Petitioner's Exhibit No. 2

INDIANA-AMERICAN WATER COMPANY, INC.

INDIANA UTILITY REGULATORY COMMISSION

CAUSE NO. 45032 S4, PHASE 2

DIRECT TESTIMONY

OF

JOHN M. WATKINS

SPONSORING ATTACHMENT JMW-6

DIRECT TESTIMONY
OF
JOHN M. WATKINS

CAUSE NO. 45032 S4
PHASE 2

BACKGROUND

Q. Please state your name and business address.

A. My name is John M. Watkins, and my business address is 131 Woodcrest Road, Cherry Hill, New Jersey 08034.

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

A. I am employed by American Water Works Service Company, Inc. ("Service Company") as Senior Director Regulatory Services.

Q. Are you the same John M. Watkins who filed testimony in Phase 1 of this Subdocket (Cause No. 45032 S4)?

A. Yes.

Q. What is the purpose of your testimony?

A. I will support the request of Indiana-American Water Company Inc. ("Indiana-American" or the "Company") to use the amounts deferred as a result of the regulatory accounting ordered by the Indiana Utility Regulatory Commission (the "Commission") in its January 3, 2018 Order in Cause No. 45032 to offset the cost of replacements of customer-owned lead service lines.

<u>PROPOSED USE OF DEFERRED AMOUNTS</u>

Q. Please describe the steps taken by Indian American to comply with the directive in the January 3, 2018 Order in this Cause to begin immediate use of deferral accounting for all estimated impacts resulting from the Tax Cuts and Jobs Act of 2017 ("TCJA" or "Act").

A. Please see Attachment JMW-6 for the calculation of the TCJA Revenue Reserve. As of May 31, 2018, the Company has deferred $4,529,321.95 related to the reduction in FIT rate from 35% to 21%.

Q. What is the net total Indiana-American has deferred to date pursuant to the regulatory accounting ordered by the January 3, 2018 Order?

A. Indiana-American currently has on its books a regulatory liability of $4,529,321.95, as of May 31, 2018, as a result of the accounting ordered in the January 3, 2018 Order.

Q. How is Indiana-American proposing to pass the benefit of the accrued deferred amounts to its customers?

A. Indiana-American is proposing to use the deferred dollars to offset the cost of replacing customer-owned lead service lines. The Company believes its customers, and all stakeholders, will receive a more significant, substantial and lasting benefit by using the dollars deferred as a result of the reduction in federal income tax expense under the Tax Cuts and Jobs Act to fund investments that have been determined by the legislature to be a high priority in Indiana and in the public interest.

Q. How does Indiana-American's proposal to hold the dollars for use toward lead service line replacements provide "more significant, substantial and lasting benefit" than simply crediting those dollars to customers over a relatively short period in the near or immediate future?

A. Indiana-American's proposed use of the deferred dollars will help fund and accelerate lead service line replacements, which is consistent and supports the legislative and regulatory policy of the state. Moreover, the estimated amount per residential customer that would be available for credit as a result of the deferral is approximately $14.98 as of the May 31, 2018 deferred amount.

As I noted in my Phase 1 direct testimony in this subdocket, the Indiana General Assembly has adopted a policy, contained in the preamble to the Public Service Commission Act (IC 8-1-2-0.5), that "all practicable means and measures" should be employed to "create and maintain conditions under which utilities plan for and invest in infrastructure necessary for operation and maintenance while protecting the affordability of utility services for present and future generations of Indiana citizens." Indiana-American's proposal to put the deferred dollars to work toward the elimination of lead service lines as quickly as reasonably possible addresses not only the infrastructure investment needs identified in that policy, but also the intergenerational equity component of the stated policy.

I described in my Phase 1 direct testimony in this subdocket the capital intensive nature of water utilities and the potential for Indiana-American and its customers to be adversely affected by implementation of the TCJA if thoughtful consideration is not given to all aspects of the Act. The Company's proposed use of the deferred dollars helps fund the acceleration of infrastructure replacement, which benefits customers.

Q. Does Indiana-American have a plan to replace customer-owned lead service lines?

A. Yes. Indiana-American has developed a Lead Service Line Replacement Plan (the "Plan") and Commission approval under IC ch. 8-1-31.6 is currently pending in Cause No. 45043. It is my understanding that none of the parties to that proceeding have contested that the Plan is in the public interest, although the OUCC did propose certain modifications to the Plan.

Q. What is the magnitude of Indiana-American's lead service line replacement plan?

A. At the time of the hearing in Cause No. 45043, Indiana-American estimated it had approximately 50,000 customer-owned lead service lines. The Plan admitted into evidence in that case shows an estimated current average cost per service across Indiana-American's service area would be approximately $3,500 in 2017 dollars. The Plan provides a range of estimated lead service line replacements completed by year, with the high end showing an estimated completion date of 2027 and the low end showing completion by 2041. The availability of the deferred dollars from the January 3, 2018 order in Cause No. 45032 could allow the Company to complete more lead service line replacements in the near term than were estimated under the Plan. Based on an average cost per service of $3,500 as presented in the Plan, the deferred amount at May 31, 2018 could fund approximately 1,300 customer lead service line replacements.

