

BUTLER | SNOW

October 22, 2024

VIA ELECTRONIC FILING

Hon. David Jones, Chairman
c/o Ectory Lawless, Docket Room Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243
TPUC.DocketRoom@tn.gov

Electronically Filed in TPUC Docket Room
on October 22, 2024 at 2:22 p.m.

RE: *Petition of Tennessee-American Water Company to Modify Tariff, Change and Increase Charges, Fees, and Rates, and for Approval of a General Rate Increase, TPUC Docket No. 24-00032*

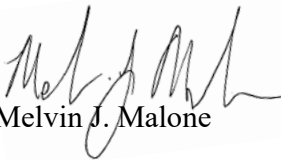
Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's Rebuttal Testimonies for (1) Heath Brooks; (2) Ann Bulkley; (3) Dominic J. DeGrazia; (4) Grant Evitts; (5) Nicholas Furia; (6) Larry Kennedy; (7) Bob Lane; (8) Robert V. Mustich; (9) Robert Prendergast; (10) Charles Rea; (11) Linda Schlessman; (12) Grady Stout; (13) Harold Walker, III; and (14) John Watkins* in the above-captioned matter.

As required, the original plus four (4) hard copies will follow. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Very truly yours,

BUTLER SNOW LLP



Melvin J. Malone

clw

Attachments

cc: Bob Lane, TAWC
Shilina Brown, Consumer Advocate Division
Victoria Glover, Consumer Advocate Division
Phillip Noblett, City of Chattanooga
Frederick Hitchcock, City of Chattanooga
Scott Tift, UWUA

*The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201*

MELVIN J. MALONE
615.651.6705
melvin.malone@butlersnow.com

*T 615.651.6700
F 615.651.6701
www.butlersnow.com*

BUTLER SNOW LLP

90398299.v1

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 24-00032

REBUTTAL TESTIMONY

OF

HEATH BROOKS

ON

TOPICS:

**REVENUES, CLASS COST OF SERVICE STUDY, CONSOLIDATED TARIFF PRICING
AND RATE DESIGN**

SPONSORING PETITIONER'S EXHIBITS:

TAW_RT_BROOKS_EXHIBIT 1

**REBUTTAL TESTIMONY
HEATH BROOKS
TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 24-00032**

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	REVENUE PROJECTIONS.....	2
III.	COST OF SERVICE.....	6
IV.	CONSOLIDATED TARIFF PRICING	13
V.	RATE DESIGN	28

1 **I. INTRODUCTION**

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

3 A. My name is Heath Brooks. My business address is 1 Water Street, Camden, NJ 08102.

4 **Q. DID YOU PREVIOUSLY SUBMIT DIRECT TESTIMONY IN THE PROCEEDING**
5 **ON BEHALF OF TENNESSEE-AMERICAN WATER COMPANY (“TAWC” OR**
6 **THE “COMPANY”) IN THIS PROCEEDING?**

7 A. Yes. I filed direct testimony on May 1, 2024.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. My rebuttal testimony in this proceeding will address issues related to revenue projections,
10 cost of service, consolidated tariff pricing (“CTP”), and rate design raised by various
11 parties in this case. Specifically, I will address issues raised by The Consumer Advocate
12 Division (“CAD”) witnesses William H. Novak and Clark D. Kaml, and the City of
13 Chattanooga (“COC”) witness Mark E. Garrett.

14 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR REBUTTAL**
15 **TESTIMONY?**

16 A. Yes, I am sponsoring TAW_RT_BROOKS_EXHIBIT 1, which has been filed along with
17 my rebuttal testimony.

18 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

19 A. My testimony is organized into four sections:

- 20 • Revenue Projections
- 21 • Cost of Service

- Consolidated Tariff Pricing
- Rate Design

II. REVENUE PROJECTIONS

Q. PLEASE BRIEFLY DESCRIBE HOW THE COMPANY PROJECTED ATTRITION YEAR BILLING DETERMINANTS AND REVENUES.

A. The Company's forecasting process begins by quantifying test period revenues using actual billing determinants and comparing calculated test period revenues to booked revenue to validate that test period billing determinants produce billed revenues. Once test period billing determinants were established, customer growth or loss was applied to test period customer counts along with the application of normalized usage to arrive at normalized attrition year billing determinants. The normalized billing determinants were then multiplied by current rates to arrive at normalized attrition year revenues. Petitioner's Exhibit Rev – 1: Revenue Summary – HB, filed with my direct testimony, presents the Company's total test period revenues calculated using actual test period billing determinants for the twelve months ended December 2023 and normalized attrition year revenues based on current and proposed rates using projected normalized billing determinants for the twelve months ending December 2025.

Q. DO YOU HAVE ANY CORRECTIONS TO THE ATTRITION YEAR REVENUES FILED WITH YOUR DIRECT TESTIMONY?

A. Yes. Upon review of the industrial usage calculation, the Company identified a formula error that resulted in omitting 499,360 hundred gallons of industrial usage from the original filing which equates to a 2.8% increase to the originally filed industrial usage. The revenue

1 impact of this correction results in an increase in industrial revenues of \$133,236 or 2.3%.
2 The overall impact of this correction is an increase in total attrition year revenues of
3 \$134,060 or 0.2%. With the calculation of late payment fees being dependent on a ratio of
4 late payments to total revenue, the correction to industrial revenues results in \$824 of
5 additional late payment fees. Robert Lane addresses the impact of this correction on the
6 Company's requested revenue deficiency in his Rebuttal Testimony.

7 **Q. DID OTHER PARTIES FORECAST ATTRITION YEAR REVENUES?**

8 A. Yes, CAD witness Novak estimated attrition year revenues using various calculation
9 methods that are generally different than those used by the Company.

10 **Q. DO YOU AGREE WITH MR. NOVAK'S REVENUE PROJECTIONS?**

11 A. No. The Company finds Mr. Novak's methods for calculating projected attrition year
12 revenue problematic. Mr. Novak's flawed forecasting methodology causes notable
13 differences when compared to the Company's revenues, particularly with the industrial
14 customer class and sales for resale special contracts. Specifically, the Company believes
15 that Mr. Novak has overstated both industrial water usage and special contract usage.

16 **Q. HOW DID THE COMPANY CALCULATE INDUSTRIAL WATER USAGE FOR**
17 **THE ATTRITION YEAR?**

18 A. The Company forecasted attrition year industrial usage using a two-year average for each
19 customer based on 2022 and 2023 usage.

20 **Q. HOW DID CAD WITNESS NOVAK CALCULATE INDUSTRIAL WATER USAGE**
21 **FOR THE ATTRITION YEAR?**

22 A. Mr. Novak used a simple linear regression to calculate attrition year industrial usage.

1 **Q. WHY DOES THE COMPANY DISAGREE WITH MR. NOVAK USING A SIMPLE**
2 **LINEAR REGRESSION TO PROJECT INDUSTRIAL USAGE?**

3 A. The use of a simple linear regression model is not a reliable method for calculating usage
4 for a non-homogenous group, such as TAWC's industrial customers. Customer classes of
5 a utility can generally be categorized into two groups – homogenous and non-homogenous
6 – based primarily on consumption behavior. Homogenous customer classes contain a large
7 number of customers that have similar consumption patterns while non-homogenous
8 customer classes contain a small number of customers that do not have similar consumption
9 patterns. Residential, commercial, and public authority classes are usually considered
10 homogenous. Industrial, sales for resale, and special contract classes are usually
11 considered non-homogenous.

12 A multiple linear regression, which utilizes multiple independent predictor variables such
13 as precipitation and heating or cooling degree days, is generally viewed as the superior
14 statistical model for forecasting customer usage for homogenous customer classes. When
15 gauging the performance of a regression model, the coefficient of determination, better
16 known as the R^2 , is an important benchmark to consider. The R^2 is the percentage of
17 variation of the dependent variable that is explained by the regression model.

18 When regression models are used to predict usage for classes with a low number of
19 customers, a single customer can have a significant impact on the model results. The
20 Company's industrial customer class has 114 customers with usage in the test period, and
21 the four largest industrial customers account for 64% of industrial usage. These same four
22 customers had a year over year increase in usage of 16% from 2022 to 2023. The remaining
23 industrial customers had a year over year decline in usage of 4% from 2022 to 2023. Usage

1 driven by a small subset of customers within a customer class with a small number of
2 customers can skew the results of a simple regression model.

3 Here, Mr. Novak's simple linear regression model has a correlation of 31.7%, which
4 indicates his regression model explains only 31.7% of the variation in usage. A multi-year
5 average is the preferred method for forecasting non-homogenous class usage in order to
6 avoid errors that could arise due to a poor performing regression model.

7 **Q. WHAT ADJUSTMENT DOES THE COMPANY RECOMMEND THAT MR.**
8 **NOVAK MAKE TO HIS INDUSTRIAL USAGE?**

9 A. While the Company accepts Mr. Novak's projected industrial bill count for the attrition
10 year, the Company recommends that a usage per customer based on the Company's multi-
11 year average methodology be applied to that bill count. This results in a reduction to Mr.
12 Novak's projected industrial usage of 959,311 hundred gallons and a revenue adjustment
13 to Mr. Novak's attrition year revenue under current rates of (\$253,570).

14 **Q. HOW DID THE COMPANY CALCULATE SPECIAL CONTRACT USAGE FOR**
15 **THE ATTRITION YEAR?**

16 A. The Company relied upon the current contractual minimum usage amounts that are
17 included in each customer's contract.

18 **Q. PLEASE EXPLAIN WHY THE COMPANY USED CONTRACTUAL USAGE**
19 **AMOUNTS FOR ATTRITION YEAR SPECIAL CONTRACT USAGE.**

20 A. The contracted minimum usage amounts specific to each of the four sales for resale special
21 contracts is the guaranteed amount of usage in an annual period that the Company will
22 receive revenue for. It is unreasonable to expect anything more than the contracted

1 minimum in a normalized period. Additionally, as any of these customers could invest in
2 other sources of water within their respective water systems, Walker County Water and
3 Sewerage Authority (“WCWSA”) is currently in the process of completing a water
4 treatment plant which will significantly reduce water usage from TAWC. This significant
5 reduction in usage is reflected in WCWSA’s contract and should be reflected in forecasted
6 usage for the attrition year.

7 **Q. HOW DID CAD WITNESS NOVAK CALCULATE SALES FOR RESALE**
8 **SPECIAL CONTRACT USAGE FOR THE ATTRITION YEAR?**

9 A. Mr. Novak relied exclusively on test period actual usage for his attrition year usage
10 projections.

11 **Q. WHAT ADJUSTMENT DOES THE COMPANY RECOMMEND THAT MR.**
12 **NOVAK MAKE TO HIS SALES FOR RESALE SPECIAL CONTRACT USAGE?**

13 A. The Company believes its as-filed position continues to be appropriate and recommends
14 that the contracted minimum usage specific to each contract be used for forecasted attrition
15 year revenues. This results in a reduction to Mr. Novak’s projected sales for resale special
16 contract usage of 2,318,225 hundred gallons and a revenue adjustment to Mr. Novak’s
17 attrition year revenue under current rates of (\$446,503).

18 **III. COST OF SERVICE**

19 **Q. HAS THE COMPANY FILED A COST OF SERVICE STUDY IN THIS CASE?**

20 A. Yes. I sponsored the Company’s Cost of Service Study (“COSS”) in my direct testimony
21 as Petitioner’s Exhibit Cos – 1: Class Cost of Service Study – HB.

1 **Q. DO YOU HAVE ANY CORRECTIONS THAT NEED TO BE MADE TO THE**
2 **COMPANY'S COSS?**

3 A. Yes. The correction to industrial usage described previously in my testimony needs to be
4 reflected in the Company's COSS. Additionally, the Company's allocator for storage costs
5 in the COSS filed with my direct testimony was reflective of Base/Extra daily usage data
6 and, as I stated in my direct testimony, the Company intended to use a Base/Extra allocator
7 reflective hourly usage data. Table 1 below displays the revised recommended COSS
8 retail revenue adjustment percentages subject to the Company's originally filed revenue
9 requirement and based exclusively on the two corrections I've described regarding
10 industrial usage and the storage allocator.

Table 1		
COSS Suggested Retail Adjustment		
Class	Original	Revised
Residential	32%	33%
Commercial	-4%	-4%
Industrial	34%	30%
OPA	41%	40%
SFR	93%	89%
Private Fire	-26%	-24%

11
12 **Q. DO OTHER PARTIES IN THIS CASE DISCUSS THE COMPANY'S COSS?**

13 A. Yes, CAD Witness Novak and COC Witness Garrett address the Company's COSS.

14 **Q. DO CAD WITNESS NOVAK AND COC WITNESS GARRETT AGREE WITH THE**
15 **COMPANY'S COSS IN THEIR DIRECT TESTIMONIES?**

16 A. Mr. Novak does not agree with the Company's COSS results. Mr. Garrett does not
17 comment on the methods used to produce the Company's COSS; however, he does criticize

1 the Company for not completing studies for each rate zone which I will address in the
2 consolidated tariff pricing section of my testimony.

3 **Q. WHAT ISSUES DOES CAD WITNESS NOVAK ARGUE PERTAINING TO THE**
4 **COMPANY'S COSS?**

5 A. Similar to Mr. Novak's arguments in the Company's 2012 rate case, he states that the
6 Company's COSS has 27 individual allocation factors which results in the Company's
7 COSS being "inherently judgmental, and the company has not introduced any evidence to
8 fully explain its rationale for each individual allocation assignment."¹ Additionally, he
9 claims that peak day consumption alone is used to allocate a significant portion of costs
10 and that he could easily justify allocating several of these same costs based on each class's
11 usage.² Mr. Novak also claims that the Company's COSS results recommend a 0.01%
12 increase to the Sales for Resale customers subject to special contracts.³

13 **Q. DOES MR. NOVAK OFFER AN ALTERNATIVE COSS?**

14 A. No. Mr. Novak criticizes the Company's COSS, but he does not offer any
15 recommendations for adjustments or an alternative study.

16 **Q. DO INTERVENORS OR STAFF IN AMERICAN WATER'S OTHER SERVICE**
17 **TERRITORIES SIMPLY DISREGARD THE COSS STUDY AS MR. NOVAK HAS?**

18 A. No. Typically, staff and intervenors in American Water's other service territories submit
19 discovery requests related to the COSS to understand the study and allocations that may

¹ Novak Direct Testimony p. 21, lines 6-9

² Novak Direct Testimony p. 21, lines 9-14

³ Novak Direct Testimony p. 20, line 20 – p. 21, line 3

1 not be clear to them. Mr. Novak did not submit any discovery requests related to the
2 Company's COSS.

3 **Q. PLEASE REVIEW THE COMPANY'S APPROACH TO ALLOCATING COSTS**
4 **WITHIN THE COSS?**

5 A. Generally, three steps are required to develop a COSS. The first step of producing the
6 Company's COSS is functionalizing forecasted attrition year costs. Functionalization is
7 the process of classifying the Company's plant and expense accounts into categories that
8 represent the operational function of each cost incurred. Most accounts are easily assigned
9 to functional categories by relying on operational descriptions that are included in the
10 Company's chart of accounts; however, some general costs cannot be directly assigned to
11 a functional category. Accounts that cannot be directly assigned to a functional category
12 are allocated based on various allocators. The Company's functional cost categories
13 include:

- 14 • Source of supply
- 15 • Pumping
- 16 • Water Treatment
- 17 • Transmission
- 18 • Distribution
- 19 • Storage
- 20 • Meters
- 21 • Services
- 22 • Customers
- 23 • Hydrants

Once accounts are functionalized to the aforementioned cost categories, the next step is to identify allocators that are related to cost drivers. Cost drivers generally fall into one of the following categories.

- Usage
- Capacity
- Meters
- Services
- Customers
- Hydrants

The final step is to allocate functionalized costs to the Company's classes of service by utilizing appropriate allocations that are related to different cost drivers.

Q. DO YOU AGREE WITH MR. NOVAK'S CLAIM THAT THE APPLICATION OF 27 ALLOCATION FACTORS RESULTS IN THE COMPANY'S COSS BEING INHERENTLY JUDGMENTAL?

A. Cost studies typically require some degree of judgement for allocating costs; however, Mr. Novak's characterization of the Company's COSS as "inherently judgmental" is excessive. The Company has predominantly relied on industry standards for allocations within the COSS.

The functionalization process is heavily dependent on direct assignment based on the Company's pre-determined functional descriptions that are included with the Company's plant and expense accounts. A portion of the functionalization process is dependent on seven allocators that the Company has determined to make logical sense. For example, general labor costs must be allocated to the different operational functions. The model

1 allocates these general labor costs based on a labor allocator that's developed from labor
2 costs that were functionalized by direct assignment using operational descriptions included
3 with the Company's accounts. The Company's allocation of functionalized costs to
4 customer classes is dependent on nine allocators that are based on industry accepted
5 methods supported by the American Water Works Association ("AWWA") M1 Manual.

6 **Q. WHAT ALLOCATION METHOD IS CONSIDERED THE INDUSTRY**
7 **STANDARD FOR ALLOCATING COSTS TO CUSTOMER CLASSES?**

8 A. The Base/Extra capacity method is generally accepted as the industry standard for
9 allocating costs to customer classes. The AWWA M1 manual describes the Base/Extra
10 capacity method as a fair and equitable approach to allocating the revenue requirement to
11 customer classes and describes the allocation process in detail.⁴

12 **Q. PLEASE BRIEFLY DESCRIBE THE BASE EXTRA CAPACITY METHOD.**

13 A. The Base/Extra capacity method is an allocation method that recognizes a combination of
14 base costs (i.e., costs related to ensuring the system can meet basic water usage needs) and
15 extra capacity costs (i.e., additional costs related to peak water usage requirements).
16 Customer-related costs and fire protection costs are also recognized as cost components
17 within the Base/Extra capacity method.

18 **Q. MR. NOVAK CLAIMS THAT THE COMPANY'S COSS ALLOCATES A**
19 **SIGNIFICANT PORTION OF COSTS BASED SOLELY ON PEAK DAY**
20 **CONSUMPTION. DO YOU AGREE WITH THAT CHARACTERIZATION?**

⁴ "AWWA, Principles of Water Rates, Fees, and Charges, Manual M1," at pages 5 and 62 (7th Ed.)

1 A. I do not. Mr. Novak seems to believe that the portion of revenue requirement allocated to
2 customers using variations of the Base/Extra capacity method is allocated based
3 exclusively on peak day usage which is not the case. All Base/Extra allocators based on
4 usage within the Company's model are dependent on a combination of base usage,
5 representative of average daily load, and extra usage, representative of peak day demands.
6 The Base/Extra allocators are not solely based on peak day usage.

7 **Q. MR. NOVAK STATES THAT "THE RESULT OF THE COMPANY'S COSS IS TO**
8 **ALLOCATE 0.01% OF ITS PROPOSED \$13.6 MILLION RATE INCREASE TO**
9 **SALE FOR RESALE CUSTOMERS."**⁵ **IS THIS AN ACCURATE STATEMENT?**

10 A. No. The originally filed COSS recommended a 93% increase in rates for sales for resale
11 special contract rates. After the revisions to the COSS described previously in my
12 testimony, the revised COSS recommends an 89% increase in sales for resale special
13 contract rates. The 0.01% increase that Mr. Novak references in his testimony is the
14 proposed increase to the SFR class, including special contracts. The Company did not
15 propose any rate increase for special contracts to avoid any suggestion that the Company
16 breached the contracts by affirmatively seeking an increase in their rates.

17 **Q. HAVE OTHER COMMISSIONS IN AMERICAN WATER'S SERVICE**
18 **TERRITORIES ACCEPTED THE COMPANY'S COSS AS A REASONABLE**
19 **GUIDE FOR RATE ADJUSTMENTS?**

⁵ Novak Direct Testimony p. 20, line 20 – p. 21, line 2.

1 A. Yes. The majority of Commissions presiding in states served by American Water (including
2 Indiana, Iowa, Kentucky, New Jersey, Pennsylvania, Virginia, West Virginia)⁶ consider the
3 Company's COSS as a reasonable guide for adjusting rates and have either used the results
4 of the COSS to set rates to cost of service or used the results to make meaningful
5 adjustments towards cost of service.

6 **IV. CONSOLIDATED TARIFF PRICING**

7 **Q. PLEASE SUMMARIZE THE COMPANY'S CURRENT WATER SERVICE RATE**
8 **DESIGN STRUCTURE AS IT PERTAINS TO THE ISSUE OF SINGLE TARIFF**
9 **PRICING.**

10 A. TAWC has seven (7) rate zones that include multiple customer classes. Service charge
11 rates, volumetric rates, and the volumetric rate block structures vary across most rate zones.
12 There are over 175 unique rates for TAWC's service territory, some of which have a \$0.01
13 variation across different rate zones for the same meter size. Generally, customers in each
14 rate class regardless of rate zone are subject to service charges. The service charges
15 applicable to customers in Chattanooga, Lookout Mountain, and Lakeview escalate with
16 meter size. The service charges applicable to customers in Suck Creek, Whitwell Inside
17 City, Whitwell Outside City, and Jasper Highlands are flat and are not dependent on meter
18 size. Private fire service charges escalate with the service connection size in all rate zones.

19 All rate zones have volumetric rate blocks that are the same for residential, commercial,
20 industrial, and OPA customers within each rate zone. While the rate block structure is the

⁶ E.g., Indiana Utility Regulatory Commission Cause No. 45870, *Order of the Commission*, pp. 105 -112 (Feb. 14, 2024), attached hereto as TAW_RT_BROOKS_EXHIBIT 1.

1 same for each customer class within each rate zone, excluding SFR special contracts, the
2 rates generally vary among customer classes. The majority of the Company's rate zones
3 have a free first volumetric block or a low volumetric rate applicable to volume in the first
4 block. The second rate block rate is generally higher and blocks assume a declining rate
5 structure where each succeeding block is subject to a lower rate. The rate block structure
6 in Chattanooga, Lookout Mountain, and Lakeview includes six volumetric rate blocks with
7 the first being subject to a low volumetric rate. The rate block structure in Whitwell Inside
8 City and Whitwell Outside City includes four rate blocks with a usage allowance of 2,000
9 gallons. The rate block structure in Suck Creek includes three rate blocks with a usage
10 allowance of 1,500 gallons. The rate block structure in Jasper Highlands includes four rate
11 blocks with a usage allowance of 2,500 gallons.

