Accountants' Report, pages 31 and 32) continues to differentiate between public fire protection fees charged to customers located inside and outside of Evansville's city limits even though the rates are now the same. Because the surcharge imposed on customers located outside the city limits is being eliminated, there is no longer a need for this distinction in Evansville's tariff. I propose that the reference to outside city public fire protection rates as well as the modifier "Inside City Limits" be eliminated from Evansville's tariff.

III. OPERATING EXPENSES

A. Pension Expense (PERF)

Q: Did Evansville propose an adjustment to its PERF expense?

A: Yes. Evansville proposed a $201,371 increase to its test year PERF expense of $1,285,601 yielding *pro forma* PERF expense of $1,486,972. This adjustment consists of two amounts. Evansville's adjustment first calculates the $1,085,490 *pro forma* PERF cash contribution based on the current PERF contribution rate of 14.2% (11.2% + 3.0%) and *pro forma* salary and wage expense. To this amount of cash contributions, Evansville added $401,482 of "book" pension expense based on GAS #68 requirements to reflect the pension liability on the utility's balance sheet.

Q: Do you accept Evansville's proposed PERF expense adjustment?

A: No. While I accept Evansville's calculation of its *pro forma* cash contribution to PERF, I disagree with the inclusion of the additional book pension expense based on Governmental Accounting Standard ("GAS") #68 requirements.

Q: Why do you disagree with the inclusion of the additional GAS #68 pension expense in Evansville's revenue requirements?

A: While Evansville is required under US generally accepted accounting principles ("GAAP") to reflect its pension liability in its balance sheet, no additional cash payment to PERF is required. With no associated cash revenue requirement, there is no need to include this expense in the determination of rates.

Q: Does putting these funds into a restricted account adequately address this issue?

A: No. While Mr. Baldessari states "the Utility intends to set-up a restricted fund account to set aside the dollars generated from the accrued pension expense" to pay future pension expenses, I still consider it unnecessary and inappropriate to include this expense in Evansville's revenue requirements. PERF will provide an annual contribution rate for Evansville that will fund its share of the PERF pension expense and there is no reason this cash contribution will not always be included in Evansville's revenue requirement for ratemaking purposes. It is PERF's responsibility to manage the "gap" between the liability and the contributions from PERF participants. It is unnecessary and inappropriate to provide additional monies for some future expense of the utility that will not occur.

Q: What amount do you propose for PERF expense?

A: I propose a $200,111 decrease to test year PERF expense of $1,285,601, yielding *pro forma* PERF expense of $1,085,490 (OUCC Schedule 6, Adjustment No. 2).

B. <u>Periodic Maintenance Expense</u>

Q: What types of expenses are included in "periodic maintenance" expense?

A: Periodic maintenance expense includes repair and maintenance expenses that may be expected to occur during the life of the rates but may not be appropriately reflected in the test year. Such expenses include well cleaning and tank painting and other maintenance expenses that, with respect to a particular asset, should be performed regularly but less often than annually. Accordingly, such expenses may be over-represented or under-represented in the test year. Such expenses should be included in the revenue requirement but in an amount that reflects the pace such expense may be expected to be incurred. Typically, to determine the annual expense that should be included in a utility's revenue requirement, the cost of these periodic maintenance items is divided by the expected frequency of the expense.

Q: Did Evansville propose an adjustment to operating expenses for periodic maintenance expense?

A: Yes. Evansville proposed periodic maintenance expense adjustments for the following: (1) high service pump maintenance ($157,920); (2) low service pump maintenance ($150,210); (3) filter media ($1,006,820); (4) dredging in front of intake structure ($236,580); (5) tank maintenance ($514,309); booster station pump maintenance ($61,911); (6) traveling screens maintenance ($61,680); and (7) leak detection and distribution system maintenance assessment ($492,883). Total Evansville adjustments resulted in an increase of $1,972,788 to test year periodic maintenance expense of $709,525 yielding *pro forma* periodic maintenance expense of $2,682,313.

Q: Does the OUCC accept Evansville's proposed periodic maintenance expense adjustments?

A: The OUCC accepts Evansville's proposed adjustments for Dredging (Intake Structure), Tank Maintenance, Traveling Screens Maintenance, and Leak Detection and Distribution System Maintenance Assessment. But the OUCC does not agree with Evansville's proposed adjustment for High Service Pumps, Low Service Pumps, Booster Station Pumps, and Filter Media. The OUCC disagrees with both the cost and the frequency of the maintenance assumed by Evansville in its adjustments for those periodic maintenance expenses. OUCC witness Carl Seals explains in his testimony the OUCC's position with respect to Evansville's periodic maintenance expense adjustments.

