

FILED
March 27, 2020
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF LMH)
UTILITIES, INC. FOR A NEW SCHEDULE OF) CAUSE NO. 45307-U
RATES AND CHARGES.)

PREFILED TESTIMONY

THOMAS W. MALAN- PUBLIC'S EXHIBIT NO. 1

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

March 27, 2020

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* *Prefiled Testimony of Thomas W. Malan* has been served upon the following counsel of record in the captioned proceeding by electronic service on March 27, 2020.

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**TESTIMONY OF OUCC WITNESS THOMAS W. MALAN
CAUSE NO. 45307-U
LMH UTILITIES, INC.**

I. INTRODUCTION

1 **Q: Please State your name and business address.**

2 A: My name is Thomas W. Malan, and my business address is 115 W. Washington
3 St., Suite 1500 South, Indianapolis, IN 46204

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

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as
6 a Utility Analyst with the Water-Wastewater Division. My qualifications and
7 experience are set forth in Appendix A.

8 **Q: What is the purpose of your testimony?**

9 A: LMH Utilities, Inc. ("LMH" or "Applicant") filed an application with the Indiana
10 Utility Regulatory Commission ("Commission" or "IURC") under 170 IAC 14-1-
11 1 et al, the small utility rate filing statute (IC 8-1-2-61.5). In its revised application,
12 dated January 17, 2020, LMH requested an overall rate increase of 23.57%. I
13 present results of the OUCC's analysis of LMH's proposed rate increase and
14 sponsor the OUCC's rate schedules. The OUCC's analysis yields a proposed rate
15 increase of 2.49%. I discuss the OUCC's proposed revenue adjustment to reclassify
16 certain revenues recorded below-the-line to match these revenues with the
17 associated expenses. I discuss and support various OUCC operating expense
18 adjustments, including salaries and wages, employee benefits, reclassification of
19 costs that are capital in nature, capitalization of test year connection costs,

1 elimination of non-allowed expenses, insurance expense, rate case expense, IURC
2 fee, utility receipts taxes, and payroll taxes.

3 **Q: Describe the review and analysis you performed.**

4 A: I reviewed LMH's updated application dated January 17, 2020. I reviewed LMH's
5 2015, 2016, 2017, and 2018 IURC annual reports. I reviewed comments ratepayers
6 submitted to the OUCC. I prepared discovery questions and reviewed Applicant's
7 responses. I attended the field hearing held on February 13, 2020 at Bright
8 Elementary School.

9 **Q: Do you sponsor any attachments?**

10 A: Yes. They are as follows:
11 OUCC Attachment TWM 1 – LMH Utilities Inc. current Affiliate Labor Agreement
12 OUCC Attachment TWM 2 – Applicant's response to data request 8-20
13 OUCC Attachment TWM 3 – LMH Utilities Inc. Capitalization Policy
14 OUCC Attachment TWM 4 – Capital Expenditures
15 OUCC Attachment TWM 5 – Risse, Meiring and Company, Inc. CPA's Invoices
16 for individual tax return preparation
17 OUCC Attachment TWM 6 – Applicant's Tax Cut and Jobs Act general ledger
18 entries dated 12/28/2018
19 OUCC Attachment TWM 7 – 43431 to 45307 Comparison
20 OUCC Attachment TWM 8 – Applicant's Response to OUCC DRs 8-7 and 11-8
21 OUCC Attachment TWM 9 – NARUC description of Labor Expense
22 OUCC Attachment TWM 10 – Applicant's Response to OUCC DR 11-1
23 OUCC Attachment TWM 11 – IURC Fee Form

1 **Q: Do you sponsor any schedules?**

2 A: Yes. The following schedules reflect the issues addressed by OUCC testimony in
3 this Cause. These rate schedules are based on my review and analysis as well as the
4 review and analysis of other OUCC staff members.

5 Schedule 1 – Comparison of Overall Revenue Requirements (page 1)
6 Comparison of Gross Revenue Conversion Factor (page 2)
7 Comparison of Income Statement Adjustments (page 3)

8 Schedule 2 – Comparative Balance Sheet at December 31, 2016, 2017 and 2018

9 Schedule 3 – Comparative Income Statement for the twelve months ended
10 December 31, 2016, 2017 and 2018

11 Schedule 4 – *Pro Forma* Net Operating Income Statement

12 Schedule 5 – OUCC Operating Expense Adjustments

13 Schedule 6 – Original Cost Rate Base

14 Schedule 7 – *Pro forma* Capital Structure

II. REVENUE REQUIREMENT

A. Overview of LMH's Case

15 **Q: What rate increase does LMH request?**

16 A: LMH's original application, dated October 16, 2019, requested a 94.26% rate
17 increase, which would have generated additional operating revenue of \$677,941.
18 However, on January 17, 2020, LMH filed a revised application, proposing a
19 23.57% rate increase to generate additional operating revenues of \$169,554.

1 **Q: What are the principal drivers of Applicant's need to apply for a rate increase?**

2 A: The principal drivers of LMH's need to apply for a rate increase are under-recovery
3 of operating revenues and increased operating and maintenance expenses, which
4 are mitigated by decreased rate base, and decreased weighted cost of capital.

5 The rate base proposed by LMH in this case has decreased \$362,266 since
6 its last rate case - Cause No. 43431. Weighted cost of capital has decreased from
7 9.43% to 8.43%. These changes result in a \$46,738 decrease to required net
8 operating income. Operating revenues at current rates have decreased \$534,260
9 from the revenues authorized in Cause No. 43431 as adjusted by Cause No. 45032-
10 S17. Operating and maintenance expenses have increased \$116,134 over *pro forma*
11 operating expenses in Cause No. 43431 as adjusted by Cause No. 452032-S17,
12 including increases to salaries and wages (\$71,731), purchased power (\$14,508),
13 rent expense (\$6,000), insurance expense (\$19,689), bad debt expense (\$6,171),
14 depreciation expense (\$50,748), and payroll taxes (\$5,615). These increases are
15 offset by decreased employee benefits (\$6,660), sludge removal expense (\$54,503),
16 contractual services – legal (\$15,337), rate case expense (\$11,331), miscellaneous
17 expense (\$14,868), property taxes (\$21,981), and income taxes (\$57,388). See
18 OUCC Attachment TWM-7 for the analysis of the revenue requirement approved
19 in Cause No. 43431 and LMH's proposed revenue requirement in this case.

B. Overview of OUCC's Case

1 **Q: What rate increase does the OUCC recommend?**

2 A: The OUCC recommends a rate increase of 2.49% to produce an increase in
3 operating revenues of \$17,874 per year. Table 1 presents a comparison of LMH's
4 proposed revenue requirement with that proposed by the OUCC.

Table 1: Overall Revenue Requirement Comparison

	LMH	OUCC	OUCC More (Less)
Original Cost Rate Base	\$ 1,252,447	\$ 1,116,795	\$(135,652)
Times: Weighted Cost of Capital	8.4300%	6.7623%	-1.6677%
Net Operating Income Required	105,573	75,521	(30,052)
Less: Adjusted Net Operating Income	(17,901)	62,505	80,406
Net Revenue Increase Proposed	123,474	13,016	(110,458)
Gross Revenue Conversion Factor	137.32%	137.32%	0.00%
Recommended Revenue Increase	<u>\$ 169,554</u>	<u>\$ 17,874</u>	<u>\$(151,680)</u>
Recommended Percentage Increase	<u>23.57%</u>	<u>2.49%</u>	<u>-21.08%</u>

III. OPERATING REVENUES**A. LMH's Proposed Present Rate Operating Revenues**

5 **Q: What level of present rate operating revenues does LMH propose?**

6 A: LMH proposed present rate *pro forma* operating revenues of \$720,920. This is an
7 increase of \$1,031 to LMH's test year operating revenues of \$719,889.

8 **Q: Did LMH propose any operating revenue adjustments?**

9 A: Yes. LMH proposed test year customer growth adjustments for (1) Residential
10 Wastewater Sales and (2) Commercial Wastewater Sales, for a combined revenue
11 increase of \$1,031.

1 **Q: Does the OUCC accept the applicant's adjustment to wastewater sales?**

2 A: Yes.

B. OUCC Proposed Operating Revenues

3 **Q: Does the OUCC agree with LMH's proposed present rate operating revenues**
4 **of \$720,920?**

5 A: No. The OUCC proposes present rate operating revenues of \$746,753, which
6 includes the reclassification of \$25,833 of revenues recorded below-the-line.

7 **Q: Why did the OUCC reclassify revenues recorded below-the line?**

8 A: During the test year, LMH recorded jobbing and other revenues as non-utility
9 revenues below-the-line (Account 415). However, the expenses related to these
10 revenues were not recorded below-the-line but instead are included in *pro forma*
11 operating expenses included in LMH's revenue requirement in this case (OUCC
12 Attachment TWM-8). Because the expenses are reflected above-the-line, it was
13 necessary to reclassify these jobbing revenues in order to match revenues and
14 expenses and ensure these expenses are not recovered from ratepayers.

IV. OPERATING EXPENSES

15 **Q: What level of operating expenses does LMH propose?**

16 A: LMH proposed *pro forma* operating expenses of \$738,822. This is a decrease of
17 \$1,746 to test year operating expenses of \$740,568.

18 **Q: What operating expense adjustments did LMH propose?**

19 A: LMH proposed several adjustments to operating expenses for a total decrease of
20 \$1,746 to test year operating expense, including salaries and wages, employee
21 benefits, capitalization of expenses, insurance expense, rate case expense,

1 amortization of excess accumulated deferred income taxes, over-collections from
2 1/1/18 – 6/30/18 (Cause No. 450323-S17), property taxes, payroll taxes and income
3 taxes.

4 **Q: Does the OUCC accept any of LMH's proposed operating expense**
5 **adjustments?**

6 **A:** Yes. The OUCC accepts several of LMH's proposed operating expense
7 adjustments including health insurance expense, purchased power expense,
8 miscellaneous expense, and property tax expense.

9 **Q: What level of operating expenses does the OUCC propose?**

10 **A:** The OUCC proposes *pro forma* operating expenses of \$684,248. This is a decrease
11 of \$56,321 to test year operating expenses. Table 2 presents a comparison of the
12 operating expense adjustments proposed by LMH to those proposed by the OUCC.

