

FILED
JULY 25, 2019
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
MORGAN COUNTY RURAL WATER)
CORPORATION, A NON-PROFIT PUBLIC)
UTILITY LOCATED IN MARTINSVILLE,)
INDIANA, FOR APPROVAL OF A NEW)
SCHEDULE OF RATES AND CHARGES FOR)
WATER UTILITY SERVICE)

CAUSE NO. 45198

SETTLEMENT TESTIMONY

OF

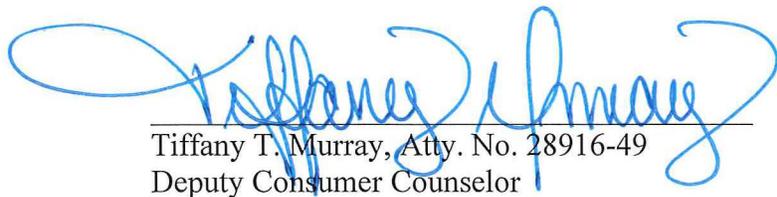
JEROME D. MIERZWA - PUBLIC'S EXHIBIT NO. 2S

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

July 25, 2019

Respectfully Submitted,

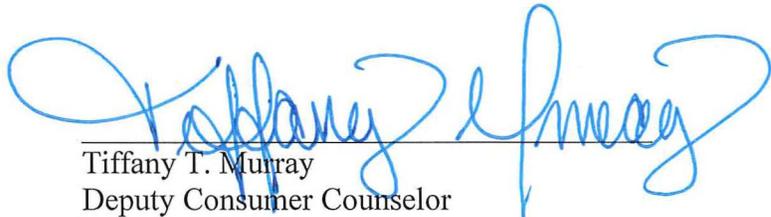


Tiffany T. Murray, Atty. No. 28916-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

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

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**BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE PETITION OF)
MORGAN COUNTY RURAL WATER)
CORPORATION, A NON-PROFIT UTILITY) CAUSE NO. 45198
LOCATED IN MARTINSVILLE, INDIANA, FOR)
APPROVAL OF A NEW SCHEDULE OF RATES)
AND CHARGES FOR WATER UTILITY SERVICE)**

VERIFIED TESTIMONY

IN SUPPORT OF SETTLEMENT

of

JEROME D. MIERZWA

On Behalf of

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

July 25, 2019

EXETER

ASSOCIATES, INC.
10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

VERIFIED TESTIMONY IN SUPPORT OF SETTLEMENT
OF JEROME D. MIERZWA
CAUSE NO. 45198
MORGAN COUNTY RURAL WATER CORPORATION

1 **I. INTRODUCTION**

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

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

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

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

1 interstate pipeline and spot market supply gas price projections. These forecasts were
2 utilized for internal planning purposes as well as in NFG Distribution's state
3 purchased gas cost review proceedings.

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

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

14 A. Yes. I have provided testimony on more than 325 occasions in proceedings before
15 the Federal Energy Regulatory Commission ("FERC"), utility regulatory
16 commissions in Arkansas, Delaware, Georgia, Illinois, Louisiana, Maine,
17 Massachusetts, Montana, Nevada, New Jersey, Ohio, Pennsylvania, Rhode Island,
18 Texas, Utah, and Virginia, as well as before this Commission.

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

20 A. On February 1, 2019, Morgan County Rural Water Corporation ("MCRW") filed a
21 petition with the Commission to increase its rates for water service by \$295,613, or
22 15.4 percent. Exeter was retained by the Indiana Office of Consumer Counselor
23 ("OUCC") to review MCRW's class cost of service study ("CCOSS") and rate design
24 proposals. On June 24, 2019, MCRW and the OUCC (collectively, the "Parties")
25 notified the Commission that a settlement in principle had been reached in this Cause.