Q: What periodic maintenance expense does the OUCC propose?

A: The OUCC proposes *pro forma* periodic maintenance expense of $1,731,642, an increase of $1,022,117 to test year periodic maintenance expense of $709,525 (OUCC Schedule 6, Adjustment No. 2).

Table 9: Comparison of Overall Periodic Maintenance Expense

	Evansville	OUCC	OUCC More (Less)
High Service Pumps	$ 157,920	$ 62,500	$ (95,420)
Low Service Pumps	150,210	72,000	(78,210)
Filter Media	1,006,820	268,800	(738,020)
Dredging	236,580	236,580	-
Tank Maintenance	514,309	514,309	-
Booster Station Pumps	61,911	22,890	(39,021)
Traveling Screens	61,680	61,680	-
Leak Detection	492,883	492,883	
Total	$ 2,682,313	$ 1,731,642	$ (950,671)
Less: Test Year	709,525	709,525	-
Adjustment	$ 1,972,788	$ 1,022,117	$ (950,671)

C. Bad Debt Expense

Q: Did Evansville propose a present rate bad debt expense adjustment?

A: Yes. Evansville proposed an increase of $22,222 to test year bad debt expense of $136,416 yielding *pro forma* bad debt expense of $158,638.

Q: What test year bad debt expense rate did Evansville use to calculate its proposed bad debt expense adjustment?

A: Evansville calculated a bad debt expense rate of 0.6857% for residential and commercial water revenues based on test year bad debt expense. Evansville assumed that future bad debt expense would occur at the same rate as the test year and applied the test year percentage to its proposed present rate adjustments for residential and commercial operating revenues.

Table 10: Calculation of Bad Debt Expense Rate

Test Year Residendital Water Sales	$ 13,696,042
Test Year Commercial Water Sales	6,197,076
Total	19,893,118
Divide by: Test Year Bad Debt Expense	136,416
Bad Debt Expense Rate	0.6857%

Q: Do you accept Evansville's proposed bad debt expense adjustment?

A: No. I accept Evansville's method for calculating bad debt expense and its bad debt expense rate. But because the OUCC's *pro forma* operating revenues differ from those proposed by Evansville, the OUCC's bad debt expense adjustment also differs.

Q: What bad debt expense adjustment do you calculate?

A: I calculated an increase of $26,008 to test year bad debt expense of $136,416 yielding *pro forma* bad debt expense of $162,424 (OUCC Schedule 6, Adjustment No. 3). The OUCC's adjustment is based on additional residential and commercial water revenues of $3,792,894 ($2,625,043 + $1,167,851) multiplied by the bad debt expense rate of 0.6857%. (See also OUCC Schedule 5 Summary, page 1 of 2.)

D. Utility Receipts Tax Expense – Present Rate Revenues

Q: What utility receipts tax expense did Evansville propose?

A: Evansville proposed an increase of $40,863 to test year utility receipts tax expense of $354,798 yielding *pro forma* utility receipts tax expense of $395,661.

Evansville's adjustment excludes sales for resale revenues as well as other exempt public authority revenues.

Q: Do you accept Evansville utility receipts tax expense adjustment?

A: No. I accept Evansville's methodology for calculating utility receipts tax expense. But because the OUCC's *pro forma* operating revenues differ from those proposed by Evansville, my utility receipts tax expense adjustment also differs.

Q: What utility receipts tax expense adjustment did you calculate?

A: I calculated an increase of $38,559 to test year utility receipts tax expense of $354,798 yielding *pro forma* utility receipts tax expense of $393,357 (OUCC Schedule 6, Adjustment No. 4).

IV. EXTENSIONS AND REPLACEMENTS

Q: What are "Extensions and Replacements"?

A: Extensions and Replacements ("E&R") represent cash-funded capital projects and are a component of a municipal utility's revenue requirement under IC 8-1.5-3-8. Specifically, IC 8-1.5-3-8(c)(5) provides for reasonable and just rates or rates and charges that produce sufficient revenue to "provide adequate money for making extensions and replacements to the extent not provided for through depreciation." E&R has generally been designed to recover the costs of shorter-lived capital assets, such as vehicles or computers, as well as longer-lived capital assets that are replaced on a recurring, annual basis such as meters, hydrants, and mains.

Q: What E&R revenue requirement did Evansville propose?

A: Evansville's capital improvement plan identifies E&R funded projects of $7,082,162 (Phase I), $8,344,444 (Phase II), and $9,544,101 (Phase III) for a total of $24,970,707 over a three-year period. (See Accountants' Report, Attachment DLB-1, page 9 of 50.)

Q: What E&R revenue requirement do you recommend?