12 **Q. PLEASE SUMMARIZE THE COMPANY'S RATE DESIGN PROPOSAL**
13 **REGARDING CONSOLIDATED TARIFF PRICING IN THIS PROCEEDING.**

14 A. In this proceeding, the Company is proposing to move towards CTP by consolidating rate
15 structures applicable to Chattanooga, Lookout Mountain, Lakeview, Suck Creek, Whitwell
16 Inside City, and Whitwell Outside City and by combining rate zones and serving customers
17 under consolidated rate structures. Under the Company's proposal, all rate zones,
18 excluding Jasper Highlands, will be served under the same tariff schedules. The
19 consolidated area will be defined as Rate Zone 1 and Jasper Highlands will be defined as
20 Rate Zone 2. Residential customers in Rate Zone 1 will be served under a residential tariff,
21 and all other customers, excluding special contracts and private fire, will be served under
22 a non-residential tariff.

Q. PLEASE PROVIDE A SUMMARY TABLE OF THE PROPOSED RATES FOR RATE ZONE 1.

A. Table 2 below displays a summary of the Company's proposal for rate zone 1.

Table 2			
Meter Size		Residential	Non-Residential
5/8-METER		\$21.50	\$27.50
3/4-METER		\$32.25	\$41.00
1-METER		\$53.75	\$68.50
1.5-METER		\$107.50	\$137.50
2-METER		\$172.00	\$219.50
3-METER		\$344.00	\$438.50
4-METER		\$537.50	\$686.50
6-METER		\$1,075.00	\$1,372.50
8-METER		\$1,720.00	\$2,196.50
Monthly Usage (Per 100 Gallons)		Residential	Non-Residential
First 30 hgal	\$ -		\$0.05969
Next 456 hgal		\$1.28091	\$0.94791
Next 3,254 hgal		\$1.28091	\$0.59574
Next 33,660 hgal		\$1.28091	\$0.42075
Next 74,600 hgal		\$1.28091	\$0.32145
Over 112,000 hgal		\$1.28091	\$0.19122

Q. PLEASE DESCRIBE THE COMPANY'S RATE PROPOSAL FOR RATE ZONE 2.

A. The Company is proposing a single set of rates for Rate Zone 2 that is applicable to all classes except private fire service. Under the Company's proposal, the current service charge of \$52.15 will be maintained for all meter sizes and the current volumetric rate blocks will be eliminated and a single volumetric rate of \$1.1790 per hundred gallons will be applicable to all volume after a monthly allowance of 2,500 gallons.

1 **Q. DID OTHER PARTIES SUBMIT PROPOSALS OR COMMENT ON THE**
2 **COMPANY’S PROPOSED CHANGES TO MOVEMENT TO CTP?**

3 A. Yes. CAD witness Novak has proposed a rate design that maintains the status quo by
4 allocating his proposed revenue adjustment equally to the seven rate zones based on current
5 levels of margin.⁷

6 **Q. WHAT POLICY ISSUES DOES THE CAD RAISE REGARDING CTP?**

7 A. CAD witness Novak bases his rate design proposal on his experience that “customers
8 typically feel that their current rates are fair” and goes on to characterize the Company’s
9 proposal as problematic because it creates winners and losers.⁸ CAD witness Kaml makes
10 the following claims regarding the Company’s proposal to move toward CTP.

- 11 • Mr. Kaml acknowledges that the timing of capital investment can potentially cause
12 differences in rates in different geographic areas; however, a full analysis inclusive
13 of other factors is necessary to understand the cost to serve in different rate zones.
14 He claims that if there is a cost differential, “it is reasonable to reflect those cost
15 differences in rates.”⁹
- 16 • Mr. Kaml compares the Company’s water systems with natural gas and electricity
17 systems and claims that costs vary due to factors such as location, population
18 density, and terrain. He states that an “Increased distance between customers can
19 increase the cost of service.”¹⁰

⁷ Novak Direct Testimony p. 23, line 12 – p. 24, line 4

⁸ Novak Direct Testimony p. 26, lines 3 - 9

⁹ Kaml Direct Testimony p. 14, line 23 – p. 15, line 6

¹⁰ Kaml Direct Testimony p. 18, lines 12 - 16

- 1 • Mr. Kaml claims the Company’s proposal “is inconsistent with some rate principles
2 including rate stability, rates based on cost causation, acceptability, and possibly
3 fairness and views of undue discrimination.”¹¹
- 4 • Mr. Kaml claims that efficiencies can be achieved without rate consolidation.¹²

5 **Q. WHAT POLICY ISSUES DOES COC WITNESS GARRETT RAISE REGARDING**
6 **THE COMPANY’S PROPOSAL TO MOVE TOWARD CTP?**

7 A. Mr. Garrett argues that the Company’s proposal is not cost-based and presents the following
8 claims.

- 9 • Mr. Garrett states the U.S. Constitution’s Fifth Amendment, and the Due Process
10 Clause of the Fourteenth Amendment supports the approach of cost-based rates and
11 concludes that from a legal perspective cost-based rates are the best approach. He
12 claims this is why every commission uses a cost-based approach for setting rates.¹³
- 13 • Mr. Garrett claims that cost-based rates are equitable and the customers only
14 contribute to the costs required to serve them.¹⁴
- 15 • Mr. Garrett states that “rates for each customer class or zone need to reflect true
16 cost to serve each class or zone so that consumers within each class or zone will
17 make usage decisions based upon actual costs.”¹⁵ He goes on to cite Supreme Court
18 cases that established cost-based rates as constitutionally valid rates and that
19 Tennessee is a cost-based state that strives to allocate costs to customer classes
20 based on cost of service.¹⁶

¹¹ Kaml Direct Testimony p. 19, lines 7 - 9

¹² Kaml Direct Testimony p. 15, lines 20 - 21

¹³ Garrett Direct Testimony p. 46, line 10 – p. 47, line 5

¹⁴ Garrett Direct Testimony p. 47, lines 9-13

¹⁵ Garrett Direct Testimony p. 49, lines 15-17

¹⁶ Garrett Direct Testimony p. 50, lines 4-14

- 1 • Mr. Garrett recommends that any revenue adjustment be allocated to customers on
2 an equal percentage basis to the current seven rate zones.¹⁷

3 **Q. DO YOU AGREE WITH CAD'S OR COC'S OPPOSITION TO CTP?**

4 A. As I further discuss below, no.

5 **Q. HOW WOULD YOU SUMMARIZE THE CTP POLICY OPTIONS CURRENTLY**
6 **BEFORE THE COMMISSION IN THIS CASE?**

7 A. Currently, the Company's rates across the seven different rate zones are not directly based
8 on cost of service at the rate zone level nor are they based on long term affordability goals
9 for all customers which are included within the Company's CTP proposal. The CAD
10 advocates for maintaining this status quo.

11 The COC proposes a rate design policy in which water customers in different rate zones
12 completely pay for, and only pay for, the present and future costs of owning, operating, and
13 maintaining the water production and delivery systems in their communities. Under this
14 regime, the customers in each rate zone bear the risk of absorbing all associated rate shocks
15 that might follow.

16 The Company believes that improvements can be made in its rate design that will foster
17 enhanced rate stability, lower regulatory costs, and greater equity across all customer
18 groups. Specifically, the Company believes the better rate design is one in which water
19 customers in different communities help pay for all of the present and future costs of
20 owning, operating, and in maintaining the water production and delivery systems in all of

¹⁷ Garrett Direct Testimony p. 50, line 21 – p. 51, line 2

1 the communities served, knowing that they will often be paying for investments that do not
2 directly serve them and may be paying rates at any point in time that might be higher or
3 lower than they otherwise would be, but in return enjoy more rate stability over time.

4 **Q. WHY DOES THE COMPANY BELIEVE ITS PROPOSED RATE DESIGN IS THE**
5 **BETTER POLICY OPTION?**

6 A. The Company provides the same quality water service to customers regardless of which
7 rate zone they are in or what assets are used to provide that service. It is sound and logical
8 to say that all customers who receive the same service from the Company should pay the
9 same rates for that service. Absent compelling evidence to show that the cost of providing
10 service in a given rate zone, community, or group of communities has been, is, and will
11 always be fundamentally and systemically different than in other rate zones or
12 communities, it is most appropriate that rates be consolidated across the majority of the
13 service territory. The benefits of doing so in terms of equitability and rate stability over
14 time outweigh the concerns that customers may be paying rates at any point in time that
15 might be higher or lower than they otherwise would be and may be paying for some
16 investments that do not directly serve them.

17 **Q. DOES THE COMPANY'S PREFERRED POSITION ALSO REDUCE COSTS FOR**
18 **CUSTOMERS?**

19 A. Yes. Not only can the principles of cost causation be obtained at the consolidated customer
20 class level under CTP proposals, but CTP also offers a variety of benefits further described
21 in my direct testimony, such as improved affordability for all customers, lower
22 administrative and regulatory costs, a consistent regulatory approach for all public utilities,
23 and support for water industry consolidation.

1 **Q. HOW DO YOU RESPOND TO MR. NOVAK’S RECOMMENDATION TO**
2 **ALLOCATE ANY APPROVED REVENUE ADJUSTMENT BASED ON**
3 **ALLOCATIONS DEPENDENT ON HOW REVENUES ARE CURRENTLY BEING**
4 **COLLECTED?**

5 A. Based on Mr. Novak’s testimony, his recommendation to allocate any approved revenue
6 adjustment based on how revenues are currently being collected is based on his assertion
7 that 1) the Commission would constantly be receiving complaints from customers if they
8 didn’t view the rates as “fair” and 2) the Company’s proposal creates “winners and losers.”
9 I do not agree with Mr. Novak’s assertion that the Commission would constantly be
10 receiving complaints if customers did not view their rates as fair. His claim regarding
11 complaints is speculative and has no factual basis. Typically, customer complaints
12 regarding rates occur after a base rate adjustment, and communities served by Tennessee
13 American Water have not had a base rate adjustment since November 1, 2012.
14 Additionally, Mr. Novak’s claim that the Company’s rate design creates “winners and
15 losers” could be said from a customer’s perspective with any proposed rate design
16 regardless of moving to cost of service or some other hypothetical rate design. Mr. Novak’s
17 arguments supporting his rate design and rejecting the Company’s consolidation proposal
18 are unsubstantiated and allow Mr. Novak to propose a rate design that maintains the status
19 quo and one that has no fundamental objective of either cost of service or CTP principles.

20 **Q. THE MAJORITY OF ARGUMENTS MADE BY MR. KAML AND MR. GARRETT**
21 **THAT YOU’VE OUTLINED EARLIER IN YOUR TESTIMONY ARE RELATED**
22 **TO COST CAUSATION AND HOW THEY BELIEVE THE COMPANY’S**

PROPOSAL DOES NOT FOLLOW COST CAUSATION OR RATE DESIGN PRINCIPLES. HOW DO YOU RESPOND?

A. Arguments related to cost causation and rate design principles that negate CTP are very common arguments against CTP. The argument comes back to the policy choices I outlined earlier, which are, should water customers in different rate zones completely pay for, and only pay for, the present and future costs of owning, operating, and maintaining the water production and delivery systems in their communities, should water customers across the communities served help pay for all of the present and future costs of owning, operating, and in maintaining the water production and delivery systems in all of the communities served, should the status quo, proposed by Mr. Novak, be maintained, or should customers be subject to a rate design somewhere in between these proposals.

It will always be the case that certain groups of customers will be paying more or less than their absolute true cost to serve regardless of whether CTP is in place or not. It is not possible to design rates in a way that sends price signals to all customers that directly and precisely reflect the cost of providing service to each customer. This is true when considering customers across different rate zones and it is true when considering customers within a single rate zone such as Chattanooga which certainly has a magnitude of differences in cost of service within and across the city. Also, the fact that the Company's rate zones are physically separated from each other does not imply that their pricing structure should be separate, as I will point out later in my testimony.

Q. MR. KAML ARGUES THAT CAPITAL INVESTMENT CAN IMPACT THE COST OF PROVIDING WATER SERVICE TO DIFFERENT COMMUNITIES. DO YOU AGREE WITH THIS ASSERTION AND ARE THERE DIFFERENT

1 **CHARACTERISTICS THAT CAN AFFECT THE COST OF PROVIDING WATER**
2 **SERVICE TO DIFFERENT COMMUNITIES?**

3 A. I agree with Mr. Kaml. If the Company invests in one particular rate zone, the Company
4 is not disputing that such investment would increase the cost of service in the respective
5 rate zone. Water treatment plants, distribution networks, pumping equipment, and soil
6 characteristics can be distinct across the state and geographic characteristics and can impact
7 costs related to storage, pressure, pumping, mains, chemicals and other costs associated
8 with providing service. Additionally, the average age of plant used to provide service in
9 different communities can affect the calculated cost of providing service in different
10 communities. Communities with older vintage plants tend to have a lower cost of service
11 from a rate base perspective than communities with newer plant. Customer groups located
12 farther away from a water treatment plant will have a higher cost of service and customer
13 groups located closer to a water treatment plant will have a lower cost of service because
14 there is likely less delivery assets needed to get water from the source to where it is used
15 for customers closer to water treatment plants than for customers farther away.

16 **Q. ARE THESE MYRIADS OF DIFFERENCES A VALID REASON TO ESTABLISH**
17 **SEPARATE PRICING STRUCTURES IN AREAS THAT HAVE THESE**
18 **DIFFERENCES?**

19 A. No. From a purely analytical perspective, these myriads of differences will result in
20 different revenue requirement calculations in different discreet geographic locations that
21 would suggest that different rates could be justified, but from a practical perspective these
22 differences are not a valid reason for having different rates. It would be unreasonable to

1 suggest having a “rocky soil rate”, or an “old plant rate”, or a “high labor cost rate”, or a
2 “far away from the river rate” just because cost of service supports that distinction.

3 **Q. MR. KAML DEVOTED A CONSIDERABLE AMOUNT OF TESTIMONY**
4 **COMPARING THE WATER INDUSTRY TO THE ELECTRIC INDUSTRY AND**
5 **THE NATURAL GAS INDUSTRY. WHAT IS YOUR REACTION TO THIS**
6 **COMPARISON?**

7 A. A portion of Mr. Kaml’s testimony comparing the electric and natural gas industries to the
8 water industry focuses on how gas and electric utilities are considered to be interconnected,
9 meaning there is a continuous physical or theoretical connection, which promotes common
10 costs to all customers.¹⁸ He goes on to explain that costs do tend to vary on these systems
11 due to various factors such as terrain and population density.¹⁹

12 Most of my experience prior to joining American Water was in the natural gas industry,
13 particularly with Chattanooga Gas Company and Atlanta Gas Light, both of which have
14 service territories that either overlap or neighbor TAWC’s service territory. There are two
15 issues that need to be addressed here.

16 First, in today’s utility environment, natural gas utilities are almost exclusively distribution
17 companies. While they are interconnected to some extent through interstate pipelines, gas
18 utilities rarely own these assets. The primary function of a natural gas utility is to purchase
19 gas on the open market, reserve capacity on the interstate pipelines, and deliver it to
20 customers through its distribution system, which makes it look very much like a water

¹⁸ Kaml Direct Testimony p. 17, lines 3-5

¹⁹ Kaml Direct Testimony p. 18, lines 4-6

1 utility once you get past the sourcing of the commodity. The inherent cost differences by
2 geographic location related to investing in and maintaining a gas system are similar to the
3 cost differences for a water system. Mr. Kaml is correct when he states that costs vary for
4 natural gas systems due to terrain and population density; however, gas distribution rates
5 in retail tariffs are not typically differentiated by discrete location based on the cost of
6 providing specific utility services in those locations.

7 Second, Mr. Kaml claims that to address population densities, natural gas companies limit
8 service lines to a certain footage. It is true that gas companies typically calculate an
9 allowable investment or implement a service line footage allowance for new customers;
10 however, in my experience, population density is not part of the equation and this
11 calculation is customer specific. For example, Chattanooga Gas Company allows 100 feet
12 of service line from the main. The 100 feet of free service line would be applicable to a
13 new customer in the more densely populated residential areas of Chattanooga as well as a
14 new customer on the outskirts of Chattanooga.

15 **Q. YOU MENTION THAT GAS UTILITIES ONLY PROVIDE A CERTAIN**
16 **FOOTAGE OF SERVICE LINE AT NO ADDITIONAL CHARGE TO**
17 **CUSTOMERS. DOES TAWC REQUIRE CUSTOMERS TO PAY FOR SERVICE**
18 **LINES THAT ARE OVER A CERTAIN FOOTAGE?**

19 **A.** No. There is a fundamental difference between natural gas and water systems when it's
20 related to service lines. Typically, gas meters are located immediately next to a customer's
21 house or building, and the gas company owns the service line from the street to the meter.
22 Water meters are usually located in meter pits located at the street; therefore, there is no
23 reason to have service line extension guidelines or requirements in place; however, TAWC

1 does have main extension provisions that allow the Company to charge for customer
2 specific main extensions that exceed a certain length, which has been proposed to be set at
3 100 feet in the current rate case.

4 **Q. MR. KAML CLAIMS THAT THE CHARGES NATURAL GAS COMPANIES**
5 **IMPLEMENT FOR SERVICE LINES EXCEEDING A CERTAIN LENGTH**
6 **DEMONSTRATES THAT COSTS ARE REFLECTED IN SERVICE OR RATES.**
7 **HOW DO YOU RESPOND?**

8 A. Mr. Kaml is correct that customer specific service line costs are recovered directly from
9 customers that cause the costs related to exceeding defined maximum service line lengths;
10 however, this type of cost recovery should not be conflated with cost recovery through
11 retail tariff rates and CTP. It would be more appropriate to compare Mr. Kaml's gas service
12 line example of cost recovery to TAWC's tariff provision that allows the Company to
13 charge customers for main extensions exceeding a certain length. Both the water and
14 natural gas industries recover customer-specific costs when providing service exceeds
15 certain allowable investment criteria. These customer specific service line extension and
16 main extension charges should not be confused with retail tariff rates.

17 **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING MR. KAML'S**
18 **ARGUMENTS AGAINST CTP?**

19 A. Yes. Mr. Kaml briefly discusses efficiency and claims that efficiencies can be obtained
20 without CTP. While it may be true that some efficiencies can be obtained without CTP,
21 there are several aspects of non-consolidated tariff pricing that are in no circumstance cost
22 effective or efficient. An example of such an inefficiency related to non-consolidated tariff
23 pricing would be a requirement for the Company to create separate COSS's and revenue

1 requirements for each rate zone. These studies are expensive, and the related costs would
2 ultimately be recovered from TAWC customers. Another example of an inefficiency
3 related to non-consolidated rates is the administrative aspect of maintaining over 175 rates.
4 CTP promotes long term affordability for all customers and avoids the inefficiencies like
5 the ones that I've described.

6 **Q. TURNING TO COC WITNESS GARRETT'S TESTIMONY WHERE HE STATES**
7 **THAT EVERY COMMISSION USES A COST-BASED APPROACH FOR**
8 **SETTING RATES TO SATISFY CONSTITUTIONAL REQUIREMENTS. HOW**
9 **DO YOU RESPOND TO THIS CLAIM?**

10 A. I agree that commissions use a cost-based approach to determine a revenue requirement;
11 however, I do not agree that all commissions set rates for customer classes across water
12 systems at geographic specific or system specific cost of service. As I explain in my direct
13 testimony (p. 30), several commissions presiding over states served by subsidiaries of
14 American Water do not require a COSS for each separate non-continuous water system and
15 have prioritized long term affordability over cost-based rates for individual systems within
16 the respective state. These commissions generally rely on the Company's consolidated
17 COSS to gradually move or set rates for each customer class based on the total consolidated
18 cost of service for the service territory.²⁰ The Company is not proposing anything outside
19 the constraints that Mr. Garrett has described when it's related to the overall revenue
20 requirement.

²⁰ See Exhibit HB-2 filed with my direct testimony for examples of consolidated tariffs.

1 **Q. MR. GARRETT CITES SUPREME COURT CASES THAT ESTABLISHED COST-**
2 **BASED AND CONSTITUTIONALLY VALID RATES. HE GOES ON TO SAY**
3 **THAT TENNESSEE STRIVES TO ALLOCATE COSTS AMONG CUSTOMER**
4 **CLASSES TO REFLECT PROVIDING SERVICE TO EACH. HOW DO YOU**
5 **RESPOND?**

6 A. Again, the Company is not proposing anything outside the constraints that Mr. Garrett
7 describes related to cost-based rates. The Company is proposing to recover the cost-based
8 revenue requirement and nothing more.

9 Mr. Garrett's comment that Tennessee strives to allocate the revenue requirement to
10 customer classes may be true; however, there is no indication that the current rate structure
11 is based on cost of service by different rate zone or cost of service at the customer class
12 level. The settlement agreement in case 12-00049 applied the same percentage increase to
13 service charges and volumetric charges within each rate class to reach an overall increase
14 of 12.72 % for each class. Cost of service by rate zone was not part of the adjustment
15 equation. There is no evidence from the most recent revenue adjustment in case 12-00049
16 that rates are at cost of service or have moved closer to cost of service. This finding that
17 rates are not at cost of service by rate zone and have not been adjusted based on any
18 analytical rate zone or class specific approach in the past 12 years further emphasizes the
19 opportunity the Commission has to move rates toward a consolidated rate structure that
20 promotes long-term affordability for all customers across TAWC's service territory.

21 **Q. WHAT ARE YOUR CONCLUSIONS REGARDING THE COMPANY'S CTP**
22 **PROPOSAL?**

1 A. The Commission should accept the Company's proposal to move towards consolidated
2 rates. CTP is a best practice²¹ that has been shown to be in the long-term best interest of
3 our customers and results in a rate design that is logical and sensible from the customer's
4 perspective. Because a significant portion of the Company's revenue requirement is
5 associated with delivery and customer service functions, the consolidation of pricing for
6 those services across the service territory just as it is done for electric and gas utilities is a
7 sensible approach to rate design. The principles of cost causation, which are more
8 commonly applied to allocation of revenue requirement to customer classes than it is to
9 differentiation of pricing by geography, is not destroyed through CTP and cost saving
10 efficiencies are obtained from treating TAWC's water service system as an interconnected
11 system.

12 **V. RATE DESIGN**

13 **Q. DOES THE CAD PROPOSE A PARTICULAR METHOD FOR ALLOCATING**
14 **THE REVENUE ADJUSTMENT TO RATES?**

15 A. Yes, Mr. Novak proposes a universal adjustment to base rates by applying his overall
16 recommendation of a -7.5% reduction to all rates and then proposes to roll in the entire
17 Production Costs and Other Pass-Throughs Rider ("PCOP") and Capital rider surcharge
18 revenue into volumetric rates in each rate zone.²²

19 **Q. DOES COC WITNESS GARRETT PROPOSE A PARTICULAR METHOD FOR**
20 **ALLOCATING THE REVENUE ADJUSTMENT TO RATES?**

²¹ As I explain on page 30 of my direct testimony, "[a]s far back as 2005, the National Association of Regulatory Utility Commissioners ("NARUC") recognized consolidation of rates as a best practice and recommended that economic regulators consider and adopt as many as regulatory mechanisms identified as best practices as possible, including consolidation of rates."