1 The purpose of this testimony is to provide the Commission with the background for,
2 and explain certain terms of, the *Joint Stipulation and Settlement Agreement*
3 (“Agreement”) reached by the Parties. The Agreement is a comprehensive
4 settlement, addressing revenue requirements, cost allocation, and rate design. More
5 specifically, my testimony addresses the cost allocation and rate design aspects of the
6 Agreement. OUCC witness Thomas Malan addresses the revenue requirement
7 aspects of the Agreement. My testimony concludes by recommending that the
8 Commission approve the Agreement.
9

10 **II. BACKGROUND**

11 **Q. PLEASE BRIEFLY DESCRIBE THE HISTORY LEADING UP TO THE**
12 **EXECUTION OF THE AGREEMENT.**

13 A. Prior to the filing of the OUCC’s case-in-chief, MCRW and the OUCC held
14 discussions exploring the potential resolution of issues in this proceeding through a
15 settlement. On June 6, 2019, the Parties filed a *Joint Motion to Modify Procedural*
16 *Schedule* (“Joint Motion”) notifying the presiding Administrative Law Judge that the
17 Parties have been engaged in settlement discussions and have made progress toward
18 reaching a settlement in principle in this Cause. The Joint Motion sought to modify
19 the existing procedural schedule in order to allow for those ongoing settlement
20 discussions to progress. On June 24, 2019, the Parties filed a *Notice of Settlement*
21 notifying the Commission that a settlement in principle had been reached, and
22 requested leave to further modify the procedural schedule.

23 **Q. PLEASE IDENTIFY THE CUSTOMER CLASSES SERVED BY MCRW.**

24 A. MCRW serves Residential, Commercial, and Public Authority/Other customer
25 classes.

1 **III. SETTLEMENT OF COST ALLOCATION AND RATE DESIGN ISSUES**

2 **Q. IN ITS PETITION, MCRW PRESENTED A CCOSS. DID MCRW PROPOSE**
3 **A REVENUE DISTRIBUTION AND RATES BASED ON THE RESULTS OF**
4 **ITS CCOSS?**

5 A. No. MCRW's present rates consist of a monthly customer charge which varies by
6 meter size and includes a minimum usage charge. MCRW's present schedule of
7 volume, or usage, charges consist of five separate rate blocks under which charges
8 decline as usage increases. MCRW claimed that adopting cost of service-based rates
9 in this proceeding for each customer class would result in rate shock for Commercial
10 and Public Authority/Other customers. To mitigate rate shock, MCRW proposed
11 adopting a uniform schedule of rates which would be applicable to each customer
12 class. MCRW's proposed rates continued to consist of a monthly customer charge
13 which varied by meter size; however, the minimum usage charge was eliminated. In
14 addition, MCRW proposed to reduce its current five block schedule of usage rates to
15 a single block usage charge.

16 **Q. ALTHOUGH MCRW DID NOT PROPOSE RATES BASED ON THE**
17 **RESULTS OF ITS CCOSS, WAS THE CCOSS REASONABLE?**

18 A. MCRW's CCOSS was prepared using the base-extra capacity method set forth in the
19 American Water Works Association's ("AWWA") *Principles of Water Rates, Fees*
20 *and Charges* ("AWWA M-1 Manual"). This method is the most commonly used and
21 recognized method of allocating costs to customer classes for water utilities. My
22 review generally found MCRW's use of the base-extra capacity method to be
23 reasonable. However, had the OUCC filed its case-in-chief in this proceeding, I
24 would have suggested several minor modifications to MCRW's CCOSS. Those
25 modifications would not have had a material impact on the results of the CCOSS.

1 **Q. WHAT WAS THE IMPETUS BEHIND THE PARTIES' AGREEMENT WITH**
2 **RESPECT TO RESOLUTION OF THE COST ALLOCATION AND RATE**
3 **DESIGN ISSUES?**

4 A. The Parties' Agreement relating to resolution of the cost allocation and rate design
5 issues was structured to reach a mutually acceptable resolution of the issues, and
6 avoid the risk, expense, and administrative burden of further litigation. The
7 Agreement is the result of arms-length bargaining between and among the Parties.
8 While each Party believed strongly in its respective position, they were able to put
9 aside those differences and agree upon a resolution of the cost allocation and rate
10 design issues that avoids litigation and falls within the range of potential outcomes
11 had the case been litigated.