A: I recommend an E&R revenue requirement of $6,442,862 (Phase I), $5,960,944 (Phase II), and $6,154,201 (Phase III) for a total of $18,558,007. This is a decrease of $6,412,700 from Evansville's proposal. (See OUCC Schedule 8, page 1 of 2.)

Q: What accounts for the difference between your proposed E&R revenue requirement and that proposed by Evansville?

A: There are four differences between my proposal and Petitioner's proposal. First, I eliminated two distribution system projects from my proposal because these projects are included in Evansville's current State Revolving Fund ("SRF") debt application. (See the testimony of OUCC witness Mr. Edward Kaufman and Attachment ERK-4.) Second, I eliminated funds proposed for "new service connections" because these costs are funded through Petitioner's tap fees. Third, I eliminated annual on-call CES/RPR costs because these are already included in capital project costs. (See the testimony of OUCC witness Mr. James Parks.) Finally, I spread the remaining distribution project costs ratably over a three year period to levelize the phased rate increase. (See OUCC Schedule 8, page 2 of 2.)

Table 11: OUCC E&R Recommendation

	Phase I	Phase II	Phase III	Total
Petitioner's Proposed E&R	$ 7,082,162	$ 8,344,444	$ 9,544,101	$ 24,970,707
Projects to be Debt Funded:				
New Harmony Road	(1,061,800)	-	-	(1,061,800)
Gayne Street	-	(598,900)	-	(598,900)
Annual Capital On-Call CES/RPR	(1,200,000)	(1,200,000)	(1,200,000)	(3,600,000)
New Service Connections	(373,000)	(384,000)	(395,000)	(1,152,000)
Remaining Distribution System Projects	1,995,500	(200,600)	(1,794,900)	-
OUCC's Proposed E&R	$ 6,442,862	$ 5,960,944	$ 6,154,201	$ 18,558,007

Q: What annual amount of distribution system funding did you include in your E&R proposal?

A: I included total distribution system projects of $8,857,500 ($957,000 + $3,153,100 + $4,747,400) and spread these costs over a three-year period for an annual allowance of $2,952,500. OUCC Schedule 8, page 2 of 2, provides the detailed calculation of my proposed distribution system E&R funding.

Q: Did you reclassify any of Evansville’s E&R projects?

A: Yes. I reclassified certain “annual capital improvement projects” as either “distribution system” or “other capital improvement” projects to more accurately reflect the nature of these projects. The projects I reclassified were projects that occurred within one particular year as opposed to multiple years such as valve replacement or meter replacement. Attachment MAS-2 describes these reclassified projects and reconciles the OUCC’s proposed E&R with Evansville’s proposed E&R.

V. RECOMMENDATIONS

Q: Please summarize your recommendations.

A: I recommend the Commission approve *pro forma* present rate operating revenues of $34,316,686, adopting the OUCC's proposed revenue adjustments as discussed above.

I recommend the Commission reject Evansville's proposed declining consumption adjustment.

I recommend the Commission require Petitioner to eliminate the outside city limits public fire protection rates reflected on Evansville's current tariff.

I recommend the Commission reject Evansville's proposal to include *additional* non-cash PERF expense in its revenue requirement, limiting PERF expense to the funds necessary for cash pension contributions as determined by PERF.

I recommend the Commission approve *pro forma* periodic maintenance expense of $1,708,752 as discussed above and in the testimony of OUCC witness Carl Seals.

Finally, I recommend the Commission approve an E&R revenue requirement of $6,442,862 (Phase I), $5,960,944 (Phase II), and $6,154,201 (Phase III).

Q: Does this conclude your testimony?

A: Yes.

APPENDIX A

Q: Please describe your educational background and experience.

A: I graduated from the University of Houston at Clear Lake City in August 1982 with a Bachelor of Science degree in accounting. From 1982 to 1985, I held the position of Gas Pipeline Accountant at Seagull Energy in Houston, Texas. From 1985 to 2001, I worked for Enron in various positions of increasing responsibility and authority. I began in gas pipeline accounting, was promoted to a position in financial reporting and planning, for both the gas pipeline group and the international group, and finally was promoted to a position providing accounting support for infrastructure projects in Central and South America. In 2002, I moved to Indiana, where I held non-utility accounting positions in Indianapolis. In August 2003, I accepted my current position with the OUCC. In 2011, I was promoted to Senior Utility Analyst. In 2018, I was promoted to Chief Technical Advisor.

