

# OFFICIAL EXHIBITS

FILED  
October 15, 2018  
INDIANA UTILITY  
REGULATORY COMMISSION

**SOUTH HAVEN SEWER WORKS, INC.**

**IURC CAUSE NO. 45032-S18**

**IURC  
RESPONDENT'S**  
EXHIBIT NO. 15  
10-31-18 AT  
DATE REPORTER

**SETTLEMENT TESTIMONY  
OF  
BOBBY D. ESTEP  
CONTROLLER, AQUA INDIANA, INC.**

**SPONSORING RESPONDENT'S EXHIBIT NO. 1-S  
ATTACHMENTS A AND B**

1   **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   A.   My name is Bobby D. Estep. My business address is 14421 Illinois Road, Fort  
3       Wayne, IN 46814.

4   **Q.   ARE YOU THE SAME BOBBY D. ESTEP WHO PREVIOUSLY FILED**  
5       **TESTIMONY IN THIS CAUSE?**

6   A.   Yes.

7   **Q.   WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

8   A.   My testimony supports the Stipulation and Settlement Agreement ("Settlement  
9       Agreement") entered into between South Haven Sewer Works, Inc. ("South  
10      Haven" or "Respondent") and the Indiana Office of Utility Consumer Counselor  
11      ("OUCC") (collectively, the "Settling Parties").

12   **Q.   PLEASE DESCRIBE THE SETTLEMENT AGREEMENT.**

13   A.   The Settlement Agreement addresses all issues relating to South Haven's Phase  
14      2 tax proceeding, as defined by the Commission's investigation into the impacts  
15      of the Tax Cuts and Jobs Act of 2017 (the "Act") in Cause No. 45032-S18. If  
16      approved by the Commission, the Settlement Agreement will provide a surcharge  
17      credit to customers of South Haven on a prospective basis.

18   **Q.   WERE THE SCHEDULES THAT CONSTITUTE SETTLEMENT AGREEMENT**  
19       **ATTACHMENT A PREPARED BY YOU OR UNDER YOUR DIRECT**  
20       **SUPERVISION?**

21   A.   Yes, they were, along with input from the OUCC.

22   **Q.   PLEASE DISCUSS SECTION 1.A OF THE SETTLEMENT AGREEMENT.**

1 A. Section 1.A of the Settlement Agreement sets forth the Settling Parties'  
2 agreement with respect to the protected and unprotected excess accumulated  
3 deferred income tax ("ADIT") balance as of December 31, 2017. The protected  
4 and unprotected ADIT is calculated using the 21% corporate federal income tax  
5 rate versus the previous tax rate of 35% used by South Haven. Schedule 2 of  
6 Settlement Agreement Attachment A also includes the amounts of Indiana  
7 shared items (such as IT assets) that have been allocated to South Haven, as I  
8 described in my direct testimony. The Settlement Agreement reflects the Settling  
9 Parties' agreement that as of December 31, 2017, South Haven's protected ADIT  
10 balance totals (\$693,376), and its unprotected ADIT balance totals \$9,041.

11 **Q. CAN YOU EXPLAIN WHY THE UNPROTECTED ADIT BALANCE IS A**  
12 **POSITIVE NUMBER?**

13 A. As of December 31, 2017, South Haven has non-plant related deferred tax  
14 assets ("DTA") on its books. The deferred tax assets were related primarily to  
15 bad debts that were expensed on the books but not deducted on the tax returns.  
16 The restatement of deferred taxes to 21% due to the Act gave rise to a reduction  
17 of the DTA which is recoverable from ratepayers.

18 **Q. DID SOUTH HAVEN ENGAGE IN DISCUSSIONS WITH THE OUCC IN**  
19 **ASCERTAINING THESE ADIT BALANCE FIGURES?**

20 A. Yes, particularly with respect to the unprotected ADIT balance. Margaret Stull of  
21 the OUCC and I engaged in many settlement discussions related to various  
22 aspects of the schedules, including the appropriate inputs and methodology by

1 which to calculate the ADIT balances. In addition to discussions related to  
2 calculation of ADIT balances, we also discussed the appropriate amortization  
3 period for the unprotected ADIT balance, application of the average rate  
4 assumption method ("ARAM"), the allocation of shared assets among South  
5 Haven and Aqua Indiana, Inc.'s divisions, the accounting for the ADIT reversals,  
6 calculating the rate impact to customers, how to handle the over-collection of  
7 income tax expense for the first few months of 2018, as well as other  
8 miscellaneous issues.