²² Novak Direct Testimony p. 31, lines 4-8

1 A. Yes, Mr. Garrett recommends that there should be no shift from fixed charges to variable
2 charges for large commercial or industrial customers. He claims that this will “preserve
3 the economic viability in Chattanooga.”²³

4 **Q. HOW DO YOU RESPOND TO MR. NOVAK’S RECOMMENDATION**
5 **REGARDING THE ADJUSTMENT TO RATES?**

6 A. The capital rider and PCOP rider recovery of 40.69% in additional revenue under current
7 rates is directly tied to how base rate revenue is collected through fixed and volumetric
8 base rates. For example, a Chattanooga residential customer with no usage would still be
9 subject to a meter charge and an additional 40.69% in rider recovery on a monthly bill.
10 Assuming the customer in this example has a 5/8” meter, they would be charged \$13.96
11 for their meter and an additional \$5.68 for the PCOP and capital riders, regardless of usage.
12 In essence, the \$5.68 in rider recovery is fixed revenue.

13 The overwhelming majority of the Company’s costs are fixed at approximately 93% and
14 to propose rates that significantly reduce the Company’s fixed revenue recovery percentage
15 from current levels, as Mr. Novak has in his proposal, is troublesome. Mr. Novak’s
16 proposal significantly erodes the Company’s ability to recover the levels of fixed cost
17 authorized in this case.

18 **Q. HOW DOES MR. NOVAK’S PROPOSAL TO LOWER FIXED CHARGES ERODE**
19 **THE COMPANY’S ABILITY TO RECOVER COSTS?**

20 A. Mr. Novak’s proposal to reduce the Company’s fixed charges increases the Company’s
21 exposure to two factors that cause revenue volatility and create risk related to recovering

²³ Garrett Direct Testimony p. 51, lines 5-7

1 fixed costs from year to year. These two factors are seasonal weather conditions and the
2 ongoing trends of declining usage.

3 Seasonal weather conditions can cause water sales to either increase or decrease from
4 expected going-forward levels, which, in turn, causes revenues to increase or decrease from
5 expected going levels. Cold winters and hot dry summers tend to increase water sales, and
6 warmer winters and cooler wetter summers tend to decrease water sales. Weather volatility
7 in either direction causes volatility that is intensified with increased reliability on
8 volumetric charges.

9 Mr. Novak's overall usage per customer projections for residential, commercial, and OPA
10 customers indicate declining usage.²⁴ Declining usage at the per customer level is directly
11 related to increased efficiency of appliances and water fixtures, such as washing machines
12 and toilets. The declining usage trend related to efficiency of use will likely continue as
13 the development of water efficient appliances and fixtures continues and as new programs
14 promoting public awareness for water conservation are implemented. Continuing trends
15 in declining use per customer causes increased volatility in revenue recovery, particularly
16 when an overwhelming portion of revenue is recovered through volumetric rates.

17 **Q. HOW IS A VOLATILE AND DEGRADING LONG-TERM REVENUE STREAM**
18 **NOT IN THE LONG-TERM BEST INTERESTS OF THE COMPANY'S**
19 **CUSTOMERS?**

²⁴ Confidential WHN Revenue Workpapers – Final, Tabs: 21.2b-1-RES-Usage, 31.2b-1-COM-Usage, 51.2b-1-OPA-Usage

1 A. The Company is committed to helping customers use water efficiently and providing
2 quality water service that is affordable. The Company's ability to reliably recover its
3 revenue requirement and recover a significant portion of its fixed cost of providing service
4 over the long term through rates is an important part of the Company's ability to continue
5 to operate, maintain, and invest in the water system as cost effectively as possible over the
6 long-term. This ability to prudently manage the system at a reasonable cost is in the long-
7 term best interests of our customers.

8 **Q. IS THE COMPANY PROPOSING TO COLLECT ALL FIXED COSTS THROUGH**
9 **FIXED CHARGES?**

10 A. Certainly not. Under the Company's current rate structure, when the rider percentages are
11 applied to each individual fixed and volumetric component, the Company is collecting
12 approximately 49% of revenues through retail tariff fixed charges. Under the Company's
13 proposed rates, the Company will be collecting approximately 42% of revenues through
14 retail tariff fixed charges in an effort to not dramatically increase revenue volatility from
15 current levels.

16 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

17 A. Yes.

ORIGINAL

Commissioner	Yes	No	Not Participating
Huston			√
Bennett	√		
Freeman	√		
Veleta	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER)
 COMPANY, INC. FOR (1) AUTHORITY TO)
 INCREASE ITS RATES AND CHARGES FOR)
 WATER AND WASTEWATER UTILITY)
 SERVICE THROUGH A THREE-STEP RATE)
 IMPLEMENTATION, (2) APPROVAL OF NEW)
 SCHEDULES OF RATES AND CHARGES)
 APPLICABLE TO WATER AND)
 WASTEWATER UTILITY SERVICE,)
 INCLUDING A NEW UNIVERSAL)
 AFFORDABILITY RATE, (3) APPROVAL OF)
 REVISED DEPRECIATION RATES) **CAUSE NO. 45870**
 APPLICABLE TO WATER AND)
 WASTEWATER PLANT IN SERVICE, (4)) **APPROVED: FEB 14 2024**
 APPROVAL OF NECESSARY AND)
 APPROPRIATE ACCOUNTING RELIEF, (5))
 APPROVAL OF THE EXTENSION OF SERVICE)
 TO AN INFRASTRUCTURE DEVELOPMENT)
 ZONE IN MONTGOMERY COUNTY, INDIANA)
 AND AUTHORITY TO IMPLEMENT A)
 SURCHARGE UNDER IND. CODE § 8-1-2-46.2,)
 AND (6) APPROVAL OF PETITIONER'S PLANS)
 TO DEVELOP FUTURE WATER SOURCES OF)
 SUPPLY UNDER IND. CODE § 8-1-2-23.5.)

ORDER OF THE COMMISSION

Presiding Officers:

James F. Huston, Chairman

Sarah E. Freeman, Commissioner

Loraine L. Seyfried, Chief Administrative Law Judge

Exhibit 1

TABLE OF CONTENTS

TABLE OF CONTENTS.....	i
1. Notice and Jurisdiction	3
2. Petitioner’s Organization and Business	4
3. Existing Rates	4
4. Test Year	4
5. Indiana American’s Requested Relief	5
6. Overview of the Evidence.....	5
A. INAWC CASE-IN-CHIEF	5
B. OUCC AND INTERVENORS’ CASES-IN-CHIEF	7
C. INAWC REBUTTAL	8
D. CROSS-ANSWERING TESTIMONY	9
7. Petitioner’s Rate Base	9
A. UTILITY PLANT FORECAST.....	9
B. QUANTIFICATION OF ORIGINAL COST RATE BASE	32
C. FAIR VALUE OF INAWC’S RATE BASE	35
8. Fair Rate of Return.....	37
A. ROE.....	37
B. COST OF DEBT	43
C. CAPITAL STRUCTURE	43
D. OVERALL WACC	49
9. Disputed Test Year Revenues	50
A. NORMALIZATION OF BILLINGS – DECLINING USE	52
B. CUSTOMER NORMALIZATION	56
. 56	
C. LOW-INCOME PILOT PROGRAM (“LIPP”) DISCOUNT ADJUSTMENT	60
D. DSIC REVENUE ADJUSTMENT	61
E. LATE FEE ADJUSTMENTS	61
10. Disputed Test Year Expenses	61
A. PRODUCTION EXPENSES	63
B. LABOR AND LABOR-RELATED EXPENSES	66
C. OTHER BENEFITS EXPENSE	70
D. SUPPORT SERVICES EXPENSE	71
E. CONTRACT SERVICES – LINE LOCATES	72
F. INFLATION/ANNUALIZATION	75
G. MISCELLANEOUS EXPENSE	77
H. TRANSPORTATION EXPENSE	79
I. BAD DEBT EXPENSE	80
J. CUSTOMER ACCOUNTING - CREDIT CARD FEES.....	80

Exhibit 1

AND DISCONNECTION PROCESS.....	80
K. REGULATORY EXPENSE - RATE CASE	82
L. AMORTIZATION - COVID DEFERRAL	83
M. AMORTIZATION - LIPP EXPENSE	84
N. PROPERTY TAX EXPENSE.....	85
O. IURC FEE AND GROSS REVENUE CONVERSION FACTOR	86
P. INCOME TAX EXPENSE.....	87
11. Net Operating Income at Present Rates	91
12. Authorized Rate Increase and Rate Implementation	92
A. INAWC CASE-IN-CHIEF.....	92
B. OUCC	92
C. INDUSTRIAL GROUP	93
D. INAWC REBUTTAL	93
E. DISCUSSION AND FINDINGS.....	93
13. Depreciation Study.....	97
A. INAWC CASE-IN-CHIEF	97
B. OUCC	98
C. INAWC REBUTTAL	98
D. DISCUSSION AND FINDINGS.....	99
14. Affordability.	99
A. INAWC CASE-IN-CHIEF	99
B. OUCC	102
C. CROWN POINT.....	103
D. CAC	103
E. INAWC REBUTTAL	103
F. DISCUSSION AND FINDINGS.....	105
15. Cost of Service Study and Rate Design	105
A. COST OF SERVICE STUDY	105
B. RATE DESIGN.....	112
C. UNIVERSAL AFFORDABILITY TARIFF	120
D. MONTGOMERY COUNTY SURCHARGE.....	125
16. URT Repeal	128
A. INAWC CASE-IN-CHIEF	128
B. OUCC	128
C. INDUSTRIAL GROUP	128
D. CAC	129
E. INAWC REBUTTAL	129
F. DISCUSSION AND FINDINGS.....	129
17. Non-Recurring Charges	130
A. INAWC CASE-IN-CHIEF	130
B. OUCC	130

Exhibit 1

C.	CAC	131
D.	INAWC REBUTTAL	131
E.	DISCUSSION AND FINDINGS.....	131
18.	Tariff Matters	131
A.	INAWC CASE-IN-CHIEF	131
B.	OUCC	132
C.	CAC	132
D.	INAWC REBUTTAL	132
E.	DISCUSSION AND FINDINGS.....	132
19.	Customer Service	132
20.	Non-Revenue Water.....	133
A.	INAWC CASE-IN-CHIEF	133
B.	OUCC	133
C.	INAWC REBUTTAL	134
D.	DISCUSSION AND FINDINGS.....	134
21.	Regulatory Accounting Treatment.....	135
A.	INAWC CASE-IN-CHIEF	135
B.	OUCC	135
C.	INDUSTRIAL GROUP	136
D.	INAWC REBUTTAL	136
E.	DISCUSSION AND FINDINGS.....	136
22.	Future DSIC and SEI Cases	138
23.	Confidentiality	139

Exhibit 1

On March 31, 2023, Indiana-American Water Company, Inc. (“Petitioner,” “Indiana American,” or “INAWC”) filed its Petition for General Rate Increase and Associated Relief under Ind. Code § 8-1-2-42.7, Surcharge Under Ind. Code § 8-1-2-46.2, and Approval of Plans to Develop Future Water Sources under Ind. Code § 8-1-2-23.5 and Notice of Provision of Information in Accordance with the Minimum Standard Filing Requirements with the Indiana Utility Regulatory Commission (“Commission”), seeking: (i) authority to increase its rates and charges for water and wastewater through a three-step rate implementation, (ii) approval of new schedules of rates and charges, (iii) approval of revised depreciation rates applicable to its water and wastewater plant in service, (iv) approval of the regulatory accounting treatment, (v) approval of Petitioner’s extension of service to a Montgomery County Infrastructure Development Zone and authority to implement a surcharge under Ind. Code § 8-1-2-46.2, and (vi) approval of Petitioner’s plans to develop future sources of water supply. That same day Indiana American also filed testimony and exhibits from the following witnesses¹:

- Matthew Prine, President of Indiana American
- Gregory D. Shimansky, Director, Rates & Regulatory for American Water Works Service Company, Inc. (“Service Company”)
- Matthew H. Hobbs, Director of Engineering at Indiana American
- Kari C. Britto, Vice President, Operations at Indiana American
- Charles B. Rea, Senior Director, Regulatory Pricing and Affordability for the Service Company
- Nicholas Furia, Assistant Treasurer for the Service Company
- Ann E. Bulkley, Principal at The Brattle Group
- Jennifer M.B. Grisham, Senior Manager of Regulatory Services for the Service Company
- Manuel Cifuentes, Jr., Senior Principal Regulatory Analyst for the Service Company
- Thomas G. O’Drain, Director of National Categories and Corporate Procurement for the Service Company
- Patrick Baryenbruch, President, Baryenbruch & Company LLC
- Larry E. Kennedy, Senior Vice President, Concentric Energy Advisors, Inc.

Petitions to Intervene were filed on April 5, 2023, by Citizens Action Coalition of Indiana, Inc. (“CAC”); on April 11, 2023, by the City of Crown Point (“Crown Point”); on April 17, 2023, by the Town of Schererville (“Schererville”) and Sullivan-Vigo Rural Water Corporation (“Sullivan-Vigo”); on April 26, 2023 by a group of industrial customers of Indiana American² (“Industrial Group”); on May 4, 2023, by the Town of Whiteland (“Whiteland”); on May 19, 2023, by Borden Tri-County Regional Water District, Jackson County Water Utility, Inc., and the Town

¹ On April 28, 2023, Indiana American filed corrections to witnesses Shimansky and Rea testimony. On June 6, 2023, Indiana American filed its second submission of corrections to witnesses Shimansky, Britto, Bulkley, and Cifuentes and updates to certain of its financial exhibits. On August 29, 2023, Indiana American filed its third submission of corrections to witness Shimansky’s direct testimony. All corrections were included in the evidence submitted at the hearing.

² The ad hoc group at time of intervention included, Cleveland Cliffs Steel LLC, Linda, General Motors, Haynes International, Inc., and United States Steel Corporation.

Exhibit 1

of Greenville, Indiana; and on July 13, 2023, by Hamilton County Regional Utility District (“District”), (collectively, the “Intervenors”). The Commission issued Docket Entries in which each of said petitions to intervene were granted; thus, all of the entities requesting intervention were made parties to this Cause. The Indiana Office of Utility Consumer Counselor (“OUCC”) also participated.

A Stipulation as to Procedural Matters setting forth certain procedural matters that had been agreed upon with the OUCC, and Intervenors CAC, Crown Point, Schererville, Sullivan Vigo, and the Industrial Group was filed on April 21, 2023. By Docket Entry issued May 3, 2023, the Presiding Officers established certain procedural requirements, scheduling, and other matters. By Docket Entry dated June 23, 2023, the Presiding Officers modified the date by which the OUCC and all Intervenors were to file their respective cases.

Pursuant to Ind. Code § 8-1-2-61(b), a public field hearing was conducted on June 29, 2023, in Fishers, Indiana, which is the largest municipality in Petitioner’s service area. Pursuant to the Commission’s June 19, 2023 Docket Entry granting the OUCC’s request for a second field hearing, a second field hearing was conducted on July 6, 2023, in the City of Gary. During the public field hearings, members of the public provided oral and/or written testimony in this Cause.

On July 21, 2023, the OUCC and Intervenors filed their respective cases-in-chief. The OUCC’s case-in-chief included testimony and attachments from the following witnesses³:

- Scott Bell, Director of the Water/Wastewater Division
- Carla Sullivan, Utility Analyst in the Water/Wastewater Division
- Margaret Stull, Chief Technical Advisor in the Water/Wastewater Division
- Thomas Malan, Utility Analyst in the Water/Wastewater Division
- Jason Compton, Utility Analyst in the Water/Wastewater Division
- Shawn Dellinger, Senior Utility Analyst in the Water/Wastewater Division
- David Garrett, Resolve Utility Consulting, PLLC
- Jerome Mierzwa, Principal and Vice President, Exeter Associates, Inc.
- James Parks, Senior Utility Analyst in the Water/Wastewater Division
- Carl Seals, Assistant Director of the Water/Wastewater Division
- Kristen Willoughby, Utility Analyst in the Water/Wastewater Division

The OUCC also filed the written consumer comments pertaining to this docket and the relief requested as Public’s Exhibit 12.

A group of sale-for-resale (“SFR”) customers (“Wholesale Customers”) filed the testimony of Eric Callocchia, Partner of NewGen Strategies & Solutions, LLC’s Environmental Practice.⁴

³ On August 2, 2023, the OUCC filed corrections to the testimony of Scott A. Bell, Carla F. Sullivan, and Thomas W. Malan and redlined schedules. On August 30, 2023, the OUCC filed additional corrections to Ms. Sullivan’s testimony. All corrections were included in the evidence submitted at the hearing.

⁴ The Wholesale Customers include the Towns of Schererville, Greenville, and Whiteland, the City of Crown Point, Borden Tri-County Regional Water District, Jackson County Water Utility, Inc., Hamilton County Regional Utility District, and the Sullivan-Vigo Water Corporation.

Exhibit 1

The District filed the testimony and attachments of Martin A. Wessler, CEO of Wessler Engineering.

The Industrial Group's case-in-chief included testimony and attachments from the following witnesses⁵:

- Michael Gorman, Managing Principal, Brubaker & Associates, Inc.
- Jessica York, Consultant, Public Utility Regulation, Brubaker & Associates, Inc.

Crown Point filed testimony from Gregory Guerrettaz, President, Financial Solutions Group, Inc.

Whiteland filed testimony and attachments of Carmen Young, Director of Administration for Whiteland.

CAC filed testimony and attachments from Benjamin Inskeep, CAC's Program Director.

On August 8, 2023, Indiana American filed rebuttal testimony, exhibits, and workpapers for witnesses Shimansky, Hobbs, Britto, Rea, Bulkley, Grisham, Cifuentes, and Kennedy.⁶ Indiana American also filed rebuttal testimony for Melissa Ciullo, Vice President of Tax, and Michael Farrell, Senior Director with Willis Towers Watson. On the same day, the OUCC filed cross-answering testimony and exhibits of witnesses Stull and Mierzwa; the Industrial Group filed cross-answering testimony and exhibits of witness York; the Wholesale Customers filed the cross-answering testimony and exhibits of witness Callocchia; the District filed the cross-answering testimony of Wessler; and CAC filed cross-answering testimony of Benjamin Inskeep.

The Presiding Officers caused to be issued Docket Entries requesting additional information from Indiana American on June 12, 2023, August 4, 2023, August 17, 2023, August 25, 2023, August 30, 2023, and August 31, 2023, to which Indiana American filed its responses on June 13, 2023 (Pet. Ex. 25), August 8, 2023 (Pet. Ex. 26), August 21, 2023 (Pet. Ex. 27), August 30, 2023 (Pet. Ex. 28), August 31, 2023 (Pet. Ex. 29), and September 1, 2023 (Pet. Ex. 30).

The Commission held an evidentiary hearing in this Cause starting on August 31, 2023, at 9:30 a.m. and continuing on September 5, 2023, in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Indiana American, the OUCC, and Intervenors were present and participated through counsel. The testimony and exhibits of the parties were admitted into the record without objection.

Having considered the evidence presented and based on the applicable law, the Commission now finds:

1. Notice and Jurisdiction. Notice of the petition filed in this Cause was given and

⁵ The Industrial Group filed corrections to its witnesses' testimony on July 24, 2023.

⁶ On August 31, 2023, Petitioner filed a corrected Attachment CBR-7R to Mr. Rea's rebuttal testimony.

Exhibit 1

published by Petitioner as required by law, and Petitioner provided notice to its customers summarizing the nature and extent of the proposed changes in its rates and charges for water service. Pet. Ex. 1, Attachments MP-1 and MP-2.

Due, legal, and timely notices of the public hearings in this Cause were given and published as required by law. Petitioner is a “public utility” within the meaning of that term in Ind. Code § 8-1-2-1(a)(2) and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. Under Ind. Code §§ 8-1-2-42 and 42.7, the Commission has jurisdiction over Petitioner’s rates and charges. The Commission also has jurisdiction over Petitioner’s extensions of water and wastewater service to rural areas under Ind. Code § 8-1-2-46.2 and the development of future water sources under Ind. Code § 8-1-2-23.5. Accordingly, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner’s Organization and Business. Indiana American is a public utility with its principal place of business located at 153 North Emerson Ave., Greenwood, Indiana. Indiana American provides water utility service to approximately 328,000 customers located in and around numerous communities throughout the State of Indiana. Indiana American also provides sewer utility service to approximately 2,400 customers located in Clark, Delaware, Hamilton, Wabash, and Vigo Counties.

Indiana American renders such water and wastewater utility service by means of utility plant, property, equipment, and related facilities owned, leased, operated, managed, and controlled by it which are used and useful for the convenience of the public in the production, treatment, transmission, distribution, and sale of water for residential, commercial, industrial, public authority, and sale for resale purposes, for the provision of public and private fire service, and for the provision of wastewater service.

3. Existing Rates. Petitioner’s existing basic rates and charges for water and wastewater utility service were established pursuant to the Commission’s Order in *Indiana-American Water Co.*, Cause No. 45142 (IURC June 26, 2019) (the “2019 Rate Order”) and adjusted downward through a Settlement in Cause No. 45032 S4 (Petitioner’s subdocket for addressing certain impacts of the Tax Cuts and Jobs Act of 2017) and also to reflect the removal of Utility Receipts Tax (“URT”). Since the 2019 Rate Order, Petitioner has also implemented a Distribution System Improvement Charge (“DSIC”) pursuant to the Commission’s Orders in Cause Nos. 42351 DSIC 12, issued March 17, 2021, 42351 DSIC 13, issued March 21, 2022, and 42351 DSIC 14, issued March 22, 2023. A Service Enhancement Improvement (“SEI”) charge was authorized by the Commission’s Orders in Cause Nos. 45609 SEI 1, issued February 22, 2023, and 45609 SEI S1, issued March 8, 2023.

4. Test Year. As authorized by Ind. Code § 8-1-2-42.7(d)(1), Petitioner proposed a forward-looking test period using projected data. As provided in the Commission’s May 3, 2023 Docket Entry, the test year to be used for determining Petitioner’s projected operating revenues, expenses and operating income shall be the 12-month period ending April 30, 2025. The historical base period is the 12-month period ending September 30, 2022.

