

**FILED**  
October 15, 2018  
INDIANA UTILITY  
REGULATORY COMMISSION

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE INDIANA UTILITY )  
REGULATORY COMMISSION'S )  
INVESTIGATION INTO THE IMPACTS OF THE )  
TAX CUTS AND JOBS ACT OF 2017 AND )  
POSSIBLE RATE IMPLICATIONS UNDER )  
PHASE 2 FOR AQUA INDIANA, INC. )**

**CAUSE NO. 45032 S19**

**SETTLEMENT TESTIMONY**

**OF**

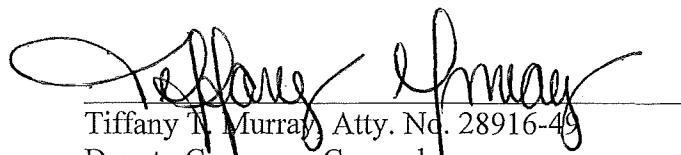
**MARGARET A. STULL - PUBLIC'S EXHIBIT NO. 1-S**

**ON BEHALF OF THE**

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**OCTOBER 15, 2018**

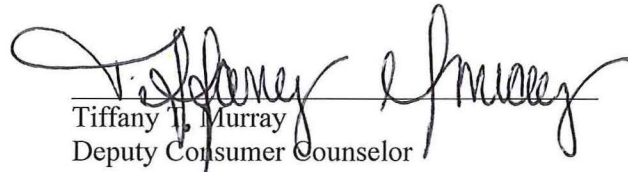
Respectfully Submitted,

  
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Deputy Consumer Counselor

**CERTIFICATE OF SERVICE**

This is to certify that a copy of the foregoing *Office of Utility Consumer Counselor Settlement Testimony of Margaret A. Stull* has been served upon the following counsel of record in the captioned proceeding by electronic service on October 15, 2018.

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**SETTLEMENT TESTIMONY OF OUCC WITNESS MARGARET A. STULL**  
**CAUSE NO. 45032 S19**  
**AQUA INDIANA, INC.**

**I. INTRODUCTION**

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

2 A: My name is Margaret A. Stull, and my business address is 115 W. Washington St.,  
3 Suite 1500 South, Indianapolis, Indiana, 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 Chief Technical Advisor with the Water/Wastewater Division. My qualifications  
7 are set forth in Appendix A.

8 **Q: What is the purpose of your settlement testimony in this subdocket?**

9 A: My testimony provides a review of the rate adjustment and ratepayer benefits  
10 achieved by the Stipulation and Settlement Agreement entered into between Aqua  
11 Indiana, Inc. ("Aqua" or "Respondent") and the OUCC (collectively, the "Settling  
12 Parties") relating to Aqua's Phase 2 tax issues, as those are defined in the  
13 Commission's investigation into the impacts of the Tax Cuts and Jobs Act of 2017  
14 ("TCJA") in Cause No. 45032-S19 ("Settlement").

15 **Q: Which Aqua divisions are implicated in Cause No. 45032-S19?**

16 A: As explained by Aqua witness Mr. Bobby Estep, TCJA resulted in a direct rate  
17 benefit to customers of (7) divisions of Aqua Indiana: Darlington, Lake County  
18 (Water), Lake County (Sewer), Southern Hills (also known as Heir Industries),  
19 Aboite Wastewater, Wildwood Shores, and Wymberly (collectively, the "Impacted  
20 Divisions"). (Estep Direct at 4.)

## II. PHASE 2 TAX ISSUES

1 **Q: Please describe how this Settlement timely provides Phase 2 tax benefits to**  
2 **Aqua's customers.**

3 A: At page 2, the Commission's Order issued on February 16, 2018 ("February 16  
4 Order") provides the scope of issues to be addressed in Phase 2 of the  
5 Commission's investigation:

6 Phase 2 will address all remaining issues, including (1) the amount  
7 and amortization of normalized and non-normalized excess  
8 accumulated deferred income taxes and the regulatory accounting  
9 being used by Respondents as required by the Commission's  
10 January 3, 2018 Order in this Cause for estimated impacts resulting  
11 from the Act, and (2) the timing and method for how these benefits  
12 will be realized by customers, whether directly or indirectly.