PHASE 2 RECOMMENDATIONS

Q. Do you have any other recommendations related to the topics the Commission indicated should be addressed in this Phase 2 subdocket proceeding?

A. Yes. John Wilde is providing testimony regarding Indiana-American's proposal with respect to amortization of its excess accumulated deferred income taxes (ADIT). As Mr. Wilde explains, the Company is not currently able to determine the excess ADIT resulting from the TCJA tax reductions or the amortization periods required by federal normalization requirements. In order to allow sufficient time for Indiana-American to complete its evaluation of the TCJA's impact on the Company's ADIT, and to consider that impact in the full context of the Company's revenue requirements, the Company believes the appropriate setting in which to decide the treatment of excess ADIT balances is the upcoming general rate case to be filed later this summer. It is therefore my recommendation that the Commission grant in this subdocket Indiana-American's request to continue to maintain the regulatory liability account (for the period January 1, 2018 through the date of an order in Phase 1 of this Cause No 45032 S4) to fund and, to the extent reasonably possible based upon other factors, accelerate its lead service line replacements. But I would recommend the Commission defer its decision on the amortization and credit of excess ADIT until the time an order is issued in Indiana-American's next general rate case.

Q. Does this conclude your Phase 2 direct testimony?

A. Yes it does.

DMS 12579725v1

VERIFICATION

I, John M. Watkins, Senior Director Regulatory Services, American Water Works Service Company, Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

John M Watkins

John M. Watkins

Date: 6/19/2018

DMS 12465458v1

Indiana-American
YTD May 2018

	Jan	Feb	Mar	Apr	May	YTD 2018
Billed General Revenue	$17,322,477.11	$16,865,540.60	$16,590,738.21	$16,375,993.47	$17,398,682.32	$84,553,431.71
Billed DSIC	949,547.01	926,571.73	964,920.27	1,405,533.29	1,532,548.60	5,779,120.90
Unbilled	(552,902.60)	(437,227.49)	706,387.24	468,773.69	1,345,881.58	1,530,912.42
Total Revenue	**$17,719,121.52**	**$17,354,884.84**	**$18,262,045.72**	**$18,250,300.45**	**$20,277,112.50**	**$91,863,465.03**

	Jan	Feb	Mar	Apr	May	YTD 2018
Billed Split:						
General Revenue	94.8%	94.8%	94.5%	92.1%	91.9%	
DSIC	5.2%	5.2%	5.5%	7.9%	8.1%	
Unbilled Allocation using Billed Split:						
General Revenue	($524,169.77)	($414,457.70)	$667,561.73	$431,719.67	$1,236,927.81	$1,397,581.75
DSIC	($28,732.83)	($22,769.79)	$38,825.51	$37,054.02	$108,953.77	$133,330.67

	Jan	Feb	Mar	Apr	May	YTD 2018
Pro Forma Revenue w/ Allocated Unbilled:						
General Revenue	$16,798,307.34	$16,451,082.90	$17,258,299.94	$16,807,713.14	$18,635,610.13	$85,951,013.46
DSIC	920,814.18	903,801.94	1,003,745.78	1,442,587.31	1,641,502.37	5,912,451.57
Total Revenue	**$17,719,121.52**	**$17,354,884.84**	**$18,262,045.72**	**$18,250,300.45**	**$20,277,112.50**	**$91,863,465.03**

	Jan	Feb	Mar	Apr	May	YTD 2018
General Revenue Deferral:						
Days Applicable (1/3/18 - present)	29	28	31	30	31	
Total Days in Month	31	28	31	30	31	
Days Applicable (%)	93.5%	100.0%	100.0%	100.0%	100.0%	
Total General Revenue	$16,798,307.34	$16,451,082.90	$17,258,299.94	$16,807,713.14	$18,635,610.13	
Applicable Amount	93.5%	100.0%	100.0%	100.0%	100.0%	
General Revenue Subject to Refund	$15,714,545.58	$16,451,082.90	$17,258,299.94	$16,807,713.14	$18,635,610.13	
Deferral Percent	5.08%	5.08%	5.08%	5.08%	5.08%	
General Revenue Deferral Amount	**$798,440.35**	**$835,863.07**	**$876,876.96**	**$853,983.10**	**$946,856.72**	**$4,312,020.19**
DSIC Revenue Deferral:						
Days Applicable (1/3/18 - 3/13/18)	29	28	13	0	0	
Total Days in Month	31	28	31	30	31	
Days Applicable (%)	93.5%	100.0%	41.9%	0.0%	0.0%	
Total DSIC Revenue	$920,814.18	$903,801.94	$1,003,745.78	$1,442,587.31	$1,641,502.37	
Applicable Amount	93.5%	100.0%	41.9%	0.0%	0.0%	
DSIC Revenue Subject to Refund	$861,406.81	$903,801.94	$420,925.65	$0.00	$0.00	
Deferral Percent	9.94%	9.94%	9.94%	9.94%	9.94%	
DSIC Revenue Deferral Amount	**$85,623.84**	**$89,837.91**	**$41,840.01**	**$0.00**	**$0.00**	**$217,301.76**
TOTAL REVENUE DEFERRAL AMOUNT	**$884,064.18**	**$925,700.98**	**$918,716.97**	**$853,983.10**	**$946,856.72**	**$4,529,321.95**