Exhibit 1

5. Indiana American's Requested Relief. In its Petition, Indiana American sought Commission approval of an overall increase in rates and charges for water and wastewater service that would produce additional revenues in three steps of approximately \$86.7 million, which would reflect an overall revenue increase of 31.1%. This overall revenue increase comprises a Step 1 increase of 15.49%, a Step 2 increase of 5.63% from Step 1, and a Step 3 increase of 7.45% from Step 2. As a rate mitigation effort, Petitioner requested to recover 65% of its total wastewater revenue requirement (\$4,658,471 at Step 3) through wastewater rates. After reallocating \$1,630,465 of the wastewater revenue requirement to water, the projected wastewater revenue requirement is \$3,028,006.⁷ Increases to industrial and SFR classes were to be capped at 1.5 times the overall water revenue increase. No increase to public and private fire service was requested. The remainder of the increase was to be allocated to residential and commercial classes in proportion to present rate revenues. Rates for Areas 1, 2, and 3 will be fully consolidated, phased in over the three steps.

As detailed in Indiana American's case-in-chief, Petitioner also requested Commission approval of a new schedule of rates and charges applicable to water and wastewater utility service, as well as approval of a new Universal Affordability Tariff for water service. Indiana American also requested approval of revised depreciation rates applicable to its water and wastewater plant in service, approval of regulatory accounting treatment, approval of Petitioner's extension of service to an Infrastructure Development Zone in Montgomery County and authority to implement a surcharge under Ind. Code § 8-1-2-46.2, and approval of Petitioner's plans to develop future sources of water supply.

6. Overview of the Evidence.

A. INAWC Case-in-Chief. Mr. Prine addressed Indiana American's provision of water and wastewater services in Indiana. He discussed the major drivers of Petitioner's request for rate relief in this proceeding, primarily the significant capital investments and other expenditures that Petitioner has made and plans to make through April 2025. He explained how Petitioner's ratemaking proposals are intended to support the more efficient use of water, investment in Indiana American's system, and the long-term interests of customers. Finally, he discussed Petitioner's corporate citizenship and community outreach efforts.

Mr. Shimansky testified on the test period used in this case and Petitioner's overall revenue requirement, rate base, depreciation, amortization, pension costs, and other post-employment benefit ("OPEB") costs, including Petitioner's request for regulatory accounting treatment of pension/OPEB costs, production costs, and certain costs associated with the proposed new

⁷ On June 6, 2023, Petitioner filed a Second Submission of Corrections to Direct Testimony and Exhibits updating several financial exhibits reflecting an overall revenue increase of 31.77% or approximately \$88.6 million. Petitioner explained that a re-run of its model would be done at rebuttal but offered to provide an updated CD of the model upon request of the Commission. At the Commission's request, Petitioner filed its updated full financial model on June 13, 2023. Subsequent to this filing, Petitioner indicated in an August 31, 2023 Docket Entry response that it did not increase its rate request when it filed its June 6, 2023 update. However, Petitioner compared its rebuttal position to the full financial model filed on June 13, 2023, noting that although it was accepting certain positions of other parties, the changes did not fully offset the net increase in revenue requirement filed on June 13, 2023. Pet.'s Ex. 29. Therefore, the Commission's determination of the issues identified in this Order uses the full financial model filed on June 13, 2023.

Exhibit 1

Universal Affordability Tariff. He also presented Petitioner's proposals related to: (1) an over-collection associated with the repeal of the URT, and (2) a surcharge related to an Infrastructure Development Zone established in Montgomery County.

Mr. Hobbs testified on the used and useful nature of the utility plant in service ("UPIS"), explained Petitioner's overall approach to capital management, and described the significant capital investments Petitioner has made and plans to make. He also described Petitioner's plans for future source of supply investments.

Ms. Britto described Petitioner's water and wastewater operations, commitment to water quality and safety, ongoing efforts to improve water and wastewater efficiency, and employee staffing levels and compensation.

Mr. Rea sponsored Petitioner's cost of service analysis and rate design proposals, affordability analyses, and revenue projections including adjustments to Indiana American's historical billing determinants.

Mr. Furia testified on the projected capital structure to be used for computing the weighted average cost of capital ("WACC") for Indiana American. The WACC is used as the authorized overall rate of return on rate base in this Cause.

Ms. Bulkley testified on the reasonableness of Petitioner's requested cost of common equity, capital structure, and requested authorized net operating income as compared to a fair return on the fair value of Petitioner's assets.

Ms. Grisham discussed and supported the level of operations and maintenance ("O&M") expense as it relates to: (1) labor and labor-related costs, (2) pension/benefits, (3) support services, (4) contract services, and (5) taxes other than income, with the exception of property taxes which was covered by Mr. Cifuentes.

Mr. Cifuentes discussed and provided support for the level of O&M expense as it relates to: (1) production costs, (2) other operating expenses not covered by Ms. Grisham, and (3) property taxes.

Mr. O'Drain testified in support of current and projected chemical pricing.

Mr. Baryenbruch offered support for the necessity and reasonable cost of services provided by the Service Company as shown by Petitioner's Service Company Market Cost Comparison.

Mr. Kennedy testified on the comprehensive depreciation study for water and wastewater plant in service.

Petitioner also provided its Financial Exhibit in support of its requested relief in this proceeding in Excel and PDF formats.

Exhibit 1

B. OUCC and Intervenor's Cases-in-Chief. The OUCC and Intervenor's proposed a number of adjustments to Petitioner's proposed revenue requirements and took issue with numerous other components of Indiana American's case-in-chief and proposed rate increase.

For instance, the OUCC proposed a return on equity ("ROE") of 9.0% versus Petitioner's proposed ROE of 10.6% and recommended certain operating revenue and expense adjustments. The OUCC recommended seven changes to Indiana American's proposed water operations rate base, including changes to UPIS, cost of removal, retirements, and accumulated depreciation, all summarized in Table 7 of OUCC Exhibit 3. Specifically, the OUCC recommended adjustments related to the following: (1) Sheridan – Land for future wellfield, (2) Sheridan Water Treatment Plant, (3) & (4) Sheridan Main Extensions, (5) Winchester Water Treatment Plant, (6) Lake Station Wells and Treatment Plant, and (7) BT SOP 98-01 Costs. OUCC witness Parks recommended denial of Petitioner's two major projects, as well as disallowance of the \$9.3 million transmission main Indiana American proposed from its Sheridan treatment plant to serve the District. Further, OUCC witness Seals discussed Indiana American's levels of non-revenue water and made recommendations regarding non-revenue water and other Indiana American operational issues. OUCC witness Willoughby recommended adjustments to non-construction costs for one of Petitioner's lift station projects, denial of another lift station project, and denial of Petitioner's proposed acquisition of property in Sheridan for new wellfields.

Industrial Group witness Mr. Gorman recommended adjustments to Petitioner's overall rate of return, return on common equity and capital structure, and other revenue requirement adjustments reflecting a reduction to total company revenue requirement from approximately \$92.1 million over three steps to approximately \$60.6 million. His recommended return on equity is 9.10%, which produces an overall return of 6.00% for 2023, 5.97% for 2024, and 6.08% for 2025. Mr. Gorman also proposed a three-year amortization period to return Indiana excess accumulated deferred income tax ("EADIT"), an adjustment to Petitioner's offset to its revenue requirement based on URT over-collection to include carrying charges at an 8% interest rate, an adjustment to projected O&M expense based on his proposed inflationary factors, and adjustment to projected residential sales to reflect a slowing in reduced use per customer, a reduction to projected contractor expense, and an adjustment to salaries and wages expense to address employee attrition. He also objected to the inclusion of the prepaid pension asset and the OPEB asset in Petitioner's capital structure.

Industrial Group witness Ms. York recommended adjustments to Petitioner's class cost of service study ("COSS") and its proposed spread of the requested revenue change across rate classes. Specifically, Ms. York recommended that any rate increase approved by the Commission be implemented in the form of an across-the-board rate, system average increase. In addition, Ms. York recommended that the Commission direct Indiana American to make meaningful movement toward cost of service for its wastewater customers to reduce the non-cost-based subsidy that is currently being provided by water customers. She also recommended that Petitioner be required to move toward class-specific rates, beginning with developing and implementing a separate rate schedule for the industrial class at the conclusion of this case. Lastly, Ms. York recommended that the revenue requirements associated with the DSIC and the SEI charge that are being rolled into base rates continue to be recovered from customers on a per meter basis, rather than a combination of meter charges and volumetric charges.

Exhibit 1

The Wholesale Customers witness Callocchia recommended the Commission reject Petitioner's COSS and require any increase to be implemented across-the-board to each customer class, make changes to Petitioner's proposed rate design to recover DSIC and SEI costs via meter charges, and require Petitioner properly calculate a transmission rate for Wholesale Customers.

CAC witness Inskeep and Crown Point witness Guerrettaz argued for a lower ROE and Mr. Inskeep made recommendations with respect to URT over-collection and certain existing fees and charges that would affect the overall revenue requirement.

C. INAWC Rebuttal. Mr. Shimansky rebutted positions taken by the CAC, Crown Point, Industrial Group, and OUCC, with respect to overall revenue requirements, rate base forecasts, specific projects included in the case, the Hamilton County Bakers Corner transmission main, the Montgomery County surcharge, Indiana State EADIT, prepaid pension and OPEB assets, proposed new regulatory accounts, depreciation and amortization, amortization lives, acquisition related expenses, recovery of deferred expenses, URT repeal impacts to revenues, operating revenues and associated adjustments, future test year filings, long-term planning, fees and charges, and Petitioner's tariffs. Mr. Shimansky testified that Petitioner is accepting certain Intervenor positions, including their position on Montgomery County and customer-side lead line property tax issues, the removal of certain expenses from the revenue requirement, and the update to the current IURC Fee.

Mr. Hobbs responded to criticisms raised by OUCC witnesses Bell, Parks, and Willoughby regarding Petitioner's proposed capital investments. Mr. Hobbs rebutted positions taken by the OUCC on the Winchester and Sheridan Major Projects, as well as other capital projects, and explained why these projects are necessary for Indiana American to continue providing safe and reliable service. Ms. Britto responded to OUCC witness Parks' recommendation that the Lake Station Water Treatment Plant ("WTP") should be removed from Petitioner's rate base, as well as to OUCC witness Seals' positions on non-revenue water and other Indiana American operations. She also addressed issues raised by Industrial Group witness Gorman and OUCC witness Malan regarding Petitioner's proposed headcount and line locate expense. Finally, she responded to issues raised by CAC witness Inskeep regarding Petitioner's disconnect process.

Mr. Rea responded to OUCC witnesses Bell, Sullivan, Compton, Dellinger, and Mierzwa, CAC witness Inskeep, Crown Point witness Guerrettaz, Wholesale Customers witness Callocchia, Whiteland witness Young, Industrial Group witnesses Gorman and York regarding issues related to: (1) affordability, (2) Universal Affordability Tariff, (3) cost of service, (4) water rate design, (5) revenue allocations, (6) wastewater revenue requirement reallocation, (7) Indiana American residential water usage analysis, (8) bill comparisons, and (9) revenue calculations.

Ms. Bulkley responded to the issues raised in the testimonies of OUCC witness Dellinger, Industrial Group witness Gorman, CAC witness Inskeep, and Crown Point witness Guerrettaz regarding a just and reasonable ROE and the appropriate capital structure for Petitioner in this proceeding.

Ms. Grisham addressed issues raised by the OUCC and the Industrial Group regarding labor and labor-related contract services, support services, and uncollectible expenses. Mr. Cifuentes responded to recommendations made by the OUCC concerning the proposed updates to

Exhibit 1

the gross revenue conversion factor, proposed changes to the late payment fee percentage, removal of annualization adjustments as it pertains to Building Maintenance & Supplies, Telecommunications, Postage Printing & Stationery, Office Supplies & Services, Employee Related Expense Travel & Entertainment, Miscellaneous Expense, and Maintenance Supplies & Services. He also addressed the Industrial Group's proposed adjustment related to the application of certain inflationary adjustments. Mr. Kennedy responded to the changes recommended by OUCC witness Garrett to the average service life and Iowa curve estimates. Ms. Ciullo supported Petitioner's method of calculating and including income tax expense and accumulated deferred income taxes ("ADIT") and addressed the proposal by OUCC witness Stull to change the tax accounting regulatory treatment of the tax repairs deduction, its impact on income tax expense and ADIT and her adjusted calculation for the Average Rate Assumption Method ("ARAM") component of EADIT giveback. Mr. Farrell responded to Industrial Group witness Gorman's recommendation that the prepaid pension asset and OPEB asset be removed from Petitioner's capital structure for ratemaking purposes.

D. Cross-Answering Testimony. The OUCC and Intervenors filed cross-answering testimony on various topics. For example, OUCC witness Stull responded to rate design issues associated with Indiana American's DSIC and SEI capital trackers raised by Crown Point witness Guerrettaz, Wholesale Customers witness Callocchia, and Industrial Group witness York. OUCC witness Mierzwa responded to various witness testimony concerning their positions on the water COSS, revenue allocations, and rate design proposals presented by Indiana American. Industrial Group witness York responded to the positions taken by OUCC witness Mierzwa regarding COSS and revenue allocation and to Wholesale Customers witness Callocchia's COSS recommendations.

CAC witness Inskeep provided cross-answering testimony regarding other parties' positions regarding the Universal Affordability Tariff. Wholesale Customers witness Callocchia responded to testimonies submitted by the OUCC, Industrial Group, and CAC related to their positions regarding Petitioner's COSS, rate design, and affordability. District witness Wessler addressed certain concerns or questions raised by OUCC witness Parks regarding the anticipated water needs in Hamilton County, Indiana, by discussing the anticipated development plans and overall need for potable water and fire protection service in the District's service territory.

7. Petitioner's Rate Base.

A. Utility Plant Forecast.

1. Major Projects. Indiana American proposed to include two major projects in this Cause—the Winchester Major Project and the Sheridan Major Project. Both projects consist of replacing existing an WTP with a new, higher capacity WTP. The Winchester Major Project's projected in-service date is April 30, 2025, with an estimated cost of approximately \$25 million. The Sheridan Major Project's projected in-service date is August 31, 2024, with an estimated cost of approximately \$29.82 million.⁸

⁸ Based on Petitioner's December 27, 2023 Submission of Monthly Update, the estimated cost of the Sheridan WTP is \$30,584,508 and the Winchester WTP is \$24,191,828.

Exhibit 1

a. Winchester Major Project.

i. INAWC Case-in-Chief. Mr. Hobbs testified Petitioner is proposing to replace the Winchester WTP because the existing plant has capacity issues, structural issues, as well as safety and water quality/quantity concerns. With respect to capacity, Mr. Hobbs testified the existing aeralator/filtration system at Winchester was constructed in 2001 and does not provide adequate filtration capacity to reliably treat the maximum daily demands for the system. He further testified a December 2020 TIC Aeralator Evaluation report indicated the Aeralator system is in poor condition and the Winchester system is not able to deliver 3,500 gallons per minute (“gpm”) for three-hour durations to meet fire flow recommendations. Based on the Structural Assessment Summary, there are also structural concerns with the existing chemical building. Additionally, Mr. Hobbs testified that there are safety concerns present with the existing chemical transport process, as well as chemical system deficiencies identified at the existing chemical feed building. He further testified no clearwell storage exists at the existing facility and the Winchester WTP does not provide chlorine contact time to meet 4-Log inactivation of viruses.

Mr. Hobbs sponsored relevant portions of the Winchester Comprehensive Planning Study (“CPS”), which discusses the recommended solution for each project as well as alternatives Petitioner identified for each portion of the project. While the TIC Aeralator Evaluation report identifies rehabilitation of the Aeralator unit as a potential alternative, Mr. Hobbs testified that attempting to improve the existing facilities is not recommended for several reasons, including the condition of the existing facilities and inadequate capacity of the existing facilities. He testified replacement of the facility is therefore recommended. Mr. Hobbs sponsored Attachments MHH-7 through MHH-13 of Petitioner’s Exhibits 3 and 3-C providing additional support for the Winchester Major Project.

ii. OUCC. Mr. Parks recommended the Commission disallow including the Winchester Major Project in rate base because Indiana American failed to support the need for the project at the \$25 million cost. Mr. Parks testified the proposed replacement plant is oversized, there is no Life Cycle Cost-Benefit Analysis (“LCCBA”) of alternatives as required by Ind. Code § 13-18-26-3, and it is too expensive at \$25 million or \$12.68 million per MG of rated capacity, which exceeds costs paid by other utilities for groundwater treatment plants. In addition, Mr. Parks testified Indiana American has not supported the total replacement of the existing plant with a much larger plant, and that its requested project costs are prudent and in the best interest of customers. Mr. Parks further testified there are substantial cost discrepancies in Indiana American’s cost estimates that Petitioner has not mentioned or explained.

Mr. Parks testified Indiana American did not evaluate any alternatives for the Winchester Major Project and did not perform a LCCBA. Mr. Parks testified a LCCBA analysis is required under Indiana law to receive an Indiana Department of Environmental Management (“IDEM”) construction permit for water treatment plant modifications or expansions. Indiana American must prepare and certify with its permit application that it has completed a LCCBA in accordance with Ind. Code § 13-18-26-3. Mr. Parks recommended that Indiana American be required to identify alternatives as part of its standard capital planning efforts and comply with Ind. Code § 13-18-26-3.

Exhibit 1

With respect to his contention that Indiana American did not support the total replacement of the existing plant, Mr. Parks testified Indiana American should have evaluated other alternatives, including the rehabilitation and repainting of the Unilator as an alternative to replacement. Mr. Parks cited to the Winchester CPS portions, which indicates the life expectancy of the existing Unilator can range from 25 to 35 years. Mr. Parks testified Indiana American has not provided evidence that the Unilator cannot be rehabilitated and repainted. Mr. Parks further testified that despite Petitioner's claims that it cannot meet maximum day demand (0.85 MGD in 2023) when only two of the four filter cells are in service providing a 0.72 MGD firm capacity based on 3.0 gpm/ft, Indiana American can currently meet peak demand in its Winchester system. Additionally, Mr. Parks testified Petitioner does not need to increase the Winchester WTP's firm and rated capacities because the Winchester CPS indicates decreasing maximum day demand through 2035. Further, with respect to Petitioner's decision to construct a new clearwell as part of the Winchester Major Project, Mr. Parks testified Petitioner has not demonstrated that it is required by IDEM under the Groundwater Rule to meet a 4-Log virus inactivation.

As to the proposed \$25 million cost of the Winchester Major Project, Mr. Parks calculated a capital cost of \$12.68 million per MG of capacity and testified this capital cost is significantly above two other similar WTP projects. He compared the Winchester Major Project to the Eastern Bartholomew Water Corporation WTP⁹ and the Batesville Water & Gas Utility WTP.¹⁰ Mr. Parks updated the costs to 2023 and estimated total project costs of \$11.12 million and \$9.1 million for the Eastern Bartholomew plant and the Batesville plant, respectively. Mr. Parks estimated the new Winchester plant without the maintenance garage should cost \$6.65 million. Mr. Parks also testified Indiana American's estimated costs for the new Winchester facilities have varied and increased substantially since 2021. Mr. Parks also testified the proposed design and site layout of the water treatment plant are oversized, overly lavish, expensive, and unwarranted.

iii. INAWC Rebuttal. Mr. Hobbs disagreed with Mr. Parks' recommendation to disallow the Winchester Major Project because it fails to recognize the age, capacity, condition, or process challenges associated with the current facility. Mr. Hobbs explained that while the age and condition of the Aeralator unit is one of the primary reasons Indiana American determined to replace the Winchester treatment plant, there are a number of other critical areas of treatment and resiliency that need to be addressed as part of the overall project. He explained these challenges include capacity concerns, structural concerns, and process challenges, in addition to the Aeralator unit, that need to be addressed at the plant.

Regarding Mr. Parks' contention that Indiana American did not consider rehabilitating the Aeralator unit and other alternatives for the plant, Mr. Hobbs testified Petitioner considered three alternatives for the Aeralator unit, including rehabilitation, as identified and discussed in the Winchester CPS. As to Mr. Parks' claim that Indiana American did not perform a LCCBA, Mr. Hobbs walked through the relevant provisions of Ind. Code ch. 13-18-26 and explained why he believes the statute is unclear about what is required. Mr. Hobbs further noted the statute is

⁹ A 3.5 MGD rated capacity (all filters in service) groundwater treatment plant, office, lab, and clearwell placed in service on August 15, 2019 for a total project cost of \$7.412 million, or \$2.12 million per MG. Pub. Ex. 9 at 7-8.

¹⁰ A 3.0 MGD rated capacity ion exchange groundwater softening plant that was placed in service in 2021. The total loan amount for the softening plant in 2019 was \$6,053,911, or \$2.02 million per MG as calculated by Mr. Parks. Pub. Ex. 9 at 8.

Exhibit 1

enforced by IDEM, and IDEM has not promulgated any regulations regarding what a life-cycle cost benefit analysis should include. He also testified that while IDEM has issued one guidance document, the document does not provide much additional insight into what is specifically required. Mr. Hobbs testified Indiana American followed the statutory language and compared the costs and benefits (not limited to monetized costs and benefits) of the proposed improvements to one or more alternatives.

Mr. Hobbs explained why Indiana American determined to replace the Aeralator unit instead of rehabilitating the unit as Mr. Parks suggests. He testified Winchester is the only district in Indiana American's system that is solely dependent on a single combination style unit or Aeralator for source of treatment, which adds operational complexity and maintenance challenges. He stated Petitioner's proposed separated process layout will allow the system's individual components (such as an individual filter) to be taken offline for maintenance and repair while maintaining treatment. Whereas, in contrast, Aeralators do not have the flexibility to take individual units offline for maintenance or repairs, and instead the entire unit must be taken out of service. Mr. Hobbs testified that the current Aeralator unit can only be taken out of service for approximately one-half day and rehabilitating the Aeralator unit is anticipated to take 4-5 months, which would require full temporary treatment during that time.

Further, Mr. Hobbs testified rehabilitation of the Aeralator does not consider the age and deteriorated condition of the existing Aeralator unit. He testified that at 22 years of service, the Aeralator is nearing its anticipated end of life. Mr. Hobbs explained that rehabilitating the existing Aeralator would also not address the issues of the existing Aeralator not being able to meet the maximum day demand of the system when two filters are out of service. Mr. Hobbs also disagreed that Indiana American does not need to increase the firm and rated capacity of the plant. He testified Mr. Parks' claim is based on his belief that it is acceptable for system demand to exceed firm capacity, which is not in alignment with water industry standards, Indiana Code, or the Ten State Standards. Mr. Hobbs reiterated that the existing Winchester plant does not have sufficient capacity to meet the current or projected maximum day demands of the system. Citing to the Winchester CPS, Mr. Hobbs testified Winchester had annual average day demands ranging from 0.508 MGD to 0.636 MGD and annual maximum day demands ranging from 0.724 MGD to 0.970, and these demands are projected to be 0.877 MGD, 0.859 MGD and 0.847 MGD for years 2025, 2030, and 2023.