13 As such, this Settlement provides Phase 2 tax benefits to customers in two ways: 1)  
14 a surcharge credit to fully refund over twelve months the regulatory liability created  
15 by excess taxes embedded in Aqua's base rates since January 1, 2018; and 2)  
16 amortization of excess accumulated deferred income taxes ("ADIT") as of  
17 December 31, 2017.

18 **Q: How does the Settlement resolve treatment of Aqua's regulatory liability**  
19 **created by embedded excess taxes?**

20 A: Mr. Estep states Aqua implemented the Phase 1 rate reductions at different times  
21 because the effective dates varied depending on the date of Commission approval.  
22 Rates that reflected the new 21% corporate income tax rate for Wildwood Shores,  
23 Wymberly, Southern Hills, and Darlington were implemented on April 25, 2018.  
24 Rate that reflected the new 21% corporate income tax rate for Aboite, Lake County

1 (Water), and Lake County (Sewer) were implemented on May 16, 2018. (Estep  
2 Direct at 7 and Petitioner's Attachment A, Schedule 8.)

3 The Settlement states the Settling Parties agree that Aqua's over-collected  
4 revenues for the period January 1, 2018 through May 16, 2018 are \$235,810 and  
5 that such over-collected revenue will be credited to active customers through a  
6 surcharge credit over a twelve-month period to be reflected in the first full billing  
7 month following a Final Order approving the Settlement Agreement. Table 1  
8 presents the over-collected revenue by division.

**Table 1: Over-Collected Revenues by Aqua Division**

		<b>Over-Collection</b>
Aboite Wastewater	05.16.18	\$ 206,805
Wildwood Shores	04.25.18	1,515
Wymberly	04.25.18	6,938
Southern Hills	04.25.18	999
Darlington	04.25.18	4,652
Lake County (Water)	05.16.18	7,190
Lake County (Sewer)	05.16.18	7,711
		<b>\$ 235,810</b>

9 **Q: How does the Settlement address the amortization of excess ADIT?**

10 A: Excess ADIT represents the amount a utility has collected from ratepayers to pay  
11 future taxes that, as a result of the reduction in tax rates, will no longer be imposed.  
12 Essentially, ADIT represents a "loan" from ratepayers to the utility, and when the  
13 income tax rate decreases, the amount of the "loan" from ratepayers is reduced and  
14 needs to be "repaid" or returned to customers. Excess ADIT represents the amount  
15 of the "loan" to be repaid. Excess ADIT can either be protected (results from  
16 temporary federal income tax differences generated by the different book and tax

1 depreciation rates) or unprotected (all other temporary federal income tax  
2 differences). Protected excess ADIT must be returned to ratepayers using the  
3 average rate assumption method (“ARAM”) or, if the utility does not have adequate  
4 data to apply ARAM, the “Reverse South Georgia” method may be used.  
5 Unprotected excess ADIT can be returned to ratepayers over a time period  
6 determined by the jurisdictional regulatory body.

7 With that understanding, the Settling Parties agree that as of December 31,  
8 2017, Aqua’s total protected excess ADIT balance (before gross-up) is \$3,972,933,  
9 and the unprotected balance (before gross-up) is (\$59,688).<sup>1</sup> The Settlement  
10 Agreement reflects that Aqua’s protected excess ADIT is to be reversed using  
11 ARAM. Based on Aqua’s utility plant records, the remaining useful life of its utility  
12 plant for each Impacted Division ranges from 30 years to 47 years and approximates  
13 the expected amortization period for protected excess ADIT. (Attachment MAS-1.)  
14 Aqua’s unprotected excess ADIT asset is to be amortized over a 3-year period. This  
15 results in an annual revenue reduction of \$79,417 for protected excess ADIT  
16 partially offset by an annual revenue increase of \$19,896 for unprotected excess  
17 ADIT. These calculations are accurately reflected in Settlement Agreement  
18 Attachment A. Table 2 presents the amounts associated with each Impacted  
19 Division.

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<sup>1</sup> The protected excess ADIT balance is a deferred tax liability and the unprotected excess ADIT balance is a deferred tax asset.