Table 2: Comparison of Operating Expense Adjustments

	OCC	LMH	OCC
	More (Less)		
O&M Expense			
Salaries and Wages	\$ 19,045	\$ 6,441	\$ (12,604)
Employee Benefits	(8,219)	(13,606)	(5,387)
Purchased Power	99	99	-
Materials and Supplies	-	(3,210)	(3,210)
Capitalization	(12,810)	(8,194)	4,616
Contractual Services - Accounting	-	(850)	(850)
Contractual Services - Other	4,915	(1,000)	(1,000)
Insurance	22,311	2,109	(2,806)
Rate Case Expense	8	6,000	(16,311)
Miscellaneous Expense	8	8	-
Overcollections 1/1/18 - 6/30/18	10,272	-	(10,272)
IURC Fee	79	104	25
Depreciation Expense	1	(2,410)	(2,411)
Amortization Expense - CIAC	-	(46,229)	(46,229)
Amortization Expense - Software Training Cost	-	1,175	1,175
Taxes Other than Income:			
Payroll Tax	(756)	(1,264)	(508)
Property Tax	(733)	(733)	-
Utility Receipts Tax	(372)	(10)	362
State Income Tax	(3,362)	3,185	6,547
Federal Income Tax	(14,229)	9,317	23,546
Amortization of Excess ADIT	(17,997)	(7,253)	10,744
Total Operating Expenses	\$ (1,748)	\$ (56,321)	\$ (54,573)

A. Salary and Wage Expense

1 Q: What *pro forma* salary and wage expense does LMH propose?
2 A: LMH proposes *pro forma* salary and wage expense of \$256,620, a \$19,045 increase
3 to salary and wage expense of \$237,575.
4 Q: Do you accept LMH's adjustment to salary and wage expense?
5 A: No, I do not accept LMH's salary and wage adjustment for several reasons: (1) I
6 disagree with the amount of *pro forma* salary and wage expense proposed by LMH,
7 (2) I disagree with the amount of test year salary and wage expense included in the

1 calculation of this adjustment, and (3) I propose the capitalization of additional test
2 year connection costs.

3 **Q: What *pro forma* salary and wage expense do you propose?**

4 A: I propose *pro forma* salary and wage expense of \$250,900, a \$6,441 increase to test
5 year salary and wage expense of \$244,459 (OUCC Schedule 5, Adjustment No. 1).

6 **Q: Please explain your disagreement with LMH's *pro forma* salary and wage
7 expense.**

8 A: LMH overstated the amount of salary for the "other manager" position. This
9 expense is allocated to LMH from an affiliate. Per the 2019 contract, the affiliate
10 will allocate \$800 per month to LMH for these labor costs. This should equal
11 \$9,600 (\$800 x 12) but LMH's Adjustment No. 6-1 reflects \$10,400 for this
12 position, an overstatement of \$800. (See OUCC Attachment TWM-1.)

13 **Q: Please explain your disagreement with LMH's test year salary and wage
14 expense.**

15 A: The test year salary and wage expense of \$244,459 is understated because it does
16 not include all salary and wage expenses incurred during the test year. In
17 contravention of the NARUC Uniform System of Accounts, LMH reclassified
18 some of its salary and wage expense to sludge hauling expense (\$5,466),
19 transportation expense (\$458), and equipment expense (\$960). (See OUCC
20 Attachment TWM-9) Due to these reclassifications, LMH's test year salary and
21 wage expense is understated by \$6,884.

22 **Q: How did you deal with this issue in your rate schedules?**

23 A: I reclassified these salary and wage expenses back to the salary and wage expense
24 line in the income statement (OUCC WP-1). In this way, the test year salary and

1 wage expense used in the calculation of the OUCC's adjustment correctly reflected
2 the total amount of test year salary and wage expense.

3 **Q: Please explain your capitalization of additional salary and wage expense for**
4 **actual test year connection costs.**

5 A: During the test year, LMH capitalized a portion of salary and wage expense to
6 reflect the labor costs included in its current tap fee charge (\$333). LMH completed
7 five (5) connections during the test year and capitalized \$1,665 of salary and wage
8 expense (\$333 x 5). As part of its request in this case, LMH requests an increase to
9 its tap fee from \$625 to \$2,135 to reflect the actual costs incurred to connect a
10 customer to its wastewater system. LMH has not increased its tap fee since at least
11 1993. I propose capitalizing the actual labor costs incurred to perform the five (5)
12 connections completed during the test year. To simplify the calculation of this
13 adjustment, I've included all labor related costs in this adjustment, including payroll
14 taxes, pensions, and insurance rather than making individual adjustments to each
15 expense category. The total adjustment is the same.

16 **Q: Why is it necessary to make this adjustment?**

17 A: If this adjustment is not made LMH will over-recover its labor costs because the
18 same costs will be included in both LMH's revenue requirement *and* LMH's
19 increased tap fee.

B. Employee Benefits

20 **Q: What *pro forma* employee benefit expense does LMH propose?**

21 A: LMH proposes *pro forma* employee benefit expense of \$10,265, an \$8,219 decrease
22 to test year Employee Benefits expense of \$18,484. LMH's employee benefit

1 adjustment is composed of the elimination of employee health insurance benefits
2 and the provision of a 401(k) benefit.

3 **Q: Do you accept any part of LMH's adjustment to Employee Benefit Expense?**

4 A: Yes. I accept the adjustment to remove \$16,444 of health insurance expense from
5 the test year. In response to OUCC DR 8-20, LMH confirmed it no longer offers
6 health insurance to its employees. (See OUCC Attachment TWM-2.) However,
7 the OUCC does not accept the proposed adjustment to increase pension expense.

8 **Q: Why do you not accept LMH's adjustment to pension expense?**

9 A: LMH calculated its *pro forma* pension expense based on total *pro forma* payroll
10 assuming all employees would participate. However, only two employees took part
11 in the program in the test year and adjustment period – the General Manager and
12 the Office Manager.

13 **Q: What *pro forma* pension expense do you propose?**

14 A: I propose *pro forma* pension expense of \$4,878, a \$2,838 increase to test year
15 pension expense of \$2,040 (OUCC Schedule 5, Adjustment No. 2). I calculated
16 my *pro forma* pension expense of \$4,878 using the *pro forma* salaries of the
17 employees that participated in the 401(k) program during the test year and the
18 subsequent twelve (12) month adjustment period.

Employee Benefits - 401(k)

To reflect provision of 401(k) benefits to certain employees.

General Manager	\$ 83,720	4.00%	\$ 3,349	
Office Manager	38,220	4.00%	<u>1,529</u>	
<i>Pro forma</i> 401(k) Expense				\$4,878
Less: Test year				<u>2,040</u>
			Adjustment Increase (Decrease)	<u><u>\$2,838</u></u>

C. Costs that are Non-recurring or Capital in Nature

1 **Q: Does LMH propose an adjustment to non-recurring test year expenses?**

2 A: Yes. LMH removed \$12,810 from test year operating expense to account for three
3 test year expenditures it considered to be non-recurring.

4 **Q: Do you accept LMH’s proposed adjustment to non-recurring expenses?**

5 A: Yes, in part. I agree with LMH’s removal of the sludge press repair (\$4,650), but I
6 propose that this cost be capitalized and included in the OUCC’s rate base
7 determination. LMH had not recognized this expense as capital.

8 I disagree with LMH’s removal of the transmission repair (\$4,894) from
9 test year operating expenses and have included \$4,894 in my *pro forma* operating
10 expenses. I also disagree with LMH’s removal of the \$3,311 it describes as “prior
11 year labor.” These are not prior year labor costs but rather test year labor costs that

1 were reclassified. I discuss the reclassification of these expenses in my discussion
2 of salary and wage expense above.

3 **Q: Does the OUCC propose its own adjustment to *pro forma* operating expenses**
4 **for items that should have been capitalized?**

5 A: Yes, In addition to the capitalization of the sludge press repair identified by LMH,
6 I recommend \$4,589 of additional test year expenses to be capitalized. Based on
7 Applicant's capitalization policy (\$2,500 capitalization threshold) (OUCC
8 Attachment TWM-3) and the OUCC's review of the test year general ledger there
9 are three items that should be capitalized. (See OUCC Attachment TWM-4.) These
10 transactions include two contractual services invoices related to customer
11 connections to the wastewater system (\$1,000) and \$3,589 for a replacement pump
12 (OUCC Schedule 5, Adjustment No. 3). All of these expenditures have been
13 removed from *pro forma* operating expenses and included in the OUCC's
14 calculation of rate base.

15 **Q: Do you propose capitalizing any other test year operating expenses?**

16 A: Yes. Like my capitalization of salary and wage expense related to test year
17 connection costs, I propose the capitalization of additional materials and supplies
18 expenses. According to LMH's estimate of current connection costs, the average
19 materials and supplies costs are \$937 per connection. Multiplying \$937 by five (5)
20 connections yields total materials costs to be capitalized of \$4,685. During the test
21 year, LMH capitalized \$1,475 (\$298 x 5). Therefore, an additional \$3,210 (\$4,685
22 - \$1,475) of test year materials and supplies costs should be capitalized. (See OUCC
23 Schedule 5, Adjustment No. 4.)

D. Contractual Services – Accounting

1 **Q: What adjustment do you propose to Contractual Services – Accounting**
2 **expense?**

3 A: I propose an \$850 reduction to test year contractual services – accounting expense
4 to remove two invoices for expenses that are not allowed for ratemaking purposes.
5 My adjustment removes two “Risse, Meiring and Company, Inc. CPA’s” invoices.
6 (See OUCC Attachment TWM-5.) The information on these invoices indicate they
7 are for personal income tax preparation. Further, in response to OUCC discovery,
8 LMH stated these expenses related to shareholder “fringe benefits.” (See OUCC
9 Attachment TWM-10.) This expense should not be borne by the ratepayers.

E. Liability Insurance Expense

10 **Q: What *pro forma* insurance expense does LMH propose?**

11 A: LMH proposes *pro forma* insurance expense of \$31,479, which is a \$4,915 increase
12 to test year insurance expense of \$26,564.

13 **Q: Do you accept LMH’s *pro forma* insurance expense proposal?**

14 A: While I do not disagree with the *pro forma* insurance expense proposed by LMH
15 (\$31,479), I disagree that \$26,564 is test year insurance expense, which LMH
16 included in its calculation of its adjustment. During the test year, LMH recorded
17 inland marine insurance premiums to an equipment expense (Account #750.1)
18 rather than to a liability insurance account. Therefore, test year insurance expense
19 is understated by \$2,806. Test year liability insurance expense should be \$29,370
20 (\$26,564 + \$2,806).

1 **Q: How did you deal with this issue in your rate schedules?**

2 A: I reclassified inland marine insurance expense from equipment expense to the
3 liability insurance line in the income statement (OUCC WP-1). In this way, the test
4 year liability insurance expense used in the calculation of the OUCC's adjustment
5 correctly reflected the total amount of test year liability insurance expense.

6 **Q: What *pro forma* liability insurance expense do you propose?**

7 A: I propose *pro forma* liability insurance expense of \$31,479, a \$2,109 increase to
8 test year liability insurance expense of \$29,370 (OUCC Schedule 5, Adj. No. 6).

F. Rate Case Expense

9 **Q: What *pro forma* rate case expense does LMH propose?**

10 A: LMH proposes *pro forma* rate case expense of \$22,311. This is based on estimated
11 professional service expenses of \$30,000 associated with this rate application and
12 \$36,934 of costs associated with LMH's participation in the tax investigation
13 (Cause No. 45032-S17) for total costs of \$66,934. LMH proposed a three year
14 amortization period and calculated a yearly rate case expense of \$22,311 (\$66,934
15 / 3 years).

16 **Q: Do you accept LMH's adjustment for rate case expense?**

17 A: No. While I do not disagree with LMH's estimate of costs associated with this rate
18 application, I disagree with LMH's inclusion of \$36,934 of costs incurred in Cause
19 No. 45032-S17. I also disagree with LMH's amortization period.

20 **Q: Why do you disagree with the recovery of costs incurred in the tax
21 investigation?**

22 A: First, LMH provided no support for the reasonableness of the costs it incurred in
23 the tax investigation case. Moreover, LMH would have had to incur a portion of

1 those costs even if there had been no tax investigation by the Commission. LMH
2 would still have needed to calculate the amount of excess accumulated deferred
3 income taxes as well as the amortization period to be used for IRS purposes.
4 Further, LMH took the position that it had no excess accumulated deferred income
5 taxes to be returned to its customers and litigated this position. LMH did not prevail
6 on that issue. That position would only benefit shareholders to the detriment of
7 ratepayers. Ratepayers should not be required to bear this investigation expense. I
8 recommend no recovery be allowed for these non-rate case costs.

9 **Q: What amortization period do you propose for the rate case costs?**

10 A: I propose the use of a five (5) year amortization period. Historically, LMH has not
11 requested rate cases often. It has been nearly thirteen (13) years since LMH's last
12 rate case. I consider a five (5) year amortization to be more reasonable estimate of
13 the life of the rates in this case than the three (3) years proposed by LMH.

14 **Q: What rate case expense do you propose?**

15 A: I propose an annual rate case expense of \$6,000. As discussed above, I accept
16 LMH's \$30,000 estimate for rate case costs. Dividing this amount by five (5) years
17 yields a \$6,000 expense ($30,000 / 5$).

G. IURC Fee

18 **Q: What *pro forma* IURC Fee does LMH propose?**

19 A: LMH proposes *pro forma* IURC fees of \$935, a \$79 increase to test year expense
20 of \$856.

1 **Q: Do you accept LMH's proposed *pro forma* IURC Fee expense?**

2 A: No. While I generally accept LMH's methodology for calculating its *pro forma*
3 IURC fee expense, due to the difference in our present rate proposed revenues, the
4 amount of IURC fees we calculate will necessarily be different.

5 **Q: How does your calculation of IURC fees differ from LMH's?**

6 A: I reduced the operating revenues subject to the fee by the amount of bad debt
7 expense as allowed in the Commission's IURC fee form (OUCC Attachment
8 TWM-11).

9 **Q: What *pro forma* IURC fee do you propose?**

10 A: I propose *pro forma* IURC fees of \$960, a \$104 increase to test year IURC fees of
11 \$856 (OUCC Schedule 5, Adjustment No. 8).

H. TCJA Revenue Over-collection

12 **Q: Does LMH propose an expense adjustment to account for the over-collection**
13 **of revenues due to the decrease in the federal income tax rate?**

14 A: Yes, LMH proposes a \$10,272 increase to expense to account for the additional
15 revenue that was collected during the period January through June of 2018 due to
16 a tax reduction under the Tax Cut and Jobs Act ("TCJA") (Cause No. 45032-S17).

17 **Q: Do you accept LMH's adjustment for revenue over collection?**

18 A: No. These over-collected sewer revenues were passed back to customers with one
19 bill credit in December 2018. There are four general ledger entries on December
20 28, 2018 (OUCC Attachment TWM-6) that reflect the credit by customer class.
21 Therefore, an adjustment is not needed because the revenues have already been
22 credited to customers and this reduction is reflected in LMH's 2018 operating

1 revenues. Furthermore, if an adjustment were needed, a reduction to expense is not
2 the proper method to account for an over collection of revenue.

I. Payroll Tax

3 **Q: What *pro forma* payroll tax does LMH propose?**

4 A: LMH proposes *pro forma* payroll tax of \$19,631, a \$756 decrease to test year
5 payroll tax expense of \$20,387.

6 **Q: Do you accept LMH's payroll tax expense adjustment?**

7 A: No. The differences in the *pro forma* salary and wage expense proposed by LMH
8 and the OUCC cause *pro forma* payroll tax to also be different. Further, LMH's
9 calculation is based on an incorrect test year payroll tax expense amount.

10 **Q: Please explain why the test year payroll tax expense is not correct.**

11 A: The test year payroll tax expense of \$20,387 included in LMH's calculation of its
12 payroll tax expense adjustment does not tie to the trial balance or general ledger
13 provided by LMH. The actual expense is \$20,834, a difference of \$447.

14 **Q: What *pro forma* payroll tax expense do you propose?**

15 A: I propose *pro forma* payroll taxes expense of \$19,570 based on my *pro forma* salary
16 and wage expense (before capitalization of connection cost labor), a \$1,264
17 decrease to test year payroll tax expense of \$20,834. I use the *pro forma* payroll of
18 \$255,820 as calculated in Adjustment 1 and multiplied that amount by the current
19 FICA rate of 7.65% to produce a *pro forma* FICA expense of \$19,570. I then
20 reduced *pro forma* payroll tax expense of \$19,570 by test year payroll tax expense
21 of \$20,834 to arrive at a \$1,264 decrease to payroll tax expense (OUCC Schedule
22 5, Adjustment No. 12).

J. Utility Receipts Tax

1 **Q: What *pro forma* utility receipts tax expense does LMH propose?**

2 A: LMH proposes pro forma utility receipts tax expenses of \$9,992, a reduction of
3 \$372 to test year utility receipts tax expense of \$10,364. LMH based this
4 adjustment on Operating Revenue of \$720,920 reduced by bad debt expense
5 (\$6,171) and an Indiana exemption (\$1,000) to produce taxable Operating
6 Revenues of \$713,749. Taxable operating revenues is then multiplied by the Utility
7 receipts tax rate to produce *pro forma* Utility receipt tax expense of \$9,992
8 (\$713,749 * 1.4%).

9 **Q: Do you accept LMH's pro forma utility receipts tax expense?**

10 A: No. The OUCC proposes different operating revenues and, therefore, its *pro forma*
11 utility receipts tax expense will differ from LMH's proposal.

12 **Q: What *pro forma* utility receipts tax expense do you propose?**

13 A: I propose *pro forma* utility receipts tax expense of \$10,354, a \$10 decrease to test
14 year utility receipts tax expense of \$10,364. My calculation of utility receipts tax
15 expense is similar to LMH's but my calculation is based on taxable operating
16 revenues of \$739,582.

V. RECOMMENDATIONS

17 **Q: Please summarize your recommendations to the Commission.**

18 A: I recommend the Commission authorize a rate increase of 2.49 % yielding an
19 additional \$17,874 in operating revenues.

20 **Q: Does this conclude your testimony?**

21 A: Yes.

APPENDIX A - QUALIFICATIONS

1 **Q: Please describe your educational experience.**

2 A: In December of 2002 I received a Bachelor's degree in Business Administration
3 focusing in Accounting from Indiana University Kelley School of Business. In
4 December of 2012 I received my Master of Science in Accounting from Indiana
5 University Kelley School of Business, Indianapolis Indiana.

6 **Q: Please describe your professional experience.**

7 A: I was hired as a Utility Analyst in Water / Wastewater division of the OUCC on
8 April 30, 2018. Prior to being hired by the OUCC, I was the controller of All Trades
9 Staffing. I have over fifteen years of accounting experience. I worked for several
10 years as a Financial Analyst in the insurance and healthcare industries. I have
11 participated in conferences and seminars regarding utility regulation, rate making
12 and financial issues. I have completed the National Association of Regulatory
13 Utility Commissioners (NARUC) Eastern Utility Rate School. I also regularly
14 attend the National Association of State Utility Consumer Advocates (NASUCA)
15 Accounting and Tax committee monthly meetings. In August of 2019 I completed
16 the Annual Regulatory Studies Program from the Institute of Public Utilities at
17 Michigan State University.

18 **Q: Have you previously testified before the Indiana Utility Regulatory**
19 **Commission?**

20 A: Yes, I have testified before the Indiana Utility Regulatory Commission.

APPENDIX B – INVESTOR OWNED RATE MAKING DESIGN

1 **Q: How are rates determined for an investor-owned utility?**

2 A: Rates for an investor-owned utility are designed to allow the utility an opportunity
3 to earn a reasonable return for its shareholders on its investment in utility plant. The
4 actual earned return for a utility can and will vary depending upon factors both
5 within a utility's control (e.g. effective utility management) and outside of a
6 utility's control (e.g. weather, environmental laws). A utility's revenue requirement
7 is the estimated amount of net income deemed necessary to provide this opportunity
8 for a reasonable return. The revenue requirement for an investor-owned utility is
9 equal to its investment in utility plant multiplied by its weighted average cost of
10 capital.

11 **Q: What is the first step in determining investor-owned utility rates?**

12 A: The first step in setting rates for an investor-owned utility is to determine the
13 utility's investment in used and useful utility plant or "rate base." A utility's rate
14 base includes the value of utility plant used to provide utility service to customers,
15 (e.g. treatment plant, mains, lift stations, pumps, vehicles, and other equipment),
16 net of accumulated depreciation and contributions-in-aid of construction. Rate base
17 also includes investments in inventory and working capital. Finally, a utility's rate
18 base might include IURC approved acquisition adjustments and regulatory assets.

19 Contributions-in-aid of construction include cash payments to the utility as
20 well as contributions in-kind from developers and other customers. Cash
21 contributions generally include system development charges and connection fees.

1 Contributions in-kind for a wastewater utility generally include customer service
2 lines, collection mains, and lift stations. Contributions-in-aid of construction reduce
3 the amount of utility plant included in rate base reducing the return.

4 **Q: What is the next step in determining investor-owned utility rates?**

5 A: The next step is to determine the utility's weighted average cost of capital. The
6 weighted average cost of capital is based on the utility's capital structure. The
7 capital structure describes the utility's sources of capital for its investments. The
8 sources include equity, long-term debt, customer deposits, and deferred income
9 taxes. The capital structure is weighted by each source's *pro rata* share of total
10 capital. While the cost of most sources of capital is fairly straight forward, the cost
11 of *equity* is depends on many weighted factors and is often a contested issue.

12 **Q: Once the net income necessary for a utility to earn a reasonable return on its**
13 **investment is determined, how is the rate increase determined?**

14 A: In order to determine the rate increase necessary to provide the reasonable return,
15 the current net operating income being earned by the utility needs to be calculated.
16 This amount is determined based on the utility's current rates and the test year
17 chosen by the utility. Test year revenues and expenses are then adjusted to include
18 changes that are fixed within the time period (12 months from the end of the test
19 year), known to occur, and measurable in amount. Subtracting this adjusted net
20 operating income from the income necessary to earn a reasonable return on rate
21 base (as discussed above), yields the dollar amount of the increase (or decrease)
22 needed. This increase (or decrease) is then "grossed up" to include additional taxes
23 and fees related to the increased (or decreased) revenue. This process is illustrated
24 on OUCC Schedule 1, page 1, attached to this testimony. Finally, the dollar increase

1 (or decrease) determined above is allocated to each customer class to determine the
2 rates to be charged. This allocation may be accomplished through a class cost of
3 service study that determines the costs to serve each customer class or as simple as
4 an across-the-board rate increase wherein the overall percentage increase necessary
5 is applied to all customer classes equally.

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

**Comparison of Petitioner's and OUC's
Revenue Requirements**

	<u>Per Applicant</u>	<u>Per OUC</u>	<u>Sch Ref</u>	<u>OUC More (Less)</u>
Original Cost rate Base	\$ 1,252,447	\$ 1,116,795	6	\$ (135,652)
Times: Weighted Cost of Capital	8.4300%	6.7623%	7	-1.6677%
Net Operating Income Required for Return on Original Cost Rate base	105,573	75,521		(30,052)
Less: Adjusted Net Operating income	(17,901)	62,505	4	80,406
Net Revenue Increase Required	123,474	13,016		(110,458)
Gross Revenue Conversion Factor	137.3200%	137.3200%	1	0.00%
Recommended Revenue Increase	<u>\$ 169,554</u>	<u>17,874</u>		<u>\$ (151,680)</u>
Recommended Percentage Increase	<u>23.57%</u>	<u>2.49%</u>		<u>-21.08%</u>

<u>Current Rate for 5,000 Gallons</u>	<u>Proposed</u>		<u>OUC More (Less)</u>
	<u>Petitioner</u>	<u>OUC</u>	
Current Rate = \$44.86	\$ 55.43	\$ 45.98	\$ (9.45)

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

Gross Revenue Conversion Factor

	<u>Per Applicant</u>	<u>Per OUC</u>	
1 Gross revenue Change	100.0000%	100.0000%	\$ 17,874
2 Less: Bad Debt Rate	<u>0.8572%</u>	<u>0.8572%</u>	153
3 Sub-total	99.1428%	99.1428%	
4 Less: IURC Fee	<u>0.1285295%</u>	<u>0.1285295%</u>	23
5 Income Before State Income taxes	99.0142705%	99.0142705%	
6 Less: State Income Tax (5.5% of Line 5)	5.4458%	5.445785%	973
7 Utility Receipts Tax (1.4% of Line 3)	<u>1.3880%</u>	<u>1.387999%</u>	248
8 Income before Federal income Taxes	92.1805%	92.180487%	
9 Less: Federal income Tax (21% of Line 8)	<u>19.3579%</u>	<u>19.357902%</u>	<u>3,461</u>
10 Change in Operating Income	<u>72.8226%</u>	<u>72.822585%</u>	<u>13,016</u>
11 Gross Revenue Conversion Factor	<u>137.3200%</u>	<u>137.3200%</u>	

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

Reconciliation of Net Operating Income Statement Adjustments
Pro-forma Present Rates

	<u>Per Applicant</u>	<u>Per OUCC</u>	<u>OUCC More (Less)</u>
Operating Revenues			
Wastewater Sales	\$ 1,031	\$ 1,031	\$ -
Other Wastewater Revenues	-	25,833	25,833
Total Operating Revenues	<u>1,031</u>	<u>26,864</u>	<u>25,833</u>
O&M Expense			
Salaries and Wages	19,045	6,441	(12,604)
Employee Benefits	(8,219)	(13,606)	(5,387)
Purchased Power	99	99	-
Materials and Supplies	-	(3,210)	(3,210)
Capitalization	(12,810)	(8,194)	4,616
Contractual Services - Accounting	-	(850)	(850)
Contractual Services - Other		(1,000)	(1,000)
Insurance	4,915	2,109	(2,806)
Rate Case Expense	22,311	6,000	(16,311)
Miscellaneous Expense	8	8	-
Over-collections 1/1/18 - 6/30/18	10,272	-	(10,272)
IURC Fee	79	104	25
Depreciation Expense	1	(2,410)	(2,411)
Amortization Expense - CIAC	-	(46,229)	(46,229)
Amortization Expense - Software Training Costs	-	1,175	1,175
Taxes Other than Income:			
Payroll Tax	(756)	(1,264)	(508)
Property Tax	(733)	(733)	-
Utility Receipts Tax	(372)	(10)	362
State Income Tax	(3,362)	3,185	6,547
Federal Income Tax	(14,229)	9,317	23,546
Amortization of Excess ADIT	(17,997)	(7,253)	10,744
Total Operating Expenses	<u>(1,748)</u>	<u>(56,321)</u>	<u>(54,573)</u>
Net Operating Income	<u>\$ 2,779</u>	<u>\$ 83,185</u>	<u>\$ 80,406</u>

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

COMPARATIVE BALANCE SHEET
As of 12/31,

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Utility Plant:			
Utility Plant in Service	\$ 8,221,938	\$ 8,177,945	\$ 8,044,989
Construction Work in Progress			
Less: Accumulated Depreciation	<u>(3,984,678)</u>	<u>(3,780,655)</u>	<u>(3,577,731)</u>
Net Utility Plant in Service	<u>4,237,260</u>	<u>4,397,290</u>	<u>4,467,258</u>
Restricted Assets:			
Debt Service Fund			
Special Funds	51,970	36,609	15,430
Debt Service Reserve			
Total Restricted Assets	<u>51,970</u>	<u>36,609</u>	<u>15,430</u>
Current Assets:			
Cash and Cash Equivalents	120,529	154,332	102,583
Accounts Receivable Less Allowance	12,117	30,718	33,383
Accounts Receivable from Associated Entiti	69,000	154,078	154,078
Materials and Supplies			
Prepays			
Other Current Assets			
Total Current Assets	<u>201,646</u>	<u>339,128</u>	<u>290,044</u>
Deferred Debits			
Bond Issuance Costs, net			
Deferred Rate Case Expense	<u>36,934</u>	<u>-</u>	<u>-</u>
Total Deferred Debits	<u>36,934</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 4,527,810</u>	<u>\$ 4,773,027</u>	<u>\$ 4,772,732</u>

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

COMPARATIVE BALANCE SHEET
As of 12/31,

<u>LIABILITIES</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Equity			
Common Stock Issued	\$ 1,000	\$ 1,000	\$ 1,000
Other Paid in Capital	1,659,309	1,659,309	1,659,309
Retained Earnings	(61,765)	30,450	66,595
Total Equity	<u>1,598,544</u>	<u>1,690,759</u>	<u>1,726,904</u>
Contributions in Aid of Construction	4,450,742	4,432,355	4,310,798
Amortization of CIAC	2,008,992	1,897,723	1,786,914
Net Contributions in Aid of Construction	<u>2,441,750</u>	<u>2,534,632</u>	<u>2,523,884</u>
Long-term Debt			
Other Long-Term Debt	404,180	460,665	480,049
Lease Payable			
Total Long-term Debt	<u>404,180</u>	<u>460,665</u>	<u>480,049</u>
Current Liabilities			
Accounts Payable	1,074		
Current Portion of Long-term Debt			
Accrued Wages			
Accrued Taxes	210	2,406	336
Accrued Interest	1,351	1,464	1,559
Other Current Liabilities	<u>2,635</u>	<u>3,870</u>	<u>1,895</u>
Deferred Credits			
Advances for Construction	80,701	83,101	40,000
Total Deferred Credits	<u>80,701</u>	<u>83,101</u>	<u>40,000</u>
Total Liabilities	<u>\$ 4,527,810</u>	<u>\$ 4,773,027</u>	<u>\$ 4,772,732</u>

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

COMPARATIVE INCOME STATEMENT
Twelve Months Ended 12/31,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues			
Wastewater Sales	\$ 713,662	\$ 716,216	\$ 709,246
Revenues from Other Systems	1,060	1,212	373
Sale of Sludge	616	3,838	3,686
Late Fees	4,551	5,876	6,396
Other Wastewater Revenue	25,833	250	550
Total Operating Revenues	<u>745,722</u>	<u>727,392</u>	<u>720,251</u>
Operating Expenses			
Salaries and Wages	244,459	240,266	288,036
Employee Benefits	18,484	16,184	
Sludge Removal Expense	38,801	27,973	28,388
Purchased Power	78,938	75,282	76,341
Chemicals	9,570	10,072	11,975
Materials and Supplies	53,370	47,193	32,347
Contractual Services - Accounting	10,145	10,635	10,915
Contractual Services - Legal	28		1,129
Contractual Services - Other	25,399	14,228	9,000
Rental of Building / Real Property	6,000	6,000	6,000
Transportation Expense	30,659	14,487	14,249
Insurance - Vehicle	6,820	5,948	5,199
Insurance - General Liability	18,453	14,766	16,208
Insurance - Workman's Compensation	4,097	6,906	6,497
Insurance - Other	-	2,097	-
Bad Debt Expense	6,171	1,907	1,206
Rate Case Expense Amortization	-	-	-
IDEM Fees	2,200	948	-
IURC Fee	856	-	-
Miscellaneous Expense	12,663	21,362	18,860
Total O&M Expense	<u>567,113</u>	<u>516,254</u>	<u>526,350</u>
Depreciation Expense	55,277	92,115	91,830
Amortization Expense - CIAC	37,478		
Taxes Other than Income:			
Payroll Tax	20,834	20,722	23,000
Property Tax	49,503	48,003	47,746
Utility Receipts Tax	10,364		10,167
Income Taxes:			
State Income Tax	-		
Federal Income Tax	-	9,425	
Total Operating Expenses	<u>740,569</u>	<u>686,519</u>	<u>699,093</u>
Net Operating Income	5,153	40,873	21,158
Other Income (Expense)			
Revenues from Merch., Jobbing, & Contract	-	21,519	-
Interest Income	150	50	-
Gain (Loss) on Sale of Assets	-	-	10,200
Nonutility Income	6,462	6,702	-
Miscellaneous Nonutility Expenses	(6,041)	(1,295)	-
Interest Expense	(28,069)	(30,523)	-
Total Other Income (Expense)	<u>(27,498)</u>	<u>(3,547)</u>	<u>10,200</u>
Net Income	<u>\$ (22,345)</u>	<u>\$ 37,326</u>	<u>\$ 31,358</u>

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

ADJUSTED TEST YEAR INCOME STATEMENT

	<u>Test Year</u>	<u>Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues			
Wastewater Sales	713,662		\$ 713,662
Revenues from Other Systems	1,060		1,060
Sludge Hauling Revenue	616		616
Late Fees	4,551		4,551
Other Wastewater Revenue	-	25,833 ⁽¹⁾	25,833
Total Operating Revenues	<u>719,889</u>	<u>25,833</u>	<u>745,722</u>
Operating Expenses			
Salaries and Wages	237,575	6,884 ⁽²⁾	244,459
Employee Benefits	18,484		18,484
Sludge Removal Expense	44,267	(5,466) ⁽²⁾	38,801
Purchased Power	78,938		78,938
Chemicals	9,570		9,570
Materials and Supplies	53,370		53,370
Contractual Services - Accounting	10,145		10,145
Contractual Services - Legal	28		28
Contractual Services - Other	25,399		25,399
Rental of Building / Real Property	6,000		6,000
Transportation Expense	34,883	(1,418) ⁽²⁾ (2,806) ⁽⁵⁾	30,659
Insurance - Vehicle	6,820		6,820
Insurance - General Liability	15,647	2,806 ⁽⁵⁾	18,453
Insurance - Workman's Compensation	4,097		4,097
Bad Debt Expense	6,171		6,171
Rate Case Expense Amortization	-		-
IDEM Fees	3,056	(856) ⁽³⁾	2,200
IURC Fee	-	856 ⁽³⁾	856
Miscellaneous Expense	12,663		12,663
Total O&M Expense	<u>567,113</u>	<u>-</u>	<u>567,113</u>
Depreciation Expense	92,754	(37,477) ⁽⁴⁾	55,277
Amortization Expense - CIAC	-	37,478 ⁽⁴⁾	37,478
Taxes Other than Income:			
Payroll Tax	20,834		20,834
Property Tax	49,503		49,503
Utility Receipts Tax	10,364		10,364
Income Taxes:			
State Income Tax	-		-
Federal Income Tax	-		-
Total Operating Expenses	<u>740,568</u>	<u>1</u>	<u>740,569</u>
Net Operating Income	(20,679)	25,832	5,153
Other Income (Expense)			
Revenues from Merch., Jobbing, & Contract	25,833	(25,833) ⁽¹⁾	-
Interest Income	150		150
Nonutility Income	6,462		6,462
Miscellaneous Nonutility Expenses	(6,041)		(6,041)
Interest Expense	(28,069)		(28,069)
Total Other Income (Expense)	<u>(1,665)</u>	<u>(25,833)</u>	<u>(27,498)</u>
Net Income	<u>(22,344)</u>	<u>\$ (1)</u>	<u>\$ (22,345)</u>

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

ADJUSTED TEST YEAR INCOME STATEMENT

Adjustment No. 1

To reclassify revenues recorded below the line to Account No. 415 - Rev. Jobbing, Contract Work. The expenses related to this revenue are included above the line.

		<u>Debit</u>	<u>Credit</u>
Other Wastewater Revenues			25,833
Revenues from Merch., Jobbing, & Contract	415	25,833	

Adjustment No. 2

To reclassify salary and wage expense incorrectly recorded to other operating expense accounts.

		<u>Debit</u>	<u>Credit</u>
Salary and Wage Expense	701	6,884	
Sludge Hauling Expense	712		5,466
Transportation Expense	750		458
Equipment Expense	750		960

Adjustment No. 3

To reclassify IURC Fees to a separate line within the income statement and separate from IDEM fees recorded as "regulatory expense."

		<u>Debit</u>	<u>Credit</u>
IURC Fee Expense	765	856	
Regulatory Commission Expense - Other			856

Adjustment No. 4

To reflect the amortization of CIAC separately from depreciation expense on the income statement.

		<u>Debit</u>	<u>Credit</u>
Depreciation Expense	403		37,477
Amortization of CIAC	403	37,477	

Adjustment No. 5

To reclassify test year insurance expense.

		<u>Debit</u>	<u>Credit</u>
Insurance Expense	757	2,806	
Equipment Expense	750.1		2,806

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

Pro-forma Net Operating Income Statement

	Year Ended 12/31/2018	Adjustments	Sch Ref	Pro-forma Present Rates	Adjustments	Sch Ref	Pro-Forma Proposed Rates
Operating Revenues							
Wastewater Sales	\$ 713,662	1,031	APP	\$ 714,693	\$ 17,735		\$ 732,428
Revenues from Other Systems	1,060			1,060	26		1,086
Sludge Hauling Revenue	616			616			616
Late Fees	4,551			4,551	113		4,664
Other Wastewater Revenues	25,833			25,833			25,833
Total Operating Revenues	<u>745,722</u>	<u>1,031</u>		<u>746,753</u>	<u>17,874</u>	1	<u>764,627</u>
O&M Expense							
Salaries and Wages	244,459	6,441	5-1	250,900			250,900
Employee Benefits	18,484	(16,444)	APP	4,878			4,878
		2,838	5-2				
Sludge Removal Expense	38,801			38,801			38,801
Purchased Power	78,938	99	APP	79,037			79,037
Chemicals	9,570			9,570			9,570
Materials and Supplies	53,370	(8,194)	5-3	41,966			41,966
		(3,210)	5-4				
Contractual Services - Accounting	10,145	(850)	5-5	9,295			9,295
Contractual Services - Legal	28			28			28
Contractual Services - Other	25,399	(1,000)	5-3	24,399			24,399
Rental of Building / Real Property	6,000			6,000			6,000
Transportation Expense	30,659	-		30,659			30,659
Insurance	29,370	2,109	5-6	31,479			31,479
Bad Debt Expense	6,171			6,171	153	1	6,324
Rate Case Expense	-	6,000	5-7	6,000			6,000
Regulatory Commission Expense - Other	2,200			2,200			2,200
IURC Fee	856	104	5-8	960	23	1	983
Miscellaneous Expense	12,663	8	APP	12,671			12,671
Depreciation Expense	55,277	(2,410)	5-9	52,867			52,867
Amortization Expense	37,478	(46,229)	5-10	(7,576)			(7,576)
Amortization of Software Training Costs		1,175	5-11				
Taxes Other than Income:							
Payroll Tax	20,834	(1,264)	5-12	19,570			19,570
Property Tax	49,503	(733)	APP	48,770			48,770
Utility Receipts Tax	10,364	(10)	5-13	10,354	248	1	10,602
Income Taxes:							
State Income Tax	-	3,185	5-15	3,185	973	1	4,158
Federal Income Tax	-	9,317	5-14	9,317	3,461	1	12,778
Amortization of Excess ADIT		(7,253)	5-16	(7,253)	-		(7,253)
Total Operating Expenses	<u>740,569</u>	<u>(56,321)</u>		<u>684,248</u>	<u>4,858</u>		<u>689,106</u>
Net Operating Income	<u>\$ 5,153</u>	<u>57,352</u>		<u>\$ 62,505</u>	<u>\$ 13,016</u>		<u>75,521</u>

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

OUC Expense Adjustments

(1)
Salary & Wage Adjustment

To increase salary and wage expense to reflect approved 2019 wage increase and to reflect the capitalization of actual connection costs.

<u>Employee Title</u>	<u>Proposed Salary</u>	<u>Affiliate Reimburse</u>	<u>Regular Hours</u>	<u>Proposed Hourly Wage</u>	<u>Total</u>
General Manager	83,720				83,720
Office	80,220	(42,000)			38,220
Supervisor	52,000				52,000
Other Manager	9,600				9,600
Field Staff			2,080	19.50	40,560
Office Staff			2,080	15.25	31,720
<i>Pro forma</i> Salaries and Wages					255,820
Less: Tap Fee Capitalized Labor					(4,920)
Net Salaries and Wages					250,900
Less: Test Year Labor Expense					244,459
Adjustment Increase (Decrease)					\$ 6,441

NOTE: Test year labor expense has been reduced by \$1,665 of tap fee capitalized labor (5 x 333).

Tap Fee Labor:

	<u>Force Main (80%)</u>			<u>Gravity Main (20%)</u>			<u># of Taps</u>	<u>Total Average Labor</u>
	<u>Hr Rate</u>	<u>Hours</u>	<u>\$</u>	<u>Hr Rate</u>	<u>Hours</u>	<u>\$</u>		
Administrative	\$ 106.00	1	106.00	\$ 106.00	1	106.00	5	\$ 530
Field Labor	\$ 37.50	23	862.50	\$ 37.50	25	937.50	5	4,390
			<u>968.50</u>			<u>1,043.50</u>		<u>\$ 4,920</u>

(2)
Employee Benefits - 401(k)

To reflect provision of 401(k) benefits to certain employees.

General Manager	\$ 83,720	4.00%	\$ 3,349
Office Manager	38,220	4.00%	1,529
<i>Pro forma</i> 401(k) Expense			\$ 4,878
Less: Test year			2,040
Adjustment Increase (Decrease)			\$ 2,838

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

OUC Expense Adjustments

(3)

Capital / Non Recurring Expenditures

To remove costs that are capital in nature or non-recurring.

Account	Account Description	Date	Trans Description	Amount	
Contractual Services Other					
736.2	Contr Serv-Coll Exp-Main	10/9/2018	HIRT & ELLCO, INC - ralles tap 23041 hartland court	500	
736.2	Contr Serv-Coll Exp-Main	10/9/2018	HIRT & ELLCO, INC - ryan 732 white ridge tap	500	
					\$ (1,000)
Materials and Supplies:					
720.4	Pump Exp Maintenance	11/13/2018	HESS ELECTRIC MOTOR SERVICE - Zoeller M#F6223-A 15 HP 230V 3 PHASE PUMP S#15190	3,589	
720.4	Pump Exp Maintenance		MSD ENVIRONMENTAL SERVICES, IN	4,605	
					(8,194)
			Adjustment Increase (Decrease)		\$ (9,194)

Note: the MSD Environmental Services transaction is an adjustment proposed by LMH.

(4)

Tap Fee Materials Capitalization

To capitalize the actual test year cost of tap fee materials and supplies.

	<u>Force (80%)</u>	<u>Gravity (20%)</u>		
Equipment Costs	690.00	690.00	690.00	
Materials Costs	249.00	239.00	247.00	
<i>Pro forma</i> Connection Cost	939.00	929.00	937.00	
Times: 5 Test Year Connections			5	
Test Year Connection Costs				4,685.00
Less: Test Year Connection Costs Capitalized				(1,475.00)
				Adjustment Increase (Decrease)
				\$ (3,210)

Contractual Services - Accounting

To remove non-allowed Contractual Services - Accounting

<u>Acct / Description</u>	<u>Date</u>	<u>Transaction Description</u>		
732 - Cont Serv Acct	9/5/18	RISSE, MEIRING & COMPANY, INC. - 2017 jct	425.00	
732 - Cont Serv Acct	9/5/18	RISSE, MEIRING & COMPANY, INC. - 2017 jtt	425.00	
				Adjustment Increase (Decrease)
				\$ (850)

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

OUC Expense Adjustments

(6)

Insurance Expense

To adjust test year insurance expense to reflect changes in insurance premiums.

Commercial - Auto	\$	7,135.00	
Property		14,815	
General Liability		1,628	
Inland Marine		2,739	
Cyber Risk		274	
Terrorism		159	
Workers Compensation		4,729	
<i>Pro forma</i> Insurance Expense			31,479
Less: Test Year insurance expense			<u>29,370</u>

Adjustment Increase (Decrease)

\$ 2,109

(7)

Rate Case Expense

To adjust test year operating expense to include costs associated with this filing.

Applicant's estimate of rate case expense for this filing	\$	30,000	
Divided by: Expected Life of Rates			<u>5</u>
<i>Pro Forma</i> Annual Rate Case Expense			6,000
Less: Test Year Rate Case Expense			<u>-</u>

Adjustment Increase (Decrease)

\$ 6,000

(8)

IURC Fee

To adjust expenses to include the IURC fee

Pro Forma Present Rate Operating Revenues	\$	746,753	
Less: Bad Debt Expense		<u>(6,171)</u>	
Taxable Operating Revenues	\$	740,582	
Times: Current IURC Fee			<u>0.12964080%</u>
<i>Pro Forma</i> IURC Fees			960
Less: Test Year IURC Fee			<u>856</u>

Adjustment Increase (Decrease)

\$ 104

(9)

Depreciation Expense

To adjust test year depreciation expense for adjustments to utility plant in service (Schedule 6).

Gross Utility Plant in Service at 12/31/2018	\$	2,175,688	
Less: Land and Land Rights		<u>(61,000)</u>	
Depreciable Utility Plant			2,114,688
Times: IURC Composite Rate			<u>2.50%</u>
<i>Pro Forma</i> Depreciation Expense			52,867
Less: Test Year Depreciation Expense			<u>(55,277)</u>

Adjustment Increase (Decrease)

\$ (2,410)

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

OUCC Expense Adjustments

(10)

CIAC Amortization

To adjust test year amortization of CIAC for adjustments to utility plant in service (Schedule 6).

Contributions in aid of Construction at 12/31/18	\$ (4,450,742)		
Less: CIAC Associated with Disallowed UPIS	<u>4,100,720</u>		
Depreciable Utility Plant		(350,022)	
Times: IURC Composite Rate		<u>2.50%</u>	
<i>Pro Forma</i> CIAC Amortization			(8,751)
Less: Test Year CIAC Amortization			<u>(37,478)</u>
			<u>\$ (46,229)</u>

(11)

Amortization of Software Training Costs

To amortize software training costs over the life of the rates in this Cause.

Software Training Costs (Attachment MAS-X)	\$ 5,875		
Divided by: 5 Years	<u>5</u>		
			<u>\$ 1,175</u>

(12)

Payroll Tax

To adjust test year payroll taxes to reflect *pro forma* adjustments in Adjustment 6-1

<i>Pro forma</i> Payroll	\$ 255,820		
Times: FICA and Medicare Tax Rate	<u>7.65%</u>		
<i>Pro forma</i> Payroll Tax Expense			19,570
Less: Test Year Payroll Tax Expense			<u>20,834</u>
			<u>\$ (1,264)</u>

(13)

Utility Receipts Tax

to adjust test year utility receipts tax for *pro forma* present rate revenues.

Pro forma Present Rate Revenues	\$ 746,753		
Less: Deduction	(1,000)		
Bad Debt Expense	<u>(6,171)</u>		
Net Taxable Revenues		739,582	
Times: URT Rate		<u>1.40%</u>	
<i>Pro forma</i> Utility Receipts Taxes			10,354
Less: Test Year Utility Receipts Taxes			<u>(10,364)</u>
			<u>\$ (10)</u>

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

OUCG Expense Adjustments

(14)

Federal Income Tax Expense

To adjust Federal Income Taxes to *Pro forma* present rate operating income.

	<u><i>Pro forma</i></u>		
	<u>Present Rates</u>		
Pre-Tax Present Rate Operating Income	\$ 75,007		
Add: Utility Receipts Tax	10,354		
Less: Synchronized Interest Expense	<u>12,109</u>		
Sub Total		73,252	
Less: Utility Receipts Tax		10,354	
State Income Tax		<u>4,029</u>	
Federal Taxable Income			58,869
Times: Federal Tax Rate			<u>21.00%</u>
<i>Pro forma</i> Federal Income Tax			12,362
Less: Test Year Federal Income Tax Expense			<u>-</u>
			<u>\$ 12,362</u>

(15)

State Income Tax Expense

To adjust state Income Taxes to *Pro forma* for present rate operating income.

	<u><i>Pro forma</i></u>		
	<u>Present Rates</u>		
State Taxable Income	73,252		
Times: State Income Tax Rate	<u>5.50%</u>		
<i>Pro forma</i> State Income Tax Expense			4,029
Less: Test Year State Income Tax Expense			<u>-</u>
			<u>\$ 4,029</u>

(16)

Amortization of Excess Accumulated Deferred Income Taxes

To reflect the amortization of excess accumulated deferred income taxes as ordered in Cause No. 45032-S17.

Amortization (before gross-up) per post order compliance filing dated 021-2019	\$ 7,253		
			<u>\$ (7,253)</u>

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

Utility Plant Adjustments

Capitalized Test Year Transactions

Additional Tap Labor	Sch. 5, Adjustment 1	\$	3,255	
Additional Tap Materials and Supplies	Sch. 5, Adjustment 4		3,210	
Tap Cost - Contractual Services	Sch. 5, Adjustment 3		1,000	
Replacement Pump	Sch. 5, Adjustment 4		3,589	
Sludge Press Repair	Sch. 5, Adjustment 4		4,605	
				<u>\$ 15,659</u>

Plant Retirements

Truck and Trailer			18,673	
Sludge Press MSD			4,995	
				<u>\$ 23,668</u>

Plant Additions Already Included in 9/30/07 Rate Base

Sludge Press			67,375	
Building			12,125	
				<u>\$ 79,500</u>

Accumulated Depreciation Adjustments

<u>Unsupported Asset Additions</u>				<u>Asset Value</u>	<u>Annual Depreciation</u>	<u>Years</u>	<u>Accumulated Depreciation Adjustment</u>
Structures & Improvements	354.2	12.31.14	Adjustment	\$ 3,024	\$ 76	4	\$ 304
<u>Plant Retirements</u>							
Transportation	391.7	Various	Truck and Trailer	18,673			18,673
Treatment Plant	354.4	07.01.12	Sludge Press - Replaced	4,995			4,995
<u>Plant Additions already included in 9/30/2007 Utility Plant in Service in CN 43431</u>							
Tools Shop Garage	393.7	01.22.10	Sludge Press	67,375	1,684	9	15,156
General Plant	354.7	01.22.10	Sludge Press Building	12,125	303	9	2,727
<u>Eliminate software training costs</u>							
Office Furniture	390.7	04.06.18	Billing Software	5,875	147	0.75	110
390.7				<u>\$ 112,067</u>			<u>\$ 41,965</u>

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

***Pro forma* Capital Structure**
As of 12/31, 2018

	<u>Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	\$ 1,598,544	66.80%	8.50%	5.6780%
Long Term Debt	404,180	16.89%	6.42%	1.0843%
Shareholder Loans	-	0.00%	0.00%	0.0000%
Deferred Income Taxes	390,200	16.31%	0.00%	0.0000%
Total	<u>\$2,392,924</u>	<u>100.00%</u>		<u>6.7623%</u>

Synchronized Interest Calculation

Total Original Cost Rate Base	\$ 1,116,795
Times: Weighted Cost of Debt	<u>1.084%</u>
Synchronized Interest Expense	<u>\$ 12,109</u>

Employment Contract

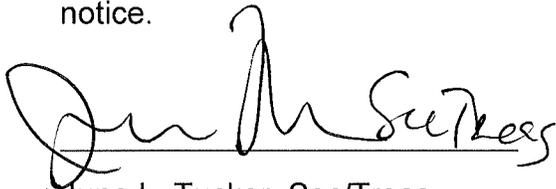
This employment contract between **Tucker Homes Inc. (THINC)** and **LMH Utilities Corporation (LMH)** is entered into this **1st day of January, 2019** for a period of 12 months and under the following terms:

Salary: LMH shall pay THINC the sum of \$800 paid in monthly installments for the term of this contract for work performed by Jeffrey Tucker.

Scope of Work:

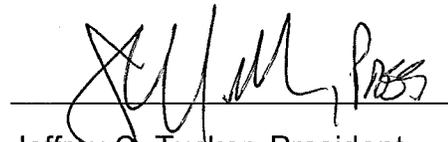
- 5 hours per week average
- Leading the development and implementation of the overall strategy for LMH
- Communication with IURC and IDEM as needed
- Asset management
- Financial planning
- Project management

Termination: Either party has the right to terminate this agreement with 30 days written notice.



June L. Tucker, Sec/Treas

Tucker Homes Inc.



Jeffrey C. Tucker, President

LMH Utilities Corporation

A. Any time that Jay works for affiliated companies is billed on a per hour basis to the affiliate.

Q-8-20: During the test year, Jay Tucker received \$1,450 per week but pro forma salaries reflect \$1,610 per week, an increase of 9.8%. Please provide the justification for this increase in salary.

A. LMH paid health insurance benefits in 2018. As of 1/1/2019 LMH no longer paid for health insurance benefits and this increase is to compensate for the change in benefits.

Q-8-21: Please provide the following information by customer class (residential, commercial, wholesales, multi-family):

- a. Customer count (billings) for each month of the test year;
- b. Customer Revenues for each month of the test year; and
- c. Customer consumption for each month of the test year.

A. See attachment Q8-21.

Q-8-22: In Cause No. 45032-S17, LMH proposed that the method of handling taxes related to contributions in aid of construction (CIAC) be considered in its next base rate case. (See Final Order in Cause No. 45032-S17, ordering paragraph 3) What method of handling taxes on CIAC has LMH chosen and where can this be found in its case in chief filing?

A. LMH is preparing its response to this question and will supplement its response.

Q-8-23: Please provide all general ledger transactions LMH will record to reflect its chosen method for handling income taxes on CIAC, including any transactions LMH believes are necessary to deferred income taxes.

A. LMH is preparing its response to this question and will supplement its response.

Q-8-24: Are the deferred state income taxes reflected at December 31, 2018 restated to reflect the then current state income tax rate of 5.75%? Please explain.

A. Deferred state income taxes as of December 31, 2018, were calculated based on a tax rate of 5.75%.

**LMH Utilities Corporation
CAPITALIZATION POLICY**

1. Purpose

This accounting policy establishes the minimum cost that shall be used to determine the capital assets to be recorded in the accounting records and financial statements of LMH.

2. Definitions

- a. CAPITAL ASSET is a unit of property with a useful life exceeding one year and a per unit acquisition cost exceeding \$2,500. Capital assets will be capitalized and depreciated over their useful lives. The full acquisition cost of tangible personal property below these thresholds will be expensed in the year purchased.
- b. REPAIR is an expense that keeps the property in ordinary efficient operating condition. The cost of the repair does not add to the value or prolong the life of the asset. All repair expenses are recorded in the appropriate general ledger accounts.
- c. ROUTINE MAINTENANCE is recurring activities expected to be performed as a result of use to keep building structures, pumps, main lines, manholes, vehicles and other property in its ordinarily efficient operating condition.
- d. IMPROVEMENTS are expenses for betterments, restorations, or adapting to a new or different use. Improvements prolong the life of the asset, materially increase its value or productivity, or adapt it to a different use.
- e. MATERIALS AND SUPPLIES are items acquired to maintain, repair, or improve tangible property. Materials and supplies are expected to be consumed in less than 1 year.

3. Policies

All Capital Assets are recorded at historical cost as of the date acquired. Tangible assets costing below \$2,500 are recorded as an expense in the accounting records of LMH. In addition, assets with an economic useful life of 12 months or less must be expensed for both book and financial reporting purposes.

4. Documentation

Invoices substantiating the acquisition cost of each unit of property are to be retained for a minimum of 7 years.

We, the undersigned directors do hereby approve the LMH Capitalization Policy on this 2nd day of January, 2020



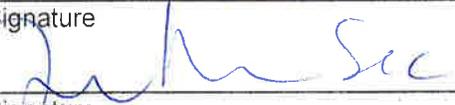
Signature



Signature



Signature



Signature

Risse, Meiring and Company, Inc. CPA's

P.O. Box 200
13 North Main Street
Fort Loramie, OH 45845
kmeiring@rmc-cpa.com



Phone
937-295-3813

Fax
937-295-5252

LMH UTILITIES CORPORATION
2005 JAMISON DRIVE, SUITE 104
LAWRENCEBURG, IN 47025

Invoice: 18518
Date: 09/05/2018

PROFESSIONAL SERVICES RENDERED FOR:

CALLS, AND EMAILS CONCERNING 2017 TAX INFORMATION FOR THE SHAREHOLDERS.

2017 - 8879-IRS e-FILE SIGNATURE AUTHORIZATION

2017 - 1040 U.S. INDIVIDUAL INCOME TAX RETURN AND ALL RELATED SCHEDULES.

2017 - IT-40 STATE OF INDIANA FULL-YEAR RESIDENT INDIVIDUAL INCOME TAX RETURN.

FEE: \$425.00

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Risse, Meiring and Company, Inc. CPA's

P.O. Box 200
13 North Main Street
Fort Loramie, OH 45845
kmeiring@rmc-cpa.com



Phone
937-295-3813

Fax
937-295-5252

LMH UTILITIES CORPORATION
2005 JAMISON DRIVE, SUITE 104
LAWRENCEBURG, IN 47025

Invoice: 18519
Date: 09/05/2018

PROFESSIONAL SERVICES RENDERED FOR:

CALLS, AND EMAILS CONCERNING 2017 TAX INFORMATION FOR THE
SHAREHOLDERS. RESEARCH DEBT CANCELLATION INCOME AND EXEMPTIONS.

2017 - 8879-IRS e-FILE SIGNATURE AUTHORIZATION

2017 - 1040 U.S. INDIVIDUAL INCOME TAX RETURN AND ALL RELATED SCHEDULES.

2017 - IT-40 STATE OF INDIANA FULL-YEAR RESIDENT INDIVIDUAL INCOME TAX
RETURN.

FEE: \$425.00

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All invoices due upon receipt. We currently accept VISA, MasterCard, and Discover Credit Cards. Please visit <https://secure.cpacharge.com/pages/rmc-cpa/payments> to pay your invoice by credit card. In the event the purchaser fails to pay pursuant to the terms herein, the purchaser hereby agrees to pay interest thereon at the rate of 2% per month or 24% annual and agrees to pay all expenses reasonable collection and/or attorney's fees to the extent permitted by law, incurred in the collection by suit or otherwise, or any amount payable under this invoice.

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

Revenue Requirement Comparison

	<u>Cause No.</u> <u>45307-U</u>	<u>Cause No.</u> <u>43431 (a)</u>	<u>OUCG</u> <u>More (Less)</u>
Original Cost rate Base	\$ 1,252,447	\$ 1,615,113	\$ (362,666)
Times: Weighted Cost of Capital	8.43%	9.43%	-1.00%
Net Operating Income Required for Return on Rate base	105,567	152,305	(46,738)
Less: Adjusted Net Operating income	(17,901)	152,305	(170,206)
Net Revenue Requirement	123,468	\$ -	\$ 123,468
Gross Revenue Conversion Factor	137.32%		
Recommended Revenue Increase	<u>\$ 169,546</u>		
Recommended Percentage Increase	<u>23.57%</u>		
Net Operating Income Summary:			
Operating Revenues	\$ 720,920	775,180	(54,260)
Operating Expenses	738,821	622,687	116,134
	<u>(17,901)</u>	<u>152,493</u>	<u>(170,394)</u>
Increase (Decrease) in Operating Revenues:			
Current Rate Operating Revenues in CN 43431-U		\$ 672,840	
CN 43431-U Increase to Operating Revenues		131,012	
CN 45032 Reduction to Income Taxes (TD 50166)		(18,469)	
Cn 45032 - Reuction for amortizaiton of excess ADIT (S17)		(10,203)	
Operating Revneues under Authorized Rates in CN 43431-U as adjusted		775,180	
Less: Current Rate Operating Revneues in CN 45307-U		720,920	
(Over) Under Recovery of Operating Revenues		<u>\$ 54,260</u>	

(a) As Adjusted by the Commission's tax investigation, Cause No. 45032.