Mr. Hobbs reiterated that addressing the Aeralator unit issues will not address the other challenges at the plant, including the lack of onsite clearwell storage, structural failures associated with the chemical building and the backwash holding tank, and the other challenges outlined in the Winchester CPS. Mr. Hobbs discussed each of these challenges and explained they need to be addressed in addition to the Aeralator unit. Mr. Hobbs testified that the new clearwell is needed to provide adequate fire flow protection in the system. He explained that the capacity from the current WTP is only adequate for meeting a fire flow demand of up to 2,500 gpm for the recommended 2-hour duration, and higher fire flows of 3,000 gpm to 3,500 gpm could not be sustained for the recommended 3-hour duration as needed for a significant number of commercial and industrial sites around the system. Mr. Hobbs also testified that one of the ancillary benefits of the added clearwell capacity is the achievement of 4-Log virus inactivation, which is an added benefit to Indiana American's customers and adds to system resiliency.

Exhibit 1

Regarding the cost of the Winchester Major Project and the cost estimates, Mr. Hobbs explained why Mr. Parks' comparisons to the Eastern Bartholomew Water Corporation and Batesville Water & Gas Utility water treatment plants are not appropriate. He testified that a more appropriate cost comparison would be to the Mooresville WTP that was completed more recently for a total cost of \$21,708,452. Further, with respect to Mr. Parks' criticisms of Petitioner for providing varying cost estimates, Mr. Hobbs identified the various sources of the costs estimates Indiana American included in this Cause. He testified it is very rare that a cost estimate will remain the same from the preliminary identification and planning phase of a project to final design and construction of a project. Mr. Hobbs disagreed with Mr. Parks' contention the Winchester treatment plant is oversized and overly lavish, explaining recent water treatment plants constructed by Indiana American included similar amenities.

Mr. Hobbs reiterated that the Winchester Major Project is being competitively procured through a design-build proposal process and subsequent competitive sub-package bidding. He testified that Indiana American's estimated cost is therefore based on actual pricing. Further, Mr. Hobbs testified that only final, actual costs of the projects will be reflected in rate base.

iv. Discussion and Findings. With respect to the Winchester Major Project, the crux of the issue between Petitioner and the OUCC is whether Indiana American considered alternatives, such as rehabilitation of the existing plant, before making the decision to build a new water treatment plant. The OUCC contends Indiana American did not identify and consider alternatives for the plant and did not perform a LCCBA of these alternatives as required by Ind. Code § 13-18-26-3. Further, the OUCC contends Indiana American has not supported that total replacement of the plant is warranted and the plant is too expensive at \$25 million.

As noted by Petitioner's witness Hobbs, Ind. Code § 13-18-26-3 is a statute enforced by IDEM. Ind. Code ch. 13-18-26 establishes conditions for receipt of an IDEM permit for water and wastewater treatment plants, one of which is for the applicant to certify that it has prepared and completed a LCCBA. *See* Ind. Code § 13-18-26-2. Whether Indiana American has complied with Ind. Code §§ 13-18-26-2 and -3 to prepare and complete a LCCBA for purposes of obtaining an IDEM permit is a decision to be made by IDEM, and not the Commission.¹¹ However, we agree with the OUCC that performing a life cycle cost analysis when determining whether to undertake a project, like construction of a new WTP, is generally a reasonable and appropriate first step because it can readily provide the necessary evidentiary support that the chosen project is reasonable, and that cost recovery should be authorized.

Although Indiana American argued that Ind. Code § 13-18-26-3 is unclear and that IDEM has not issued any specific guidance regarding a LCCBA, a life cycle cost analysis, which is a generally understood term in the engineering world, considers the total cost of building, as well as owning and operating, a particular asset and then compares that estimate to other alternative

¹¹ In the future, the Commission will request copies of the LCCBA for which a utility has certified to IDEM that it has performed.

Exhibit 1

assets.¹² This type of analysis, which considers the estimated costs of owning and operating an asset along with the cost of construction, is generally favored because it will identify and favor solutions that may have slightly higher, one-time construction costs but provide greater value through reduced day-to-day operating costs over years.

Although Indiana American did not provide such a full life cycle cost analysis, Mr. Hobbs provided Attachment MHH-7 of Petitioner's Exhibit 3C (the relevant portions of the Winchester CPS), which identifies and discusses the alternatives Petitioner considered for the Aeralator unit and other portions of the project. Mr. Hobbs explained that while Indiana American did consider rehabilitating the existing Aeralator unit, horizontal or vertical pressure filters for treatment as Petitioner is proposing with the Winchester Major Project will provide much greater flexibility for future operations. He also explained that the downtime associated with the rehabilitation work is anticipated to take four to five months and, during that time, full temporary treatment would be required. Mr. Hobbs also addressed the issues with rehabilitating the existing Aeralator and explained why the current unit, if rehabilitated, would still not be capable of meeting maximum day demands or address the other operational and structural challenges at the plant.

Ultimately, the record shows that the current Winchester WTP is not capable of meeting current or projected maximum day demands for the Winchester system and is not capable of meeting the recommended fire flows. The record further shows that the Aeralator treatment unit is the only source of treatment in the Winchester district, and Winchester is Indiana American's only system that is solely dependent on a single combination style unit or Aeralator for source of treatment. No evidence was offered to show that replacing or rehabilitating the Aeralator unit would produce any savings in the overall project cost, or that replacing the Aeralator unit would address any of the other challenges currently present at the plant.

As for the estimated cost of the Winchester Major Project, the OUCC took issue with the estimated \$25 million cost, comparing it to two other treatment plants—Eastern Bartholomew Water Corporation and Batesville Water & Gas Utility. However, Mr. Hobbs explained why those plants were not good comparisons and presented evidence of the cost of the Mooresville WTP, which was completed more recently, of a similar scope, and reflects the price escalation for capital projects seen in recent years due to the COVID pandemic. The evidence further reflects that the project was procured through a design-build proposal process and subsequent competitive sub-package bidding. Thus, Indiana American's estimated cost is based on actual pricing.

Based on the evidence presented, we find that the Winchester Major Project is reasonable and necessary to address the challenges identified at the existing Winchester WTP and provide safe and reliable service to Petitioner's customers. We also find that the \$25 million estimated cost of the project reflects the market price for this project. Once the project is complete and placed in service, Indiana American is authorized to true-up this cost to the actual cost of the project, subject to the compliance filing process discussed below.

Finally, regardless of any IDEM requirement concerning the performance of an LCCBA,

¹² See e.g., American Water Works Association ("AWWA") Asset Management Definitions Guidebook at 18-19, and the Life-Cycle Costs Analysis by the National Institute of Standards and Technology (<https://www.wbdg.org/resources/life-cycle-cost-analysis-lcca>).

Exhibit 1

we encourage Indiana American to undertake a life cycle cost analysis that estimates the overall costs (planning, design, construction, commissioning, operations, maintenance, and retirement) of project alternatives when considering and evaluating future projects to demonstrate more easily that its chosen project is reasonable.

b. Sheridan Major Project.

i. INAWC Case-in-Chief. Mr. Hobbs explained Petitioner is proposing to build the new Sheridan Water Treatment Plant to help address challenges meeting maximum day demands, to help serve growth in the service area, and to address other operational challenges. With respect to the plant's capacity challenges, Mr. Hobbs testified the existing Sheridan WTP has a firm capacity of 0.4 MGD, has experienced maximum day demands that have exceeded the plant firm capacity, and is not designed for expansion. Mr. Hobbs further testified that much of the existing facility and equipment dates back to the 1960s and has limited remaining life. He also testified the existing facility uses chlorine gas, which can pose a safety hazard to both employees and customers, and does not have an ammonia feed system, which can present challenges for maintaining a stable chloramine level.

Mr. Hobbs sponsored relevant portions of the Sheridan CPS, which identified the alternative of rehabilitation and expansion of the existing plant to the Sheridan Major Project. Mr. Hobbs testified that while Petitioner considered continuing to use the existing facility, doing so was not the recommended solution for several reasons. He testified continuing to use the existing plant would require major facility upgrades and replacements, or essentially a rebuild of the existing facilities, along with requiring construction of new plant facilities for adequate capacity expansion, for conversion from gaseous chlorine to liquid sodium hypochlorite, and for addition of liquid ammonium sulfate. Mr. Hobbs testified that maintaining the existing facility would also require additional cost for providing treatment while it is rebuilt. Mr. Hobbs further testified that by constructing one new expandable facility, Petitioner can maintain safe and reliable service while the new facility is being completed. Mr. Hobbs sponsored Attachments MHH-14 through MHH-23 providing additional support for the Sheridan Major Project.

ii. OUCC. Mr. Parks recommended the Commission disallow the Sheridan Major Project because Indiana American failed to support the need for the project at the \$29.82 million cost and did not support that a total replacement of the existing plant with a much larger plant, is prudent, reasonable, or in the best interest of customers. Like the Winchester Major Project, Mr. Parks testified the proposed replacement plant is oversized, has no LCCBA of alternatives as required by Ind. Code § 13-18-26-3, and is too expensive at \$29.82 million or \$15.38 per MG of rated capacity.

Mr. Parks testified Indiana American did not evaluate any alternatives besides replacement of the water treatment plant and did not conduct a LCCBA. Mr. Parks testified that Indiana American provided no testimony that a condition assessment was conducted to evaluate the equipment and treatment building to determine whether the existing facility could be expanded as an alternative to replacement. He testified there is no evidence that Petitioner considered the rebuild/expansion/upgrade alternative in any way other than in a perfunctory manner. Mr. Parks further testified that Petitioner does not need to increase Sheridan's firm and rated capacities and claimed that expansion in the near term (five years) does not appear to be needed and could be

Exhibit 1

delayed further if a fourth vertical pressure filter is added. Mr. Parks also testified that Indiana American should perform a regionalization study as identified in the Sheridan CPS and pause its plan to replace the Sheridan WTP until the study has been completed. He also took issue with the fact that Sheridan's new plant capacity does not include water demand for the new wholesale customer, the District.

Like the Winchester Major Project, Mr. Parks compared the Sheridan Major Project to the Eastern Bartholomew Water Corp. and Batesville plants and testified Sheridan's capital cost is significantly more expensive than these plants. Mr. Parks estimated the new Sheridan Water Treatment Plant to cost \$7.0 million instead of the \$29.82 million requested by Petitioner.

iii. INAWC Rebuttal. Mr. Hobbs disagreed with Mr. Parks' opinion and recommendation, testifying that Mr. Parks fails to recognize the age, capacity concerns, condition, operation, and process challenges of the Sheridan facility. Mr. Hobbs explained that Indiana American needs to replace the existing Sheridan treatment plant due to capacity concerns, the age of the facility, operational challenges, the need to switch from chlorine gas to liquid sodium hypochlorite, and to add an ammonia feed, among other issues.

Regarding the capacity challenges, Mr. Hobbs testified Petitioner already has challenges meeting maximum day demands and the near future potential growth in the service area will only exacerbate these concerns. He explained that between 2018 and 2021, the Sheridan system had annual average day demands ranging from 0.18 MGD to 0.22 MGD and annual maximum day demands ranging from 0.38 MGD to 0.41 MGD. Mr. Hobbs testified that maximum day demand of the low, base, and high scenarios is projected to increase to 0.53 MGD, 1.07 MGD, and 1.48 MGD respectively, by 2035. He explained that the existing Sheridan WTP has a total filtration capacity of 0.65 MGD and a firm filtration capacity of 0.43 MGD with one of the three filters out of service. Thus, the current firm filtration capacity is inadequate to meet the projected maximum day demands for all three scenarios. Mr. Hobbs testified the proposed water treatment plant is sized with a firm treatment capacity to meet the projected maximum day demands and can expand as additional capacity is needed. He also noted the Sheridan system is located in Hamilton County, which is one of the state's fastest growing counties, and therefore he anticipates the system demand to grow beyond the 15-year projected demand.

Mr. Hobbs responded to Mr. Parks' recommendation that Indiana American wait to construct the new Sheridan WTP until it completes a regionalization study and the relationship of the study to the District. He explained the purpose of the regionalization study is to determine the optimal means of providing water service to the District and all other regionalization areas between Sheridan and Noblesville, as well as to evaluate the impact and benefits of connecting Sheridan to Noblesville and the possibility of supplying water to Sheridan from Noblesville. He explained that Indiana American has not sized the new Sheridan WTP to serve a fully developed Bakers Corner, and the design of the plant at initial completion is intended to serve growth in Sheridan (the area proposed to be served by the District). Mr. Hobbs testified that the plant is being built so it can readily be expanded in the future and explained that if Indiana American determines to ultimately serve Hamilton County from the Sheridan WTP, Petitioner would expand the plant and add additional source of supply to do so.

Exhibit 1

Mr. Hobbs disagreed with Mr. Parks' recommendation that Indiana American should wait to construct the plant until completion of the regionalization study. He testified the Sheridan Major Project is to help address the current and projected water challenges in the system and the design of the plant at initial completion is intended to serve the growth in Sheridan. Mr. Hobbs testified that while the regionalization study will be helpful for determining how to serve the undeveloped areas in Northern Hamilton County in the long-term, as well as future growth in the service area, this study does not change that Indiana American cannot reliably meet Sheridan's maximum day demands today.

As to Indiana American's evaluation of alternatives for the Sheridan WTP, Mr. Hobbs testified the Sheridan CPS identified the following two alternatives: (1) constructing a new water treatment facility; and (2) conducting a facility assessment for complete rehabilitation/expansion of the current facility. Mr. Hobbs testified Petitioner determined Option 2 (rehabilitation/expansion of the existing plant) was not feasible because much of the existing facility and equipment dates back to the 1960s and has limited remaining service life. He explained Petitioner does not believe it would be a prudent investment to make costly repairs and updates to a 60-plus year-old facility that is already approaching the end of its useful life. He also identified the challenges associated with attempting to expand the plant, and questioned whether the current plant could be expanded. With respect to the LCCBA, Mr. Hobbs again explained that Indiana American followed the statutory language and compared the costs and benefits of the proposed improvements to one or more alternatives.

As for the cost of the Sheridan Major Project, Mr. Hobbs reiterated why Mr. Parks' comparisons to the Eastern Bartholomew Water Corporation and Batesville Water & Gas Utility water treatment plants are not appropriate comparisons. He testified the Sheridan Major Project was competitively procured through a design-build proposal process and subsequent competitive sub-package bidding, and therefore, Indiana American's cost is based on actual pricing. He again testified that a more appropriate cost comparison would be to the Mooresville WTP, which was completed more recently for a total cost of \$21,708,452.

iv. Discussion and Findings. Like the Winchester Project, the major dispute between the parties with respect to the Sheridan Major Project is whether Indiana American considered alternatives to total replacement of the WTP and whether Indiana American evaluated these alternatives as part of a LCCBA. Here, the OUCC argued that Indiana American did not perform a condition assessment to evaluate the equipment and treatment building to determine whether the existing facility could be expanded as an alternative to replacement. Further, the OUCC argued Indiana American should pause its plan to replace the Sheridan WTP until a regionalization study is completed.

We again concur with the OUCC about the benefits of performing a life cycle cost analysis that compares the costs of construction and operation of an asset over its useful life with the costs of various alternative assets before embarking on a significant project. While Indiana American did not undertake such an analysis here, we find, in this instance, that Petitioner has sufficiently demonstrated the reasonableness and necessity for the Sheridan Major Project. Mr. Hobbs explained that Indiana American did consider rehabilitating and expanding the plant, but such option is not feasible or recommended because much of the existing facility and equipment dates back to the 1960s and is at the end of its useful life. Petitioner expanded on this issue in its response

Exhibit 1

to the Commission's August 25, 2023 Docket Entry, where it included pictures of the existing Sheridan WTP showing existing building deterioration, building footprint limitations for expansion, current use of gas chlorination, and the space for a fourth filter installation being occupied by laboratory and chemical use.

The evidence also demonstrates that Petitioner currently has challenges meeting maximum day demands and that potential growth in the service area in the near future will only exacerbate these concerns. Mr. Hobbs explained that even if the current plant could be rehabilitated, it would still need to be expanded to address these capacity challenges. He also explained why it is questionable whether the current plant could even be expanded, including the closeness of the wells and filter capacity limitations. Mr. Hobbs identified multiple challenges that would need to be addressed to expand the existing facility, and identified a number of other operational and structural issues that need to be addressed as part of the project.

With respect to the need for the new Sheridan WTP, Mr. Hobbs testified that the Sheridan system is located in Hamilton County, which is one of the fastest growing areas in the State. The record shows that Indiana American already has challenges meeting maximum day demands in the service area as the recent historical maximum day demand of 0.41 MGD is already nearly equal to the firm capacity (0.43 MGD) of the current 60-year old plant, without any consideration for growth. Given the likelihood for significant future growth in this area, these capacity challenges are likely to only get worse in the near future.

The OUCC argues that Indiana American should put a pause on the project until it has had the opportunity to conduct a regionalization study to determine how service should be provided in the service territory. However, as Mr. Hobbs explained in his rebuttal testimony, the design of the Sheridan Major Project at initial completion is intended to serve growth in Sheridan, and Indiana American cannot reliably meet Sheridan's maximum day demands today. Further, the record shows that the sizing of the WTP excludes the District's demand, so if it is determined through the regionalization study or other means that the Sheridan WTP will be used to serve this new customer, this will only exacerbate the capacity challenges Indiana American is experiencing in the Sheridan service area. We agree that while the regionalization study will be useful for helping Petitioner determine how to serve northern Hamilton County in the long-term, it will not address the current system capacity challenges or the other operational and structural concerns at the plant.

Like the Winchester WTP, the OUCC also took issue with Petitioner's estimated cost for the Sheridan Major Project of \$29,817,795. Mr. Parks compared the Sheridan Major Project cost to the Eastern Bartholomew and Batesville plants and used this comparison to argue the cost of the project is too high. Mr. Hobbs disagreed with Mr. Parks that the Eastern Bartholomew and Batesville plants provided an appropriate comparison, and again pointed to the Mooresville plant as a more appropriate comparison.

For the reasons discussed previously for the Winchester Major Project, we do not need to address the issue of which cost comparison is more appropriate. The record shows that the Sheridan Major Project was bid and the estimate included in Indiana American's case-in-chief reflects the actual pricing received. We therefore find that the \$29,817,795 estimated cost of the project reflects the market price for this project. Once the project is complete and placed in service, Indiana

Exhibit 1

American is authorized to true-up this cost to the actual cost of the project, subject to the compliance filing process discussed below.

2. Other Disputed Rate Base Items.

a. Main Extension to Hamilton County Regional Utility District.

i. INAWC Case-in-Chief. As part of its capital additions in this Cause, Indiana American proposed to extend 11,400 feet of 20-inch transmission main for Phase 1, and 7,700 feet of 16-inch transmission main for Phase 2, east from Sheridan to connect to the future District's water system at Springmill Road & 236th Street, more commonly known as Bakers Corner.¹³ Indiana American proposed the project for inclusion because it entered into a SFR agreement to provide drinking water for the District located between Sheridan and Noblesville, and interconnection with an existing Indiana American Water system was required to serve District.

ii. OUC. Mr. Parks took issue with the project and argued that the project is a main extension subject to the Commission's main extension rules under 170 IAC 6-1.5. Mr. Parks testified Petitioner should have developed a main extension agreement and developed the estimated costs to design and construct the main extension. He further testified that all costs, except a three-year revenue allowance, are the responsibility of the District and should be paid to Indiana American. Mr. Parks testified that the project costs should not be added to rates without a main extension payment by the District reflecting its contribution in aid of construction. Mr. Parks further testified that because it appears Petitioner has not properly characterized the project as a main extension, he recommended disallowing recovery of the capital costs in rate base.

iii. INAWC Rebuttal. Mr. Hobbs disagreed with Mr. Parks' contention that the new transmission main to connect Indiana American's system with the newly formed District is a main extension subject to the Commission's rules under 170 IAC 6-1.5. Mr. Hobbs testified the Indiana General Assembly enacted Ind. Code § 8-1-2-46.2(b) which provides:

(b) Notwithstanding any law or rule governing extension of service, a water or wastewater utility may, on a nondiscriminatory basis, extend service:

- (1) for economic development purposes;
- (2) to rural areas; or
- (3) to developed but underserved areas;

without a deposit or other adequate assurance of performance from the customer, to the extent that the extension of service results in a positive contribution to the utility's overall cost of service over a twenty (20) year period. For the purposes of this subsection, a water or wastewater utility's extension of service to a developed but underserved area will be considered as resulting in a positive contribution to the utility's overall cost of service over a twenty (20) year period to the extent that

¹³ See Petitioner's Exhibit 3, Attachment MHH-4 at 1-2.

Exhibit 1

rates to be paid by fifty percent (50%) or more of the customers who could be served by the extension of service would enable the utility to fully recover the weighted cost of debt and depreciation expense attributable to the cost of the main extension for the extension of service.

Mr. Hobbs testified that this is a unique main extension in one of the (if not the) fastest growing areas in the State.

Indiana American witness Shimansky sponsored the calculation showing Indiana American satisfied the 20-year test set forth in Ind. Code § 8-1-2-46.2(b). Mr. Shimansky explained how the test would be applied and sponsored Attachment GDS-2R, which showed the extension will result in a positive contribution of service in year 13. Mr. Hobbs testified that because the extension of service will result in a positive contribution to Indiana American's overall cost of service over a 20-year period, no deposit from the District was required and the Commission's main extension rules did not apply. Mr. Hobbs testified that Mr. Parks' testimony about a three-year revenue allowance and a requirement that Hamilton County fund a portion of the cost is therefore incorrect.

Mr. Hobbs reiterated why the new transmission main to the District is a unique main extension. He said it is well understood that Hamilton County has long been one of the fastest growing areas in the State. He testified that in a matter of a few years, much of the County has grown from towns and small cities surrounded by farmland into a densely populated and largely urban area. He further testified that growth has continued north in the County and has reached the point that only the northern portion of the County remains undeveloped.

Mr. Hobbs expanded on the purpose of the regionalization study, the relationship of the study to serving the District, and Indiana American's overall regionalization strategy for serving the new growth in northern Hamilton County. Mr. Hobbs explained that Indiana American has not sized the new Sheridan WTP to serve a fully developed Bakers Corner, but the plant is being built so that it can be readily expanded in the future if needed. Mr. Hobbs explained that a regional approach will be needed to meet this need so that development in Hamilton County is not hindered due to lack of capacity to serve new growth. Mr. Hobbs testified that Petitioner is in the process of conducting a regionalization study, and once the study is completed and Petitioner has a more complete understanding of the best way to bring water to the entirety of the undeveloped area in northern Hamilton County, Indiana American will be in a position to know whether the full buildout of Bakers Corner should be served by a further expansion of the Sheridan Plant, interconnection to a future expansion of the Noblesville Plant, a combination of the two, or some other option that has not yet been identified.

iv. Discussion and Findings. The crux of the issue between the parties with respect to this project is who should be responsible to pay for the transmission main to interconnect and serve the District. The OUCC argues this is a main extension that should be subject to the Commission's main extension rules at 170 IAC 6-1.5, and thus should be primarily funded by the District. In contrast, Indiana American argues this is a unique main extension that falls under Ind. Code § 8-1-2-46.2(b), which allows a water utility to, among other things, extend service for economic development purposes or to rural areas, without a deposit from

Exhibit 1

the customer if the extension of service results in a positive contribution to the utility's overall cost of service over a 20-year period.