**Table 2: Excess ADIT by Aqua Division**

	Protected			Unprotected	
	Excess ADIT	Remaining Life	Year 1 Annual Reduction	Excess ADIT	Year 1 Annual Increase (Reduction)
Aboite Wastewater	\$ 2,921,993	30.27	\$ 49,503	\$ (4,335)	\$ (1,445)
Wildwood Shores	10,173	32.46	238	42,342	14,114
Wymberly	151,867	30.25	664	(722)	(241)
Southern Hills	13,728	30.45	303	(136)	(45)
Darlington	104,286	47.33	7,109	(95,239)	(31,746)
Lake County (Water)	58,124	37.86	16,164	(816)	(272)
Lake County (Sewer)	189,653	37.86	5,436	(780)	(260)
	<u>\$ 3,449,824</u>		<u>\$ 79,417</u>	<u>\$ (59,686)</u>	<u>\$ (19,895)</u>

1 **Q: Does the Settlement Agreement include any reconciliation or true-up process?**

2 A: Yes. The Settling Parties agree that Aqua will annually true-up the amount returned  
3 to customers as compared to the amount reflected on Settlement Agreement  
4 Attachment A. The amount of the true-up will be used in the calculation of the next  
5 year's surcharge credit.

6 **Q: Will the surcharge credit be the same each year?**

7 A: No. Due to the different amounts to be returned over different time periods, as well  
8 as the necessity for the true-up, the amount of the surcharge credit will differ from  
9 year to year. The surcharge credit in Year 1 includes the regulatory liability as well  
10 as the amortization of excess ADIT. Table 3 summarizes the Year 1 surcharge  
11 credit by division.

**Table 3: Year 1 Surcharge Credit**

Aboite Wastewater	2.74%
Wildwood Shores	12.96%
Wymberly	1.83%
Southern Hills	1.57%
Darlington	0.00%
Lake County (Water)	9.69%
Lake County (Sewer)	3.17%

1 **Q: Why is the surcharge credit for the Darlington Division zero?**

2 A: As explained by Mr. Estep, the surcharge calculation for Darlington yields a  
3 surcharge increase in years 1 through 3 because the amortization of its unprotected  
4 excess ADIT balance is greater than the ARAM reduction of its protected excess  
5 ADIT balance. Aqua is not proposing to apply the rate increase to the ratepayers of  
6 Darlington during years 1 through 3. When the unprotected ADIT balance has been  
7 fully amortized at the end of Year 3, Aqua will begin applying a negative surcharge  
8 credit to Darlington's customers. (Estep Direct at 8-9.)

9 **Q: Does the Settlement Agreement anticipate compliance filings?**

10 A: Yes. The Settlement Agreement states Aqua will file a revised tariff sheet reflecting  
11 the amount of the surcharge credit percentage for each year. The first revised tariff  
12 sheet (Settlement Agreement Attachment B) will be reflected in the first full billing  
13 month following a Final Order approving the Settlement Agreement. Because of  
14 the potential for reconciliations, the Settling Parties agreed that Aqua will have until  
15 April 1 of the following year to submit the tariff for the next twelve-month period.  
16 The Settling Parties have agreed to work together in advance of each compliance  
17 filing is made so that any of the OUCC's questions or concerns can be addressed  
18 before Aqua makes its April 1 compliance filing.

19 **Q: Does the Settlement Agreement include any other compliance filings?**

20 A: Yes. Section 1.H provides that Aqua will make a compliance filing in this  
21 subdocket in January 2024 to adjust the Aboite Wastewater Division's protected  
22 excess ADIT ARAM reversal based on the average of the ARAM reversals from  
23 2024 to 2028. The Settling Parties agreed that Aqua need not make this compliance  
24 filing if it has filed a base rate case for Aboite Wastewater by January 2024.



1 **Q: Did you validate the rate reductions shown in Aqua's revised tariffs included**  
2 **in Settlement Agreement Attachment B?**

3 A: Yes. Settlement Agreement Attachment B properly implements the revenue  
4 reductions created by the specific terms of the Settlement.

5 **Q: Do you believe the Settlement is in the public interest?**

6 A: Yes. The Settlement reflects compromises made by Aqua from the positions taken  
7 in its Phase 2 subdocket testimony, and provides a fair result for Aqua's ratepayers.