9 **Q. PLEASE DESCRIBE THE ISSUES RELATED TO THE APPLICATION OF**  
10 **ARAM.**

11 A. As shown on Note 1 of Schedule 2 to Settlement Agreement Attachment A,  
12 South Haven proposes to apply ARAM to calculate the amortization period for its  
13 protected excess ADIT balance. The Settling Parties agreed that application of  
14 ARAM would result in an annual revenue reduction of \$26,021 for the protected  
15 ADIT balance, as explained in Section 1.B of the Settlement Agreement. The  
16 amount agreed to in the Settlement Agreement reflects a different amount from  
17 what South Haven proposed in its initial filing. South Haven and the OUCC  
18 agreed to a different figure largely due to the fact that the original filing proposed  
19 reversing the excess ADIT balances using the 2018 (year 1) estimated ARAM  
20 calculation. Following negotiations, the Settling Parties agreed to use a 5-year  
21 average ARAM amount to normalize the return of the excess deferred taxes to  
22 ratepayers.

1 **Q. WERE THERE ALSO ISSUES ADDRESSED RELATING TO THE**  
2 **UNPROTECTED ADIT?**

3 A. Yes. Settlement Agreement Attachment A reflects that the Settling Parties have  
4 agreed to a three-year amortization period. The OUCC and South Haven  
5 discussed the appropriateness of this length of amortization period, as well as  
6 the underlying amount to which the amortization period would apply. The impact  
7 of amortized unprotected excess ADIT balance is set forth in Section I.C of the  
8 Settlement Agreement.

9 **Q. DOES THE SETTLEMENT AGREEMENT REASONABLY RESOLVE THE**  
10 **SETTLING PARTIES' DIFFERENCES REGARDING THE CALCULATION OF**  
11 **THE PROTECTED AND UNPROTECTED ADIT BALANCES?**

12 A. Yes. While South Haven believed in the reasonableness of its initial positions,  
13 the Parties were able to amicably resolve their differences as set forth in the  
14 Settlement Agreement.

15 **Q. PLEASE DISCUSS SECTION I.D OF THE SETTLEMENT AGREEMENT.**

16 A. Section I.D of the Settlement Agreement sets forth the Settling Parties'  
17 agreement as to the amount of South Haven's accounting to comply with the  
18 Commission's January 3, 2018 directive to begin using regulatory accounting for  
19 all estimated impacts resulting from the Act. I understand that the OUCC  
20 confirmed South Haven's accounting treatment, computation methodology, and  
21 accumulated balance of \$66,641 as contained in Settlement Agreement  
22 Schedule 7.

1   **Q.   WHAT DOES THE SETTLEMENT AGREEMENT DESCRIBE WITH RESPECT**  
2       **TO RETURNING THE REGULATORY BALANCES TO SOUTH HAVEN'S**  
3       **RATEPAYERS?**

4   A.   Section I.E reflects the Settling Parties' agreement that South Haven will return  
5       the regulatory balance to its ratepayers by applying a surcharge credit (*i.e.*,  
6       negative surcharge) to customers' bills. Schedule 1 of Settlement Agreement  
7       Attachment A shows that the Settling Parties agree there will be three surcharge  
8       credit changes over the course of four years. The Settling Parties agree that in  
9       year one, the surcharge credit will be 2.56%, which represents the return of the  
10      entirety of the return of the regulatory liability, as well as normalized ARAM  
11      reversal of protected excess ADIT and the amortization of unprotected excess  
12      ADIT.

13   **Q.   HOW IS THE 2.56% SURCHARGE CREDIT DIFFERENT FROM SOUTH**  
14      **HAVEN'S INITIAL PROPOSAL?**

15   A.   As discussed above, certain inputs were different, resulting in a different total  
16      amount to return to customers. But the OUCC also disagreed with calculating  
17      the surcharge credit by dividing such amount by the 2018 projected revenue, as  
18      South Haven initially proposed. Rather, the OUCC proposed the reduction in  
19      rates be based on the revenue requirement used in each utility's most recent  
20      base rate case. South Haven agreed that this was a reasonable position, and  
21      the Settling Parties agreed to such.

1   **Q.   HOW HAVE THE SETTling PARTIES AGREED TO HANDLE THE**  
2       **SITUATION OF THE SURCHARGE CREDIT RESULTING IN AN OVER-**  
3       **REFUND OR OVER-REFUND TO RATEPAYERS?**

4   A.   To the extent the surcharge credit percentage in a given year results in either an  
5       over-refund or under-refund to ratepayers, such amount will be trued-up or  
6       reconciled and used in the calculation of the next year's surcharge credit. This  
7       agreement is set forth in Section I.F of the Settlement Agreement.

8   **Q.   PLEASE DISCUSS SECTION I.G OF THE SETTLEMENT AGREEMENT.**

9   A.   Section 1.G addresses the Settling Parties' agreement as to how to the timing of  
10      the application of the annual surcharge credit. To the extent that the amount of  
11      the surcharge credit differs from year to year, the Settling Parties agreed that  
12      South Haven will file a revised tariff sheet reflecting the amount of the surcharge  
13      credit percentage for each year. The first revised tariff sheet will be reflected in  
14      the first full billing month following a Final Order approving the Settlement  
15      Agreement. The Settling Parties agree that the revised tariff sheet for year 1,  
16      attached as Settlement Agreement Attachment B, properly implements the  
17      surcharge credit to be applied. Because of the potential for reconciliations as set  
18      forth in Section 1.F, the Settling Parties agreed that South Haven would have  
19      until April 1<sup>st</sup> of the following year to submit the tariff for such the next twelve-  
20      month period. To coordinate with the OUCC, South Haven has agreed to  
21      provide the OUCC with its proposed tariff for the next twelve-month period, as

1 well as any reconciliations and supporting workpapers, for the OUCC's review  
2 and input.

3 **Q. PLEASE DISCUSS SECTION I.H OF THE SETTLEMENT AGREEMENT.**

4 A. The Commission, in its April 29, 2015 Order in Cause No. 44533, authorized  
5 South Haven to merge into Aqua Indiana, Inc., subject to the satisfaction of  
6 certain conditions. Section I.H of the Settlement Agreement sets forth the Settling  
7 Parties' recognition of such Order, and provides that, upon the consummation of  
8 the merger of South Haven into Aqua Indiana, Inc., the obligations of South  
9 Haven as set forth in this Settlement Agreement will transfer to Aqua Indiana,  
10 Inc.

11 **Q. PLEASE DISCUSS SECTION I.I OF THE SETTLEMENT AGREEMENT.**

12 A. Section I.I of the Settlement Agreement memorializes the Settling Parties'  
13 agreement that the Settlement Agreement fully addresses all impacts of the Act  
14 on South Haven's rates and charges.

15 **Q. WHAT OTHER PROVISIONS ARE CONTAINED IN THE SETTLEMENT**  
16 **AGREEMENT?**

17 A. Sections II and III of the Settlement Agreement set forth the terms relating to  
18 presentation of the Settlement Agreement and the effect and use of the  
19 Settlement Agreement. These provisions are terms and conditions commonly  
20 found in settlements presented to the Commission, including that the Settlement  
21 Agreement is a compromise and will be null and void unless approved in its



1           entirety without modification or further condition that is unacceptable to any  
2           Settling Party.

3   **Q.    IN YOUR OPINION, IS THE SETTLEMENT AGREEMENT IN THE PUBLIC**  
4   **INTEREST?**

5   A.    Yes. The Settlement Agreement fully and fairly addresses all issues associated  
6           with the impact of the Act on South Haven's rates and charges. The Settlement  
7           Agreement is supported by and within the scope of the evidence presented by  
8           the Settling Parties. The Settlement Agreement was the result of extensive arms'  
9           length, good faith negotiations. In my opinion, the Settlement Agreement is in  
10          the public interest and should be approved by the Commission in all respects.

11   **Q.    DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

12   A.    Yes, at this time.

**VERIFICATION**

I have read the foregoing testimony and the factual matters reflected therein are true and correct to the best of my knowledge, information and belief.

  
Bobby D. Estep