Ind. Code § 8-1-2-46.2(b) authorizes a utility to extend service: (1) for economic development purposes; (2) to rural areas; *or* (3) to developed but underserved areas. (emphasis added). While Indiana American argues that the main extension is for economic development purposes, this does not appear to be supported in the record. Mr. Hobbs testified as to the expected growth in the area but did not specify the type of growth expected. Our review of the area reveals, except with some minor exceptions along U.S. 31, the main extension will likely be dominated by residential growth. However, the statute also authorizes the extension of service to rural areas and no party disputed that this main extension would extend service to a rural area of the State.¹⁴

Mr. Shimansky sponsored Attachment GDS-2R to Petitioner's Exhibit 15 showing the extension will result in a positive contribution of service in year 13. Mr. Shimansky assumes that the District's water use will increase to its projected usage of 2.45 MGD over a 20-year period by adding approximately 900 customers a year. However, this assumption has no foundation in the record and contradicts the District's own projections. In response to an OUCC discovery request, the District states there is no study that supports adding approximately 900 customers a year. Pub. Ex. CS-7, Part 1 at 2 of 335. The District goes on to note that for cash flow purposes, it has assumed growth of only 150 customers per year. *Id.* Further, the District projections show growth of approximately 150 customers per year for years one through ten and only 75 customers per year for years 11 through 20. Pub. Ex. CX-7, Part 2 at 151 and 154 of 252. Using the District's projections, the proposed extension will not result in a positive contribution of service until approximately year 33.

Based on the evidence presented, we find Indiana American has not satisfied the requirements of Ind. Code § 8-1-2-46.2(b) to demonstrate that the main extension will result in a positive contribution to the utility's overall cost of service over a 20-year period. As such, the Commission's main extension rules apply. Therefore, the estimated \$9,238,302 project costs should not be added to rate base without a main extension payment by the District reflecting its contribution in aid of construction. If Indiana American proceeds with the project under the Commission's main extension rules, it is authorized to reflect its portion of the main extension cost in rate base, which is generally the revenue allowances provided by the main extension rules.

We further agree that a regional approach is needed to ensure the provision of water service keeps pace with development in Hamilton County. We believe the regionalization study Indiana American is in the process of conducting is a critical tool in determining how to serve these rural, undeveloped areas in northern Hamilton County in the long-term, as well as future growth in the service area. As such, we encourage Indiana American to complete the regionalization study to determine how best to regionalize service in Hamilton County in the future.

¹⁴ Ind. Code § 8-1-2-46.2 does not define "rural area." The Merriam-Webster Online dictionary defines "rural" as "relating to the country," which is consistent with the definition of "rural area" in other sections of Title 8 (i.e., Ind. Code §§ 8-1-2-87 and 89) as areas in Indiana but outside municipal corporate limits.

Exhibit 1

b. Future Source of Supply.

i. INAWC Case-in-Chief. Petitioner included four future sources of supply projects in this Cause: (1) Project I10-100020 – KOK Sheridan Property Acquisition for New Well or Wells (“Sheridan Property”); (2) Project I10-500003 – CRW SOS Test and Property Acquisition; (3) I10-600024 – NOB Hamilton Co SOS Property Purchase; and (4) Project I10-600010-03 – NOB WRCC SOS Property. Mr. Hobbs testified Petitioner prepared plans to develop each of these future sources of supply and is seeking approval of those plans and to add the actual costs of these sources of supply to the value of Petitioner’s property pursuant to Ind. Code § 8-1-2-23.5.

Mr. Hobbs sponsored Petitioner’s plans to develop each of these future sources of supply as Attachment MHH-24 to Petitioner’s Exhibit 3, and testified the information required by Section 23.5 is included in Petitioner’s plans for each of the future sources of supply. Mr. Hobbs testified that Indiana American’s future source of supply plans are reasonable and prudent for the provision of safe and reliable service.

ii. OUC Ms. Willoughby challenged the Sheridan Property project. She recommended the Commission reject the \$779,566 Indiana American requested to include in rate base for the proposed acquisition of property for the new well(s) in Sheridan because it is not currently necessary and prudent for Petitioner to acquire property for a future wellfield in Sheridan. She testified that the rates set in this case are intended for projects through April 2025, and population growth estimates through 2040 show that Sheridan will not be utilizing even half of its current wellfield capacity before the addition of proposed new Well No. 7. Therefore, she recommended the Commission deny the \$779,566 requested for the acquisition of land for new well(s) in Sheridan.

iii. INAWC Rebuttal. Mr. Hobbs testified that he believes Ms. Willoughby’s objection is actually to Ind. Code § 8-1-2-23.5, which allows a water utility to acquire vacant ground for a future well field before that land has been developed and becomes unavailable. Mr. Hobbs explained that the rate of growth and development in Sheridan creates the present need to obtain property rights for future sources of supply, and Indiana American is competing for property rights with development firms that intend to develop property for other purposes. Mr. Hobbs testified that if Indiana American’s future source of supply plan is approved and the additional source of supply is captured in rate base, but not placed in service by the date identified in the timetable, then the statute sets forth a refund procedure to restore customers.

iv. Discussion and Findings. Ind. Code § 8-1-2-23.5 allows a public utility to seek Commission approval of a plan to develop a future source of water supply. Section 23.5(a) requires the utility’s plan to include: (1) the timetable for placement in service of the future source of supply; (2) the cost of the source of supply; (3) the need for a new source of supply within the public utility’s timetable; (4) the availability of alternatives to the proposed source of supply; and (5) the need to secure property rights to preserve and protect the planned future source of supply.

The only future source of supply project challenged was the Sheridan Property project. The

Exhibit 1

OUCC argues that this project should not be allowed in rate base because additional wellfield capacity is not currently needed in Sheridan and will not be needed by April 2025, the period rates are to be set for this Cause.

We agree with Indiana American that Ind. Code § 8-1-2-23.5 allows a water utility to acquire vacant ground for a future well field before that land has been developed and becomes unavailable, even if the completion date extends beyond the test year. However, we find Petitioner has failed to satisfy Ind. Code § 8-1-2-23.5(a)(4) with respect to the Sheridan Property project. Petitioner's Exhibit 3, Attachment MHH-24, which contains Petitioner's plan for each of the source of supply projects, provides the following for the Sheridan Project:

Indiana American Water has initiated a preliminary hydrogeologic study to evaluate potential locations for development of ground water source of supply in the area. Ground water source of supply is preferred and anticipated to be available for the projected demands. *Alternatively, development of a surface water source of supply could be evaluated.* The development of surface water requires additional challenges and time that may not be available depending on rate of drinking water demand growth.

Id. at 67, emphasis added. No specific surface water source was identified, no analysis was provided, and no conclusions were rendered concerning possible alternatives to the proposed project.¹⁵ Instead, Petitioner's plan simply indicates that development of a surface source of supply *could be evaluated*. Accordingly, because Petitioner failed to sufficiently address the availability of alternatives to the proposed Sheridan Property project, we cannot find Petitioner's plan for that project is reasonable and prudent for the provision of safe and reliable service at this time.

As for the other three source of supply projects, we find Indiana American has included the information required under Ind. Code § 8-1-2-23.5(a) and the plans for those three projects are reasonable and prudent for the provision of safe and reliable service for the reasons set forth in Mr. Hobbs' direct testimony and Attachment MHH-24. Accordingly, we find Petitioner may reflect the costs of developing the following in rate base as set forth in Ind. Code § 8-1-2-23.5(b): (1) Project I10-500003 – CRW SOS Test and Property Acquisition; (2) I10-600024 – NOB Hamilton Co SOS Property Purchase; and (3) Project I10-600010-03 – NOB WRCC SOS Property.

c. Lake Station Water Treatment Plant.

i. INAWC Case-in-Chief. Indiana American did not discuss the Lake Station WTP and wells in its case-in-chief testimony.

ii. OUCC. Mr. Parks recommended the Lake Station WTP and wells be removed from Indiana American's rate base because they are not needed from a technical, operational, or economic standpoint. Mr. Parks testified that the WTP and wells have been continually out of service since February 5, 2019, and have not produced any finished water for over four years. Mr. Parks explained that while Indiana American provided testimony in Cause No. 45041 that it would maintain and regularly place the plant into operation to ensure rapid

¹⁵ Petitioner's response to our August 17, 2023 Docket Entry provided no additional information. Pet. Ex. 27.

Exhibit 1

reliability to use during peak demand days, or as emergency supply, Indiana American has not restarted the wells and treatment plant nor produced any water since closing on the acquisition. Mr. Parks further testified that Indiana American was not able to show it is incurring O&M costs to keep the Lake Station WTP in a state of ready availability if needed during peak day demands or emergencies.

Mr. Parks testified that the Lake Station WTP is not needed during peak demand days or emergencies. He explained that Indiana American meets peak demand in its Northwest Indiana District without operating the Lake Station treatment plant and has also met demand in Northwest Indiana during voluntary shutdowns of the Ogden Dunes WTP without the Lake Station WTP on-line. Mr. Parks also testified that reopening the existing East Chicago interconnection and purchasing water would serve as a lower marginal cost alternative than restarting the Lake Station wells and WTP in response to an emergency. Finally, Mr. Parks testified that Indiana American did not propose any “ratemaking options that might mitigate the impact of the purchase price” of the wells and WTP as suggested by the Commission in its Order in Cause No. 45041.

OUCC witness Stull sponsored Petitioner’s adjustment to remove \$6,539,385 from rate base for the Lake Station wells and WTP. *See* Pub. Ex. 3, Attachment MAS-1 at 3.

iii. INAWC Rebuttal. Indiana American witness Britto testified that contrary to Mr. Parks’ testimony, the Lake Station WTP is fully operational and is maintained day-to-day in standby status. Ms. Britto testified that the WTP maintains an active WT3 Operator License through IDEM and has all of the necessary equipment (including chemicals and chemical feed equipment) to produce potable, finished water. Ms. Britto further testified that maintenance is regularly performed, and Indiana American personnel operate the wells and pumps on a monthly basis to ensure the plant remains fully operational. She also testified that at least one employee is on-site at the WTP each day to do visual inspections and confirm there are no issues at the plant. The WTP also maintains its own chemicals inventory and disinfection chemicals are kept on-site in the event treatment is needed.

Ms. Britto further explained the WTP is maintained in standby status to minimize the day-to-day operations and maintenance expense associated with operating the plant. She testified the WTP can be transitioned out of standby status to produce potable finished water within 24 hours. Ms. Britto testified that this is how Indiana American intended to operate the Lake Station WTP when it acquired the system in Cause No. 45041.

Ms. Britto disagreed with Mr. Parks’ contention that the Lake Station WTP is not needed during peak day demands or emergencies and explained why the Lake Station WTP is needed in an emergency situation to serve the Northwest District.

Finally, Ms. Britto disagreed that reopening the East Chicago interconnection would serve as a lower cost alternative compared to operating the Lake Station WTP in standby status as Indiana American currently does. Ms. Britto testified that Indiana American cannot simply open a valve and obtain water from the interconnection, and that in order to take East Chicago water into the Northwest Operations Distribution system, Petitioner would need to overcome the East Chicago Free Chlorine water with high quantities of chlorine injected at the connection site of the two systems. Ms. Britto explained that Indiana American does not currently have this equipment

Exhibit 1

installed and the system is not equipped to do this. She said treating the water at the point of entry would require the construction of a structure to house the chlorine, chlorine inventory onsite, flow control equipment, chemical feed equipment and monitoring equipment. In addition to these capital investments, Ms. Britto testified there would be additional O&M costs associated with operating this equipment, including maintenance costs, security costs, and labor costs to maintain the site. She testified that this is just one example of why providing water via the East Chicago interconnect would not provide a lower cost marginal alternative in an emergency situation.

Indiana American witness Shimansky responded to Mr. Parks' contention that Indiana American did not propose "ratemaking options that might mitigate the impact of the purchase price" of the wells and treatment plant. Mr. Shimansky testified Petitioner has greatly reduced the level of O&M expense at the plant to minimize the impact of purchasing the plant. He provided Petitioner's Exhibit 15, Attachment GDS-1R, which showed the customer bill impact from having the Lake Station plant ready to activate in an emergency is 12 cents per month.

iv. Discussion and Findings. Before addressing the parties' dispute over whether the Lake Station WTP should continue to be maintained as an emergency backup source of water supply, we must address an error in the OUCC's proposed accounting for its recommendation. In Cause No. 45041, the Commission found the Lake Station WTP to be used and useful.¹⁶ The Commission's Order was affirmed on appeal on this specific question. *Ind. Off. of Util. Consumer Counselor v. Indiana-American Water Co., Inc.*, 129 N.E.3d 833 (table), 2019 WL 2608488 (Ind. Ct. App. 2019) (unpublished opinion).¹⁷ We also approved in that same Order, the journal entry to record the acquisition of the Lake Station WTP as used and useful utility plant. The OUCC's position is that used and useful plant is no longer needed and is therefore no longer used and useful, which is essentially an argument that the plant should be retired. As Mr. Shimansky testified on rebuttal, the retirement of depreciable utility plant is recorded by debiting Account 108 (Accumulated Depreciation) and crediting UPIS for the original cost of the asset reflected on the utility's books. 170 IAC 6-2-2(a) and 1996 Uniform System of Accounts, Instruction 27(B)(2). The effect of these entries is offsetting—there is zero impact on net original cost rate base. *See, e.g., Ind. Mich. Power Co.*, Cause No. 44182 at 59 (IURC July 17, 2013). As such, even if we were to accept the OUCC's position, the effect of doing so would not produce the result that the OUCC seeks. There would be no reduction to net original cost rate base.

With the understanding that we are not addressing an issue that affects net original cost rate base, we now address the main dispute between the parties—whether the Lake Station WTP and wells are currently in operation and used and useful to Indiana American. This same issue was raised in the Lake Station acquisition case, where the parties disputed whether the Lake Station WTP assets would be used and useful following the acquisition.

While the OUCC asserted that the Lake Station WTP has remained out of service since February 5, 2019, and is not currently in operation, Indiana American provided evidence that it is

¹⁶ *Jt. Pet. of Indiana-American Water Co., Inc. and the City of Lake Station, Indiana*, Cause No. 45041 at 32 (IURC Aug. 15, 2018).

¹⁷ *Ind. Off. of Util. Consumer Counselor, Town of Schererville v. Indiana-American Water Co., Inc.*, 137 N.E.3d 922 (Ind. 2019), transf. denied.

Exhibit 1

in operation and being maintained in standby status in the event of an emergency. Ms. Britto testified that the plant maintains an active WT3 Operator License through IDEM, it has all of the necessary equipment to produce potable, finished water, maintenance is performed regularly at the plant, and Indiana American personnel operate the wells and pumps on a monthly basis to ensure the plant remains fully operational. The evidence further demonstrates that the WTP can be transitioned out of standby status to produce potable finished water within 24 hours in the event of a chemical spill in Lake Michigan or another emergency requiring the plant to provide emergency capacity to the Northwest Indiana District.

The OUCC also questioned whether Indiana American needs the plant to serve the Northwest District in emergency situations, noting that Indiana American has met demand in Northwest Indiana during shutdowns of the Ogden Dunes WTP without the Lake Station plant online. On rebuttal, Indiana American explained why, and under what circumstances, Indiana American would need the Lake Station plant to serve the Northwest District in the event of an emergency. Pet. Ex. 17-C at 12. While Indiana American has not yet been required to activate the Lake Station WTP in an emergency situation, Ms. Britto's testimony demonstrates probable scenarios where this situation could become a reality.

The OUCC also argued that reopening the East Chicago interconnect would provide the lowest marginal cost alternative compared to the Lake Station WTP to provide service in response to an emergency. However, Ms. Britto explained why reopening the East Chicago interconnect is not feasible and would not provide a lower cost alternative to maintaining the plant in standby status. The evidence demonstrates that Indiana American cannot simply open a valve from the interconnect and the two water systems are incompatible because East Chicago is a free chlorine system whereas the Northwest District is a total chlorine system.

Finally, the OUCC argued that Indiana American has not proposed ratemaking options to mitigate the cost of the Lake Station WTP and wells. The language from our Order in Cause No. 45041 (at 32) encouraged Indiana American to propose ratemaking options that might mitigate the impact of the purchase price in future cases "*if it does in fact turn out the WTP and wells are not used and useful to Indiana American following the acquisition.*" The evidence demonstrates that Indiana American has reduced O&M expenses at the plant to only those required to maintain the plant in standby status. Mr. Shimansky calculated a customer bill impact of 12 cents per month from having the Lake Station plant ready to be activated in an emergency.

Accordingly, based on the evidence presented, we find that the Lake Station WTP and wells are currently used and useful to Indiana American to provide service in the event of an emergency in the Northwest District. Indiana American has also taken steps to minimize the plant's O&M expense to mitigate costs to customers while still ensuring the plant's availability in the event of an emergency. As such, we find that the assets are appropriately included in rate base in this Cause.

d. Lift Station Replacement Projects.

i. INAWC Case-in-Chief. Indiana American proposed Project I10-110002 – Kokomo Wastewater Sheridan 6th Street Lift Station Replacement

Exhibit 1

(“6th Street Project”).¹⁸ The project would replace the existing lift station that is past its useful life and currently cannot handle peak flows associated with the sanitary basin. While significant customer growth is not anticipated in the basins, increased inflow and infiltration (“I&I”) present capacity concerns in these areas. Petitioner noted overflows downstream of the lift station as well as flooding of the wet well during wet weather conditions. The current lift station mechanical and electrical components are in poor condition and at the end of their useful life. Additionally, the lift station is located within the State Road 38 right-of-way and the location and lack of safe access poses a safety risk to personnel during regular maintenance and operation.

Petitioner also proposed Project I10-110003 – Kokomo Wastewater Sheridan Maple Run Lift Station (“Maple Run Project”).¹⁹ The project includes improvements to the existing Maple Run Lift Station pumping and electrical, as well as the addition of a metering vault structure. Improvements are needed to provide necessary pumping capacity for the South drainage sub-basin. The Maple Run lift station capacity is limited by a number of factors such as wet well size, pump capacity, force main size, and downstream discharge location capacity.

ii. **OUCC.** With respect to the 6th Street Project, Ms. Willoughby recommended the Commission disallow the inclusion in rate base of \$1,791,005 because Indiana American did not provide sufficient evidence to support replacing the lift station or the cost estimate. She testified it is an imprudent use of ratepayer funds to install larger equipment to handle I&I without addressing the underlying cause for the I&I. Further, Ms. Willoughby testified Petitioner has not provided documentation to support replacement of the lift station based on its condition, or to support the cited safety concerns for relocating the lift station. She testified that having a lift station in the right of way is not unusual and does not necessarily make the location unsafe. Ms. Willoughby also took issue with Indiana American’s cost estimates and testified that Petitioner needed to provide documentation and calculations to support how the cost estimate was assembled.

With respect to the Maple Run Project, Ms. Willoughby recommended the Commission deny a portion (the final amount is confidential) of the proposed costs for overestimation of labor, contingency, and indirect overhead costs. She testified that Indiana American provided conflicting cost estimates for the project, and Petitioner’s cost estimates include errors.

iii. **INAWC Rebuttal.** Regarding the OUCC’s recommendation to disallow the 6th Street Project, Mr. Hobbs explained that addressing I&I in the basin as Ms. Willoughby suggests will help the entire system with a reduction in eventual treatment but will not address the issue that the station is undersized for the number of customers it serves, or address the other significant project drivers, such as the condition of the lift station, lack of current pumping capacity, site access, safety, and security. Mr. Hobbs testified Indiana American has attempted to address the I&I issues in the basins but addressing I&I will not obviate the need for replacement of the lift station. With respect to the current capacity concerns at the lift station, Mr. Hobbs testified that equivalent dwelling unit estimates coupled with a peaking factor of four indicate that the station needs to be sized at a minimum for a peak flow of approximately 370 gpm.

¹⁸ Petitioner’s Exhibit 3, Attachment MHH-4 at p. 3.

¹⁹ *Id.* at p. 5.

Exhibit 1

Mr. Hobbs testified that during a 2019 draw down test, the current pumps were not able to achieve the estimated 370 gpm flow rate needed, where pump 1 at 196-gpm and pump 2 at 122-gpm pumped a combined 270-gpm.

With respect to the condition issues, Mr. Hobbs sponsored photos of the lift station at Attachment MHH-10R of Petitioner's Exhibit 16 to show the heavily corroded discharge piping without protective coating, control panel structural supports with excessive corrosion, surface deteriorating of concrete, access hatches without secondary safety protection, wetwell exhaust vent located between the sidewalk and road, and a 230-volt control panel in poor condition. With respect to the safety issues, Mr. Hobbs testified there is currently no dedicated access for employees to safely park and maintain the station, and they are currently using an undeveloped lot at the corner of State Road 38/6th and Main Street for wetwell maintenance. Mr. Hobbs explained that if the lot becomes inaccessible in the future, it will require employees to park vehicles and equipment along State Road 38, and this could result in safety issues for employees and traffic flow disruptions for the public.

Regarding Petitioner's cost estimates for the Maple Run Project, Mr. Hobbs testified that Petitioner provided two cost estimates for the lift station project that were prepared at different times, which is why the cost estimates Petitioner provided for the project differ. As to the errors Ms. Willoughby identified, Mr. Hobbs stated that the cost estimates Indiana American provided are just that, estimates. He explained that as costs mature through the implementation process, the estimates will be updated through monthly reforecasting where any potential overestimating of labor in the estimate will be corrected when the actual costs of the project go into rate base. Mr. Hobbs testified the cost estimate issues raised by the OUCC are generally not relevant, because it is the actual costs of the project that will be reflected in rate base.

iv. Discussion and Findings. With respect to the 6th Street Project, the OUCC argues the capacity issues at the lift station are the result of I&I in the system, which should be addressed before installing larger equipment. While we agree larger equipment should not be the first solution to I&I, the evidence demonstrates that Indiana American conducted a system wide collection system evaluation that included an assessment of I&I issues. Pet. Ex. 16, Attachment MHH-1R. It shows Indiana American has attempted to address specific I&I issues associated with infrastructure upstream of the 6th Street lift station, but the station is still undersized.

The record also shows that capacity issues are not the only driver of the project, as components of the lift station are in poor condition and the location of the lift station in the public right-of-way poses security and safety concerns to Indiana American's employees and the public. Pet. Ex. 16, Attachment MHH-10R. Petitioner identified several issues related to age and system deterioration that need to be addressed, including piping restrictions and electrical issues. These issues indicate that replacement of the lift station is needed to maintain operation. In addition, while site safety does not appear to be a concern today, the evidence demonstrates that future planned road improvements are likely to create safety and security concerns.

Accordingly, we find that replacement of the 6th Street lift station is necessary to address the capacity, condition, safety, and security concerns identified by Petitioner, and is required for

Exhibit 1

Indiana American to provide safe, adequate, and reliable service to its customers. For those reasons, we find the 6th Street Project should be approved.

With respect to the Maple Run Project, the OUCC did not take issue with the project itself, but rather raised concerns about the cost estimates Indiana American provided to support the project. While Petitioner's cost estimate is a planning-level estimate, we find such estimate to be sufficient at this time. As Mr. Hobbs explained on rebuttal, it is the actual cost of the project and not the estimates that will be reflected in rate base. For this reason, we find the Maple Run Project should be approved and the amount that should be reflected in rate base for the project is the actual cost of the project upon completion.

e. BT SOP 98-01.

i. INAWC Case-in-Chief. Indiana American sought to include its Business Transformation costs (referred to as "BT SOP 98-01") in rate base in this Cause. As part of its total company rate base, Indiana American proposed to include \$7,170,944 of BT SOP 98-01 costs as UPIS, as well as \$6,619,332 of accumulated depreciation associated with the BT SOP 98-01 project.

ii. OUCC. Ms. Stull recommended Indiana American's request to include these costs in rate base be denied. She explained that the BT SOP 98-01 costs refers to expenditures associated with implementation of American Water's customized SAP software system. She said SOP 98-01 provides guidance on accounting for the costs of computer software developed or obtained for internal use and requires training and data conversion costs be expensed as incurred.²⁰ Ms. Stull noted that, in Cause Nos. 44450 and 45142, Indiana American sought to capitalize these costs for ratemaking purposes, which the OUCC opposed but did not object to the recovery of the costs over time through amortization. She noted that in settlements, these costs were excluded from rate base but amortized over 13 years, which has effectively allowed Indiana American a "return of" but not a "return on" the expenditures.

Ms. Stull clarified that the OUCC does not oppose Indiana American's continued ability to earn a return of the expenditures. However, she said Indiana American should not be authorized to earn a return on the expenditures because they are not construction costs used to produce plant that is used and useful in the provision of utility service under Ind. Code § 8-1-2-6. She further testified that Petitioner neither supported why these costs should be included in rate base nor why the treatment of these costs should deviate from prior Commission rate orders for Indiana American.

iii. INAWC Rebuttal. Mr. Shimansky disagreed with Ms. Stull's recommendation that the BT SOP 98-01 costs be disallowed. With respect to Ms. Stull's contention that these costs do not qualify for inclusion in rate base because they are not construction costs under Ind. Code § 8-1-2-6, Mr. Shimansky testified that capital dollars spent do not have to be related to "construction" to be recovered in rate base. He testified that capital dollars, or any asset, represents money spent today that creates a benefit for future periods. He further

²⁰ SOP is a Statement of Position issued by the American Institute of Certified Public Accountants, which is considered to be a source of generally accepted accounting principles.

Exhibit 1

testified that Ind. Code § 8-1-2-6 also provides that rate base includes “the cost of bringing property to its then state of efficiency,” which is precisely what the BT SOP 98-01 asset represents. Mr. Shimansky explained that the planning, data conversion, training deployment, and stabilization costs invested in the Business Transformation program and recorded as SOP 98-01 assets were critical to bringing the Business Transformation investment to its current state of efficiency. He testified that the OUCC is not opposed to the collection of the BT SOP 98-01 asset, and if the asset is eligible to be collected in rates, it should also be included in rate base.

As for the costs not being included in rate base in prior rate cases, Mr. Shimansky testified the treatment of the BT SOP 98-01 costs in Indiana American’s prior rate case was pursuant to a settlement and for the purpose of reaching a resolution in that case. Mr. Shimansky explained Petitioner did not agree to remove it permanently from rate base nor did it agree not to include it in the rate calculations in its next rate case.

iv. Discussion and Findings. In Cause No. 44059, Indiana American sought approval of expenditures for the design, development, and implementation of its Business Transformation program, which was to replace and upgrade its information technology systems. In that Cause, the Commission approved an agreement by the parties that Indiana American could defer for future recovery the estimated \$6,800,000 of associated costs and that the deferred costs should be amortized over ten years. In a settlement approved by the Commission in Cause No. 44450, the parties agreed that all BT SOP 98-01-related assets should be depreciated, or amortized, over 13 years rather than the ten years approved in Cause No. 44059.

As an initial matter, we agree with the OUCC that given Petitioner’s decision to request authorization to include the BT SOP 98-01 costs in its base rates after such costs were previously excluded, Indiana American should have included a discussion to support the reasonableness of its request in its case-in-chief. Nonetheless, we find the evidence supports including these costs in rate base.

We recently addressed the inclusion of these types of software costs in rate base in *Aqua Indiana, Inc.*, Cause No. 45675 (IURC Jan. 18, 2023). There, the utility sought preapproval of design, implementation, and development costs associated with improvements to its information technology systems and software under Ind. Code § 8-1-2-23. The OUCC argued that the software costs were not appropriate for pre-approval under Ind. Code § 8-1-2-23 because they did not qualify as an extension, construction, addition or improvement to plant and equipment. *Id.* at 9. The OUCC also argued that these costs, which generally accepted accounting principles (“GAAP”) require to be expensed, should not be capitalized in rate base because they did not result in utility assets. *Id.* at 5-6. We disagreed and found that the software qualified for pre-approval and authorized the costs to be included in rate base.

We are dealing with the same type of costs here. These deferred expenses are linked to software and associated with an asset includable in utility plant. Therefore, the unamortized balance of the deferred costs can be included in rate base. Whether the costs received preapproval under Ind. Code § 8-1-2-23 does not affect, or alter, the manner in which such costs are treated for ratemaking purposes. We also disagree with the OUCC’s argument that the treatment of these costs in the 2019 Rate Order should dictate how these costs are treated in this Cause. As Mr.

Exhibit 1

Shimansky explained on rebuttal, the agreement to exclude these costs from rate base in Cause No. 45142 was done for purposes of reaching a settlement. Nothing in the settlement reflects Petitioner's agreement that these costs should be excluded from rate base.

Accordingly, we find that the BT SOP 98-01 cost Petitioner proposes to include in rate base in this Cause is eligible to earn a return on as part of its rate base. As such, we find these costs were appropriately included in rate base in this Cause and should be approved.

f. Acquisition Related Costs.

i. OUCC. Ms. Stull noted that INAWC has been authorized to include in its rate base legal fees incurred by the utility related to its acquisition of water and wastewater utilities. She expressed concern with Indiana American's practice of embedding into rate base legal expenses based on fixed fee agreements. Ms. Stull explained in Cause No. 45461, the Commission found that such fees could properly be included in rate base pursuant to Ind. Code ch. 8-1-30.3, but that such expenses must be reasonable and the appropriate time to challenge the reasonableness of such costs was in the utility's next rate case. She noted the Commission also expressed an expectation that, in the future, Indiana American should provide a more accurate and detailed estimate of incidental expenses and other costs of acquisition. Ms. Stull noted the Commission made similar findings in Cause No. 45550 involving Petitioner's acquisition of the Town of Lowell's system.

Ms. Stull raised concern that Indiana American is not adequately incented to control its acquisition costs because it is permitted to include its legal expense in rate base, where it will earn a return as if it is an investment. She noted that acquisition cases have become less controversial and involved and argued that Indiana American's fixed fee arrangements present a significantly large expense for a simple case (*e.g.*, \$120,000 for the Claypool case) but does not afford protection for the ratepayer in the case of protracted acquisition cases.

Ms. Stull suggested Indiana American is not monitoring these fixed fee arrangements to determine if they are a good deal for customers. She recommended that Indiana American be required to present support for the reasonableness of legal costs with the case-in-chief testimony in its rate case and keep track of the hours spent by outside counsel for evaluation. She did not, however, propose any adjustment in this case to Petitioner's rate base.

ii. INAWC Rebuttal. Mr. Shimansky responded to Ms. Stull's concerns by stating that "hours" are not the only factor in considering the value of legal representation. He testified that Indiana American's lawyers have actively negotiated and revised the "fixed" fees to match the reasonable reality of a case. He gave the example of the fixed fee for the Claypool acquisition which, as Petitioner told the OUCC in discovery, was reduced at the request of general counsel for Indiana American after it became apparent that the OUCC was not going to engage in the more litigious approach it has taken in other acquisition cases. He testified this disproves Ms. Stull's theory that Indiana American has no incentive to monitor the fees in relation to the level of work required.

iii. Discussion and Findings. Through our prior acquisition orders, we have made it clear that the reasonableness of legal expense incurred by

Exhibit 1

Petitioner in acquisition cases under Ind. Code ch. 8-1-30.3 is an issue to be addressed in Petitioner's next rate case. *See e.g., Indiana-American Water Co., Inc. and Wastewater One, LLC*, Cause No. 45461, at 13, (IURC June 2, 2021). As the party seeking cost recovery of such expenses, Indiana American bears the burden of demonstrating the reasonableness of such costs.

While the OUCC expressed concern with Petitioner's use of fixed fee arrangements for legal fees and the lack of information provided by Petitioner that would allow it to easily determine whether such arrangements would produce lower outside counsel fees, the OUCC did not offer any evidence disputing the reasonableness of the legal expenses requested by Petitioner or request that we disallow any expense. Rather, the evidence of record reflects that INAWC takes steps, even after executing fixed fee arrangements with outside counsel, to monitor and mitigate legal fees incurred in connection with INAWC's acquisitions. Pet. Ex. 15 at 37-38.

We do, however, agree that Indiana American could have provided testimony or other evidence in its case-in-chief to support the reasonableness of its legal expenses. While the OUCC urges us to order Petitioner to require its outside counsel to document its hours when using a fixed fee arrangement, we decline to do so. As we have encouraged Indiana American to provide more detailed estimates of its expenses and costs of acquisition in its case-in-chief filings under Ind. Code ch. 8-1-30.3, we encourage Indiana American to provide additional detail in its base rate case-in-chief filings concerning the reasonableness of its acquisition legal expenses for which it seeks recovery, including an explanation for why its chosen legal fee arrangement was appropriate and resulted in reasonable costs and the reason(s) any expenses were not within the range of estimated costs identified in the acquisition case.

Accordingly, we accept the amount of legal expense Petitioner has proposed for each of its acquisitions that are to be included in rate base in this case.

B. Quantification of Original Cost Rate Base. Based upon our findings above, we find that Petitioner's net original cost rate base projected as of Step 1 is as follows:

Exhibit 1

Utility Plant:	Total Company	Water	Wastewater
Plant in service	\$2,491,462,490	\$ 2,470,774,861	\$ 20,687,629
BT SOP 98-01	7,170,944	7,119,313	51,631
Deferred depreciation	8,311,140	8,277,794	33,346
Post-in-service AFUDC	7,137,440	7,123,318	14,122
Total Utility Plant	2,514,082,014	2,493,295,286	20,786,728
Accumulated Depreciation:			
Plant in service	618,690,066	616,302,719	2,387,347
BT SOP 98-01	5,364,418	5,325,794	38,624
Deferred depreciation	4,791,904	4,770,447	21,457
Post-in-service AFUDC	4,206,403	4,197,650	8,754
Total Accum. Depreciation	633,052,791	630,596,610	2,456,182
Net Utility Plant	1,881,029,223	1,862,698,676	18,330,546
Deductions:			
Contributions in aid of construction	210,713,116	210,528,039	185,076
Customer advances for construction	62,267,845	61,809,736	458,109
Capacity Adjustment - Somerset	309,000	182,091	126,909
Total Deductions:	273,289,961	272,519,866	770,094
Additions:			
Acquisition Adjustment (net)	8,524	-	8,524
SEI Deferred Depr, Property Taxes & PISCC	4,364,489	4,364,489	-
	2,241,938	2,227,653	14,285
Total Additions:	6,614,951	6,592,142	22,809
Total Rate Base	\$ 1,614,354,213	\$ 1,596,770,952	\$ 17,583,261

We further find, for purposes of Step 2 rates, that Petitioner's net original cost rate base forecasted as of April 30, 2024 (the beginning of the test year) to be \$1,679,732,875 as follows:

Exhibit 1

Utility Plant:	Total Company	Water	Wastewater
Plant in service	\$2,602,876,784	\$ 2,579,745,204	\$ 23,131,580
BT SOP 98-01	7,170,944	7,119,313	51,631
Deferred depreciation	8,311,140	8,277,794	33,346
Post-in-service AFUDC	7,137,440	7,123,318	14,122
Total Utility Plant:	2,625,496,308	2,602,265,629	23,230,679
Accumulated Depreciation:			
Plant in service	655,519,019	652,533,660	2,985,359
BT SOP 98-01	5,902,238	5,859,742	42,496
Deferred depreciation	5,103,400	5,080,176	23,224
Post-in-service AFUDC	4,378,467	4,369,116	9,351
Total Accum. Depreciation	670,903,124	667,842,694	3,060,430
Net Utility Plant:	1,954,593,184	1,934,422,935	20,170,249
Deductions:			
Contributions in aid of construction	211,940,701	211,759,216	181,485
Customer advances for construction	69,151,383	68,693,274	458,109
Capacity Adjustment - Somerset	305,305	181,380	123,925
Total Deductions:	281,397,389	280,633,870	763,519
Additions:			
Acquisition Adjustment (net)	7,757	-	7,757
SEI Deferred Depr, Property Taxes & PISCC	4,287,385	4,287,385	-
	2,241,938	2,227,653	14,285
Total Additions:	6,537,080	6,515,038	22,042
Total Rate Base	\$ 1,679,732,875	\$ 1,660,304,103	\$ 19,428,772

As explained herein, Step 3 rates will be based upon the actual utility plant in service as of that date, provided that the April 30, 2025 net original cost rate base we have found as shown below shall serve as a cap on the total net original cost rate base throughout all steps.

Exhibit 1

Utility Plant:	Total Company	Water	Wastewater
Plant in service	\$ 2,827,527,524	\$ 2,802,385,362	\$ 25,142,162
BT SOP 98-01	7,170,944	7,119,313	51,631
Deferred depreciation	8,311,140	8,277,794	33,346
Post-in-service AFUDC	7,137,440	7,123,318	14,122
Total Utility Plant:	2,850,147,048	2,824,905,787	25,241,261
Accumulated Depreciation:			
Plant in service	711,792,718	707,859,896	3,932,822
BT SOP 98-01	6,619,332	6,571,673	47,659
Deferred depreciation	5,515,957	5,490,377	25,580
Post-in-service AFUDC	4,600,670	4,590,524	10,147
Total Accum. Depreciation	728,528,677	724,512,470	4,016,208
Net Utility Plant:	2,121,618,371	2,100,393,317	21,225,053
Deductions:			
Contributions in aid of construction	213,576,985	213,400,179	176,805
Customer advances for construction	78,573,679	78,115,570	458,109
Capacity Adjustment - Somerset	313,011	194,631	118,380
Total Deductions:	292,463,675	291,710,380	753,294
Additions:			
Acquisition Adjustment (net)	6,734	-	6,734
SEI Deferred Depr, Property Taxes & PISCC	4,150,345	4,150,346	-
	2,241,938	2,227,653	14,285
Total Additions:	6,399,017	6,377,999	21,019
Total Rate Base	\$ 1,835,553,713	\$ 1,815,060,936	\$ 20,492,778

C. Fair Value of INAWC's Rate Base.

1. INAWC Case-in-Chief. Ms. Bulkley performed an analysis to estimate the fair value of INAWC's rate base. She testified that the methodology that she relied on is generally consistent with the methodology that has been used by the Commission to establish the fair value of INAWC's assets in prior rate proceedings. This methodology begins with the fair value rate base that was established in the last rate proceeding. The historical fair value rate base is trended to current dollars using an inflation index, CPI-U, to establish the current value of the fair value rate base from the prior case. She stated that because INAWC's last general rate case resulted in a settlement that did not specify a fair value rate base, she relied on the fair value rate base that was estimated as of the conclusion of the test year in Cause No. 44450 of \$1,222,819,707. She then escalated the fair value rate base from January 28, 2015 (the end of the test year in Cause No. 44450) to the end of each of the projected periods in this case, using the average inflation factor for the period from January 2015 through the end of each of the periods proposed by Petitioner to be utilized as rate base cutoffs for the three-step implementation of rates in this Cause. Ms. Bulkley noted that this methodology is consistent with the methodology that was relied upon in Cause No. 44022, the most recent fair value determination made by the Commission for

Exhibit 1

Petitioner.

The net investor supplied additions used in Ms. Bulkley's fair value analysis are the difference between the original cost rate base in Cause No. 44450 and the pro forma net investor supplied additions through the periods ending July 31, 2023, April 30, 2024, and April 30, 2025. Her resulting fair value rate base was \$2,372,363,444 at July 31, 2023, \$2,474,101,830 at April 30, 2024, and \$2,667,265,966 at April 30, 2025. Ms. Bulkley compared the fair value rate base for each of the periods to a reproduction cost new less depreciation study that was prepared by Petitioner using the Handy-Whitman Index and included in her workpapers. After comparison, Ms. Bulkley concluded the methodology previously used continues to be a reasonable method for determining fair value.

Ms. Bulkley then calculated the return on the fair value rate base using the same approaches that were applied in Cause No. 44022. Each of these approaches makes an adjustment to the WACC to remove inflation from the fair value rate base where inflation has been applied. She walked through the methodologies and results of each. She clarified that the first component of the fair value rate base is the value as estimated in Cause No. 44450, which is escalated by inflation. The second component is net investor supplied capital since the last rate proceeding, which does not include inflation. The fair value increment is determined by comparing the operating income from the fair value rate base to the operating income derived by applying the original cost return to the original cost rate base for each period, ending July 31, 2023, April 30, 2024 and April 30, 2025. This resulted in a fair value increment of \$33,861,953 at July 31, 2023, \$35,673,678 at April 30, 2024 and \$38,990,129 at April 30, 2025. Pet. Ex. 7 at 63 and Attachment AEB-10.

Ms. Bulkley explained that while each of the methodologies is a reasonable approach to estimating the fair value operating income, Petitioner is not proposing to rely on the fair value increment that results from the methodologies described above. Rather, Petitioner proposes to include only the return on the Indiana Cities Acquisition Adjustment that has been authorized by the Commission in other proceedings through informed fair value ratemaking. Below is the resulting Return on Indiana Cities Acquisition Adjustment presented by Ms. Bulkley:

Return on Indiana Cities Acquisition Adjustment

Date	Indiana Cities Acquisition Adjustment	Return on Indiana Cities Acquisition Adjustment
July 31, 2023	\$4,713,294	\$319,090
April 30, 2024	\$4,362,716	\$294,483
April 30, 2025	\$3,895,280	\$267,995

2. **Industrial Group.** Mr. Gorman testified that the fair value increment as proposed by Ms. Bulkley is not appropriate and inflates the compensation provided to the utility above a fair and reasonable level. He stated her fair value increment proposal is severely flawed and he recommends it be rejected and not relied upon by the Commission for any purpose in setting rates in this proceeding. As an example, he noted the starting point for her fair value rate base was the estimate provided in Cause No. 44450, which was never approved as reasonable by the Commission, and therefore, is not a reasonable de facto estimate of Petitioner's

Exhibit 1

fair value rate base.

3. **INAWC Rebuttal.** In response to Mr. Gorman’s concerns with her calculation of the fair value increment, Ms. Bulkley testified that the basis of her analysis was not the findings from the settled case. Instead, her estimate of the fair value rate base builds on what Petitioner presented in its evidence in the settled case, which is based on the last fair value finding from a litigated case. Moreover, Ms. Bulkley pointed out that the methodology she relied on in developing the fair value rate base has been relied on by the Commission in several prior cases. Ms. Bulkley explained that in these cases, the Commission methodology begins with the fair value rate base from Petitioner’s last fair value finding in a rate case and trends the rate base using a cost inflation index. The Commission then adds net plant additions to determine the updated fair value of the plant. She reiterated that Petitioner is proposing to recover the return on the acquisition adjustment for the Indiana Cities acquisition, not the fair value increment on the entire rate base.

4. **Discussion and Findings.** Although Indiana-American appears to request that we make a finding of the fair value of Petitioner’s rate base, Ms. Bulkley testified that Petitioner is not asking the Commission to rely on, or otherwise use, the fair value of its rate base as calculated through her fair value methodology for any ratemaking purpose except for the calculation of a specific fair value increment to the return on the Indiana Cities Acquisition Adjustment. Pet. Ex. 7 at 64. No party objected to the inclusion of an adjustment for the Indiana Cities acquisition, and as discussed below, when calculating a fair rate of return for INAWC, we will reflect that specific adjustment.

In addition, rather than rely on Ms. Bulkley’s calculation of the fair value of its rate base to serve as the statutory “fair value” of its rate base under Ind. Code § 8-1-2-6 for ratemaking purposes, Petitioner proposed the use of its net original cost rate base as of the close of its test year to calculate its fair rate of return. No party objected to the use of net original cost as the basis for a fair value finding. Accordingly, we find a determination of the fair value of Petitioner’s rate base to be unnecessary and conclude that Petitioner’s net original cost of its rate base, adjusted by our other findings contained in this Order, is the appropriate and proper statutory fair value of its used and useful plant and equipment. Based on our findings herein, we find the resulting return on Indiana Cities Acquisition Adjustment as follows:

Date	Indiana Cities Acquisition Adjustment	Return on Indiana Cities Acquisition Adjustment
July 31, 2023	\$4,713,294	\$319,090
April 30, 2024	\$4,401,669	\$297,113
April 30, 2025	\$3,934,233	\$270,675

8. **Fair Rate of Return.**

A. **ROE.**

1. **INAWC Case-in-Chief.** Ms. Bulkley supported Petitioner’s proposed ROE and testified in support of INAWC’s projected capital structure. She recommended

Exhibit 1

an ROE of 10.60% as reasonable and appropriate for this proceeding.