12 **Q. THE OUCC DID NOT FILE ITS RESPECTIVE CASE-IN-CHIEF IN THIS**
13 **PROCEEDING. WHAT IS THE BASIS FOR YOUR CLAIM THAT THE**
14 **RESOLUTION OF THE COST ALLOCATION AND RATE DESIGN ISSUES**
15 **UNDER THE AGREEMENT FALLS WITHIN THE RANGE OF POTENTIAL**
16 **OUTCOMES IF THE CASE HAD BEEN LITIGATED?**

17 A. As just indicated, MCRW's current rate structure consists of five separate usage rate
18 blocks under which charges decline as usage increases. Each rate block also specified
19 a minimum monthly usage volume on which usage charges are assessed. In its
20 petition, MCRW proposed to implement a single block usage rate design and
21 eliminate the minimum monthly usage volume. This rate design change resulted in
22 significant rate increases for certain large volume customers which violated the
23 principle of gradualism and, therefore, in my judgment, was inconsistent with a sound
24 rate design. For example, MCRW's largest customers would have received an
25 increase in rates of approximately 150 percent. Had the OUCC filed testimony in this

1 Cause, that testimony would have recommended that the significant rate increases for
2 large volume customers be mitigated. The Agreement mitigates the rate increase for
3 large volume customers.

4 **Q. WHAT ARE SOME OF THE SIGNIFICANT TERMS OF THE AGREEMENT**
5 **WITH RESPECT TO COST ALLOCATION AND RATE DESIGN?**

6 A. With respect to rate design, over 99 percent of MCRW's customers are served by a
7 5/8-inch meter. Under the Agreement, the minimum monthly usage volume is
8 eliminated, which reduces the minimum monthly charge from \$27.33 to \$11.95 for a
9 customer served by a 5/8-inch meter. The Agreement mitigates the rate increase for
10 large volume customers by reducing the current five-block usage rate design to a
11 three-block usage rate design as MCRW transitions to a single-block usage rate.
12 Under the Agreement, MCRW's largest customers will receive an increase in rates of
13 approximately 35 percent. A summary of MCRW's present, proposed, and the
14 agreed upon usage blocks and rates under the Agreement is presented in Table 1.

Table 1.			
Comparison Usage Blocks and Rates			
Block	Present Rate	Proposed Rate	Agreement Rate
First, 2,500	\$10.93	\$9.72	\$10.10
Next 7,500	10.52	9.72	10.10
Next 15,000	8.10	9.72	10.10
Next 25,000	5.68	9.72	7.65
Over 50,000	3.29	9.72	4.60

15 **IV. CONCLUSION**

16 **Q. IN YOUR OPINION, DO THE TERMS OF THE AGREEMENT REPRESENT**
17 **A REASONABLE RESOLUTION OF THE ISSUES CONCERNING COST OF**
18 **SERVICE ALLOCATIONS AND RATE DESIGN?**

1 A. In my opinion, yes.

2 **Q. IN CONCLUSION, WHAT DO YOU RECOMMEND TO THE**
3 **COMMISSION?**

4 A. I find the Agreement reasonable and I recommend that the Commission approve the
5 Agreement.

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY IN THIS PROCEEDING?**

7 A. Yes, it does.

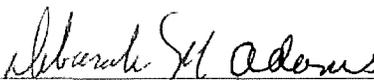
VERIFICATION

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

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


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

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


Signature

Deborah M Adams
Printed Name

My Commission Expires: 2/2023

My County of Residence: Howard

DEBORAH M ADAMS
Notary Public
State of Maryland
Howard County