Since joining the OUCC I have attended the National Association of Regulatory Utility Commissioners ("NARUC") Eastern Utility Rate School in Clearwater Beach, Florida, and the Institute of Public Utilities' Advanced Regulatory Studies Program in East Lansing, Michigan. I have also attended several American Water Works Association and Indiana Rural Water Association conferences. I have also attended several NARUC Sub-Committee on Accounting and Finance Spring and Fall conferences. I have participated in the National Association of State Utility Consumer Advocates ("NASUCA") Water Committee and the NASUCA Tax and Accounting Committee. In March 2016 I was appointed chair of the NASUCA Tax and Accounting Committee.

Q: Have you held any professional licenses?

A: Yes. I passed the CPA exam in 1984 and was licensed as a CPA in the State of Texas until I moved to Indiana in 2002.

Q: Have you previously testified before the Indiana Utility Regulatory Commission ("Commission")?

A: Yes. I have testified before the Commission as an accounting witness in various causes involving water, wastewater, electric, and gas utilities.

AFFIRMATION

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

Margaret A. Stull

By: Margaret A. Stull
Cause No. 45073
Indiana Office of
Utility Consumer Counselor

7/20/2018
Date:

	Residential Gallons	Residential Customers	Add Back for Irrigation Meters Temporary Shut-offs *	Increase/(Decrease) In Users Before Add Back	Increase/(Decrease) In Users
September 2016	275,140	59,245			
October 2016	243,142	59,238		(7)	(7)
November	210,818	58,985	175	(253)	(78)
December	192,216	58,618	437	(367)	70
January 2017	191,009	58,518	154	(100)	54
February	165,704	58,432	39	(86)	(47)
March	202,425	58,307	20	(125)	(105)
April	173,638	58,403	(43)	96	53
May	185,799	58,651	(231)	248	17
June	261,089	59,028	(254)	377	123
July	258,359	59,296	(180)	268	88
August	285,357	59,296	(29)	-	(29)
September	226,570	59,465	(16)	169	153
Total	2,596,126	706,237	72	220	292
9 Months	1,949,950	529,396			
Average 9M	3.6833				

* Assumes the account is shut-off the previous month and the next month no bill generated (net).
The billing system monthly count is based on if a bill is generated or not.

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

IRRIGATION METERS / TEMPORARY SHUTOFFS

Residential:

Service Code	(Multiple Items)
Install	
Month	**Count of Install**
1	2
2	44
3	77
4	263
5	281
6	216
7	37
8	22
9	75
10	1
11	7
12	7
Grand Total	**1032**

Service Code	(Multiple Items)	
Removal		
Month	**Count of Removal**	**Net Amount**
1	41	(39)
2	64	(20)
3	34	43
4	32	231
5	27	254
6	36	180
7	8	29
8	6	16
9	3	72
10	176	(175)
11	444	(437)
12	161	(154)
Grand Total	**1032**	0

City of Evansville Municipal Water
Cause No. 45073
Reclassification of E&R Projects

	Phase	Distribution System	Treatment Plant	Other Capital Improvement	Annual Capital Improvement	Total
Evansville's E&R Proposal		$ 7,565,200	$ 941,000	$ -	$ 16,464,507	$ 24,970,707
Reclassifications:						
Enclose Switch Gear Housing	I	-		70,000	(70,000)	-
Pump Replacement	III			130,000	(130,000)	-
Add VFD for pump #1 on Campground Booster	III			33,000	(33,000)	-
320' of new 8" main on Kathleen Ave	I	167,000			(167,000)	-
Inglefield Road	I	490,000			(490,000)	-
Install new 8" on Dexter and Jackson Ave.	I	300,000			(300,000)	-
Replace 8" on Lake Dr.	II	384,000			(384,000)	-
Replace water main on Cardinal Drive	II	288,000			(288,000)	-
Replace water main on Wall Street	II	160,000			(160,000)	-
Virginia Avenue	II	338,000			(338,000)	-
1100 of 8" to replace existing 2" along Helfrich Avenue	III	200,000			(200,000)	-
2,600 of 8" to replace existing 6" along Alvord and Columbia	III	338,000			(338,000)	-
1100 of 8" to replace existing 2" and 4" along Washington Avenue	III	253,000			(253,000)	-
Southeast Blvd- Phase I Tie-in at Powell	III	35,000			(35,000)	-
Total Reclassifications		2,953,000	-	233,000	(3,186,000)	-
Debt Funded Projects		(1,660,700)	-	-	-	(1,660,700)
Eliminate New Service Connections		-	-	-	(1,152,000)	(1,152,000)
Eliminate Annual Capital On-Call CES/RPR		-	-	-	(3,600,000)	(3,600,000)
OUCC E&R Proposal (OUCC Schedule 7)		$ 8,857,500	$ 941,000	$ 233,000	$ 8,526,507	$ 18,558,007