In determining her recommended ROE, Ms. Bulkley first developed a proxy group of utility companies that face similar risk as INAWC. To that proxy group, she applied the Constant Growth Form of the Discounted Cash Flow (“DCF”) model, the Capital Asset Pricing Model (“CAPM”), and the Empirical Capital Asset Pricing Model (“ECAPM”). Her recommended ROE also takes into consideration the following factors: (1) INAWC’s capital expenditure program relative to the proxy group companies; (2) the test year convention mechanism used to set rates for INAWC; (3) the risk associated with variations in volume/demand and the resulting effect on INAWC’s revenues and cash flows; and (4) INAWC’s proposed capital structure as compared to the capital structures of the proxy group companies. She stated that while she did not make specific adjustments to her recommended ROE for these factors, she did consider them in the aggregate when determining where her recommended ROE falls within the range of the analytical results.

Ms. Bulkley testified that she considered the following key factors in her cost of equity analyses and recommended ROE: (1) the standards established by the U.S. Supreme Court’s *Hope* and *Bluefield* decisions for determining a fair and reasonable authorized ROE for public utilities; (2) the effect of current and prospective capital market conditions on the cost of equity estimation models and on investors’ return requirements; (3) the results of several analytical approaches that provide estimates of Petitioner’s cost of equity; and (4) Petitioner’s regulatory, business, and financial risks relative to the proxy group of comparable companies in determining where Petitioner’s ROE should fall within the reasonable range of analytical results to appropriately account for any residual differences in risk.

Ms. Bulkley presented the results of her Constant Growth DCF, CAPM and ECAPM analyses, ultimately leading to a range from 10.00% to 11.00% as reasonable.

Ms. Bulkley explained that utilities compete directly for capital with other investments of similar risk, which include other water, natural gas, and electric utilities. Therefore, the ROE authorized for a utility sends an important signal to investors regarding whether there is regulatory support for financial integrity, dividends, growth, and fair compensation for business and financial risk. She testified that the regulatory framework is one of the most important factors in debt and equity investors’ assessments of risk and that credit rating agencies consider the authorized ROE and equity ratio for regulated utilities to be important for two reasons: (1) they help determine the cash flows and credit metrics of the regulated utility; and (2) they provide an indication of the degree of regulatory support for credit quality in the jurisdiction. She stated not only do credit ratings affect the overall cost of borrowing, they also act as a signal to equity investors about the risk of investing in the equity of a company. She testified that providing the opportunity to earn a market-based cost of capital supports the financial integrity of Petitioner, which is in the interest of both customers and shareholders.

Ms. Bulkley walked through the effect current and prospective market conditions have on the cost of equity for Petitioner, stating that the combination of persistently high inflation, and the Federal Reserve’s changes in monetary policy contribute to an expectation of increased market risk, and an increase in the cost of the investor-required ROE. She explained that because the share prices of utilities are inversely correlated to interest rates, and government bond yields are already

Exhibit 1

substantially greater than utility stock dividend yields, the share prices of utilities will likely decline, which is the reason a number of equity analysts have classified the utility sector as either underperforming or underweight. She said the expected underperformance of utilities means that DCF models using recent historical data likely underestimate investors' required return over the period that rates will be in effect. In addition, Ms. Bulkley testified that prospective market conditions warrant consideration of forward-looking cost of equity estimation models such as the CAPM and ECAPM, which may better reflect expected market conditions.

Ms. Bulkley described her process of selecting a group of proxy companies to estimate the cost of equity for INAWC. She then walked through her use of the Constant Growth DCF model, the CAPM, and the ECAPM methods for estimating the cost of equity. The mean and median DCF results using the average growth rates ranged from 9.65% to 9.97%, and the mean and median results using the maximum growth rates ranged from 10.76% to 11.04%. Her traditional CAPM analyses produced a range of returns from 10.19% to 10.88% and her ECAPM analysis results ranged from 10.77% to 11.29%. Ms. Bulkley performed a flotation cost calculation and used it to identify a recommended ROE within the range of ROE estimates from her various models. Ms. Bulkley also explained that from a credit perspective, the additional pressure on cash flows associated with high levels of capital expenditures exerts corresponding pressure on credit metrics and, therefore, credit ratings. She noted that Petitioner's capital expenditure requirements as a percentage of net utility plant are significant and will continue over the next few years. Additionally, similar to a number of the operating subsidiaries of the proxy group, Ms. Bulkley noted that INAWC does have a capital tracking mechanism to recover some of Petitioner's projected capital expenditures.

2. OUCC and Intervenor. OUCC witness Dellinger recommended an ROE of 9.00%. He derived this recommendation from an analysis of the Constant Growth DCF model, the Two-Stage DCF model, the CAPM and the ECAPM. Mr. Dellinger discussed his approach to these models and how they differed from Ms. Bulkley's approach. As to the appropriate proxy group, Mr. Dellinger explained why he included some additional companies and excluded others from those used by Ms. Bulkley.

Mr. Dellinger described the DCF model, his results, and how his results compared with Ms. Bulkley's results. His Constant Growth DCF analysis produced a 9.0% ROE for the mean calculation and a 9.32% ROE for the median. Mr. Dellinger discussed how the limitations and weaknesses of the Constant Growth DCF model are addressed by using a two-stage model. His Two-Stage DCF model resulted in a 7.61% ROE for the Mean calculation and an 7.16% ROE for the median calculation.

Mr. Dellinger described the CAPM, his preferred metric for interest rates (the 7-day yield of the 30-year treasury), and the calculation of Beta. He also discussed the equity risk premium component and the issues with Ms. Bulkley's calculation. He also discussed a logical inconsistency in Ms. Bulkley's DCF used for her CAPM due to a mismatch between the inputs Ms. Bulkley's used in her model. Mr. Dellinger ultimately recommended a CAPM ROE of 7.39% calculated on the Mean and 7.38% calculated on the Median. He also ran an ECAPM, which then resulted in an ROE of 7.59% calculated on the Mean and 7.54% calculated on the Median. He did not recommend reliance on the ECAPM, because he did not believe it to be a compelling model.

Exhibit 1

Mr. Dellinger explained why his results, which were lower than those of Ms. Bulkley, were appropriate and reasonable. He discussed the historic spread between U.S. Treasury rates and Indiana American's awarded ROEs over time. Mr. Dellinger testified that flotation costs should not be reflected in a higher cost of equity, as investors adjust a stock's market price to account for the fact that a portion of the proceeds they pay for shares does not go to Petitioner issuing equity.

Industrial Group witness Gorman recommended an ROE of 9.10%, which was 30 basis points less than the midpoint of his recommended range to "offset some of the excessive cost to ratepayers created by INAWC's unreasonable equity-thick ratemaking capital structure and mitigate, in part, its cost of service increase and related adjustment to tariff rate charges" in the proceeding. IG Ex. 1 at 5. Mr. Gorman also recommended that the Commission not adjust the ROE for the recovery of flotation costs because it is not based on the recovery of reasonable flotation expenses for Petitioner.

Mr. Gorman reviewed market evidence concerning how regulatory decisions and authorized returns on equity for regulated utility companies have supported utilities' access to capital, financial integrity, and credit standing. He testified the industry authorized returns on equity for water utilities have ranged from 9.04% to 9.76% for the period of 2014-2022. He also noted that in the only rate case for a water utility to date in 2023 that identified an equity return, the approved return on equity was 8.70%. Based on these authorized ROEs, he said credit rating agencies have rated the credit standing of regulated utilities as "stable" and the credit quality of the industry has increased over the last few years.

Mr. Gorman also testified regarding the investment risk of INAWC and its proposed capital structure. He explained that INAWC's capital structure has a far greater common equity ratio in comparison to authorized rate-setting capital structures allowed for electric, natural gas, and water utilities over the last several years. He testified that INAWC's equity thick capital structure has the effect of increasing charges to customers, relative to the industry average ratemaking capital structure, with a revenue impact that is comparable to a 120 basis point differential in the return on equity. Mr. Gorman's recommended ROE represents a movement of a little over half of this 120 basis point difference from the high end of his recommended range of 9.0% to 9.8%.

Mr. Gorman explained the methods he used to estimate INAWC's cost of common equity including several variations of the DCF model, the risk premium model, and the CAPM and the inputs he used in applying these models. His DCF recommendation was 9.00%. His CAPM analysis resulted in 10.10% and his Risk Premium analysis resulted in 9.55%.

Crown Point witness Guerrettaz did not perform any quantitative analyses regarding the cost of equity for Petitioner. Mr. Guerrettaz instead estimated that a reasonable authorized ROE for Petitioner is 9.00% based on his understanding of the financial markets and Petitioner's business characteristics. He testified that Petitioner has extremely low business risk because it: (1) sells an essential service, (2) enjoys traditional rate regulated revenue pricing without competition, and (3) grows rate base, revenues, and profits through utility acquisitions and risk-reducing tracking mechanisms. Mr. Guerrettaz stated that the business risk of Petitioner and its parent company is nominal based on stock prices and dividend growth.

Exhibit 1

CAC witness Inskeep recommended the Commission reject Petitioner's proposed ROE to mitigate the rate impact of an "extraordinary utility unaffordability crisis." CAC Ex. 1 at 36. He noted the Commission has approved ROEs for Indiana American of 9.70% (Cause No. 44022), 9.75% (Cause No. 44450), and 9.80% (Cause No. 45142) as compared to Indiana American's proposal in this case of 10.6%. He stated that customers do not derive a tangible benefit from an increased ROE, rather a higher ROE reflects a higher profit margin for Indiana American's shareholders at the cost of higher rates for its customers.

3. INAWC Rebuttal. Responding to the issues raised by the OUCC and Intervenor, Ms. Bulkley testified the primary factors that should be considered are: (i) the importance of investors' actual return requirements and the critical role of judgment in selecting the appropriate ROE; (ii) the importance of providing a return that is comparable to returns on alternative investments with commensurate risk; and (iii) the need for a return that supports a utility's ability to attract needed capital at reasonable terms. She also considered the effect of current and expected capital market conditions on these factors.

Ms. Bulkley asserted that the OUCC and Industrial Group ROE are inconsistent with recent changes in market conditions and do not reflect the current cost of equity. She noted that interest rates have increased since Petitioner's last rate proceeding, and authorized ROEs have increased from 2021 through 2023, which demonstrates that borrowing costs and the cost of equity have increased. She testified that Mr. Gorman's and Mr. Dellinger's proposals that the Commission reduce Petitioner's currently authorized ROE are directionally inconsistent with market conditions and the investor required ROE. She stated that a comparison of Mr. Gorman's ROE recommendations in various rate proceedings in Indiana since 2019 demonstrates that his recommended ROE in this proceeding is inconsistent with the increase in the cost of equity reflected in his model results and that his proposed risk adjustment reduction to the ROE of 30 basis points is arbitrary and asymmetric given his past testimony.

Ms. Bulkley testified that making reasonable adjustments to the OUCC's cost of equity analyses of Mr. Dellinger results in a range of returns from 9.53% to 10.82%, which demonstrates that Petitioner's requested ROE is reasonable and appropriate. She disagreed with the composition of his proposed proxy group and the application of his constant growth DCF model. Ms. Bulkley also explained her disagreement with Mr. Dellinger's criticisms of her DCF, CAPM and ECAPM analyses.

Ms. Bulkley testified that while Mr. Gorman states that he relies on the midpoint of his DCF results, as well as the midpoint of the results of all his cost of equity analyses as his overall ROE recommendation, he incorrectly states the midpoint of his DCF results and the results of his overall cost of equity analyses. She said simply correcting these two errors produces a midpoint ROE of 9.60% instead of the 9.40% stated in Mr. Gorman's testimony.

When Mr. Gorman's risk premium analysis is adjusted to reflect the inverse relationship between interest rates and the equity risk premium, Ms. Bulkley showed the cost of equity is 10.86%. She stated this change increases Mr. Gorman's cost of equity range of 9.10% to 10.86%. Thus, the midpoint, which is the central tendency that forms the basis for Mr. Gorman's market cost of equity recommendation, would be 9.98%.

Exhibit 1

Ms. Bulkley defended her use of flotation costs by stating that such costs, just like rate base investments, are part of the invested costs of the utility, and the need to reimburse shareholders for the lost returns associated with equity issuance costs has been recognized by the academic and financial communities. Ms. Bulkley did not address Mr. Guerrettaz's and Mr. Inskeep's ROE recommendations other than to recommend they be dismissed summarily because neither provided an independent analysis.

4. Discussion and Findings. In setting the rate of return, the Commission's decision must be framed by *Bluefield Waterworks & Improvements Co. v. Pub. Serv. Comm'n*, 262 U.S. 679, 43 S.Ct. 675 (1923) and *Fed. Power Comm'n v. Hope Natural Gas, Co.*, 320 U.S. 591, 64 S.Ct. 281 (1944).²¹ The general standards these cases established require a cost of common equity set by the Commission to be sufficient to establish a rate of return that will maintain the utility's financial integrity, attract capital under reasonable terms, and be commensurate with the returns of other businesses of comparable risk.

The Commission is also mindful that "the cost of common equity cannot be precisely calculated and estimating it requires the use of judgment." *Indiana-American Water Co.*, Cause No. 44022, at 35 (June 6, 2012). Due to this lack of precision, the use of multiple methods is desirable, in part, because no one method will produce reasonable results under all conditions and in all circumstances. The Commission is also mindful of the strengths and weaknesses of the various models typically used to estimate a utility's cost of common equity, and we find that with appropriate and reasonable inputs, models such as the DCF and other methods can produce reasonable estimates of a utility's cost of common equity. Consistent with the standards in *Hope* and *Bluefield*, as well as under Indiana law, INAWC's authorized return on equity should be reasonable given the totality of the circumstances.

The parties proposed various returns using the DCF model and other methods as bases for their positions. Ms. Bulkley's analysis of INAWC's cost of equity produced a range of 10.00% to 11.00% with the recommendation that the Commission adopt an ROE of 10.60%. The OUCC's analysis produced a range of 7.16% to 9.32% with a recommended ROE of 9.00%. Mr. Gorman's analysis for the Industrial Group produced a range of 9.00% to 9.80% with a recommended ROE of 9.10%, adjusted downward 0.30% from 9.40% due to Petitioner's capital structure. Accordingly, the overall recommendations provided by the witnesses would place the approved return on equity between 9.0% to 10.6%.

In addition to the recommendations of these experts and while not determinative of the ROE in this case, we note the ROE awarded Indiana's vertically-integrated electric utilities outside of settled cases has been trending lower over time. *See, e.g.*, Indiana Michigan Power Company, 10.2% in Cause No. 44075 (2013); Indianapolis Power and Light Company, 9.85% in Cause No. 44576 (2016); Northern Indiana Public Service Company LLC, 9.75% in Cause No. 45159 (2019); Indiana Michigan Power Company, 9.70% in Cause No. 45235 (2020); and Duke Energy Indiana, LLC, 9.70% in Cause No. 45253 (2020). We also note that Petitioner's current ROE of 9.80% was approved in 2019 pursuant to a settlement reached in Cause No. 45142. While we find the overall

²¹ *See also, Indianapolis Power & Light Co.*, Cause No. 44576 at.41 (IURC March 16, 2016).

Exhibit 1

downward trend instructive, we also recognize the change in general economic factors, like the increase in interest rates, since these orders were issued.

Our determination should also appropriately consider Petitioner's specific risk characteristics, such as the mitigation of risk associated with Petitioner's use of regulatory mechanisms, including a forecasted test year in this proceeding and the trackers approved for INAWC. In addition to the DSIC and SEI trackers, the Commission also approved in Cause No. 45043, a lead service line replacement program under Ind. Code ch. 8-1-31.6. The effect of these tracking mechanisms is to reduce the uncertainty of the earnings that an investor can expect. *See Ind. Mich. Power Co.*, Cause No. 44075 at 42-43 (IURC Feb. 13, 2013). Moreover, in this case, INAWC is adding two major projects into rate base, along with substantial costs associated with its acquisition of Lake Station, which removes even more risk from Petitioner.

Having taken into consideration the observable market data reflected in the record, and a general assessment of the investment risk characteristics of the water and wastewater utility industry, combined with a thorough understanding of the Indiana jurisdiction and its risk mitigation ratemaking mechanisms, and INAWC in particular, and the expert witness recommended range identified above, the Commission finds a reasonable range for Petitioner's ROE is 9.3% to 9.9%. The resulting midpoint of this range is 9.60%. Taking into consideration all the evidence presented and based on the rising capital cost environment, the Commission finds that an ROE of 9.65% would represent a fair and reasonable rate.

B. Cost of Debt. Petitioner's projected cost of long-term debt as of July 31, 2023 is 4.73%, and 4.71% as of April 30, 2024 and as of April 30, 2025 is 4.71%. The computation of these costs is shown on INAWC Financial Exhibit CC, Schedule CC1, Workpaper 2 contained within Petitioner's Exhibit 29. No party disputed these costs.

C. Capital Structure.

1. INAWC Case-in-Chief. Mr. Furia presented Petitioner's projected capital structures as of July 31, 2023, April 30, 2024, and April 30, 2025 to be used for computing Petitioner's WACC at each of the three steps proposed for rate implementation. These dates match the dates used to calculate the proposed rate base for each of Step 1, Step 2, and Step 3. Mr. Furia explained that the revenue requirement for each proposed increase will use Petitioner's actual capital structure as of these dates when rates go into effect. He used Indiana American's actual capital structure as of September 30, 2022 and adjusted the component balances in that capital structure to reflect all changes expected to occur by July 31, 2023, April 30, 2024 and April 30, 2025. He reflected expected long-term debt maturities on January 1, 2024 and May 1, 2024, a common equity infusion that occurred in March of 2023, new long-term debt issuances planned for November 2023 and May 2024, and a common equity infusion planned for May 2024, as adjustments to arrive at the capitalization for the forecasted test year.

The total projected capitalization of Indiana American as of April 30, 2025 is \$1,731,127,386, and the overall WACC is 6.88%. This WACC reflected Petitioner's proposed cost of common equity of 10.60%. The total projected capitalization of Indiana American as of April 30, 2024 is \$1,545,974,304, and the overall WACC is 6.75%, and also reflects a cost of common equity of 10.60%. The total projected capitalization of Indiana American as of July 31, 2023 as

Exhibit 1

filed in Petitioner's case-in-chief was \$1,511,522,316, and the overall WACC was 6.77%, and also reflected a cost of common equity of 10.60%.²² Mr. Furia described the bases for various components on Schedule CC1, including accumulated depreciation on contributed utility plant for Muncie Sewer, OPEBs, the prepaid pension asset, all included at zero cost. With respect to OPEBs and the prepaid pension asset, because the balance for the relevant time periods represented asset positions, they were included in the capital structure as negative values.

Mr. Furia described adjustments to INAWC's long-term debt balance to reflect: (1) maturity of the 6.990% first mortgage series B on January 1, 2024; (2) maturity of the 2.300% tax-exempt bonds on January 1, 2024; (3) maturity of the 7.110% taxable series general mortgage bonds on May 1, 2024; (4) the new taxable debt issuance in the amount of \$23,000,000 planned for November 2023; and (5) the new taxable debt issuance in the amount of \$96,658,000 planned for May 2024. He described the new long-term debt Petitioner plans to issue in November 2023 and March 2024. Indiana American's projected cost of long-term debt as of July 31, 2023 was 4.73% and the projected cost of long-term debt as of April 30, 2024 and as of April 30, 2025 is 4.71%. Pet. Ex. 13 and 14, Financial Exhibit CC, Schedule CC1.

Mr. Furia described adjustments to INAWC's common equity component of its capital structure to reflect: (1) a common equity infusion of \$53,000,000 on March 15, 2023, (2) a common equity infusion of \$73,600,000 planned for May 2024, and (3) changes to the retained earnings balance that are expected to occur between September 30, 2022 and April 30, 2025. He stated these adjustments reflect Petitioner's projections for the 2023-2025 period and are based on Petitioner's projected capital requirements and the need to maintain appropriate capital structure ratios.

INAWC witness Bulkley testified that comparing Petitioner's projected equity ratio as of April 30, 2025 of 56.15% (excluding the adjustments for zero cost capital items) demonstrates that Petitioner's requested equity ratio is within the range of equity ratios for the proxy group. She further stated Petitioner's proposed equity ratio is reasonable considering that credit rating agencies have identified the outlook for the utility sector as "negative" due to the negative effect on the cash flows and credit metrics associated with increasing interest rates, inflation and commodity costs, and the pressure that those factors place on customer affordability and utilities' prompt rate recovery.

2. OUCC and Industrial Group. OUCC witness Dellinger did not disagree with the Petitioner's proposed capital structure for purposes of determining the WACC. However, Mr. Dellinger did testify about how Petitioner's capital structure has changed over time, becoming more weighted toward equity and more expensive for customers and implicating affordability.

He stated that customers benefit from having an optimal capital structure (meaning the lowest reasonable WACC), but gross profitability declines as more debt is included in the capital structure, because in a regulated environment profits come from the return on equity. Mr. Dellinger stated that in the present case, Indiana American's cost of debt is 4.71% and its after-tax cost of

²² This was updated in Petitioner's Response to Request No. 2 to the Commission's August 30, 2023 Docket Entry (Pet. Ex. 29) to \$1,527,028,439 and an overall WACC of 6.73%.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

Shilina B. Brown, Esq.
Assistant Attorney General
Office of the Tennessee Attorney
General
Consumer Advocate Division
P.O. Box 20207
Nashville, TN 37202-0207
Shilina.Brown@ag.tn.gov

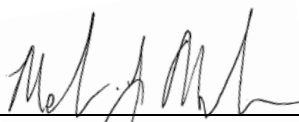
Victoria B. Glover, Esq.
Assistant Attorney General
Office of the Tennessee Attorney
General
Consumer Advocate Division
P.O. Box 20207
Nashville, TN 37202-0207
Victoria.Glover@ag.tn.gov

Phillip A. Noblett, Esq.
City Attorney
Valerie Malueg, Esq.
Kathryn McDonald
Assistant City Attorneys
100 East 11th Street, Suite 200
City Hall Annex
Chattanooga, TN 37402
pnoblett@chattanooga.gov
vmalueg@chattanooga.gov
kmcdonald@chattanooga.gov
*Attorneys for the City of
Chattanooga*

Frederick L. Hitchcock, Esq.
Cathy Dorvil, Esq.
Chambliss, Bahner & Stophel, P.C.
Liberty Tower
605 Chestnut Street, Suite 1700
Chattanooga, TN 37450
fhitchcock@chamblisslaw.com
cdorvil@chamblisslaw.com
*Attorneys for the City of
Chattanooga*

Scott P. Tift, Esq.
David W. Garrison, Esq.
Barrett Johnston Martin & Garrison,
PLLC
200 31st Avenue North
Nashville, TN 37203
stift@barrettjohnston.com
dgarrison@barrettjohnston.com
Union Counsel

This the 22nd day of October 2024.



Melvin J. Malone