LMH Utilities, Inc.
CAUSE NUMBER 45307-U

Revenue Requirement Comparison

	<u>Cause No.</u> <u>45307-U</u>	<u>Cause No.</u> <u>43431 (a)</u>	<u>OUCC</u> <u>More (Less)</u>
<u>Determination of Adjusted Net Operating Income:</u>			
Revenues	\$ 720,920	\$ 775,180	\$ (54,260)
Operating Expenses			
Salaries and Wages	256,620	184,889	71,731
Employee Benefits	10,265	16,925	(6,660)
Sludge Removal Expense	44,267	98,770	(54,503)
Purchased Power	79,037	64,529	14,508
Chemicals	9,570	8,287	1,283
Materials and Supplies	53,370	50,071	3,299
Capital Expenditures	(12,810)	-	(12,810)
Contractual Services - Engineering	-	5,560	(5,560)
Contractual Services - Accounting	10,145	4,005	6,140
Contractual Services - Legal	28	15,365	(15,337)
Contractual Services - Other	25,399	28,921	(3,522)
Rental of Building / Real Property	6,000	-	6,000
Transportation Expense	34,883	-	34,883
Insurance Expense	31,479	11,790	19,689
Bad Debt Expense	6,171	-	6,171
Rate Case Expense	22,311	33,642	(11,331)
Regulatory Commission Expense - Other	3,056	-	3,056
Miscellaneous Expense	12,671	27,539	(14,868)
Adjustment 13 - Overcollections	10,272	-	10,272
Adjustment 14 - Amortization of Excess ADIT	(17,997)	-	(17,997)
Affiliated Services/Contracts	-	(4,785)	4,785
Non-Recurring Expenses	-	(15,845)	15,845
Reverse Prior Year Accrual	-	(41,217)	41,217
Maintenance & Repairs	-	1,770	(1,770)
IURC Fee	79	9	70
Depreciation Expense	92,755	42,007	50,748
Taxes Other than Income:			
Payroll Tax	20,078	14,463	5,615
Property Tax	48,770	26,789	21,981
Utility Receipts Tax	9,992	9,406	586
Income Taxes:			
State Income Tax	(3,362)	6,121	(9,483)
Federal Income Tax	(14,229)	9,120	(23,349)
Additional Taxes on Rate Increase	-	53,228	(53,228)
Additional Taxes - 30 Day Filing in CN 45032	-	(18,469)	18,469
	-	(10,203)	10,203
Adjusted Net Operating Income	\$ (17,901)	\$ 152,493	\$ (170,394)

- d) Explain why the payments to Hrezo Engineering were not recorded to a utility plant in service account.
- e) Did LMH receive monies from a customer(s) to pay for a main extension?

A.

- a. See attachment Q8-5
- b. The advances were posted to a CWIP account in error.
- c. These payments were costs incurred for the main extension.
- d. Had the advances been recorded correctly, the payments would be shown as CWIP as the project was not yet complete until 2019.
- e. Yes, LMH received \$15,800 for this main extension from Uchtman/Polley.

Q-8-6: Please provide the balance for each of the following accounts as of December 31st in each of the years 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009, and 2008. Please also indicate whether the balance is a debt or a credit.

- 101.5 – Disallowed Plant in Service
- 108.5 – Disallowed Accumulated Depreciation
- 190.3 – Deferred Federal Tax Asset
- 190.4 – Allowance Deferred Fed Taxes
- 190.5 – Deferred Tax Asset – State
- 190.6 – Allowance – State Def Taxes
- 211.5 – Disallowed Equity (Cause 43431)
- 271.5 – Disallowed CIAC
- 272.5 – Disallowed Accumulated Amortization of CIAC
- 282.1 – Deferred Income Taxes – Federal
- 282.2 – Deferred Income Taxes – State

A. See attachment Q8-6.

Q-8-7: During the test year, LMH recorded \$25,832.70 of revenues from jobbing and contract work (Acct 415). Where are the costs of providing these services recorded in LMH's test year general ledger?

A. Nonutility Expenses GL Account 426.

Q-8-8: Please state the amount of (1) equipment costs, (2) labor costs, (3) contractor costs, and (4) material costs included in the calculation of LMH's proposed connection fee.

A. See attachment Q8-8.

b. Were these funds used to pay for utility plant?

A.

a. As ordered under Cause No. 43431, LMH has been depositing SDC charges received into an interest-bearing account. The customer typically pays for both the tap fee and the SDC with one check and therefore both are deposited into the SDC account. The transfer amounts are to remove the tap fees, which are not restricted in use by Cause No. 43431, into operating cash. See attachment Q-11-7 for calculation of the overfunded amount.

b. No. See response above.

Q-11-8: Account 421 “Nonutility Income” reflected \$6,462.08 of revenues and Account 426 reflected \$6,041.34 of expenses. How much of the \$6,041.34 of nonutility expenses relate to jobbing revenue and how much relate to nonutility income? Please explain. (Note: In response to OUCG DR 8-7, LMH stated the costs related to the \$25,832.70 of revenues from jobbing and contract work (Acct 415) were recorded to Account 426 – Nonutility Expenses.)

A. None of the nonutility expenses relate to jobbing income. They all relate to nonutility income.

UNIFORM SYSTEM OF ACCOUNTS FOR CLASS A WASTEWATER UTILITIES

1996



NATIONAL ASSOCIATION OF
REGULATORY UTILITY COMMISSIONERS

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WASTEWATER OPERATION AND MAINTENANCE EXPENSE ACCOUNTS

701. Salaries and Wages - Employees

This account shall include the compensation (salaries, bonuses and other consideration of services) paid or accrued to employees of the utility company for work related to operation and maintenance of that utility company. This account shall not include the salaries and wages of officers, directors or majority stockholders of the utility company.

703. Salaries and Wages - Officers, Directors and Majority Stockholders

This account shall include the compensation (salaries, bonuses and other consideration for services) paid or accrued to officers, directors or majority stockholders of the utility company.

704. Employee Pensions and Benefits

This account shall include all accruals under employee pension plans to which the utility has irrevocably committed such funds, and payments for employee accident, sickness, hospital and death benefits or insurance therefor. Include also expenses for medical, educational or recreational activities of employees.

710. Purchased Wastewater Treatment

A. This account shall include the cost at the point of delivery of wastewater treatment provided by another entity.

B. The records supporting this account shall be so kept as to show for each entity from which wastewater treatment is purchased, point of delivery, quantity treated, basis of charges, and the cost of wastewater treatment.

711. Sludge Removal Expense

This account shall include the costs of removal of sludge if such work is performed by persons other than owners, stockholders, and employees of the utility.

715. Purchased Power

This account shall include the cost of all electric power expense incurred by the utility.

716. Fuel For Power Production

A. This account shall include the cost of fuel used in the production of power to operate the pumps and other equipment used in the wastewater treatment process. Records shall be maintained to show the quantity and cost of each type of fuel used.

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF LMH)
UTILITIES, INC. FOR A NEW SCHEDULE OF) CAUSE NO. 45307-U
RATES AND CHARGES)

**PETITION OF LMH UTILITIES CORPORATION RESPONSES TO THE INDIANA
OFFICE OF UTILITY CONSUMER COUNSELOR'S
ELEVENTH SET OF DATA REQUESTS**

Comes now LMH Utilities, Inc., by counsel, and submits to the Indiana Office of the Utility Consumer Counselor (“OUCC”) its responses to the OUCC’s Eleventh Set of Data Requests dated March 9, 2020, as follows:

II. Data Request.

Q-11-1: There are two transactions recorded during the test year with Risse, Meiring & Company for which the transaction reference mentions 2017. Are these transactions for services incurred prior to the test year? If no, please explain how these costs are related to the test year and whether they are recurring. Please also provide copies of the invoices.

732	Contractual Serv-Accounting	9/5/18	18518	PJ	RISSE, MEIRING & COMPANY, INC. - 2017 jct	425.00
732	Contractual Serv-Accounting	9/5/18	18519	PJ	RISSE, MEIRING & COMPANY, INC. - 2017 jtt	425.00

A. These charges are for tax preparation services provided as a fringe benefit to the shareholders. This is for services performed in 2018 for the 2017 tax year. Invoice attached as Q-11-1.

Q-11-2: Please provide the breakdown of the \$26,750 of *pro forma* liability insurance by type of insurance and provide supporting documentation for these premiums. (See Adjustment No. 7.)

A. See attachment Q-11-2.



**PUBLIC UTILITY FEE REPORT – RURAL WASTEWATER UTILITY REPORTS –
CLASS A, B, & C**
State Form 50499 (R12 / 1-20)
INDIANA UTILITY REGULATORY COMMISSION

CALENDAR YEAR 2019

Utility Identification Number: _____
Utility Name: _____
Street Address (number and street): _____
City/State/ZIP: _____
Telephone Number: () _____

ACCOUNT NUMBER	ACCOUNT TITLE	TOTAL OPERATING REVENUE	TOTAL INTRA-STATE REVENUE
521.1	Flat Rate Residential Revenues	_____	_____
521.2	Flat Rate Commercial Revenues	_____	_____
521.3	Flat Rate Industrial Revenues	_____	_____
521.4	Flat Rate Revenues From Public Authorities	_____	_____
521.5	Flat Rate Multiple Family Dwelling Revenues	_____	_____
521.6	Flat Rate Other Revenues	_____	_____
522.1	Measured Residential Revenues	_____	_____
522.2	Measured Commercial Revenues	_____	_____
522.3	Measured Industrial Revenues	_____	_____
522.4	Measured Revenues From Public Authorities	_____	_____
522.5	Measured Multiple Family Dwelling Revenues	_____	_____
524	Revenues From Other Systems	_____	_____
536	Other Wastewater Revenues	_____	_____
770	Bad Debt Expense - Debit	_____	_____
TOTAL		<u>0.00</u>	<u>0.00</u>

I certify that the foregoing information is accurate and is in agreement with the books and records of the utility for the year ended December 31, 2019.

Signature: _____
Printed Name: _____
Title: _____
Telephone Number: () _____

Address to send fee bill to (if different than above):

Name: _____
Business Name: _____
Street Address (number and street): _____
City/State/ZIP: _____
Telephone Number: () _____

Return completed forms to:

IURC
101 W. Washington St., Suite 1500-E
Indianapolis, IN 46204
Fax: (317) 232-6758
E-mail: feebilling@urc.in.gov