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

9 A: Yes, it does.

**APPENDIX A**

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

2 A: I graduated from the University of Houston at Clear Lake City in August 1982 with  
3 a Bachelor of Science degree in accounting. From 1982 to 1985, I held the position  
4 of Gas Pipeline Accountant at Seagull Energy in Houston, Texas. From 1985 to  
5 2001, I worked for Enron in various positions of increasing responsibility and  
6 authority. I began in gas pipeline accounting, was promoted to a position in  
7 financial reporting and planning, for both the gas pipeline group and the  
8 international group, and finally was promoted to a position providing accounting  
9 support for infrastructure projects in Central and South America. In 2002, I moved  
10 to Indiana, where I held non-utility accounting positions in Indianapolis. In August  
11 2003, I accepted my current position with the OUCC. In 2011, I was promoted to  
12 Senior Utility Analyst. In 2018, I was promoted to Chief Technical Advisor. Since  
13 joining the OUCC I have attended the National Association of Regulatory Utility  
14 Commissioners ("NARUC") Eastern Utility Rate School in Clearwater Beach,  
15 Florida, and the Institute of Public Utilities' Advanced Regulatory Studies Program  
16 in East Lansing, Michigan. I have also attended several American Water Works  
17 Association and Indiana Rural Water Association conferences. I have also attended  
18 several NARUC Sub-Committee on Accounting and Finance Spring and Fall  
19 conferences. I have participated in the National Association of State Utility  
20 Consumer Advocates ("NASUCA") Water Committee and the NASUCA Tax and

1 Accounting Committee. In March 2016 I was appointed chair of the NASUCA Tax  
2 and Accounting Committee.

3 **Q: Please describe your duties and responsibilities at the OUCC.**

4 A: I review Indiana utilities' requests for regulatory relief filed with the Commission.

5 I also prepare and present testimony based on my analyses, and make  
6 recommendations to the Commission on behalf of Indiana utility customers.

7 **Q: Have you held any professional licenses?**

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

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

12 A: Yes. I have testified before the Commission as an accounting witness in various  
13 causes involving water, wastewater, electric, and gas utilities. I have been involved  
14 with the Commission's Investigation in Cause No. 45032 since its inception,  
15 analyzing the Tax Cuts and Jobs Act of 2017 and the effect it has on utility rates.

Aqua Indiana  
(Book Plant Values)


OTP Unit	<u>12.31.2017</u> <u>Book Cost</u>	<u>12.31.2017</u> <u>Book Reserve</u>	<u>12.31.2017</u> <u>Net Book</u>	<u>Allocate</u> <u>Shared Assets</u>	<u>Net Book After</u> <u>Allocation</u> (a)	<u>2017 Book</u> <u>Depreciation</u> (b)	<u>Remain</u> <u>Life</u> (a) / (b)
B7a- Aboitte	69,322,102	(19,954,630)	49,367,472	3,027,802	52,395,274	1,730,831	30.27
C3d - Wildwood Shores	1,265,082	(286,589)	978,493	20,341	998,834	30,773	32.46
C3e - Wymberly	3,298,056	(875,551)	2,422,505	159,736	2,582,241	85,358	30.25
C6- South Haven	18,179,503	(5,672,914)	12,506,589	911,153	13,417,742	440,785	30.44
C7- Heir	231,167	(23,722)	207,445	23,930	231,375	7,599	30.45
C8- Darlington	1,267,718	(178,295)	1,089,423	67,604	1,157,026	24,447	47.33
J1- Consumers	1,539,696	(360,962)	1,178,734	274,004	1,452,738	38,368	37.86
	<u>95,103,323</u>	<u>(27,352,662)</u>	<u>67,750,661</u>	<u>4,484,570</u>	<u>72,235,231</u>	<u>2,358,161</u>	<u>30.63</u>
J2- Shared IT Assets	6,748,391	(765,774)	5,982,617	(5,982,617)	-	-	
<b>Total</b>	<u>101,851,714</u>	<u>(28,118,436)</u>	<u>73,733,278</u>	<u>(1,498,047)</u>	<u>72,235,231</u>	<u>2,358,161</u>	

AFFIRMATION

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



By: Margaret A. Stull  
Cause No. 45032 S19  
Indiana Office of  
Utility Consumer Counselor



Date: