STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER COMPANY, INC. FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER AND SEWER UTILITY SERVICE, FOR APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO, FOR APPROVAL OF CHANGES TO RULES AND REGULATIONS APPLICABLE TO SUCH SERVICE, AND FOR AUTHORIZATION TO DEFER IN A PENSION/OPEB BALANCING ACCOUNT OVER- AND UNDER-RECOVERIES FOR PASS THROUGH TO CUSTOMERS	)	**CAUSE NO. 43680**

OUCC SUBMISSION OF CORRECTED TESTIMONY AND EXHIBITS

Respectfully Submitted by

Daniel M. Le Vay
Jeffrey M. Reed
Leja D. Courter
Deputy Consumer Counselors

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing has been served upon the following attorneys of record in the captioned proceeding by electronic mail on November 3, 2009.

Daniel W. McGill
Nicholas K. Kile
P. Jason Stephenson
BARNES & THORNBURG LLP
11 South Meridian Street
Indianapolis, Indiana 46204
dan.mcgill@btlaw.com
nicholas.kile@btlaw.com
jason.stephenson@btlaw.com

Marcus M. Burgher IV
BURGHER & BURGHER
200 Elm Street
Corydon, Indiana 47112
burgherlaw@verizon.net

Adam Arceneaux
Rabeh Soofi Bruder
Tabitha K. Truax-Haynes
ICE MILLER LLP
One American Square
Suite 2900
Indianapolis, IN 46282-0200
adam.arceneaux@icemiller.com
rabeh.soofi.bruder@icemiller.com
tabitha.truax-haynes@icemiller.com

L. Parvin Price
BOSE McKINNEY & EVANS, LLP
111 Monument Circle
Suite 2700
Indianapolis, Indiana 46204
pprice@boselaw.com

Bette J. Dodd
Timothy L. Stewart
LEWIS & KAPPES
One American Square
Suite 2500
Indianapolis, Indiana 46282
bdodd@lewis-kappes.com
tstewart@lewis-kappes.com

Peter L. Hatton
Kay Pashos
Baker & Daniels
300 N. Meridian St., Suite 2700
Indianapolis, IN 46204
(Peter.Hatton@bakerd.com)
(kay.pashos@bakerd.com)

Daniel M. Le Vay, Atty. No. 22184-49
Jeffrey M. Reed, Atty. No. 11651-49
Leja D. Courter, Atty. No. 14720-27
Deputy Consumer Counselors

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
115 W. Washington St. Suite 1500 South
Indianapolis, IN 46204
infomgt@oucc.in.gov
317/232-2494 – Phone
317/232-5923 – Facsimile

OUCC'S SUBMISSION OF CORRECTED TESTIMONY AND EXHIBITS

The Office of Utility Consumer Counselor ("OUCC") hereby files corrected testimony and schedules for Margaret Stull, Public's Exhibit #1 and Edward Kaufman, Public's Exhibit #8.

Ms. Stull's testimony has been revised to reflect changes in the schedules needed to address certain computation errors. Public's Exhibit # 1, as revised, is resubmitted as a whole. Attached to this submission, the OUCC includes a page noting the differences between Ms. Stull's revised testimony and the testimony as originally filed.

Mr. Kaufman's testimony has been revised to replace a single Q&A (Page 8, line 18 through Page 9, line 2) involving confidential information. After printing but prior to filing, OUCC was made aware that it would be permitted to include certain information as public that OUCC had previously been requested to treat as confidential. OUCC is submitting new page 8A which contains the complete, public Q&A.

Mr. Kaufman's Attachments 2 and 7 are also provided as corrected exhibits. Attachment 2 is an oversized page that was folded when scanned, obscuring certain data. Attachment 7, page 4 of 4, was scanned in black and white as opposed to color. OUCC is submitting these documents as they appear in OUCC's original paper copy.

Public's Exhibit 1 (Revised)
Cause No. 43680

List of Corrections and Changes

- Page 3, Line 2 – Changed "28.88%" to "28.86%"
- Table MAS-1 – Changed rate increase listed for Muncie from "31.3%" to "31.03%"
- Page 5, line 7 – Changed "14.06%" to "14.08%"
- Page 5, line 8 – Changed "$22,682,788" to "$22,711,699"
- Page 7, line13 – deleted extra "." After word "questions"
- Page 9, Table MAS-2 – Updated OUCC column per OUCC Schedule 1, page 1 of 3
- Page 10, line 15 – Changed "$21,062,030" to "$22,711,699
- Page 11, line 10 – Changed "172.97092%" to "172.964282%"
- Page 15, line 12 – Changed "nine" to "ten"
- Page 16, line 14 – Changed "$655,958,955" to "$657,268,279"
- Page 25, line 9 – Deleted "its"
- Page 25, line 10 – Inserted "and SFAS 106 (book expense)."
- Page 29, line 2 – Inserted "it"
- Page 32, line 13 – Inserted "W" before "ater"
- Page 33, Heading – Deleted "Adjustments"
- Page 39, line 14 – Inserted "increase" after" 2%"
- Page 40, line 5 – Inserted "of" after "decrease"
- Page 42 – Inserted Section X. with Heading "Operating Expense Adjustments" before "Waste Disposal Expense"
- Page 47 – Inserted sub-heading "Non-Allowed or Non-Recurring Expenses" before Question starting on line 1
- Page 48 – Inserted sub-heading "Legal Expense" before question starting on line 17
- Page 50 – Changed formatting of sub-headings between lines 6 and 7 and between lines 17 and 18 to be consistent
- Page 52, line 14 – Deleted "(MAS Attachment X)"
- Page 53, line 2 – Changed "$6,099" to "$6,017"
- Page 53, line 10 – Changed "$2,136,745" to "$2,135,684" and changed "$76,286" to "$75,225"
- Page 55, line 19 – Eliminated "\"
- Page 56, line 25 – Changed "13.06%" to "14.08%"

TESTIMONY OF MARGARET A. STULL
CAUSE NO. 43680
INDIANA-AMERICAN WATER CO., INC.

I. Introduction

Q: Please state your name and business address.

A: My name is Margaret A. Stull, and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, Indiana 46204.

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

A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Utility Analyst II in the Water/Wastewater Division.

Q: Please describe your background and experience.

A: I graduated from the University of Houston at Clear Lake City in August 1982 with a Bachelor of Science degree in accounting. From 1982 to 1985, I held the position of Gas Pipeline Accountant at Seagull Energy in Houston, Texas. From 1985 until 2001 I worked for Enron in various positions of increasing responsibility and authority; first in their gas pipeline accounting department, then in financial reporting and planning, both for the gas pipeline group and the international group, and finally providing accounting support for infrastructure projects in Central and South America. From 2002 until 2003, I held non-utility accounting positions in Indianapolis. In August 2003, I accepted my current position with the OUCC.

Since joining the OUCC I attended the NARUC Eastern Utility Rate School in Clearwater Beach, Florida.

Q: Do you hold any professional licenses?

A: Yes. I passed the CPA exam in 1984 and was licensed as a CPA in the State of Texas.

Q: Have you testified previously before the Indiana Utility Regulatory Commission ("IURC" or "Commission")?

A: Yes.

II. Overview of Petitioner

Q: Please describe Petitioner.

A: Indiana-American Water Company, Inc. (hereafter "Petitioner," "the Utility, "the Company" or "Indiana-American") is a wholly owned subsidiary of American Water Works ("American Water" or "AWK"), which is a publically traded company on the New York Stock Exchange. American Water was previously a wholly owned subsidiary of Thames Water Aqua Holdings GmbH ("Thames Water"), which in turn was a wholly-owned subsidiary of RWE. RWE is in the process of divesting its interest in AWK, but it still has an ownership interest of approximately 30% of AWK. Indiana-American is both a local and regional water service provider serving approximately 280,000 retail and wholesale service connections in approximately 130 communities throughout Indiana. Petitioner also provides wastewater service to two small communities in the State.

Q: What relief is Petitioner requesting in this cause?

A: Petitioner originally requested an overall 28.86% increase in its rates to produce additional revenues of $46,889,562 per year. After updating its rate base through June 30, 2009[1], Petitioner calculated an overall increase of 29.32% to produce additional revenues of $47,636,663 per year. (Based on Petitioner's original filing, this overall rate increase includes a 29.73% increase in water rates and a 41.26% decrease in sewer rates.) With respect to rate design, Petitioner proposes completing its transition to single tariff pricing ("STP") in all categories except volumetric rates for general water service. For general water service, Petitioner proposes reducing the number of water tariffs to two – Area One and Area Two.

Table MAS-1: Overall Rate Increase by District[2]

Water Tariff - Area One	
Crawfordsville	34.53%
Johnson County	35.71%
Kokomo	15.28%
Muncie	34.03%
Newburgh	33.14%
Noblesville	19.15%
Northwest Indiana	33.24%
Richmond	30.56%
Seymour	15.25%
Shelbyville	35.06%
Somerset	18.96%
Southern Indiana	35.12%
Summitville	20.76%
Wabash Valley	28.77%

Water Tariff - Area Two	
Mooresville	-3.23%
Wabash	8.89%
Warsaw	25.43%
West Lafayette	40.52%
Winchester	-3.21%

Sewer Tariff:	
Muncie	-41.26%
Somerset	-41.26%

[1] Late filed exhibit GMV-1-U filed August 19,\ 2009.

[2] Data based on information provided in Exhibit GMV-7 in Petitioner's original filing. Petitioner did not provide an updated Exhibit GMV-7 in its revised filing of August 19, 2009.

Q: Is Petitioner seeking any other relief in this cause?

A: Yes. Petitioner seeks authority to recover under-collection of revenues for pension and other post-employment benefits ("OPEB") expenses from January 1, 2009 through June 30, 2009. Petitioner seeks authority to keep a balancing account for its pension and other post-employment benefits ("OPEB") from July 1, 2009 onward. Petitioner seeks authority to capitalize its comprehensive planning studies. Petitioner seeks authority to calculate Distribution System Improvement Charges (DSIC's) on a single tariff basis. Finally, Petitioner seeks authority to change its rules to require certain customers to pay their bill *in cash.*

III. Overview of OUCC Testimony

Q: Please describe the scope of the OUCC's case.

A: As an investor owned utility, Petitioner's rates and charges are regulated under Indiana Code Chapter IC 8-1-2-1 et seq. The OUCC staff assigned to this case reviewed Petitioner's case-in-chief, including the pre-filed testimony and related exhibits, accounting schedules, attachments and workpapers. The accounting staff conducted an on-site accounting audit to review Petitioner's books and records and gather additional financial information about the Utility. The engineering staff met with utility representatives and conducted on-site field inspections of many of Petitioner's water utility facilities and reviewed Petitioner's proposed capital improvements, engineering related operation and maintenance expenses, and extensions and replacements projects. All staff members participated in drafting twenty-four (24) sets of data requests consisting of 328 questions with sub-parts and reviewed Petitioner's answers to those questions. The staff attended the Commission's evidentiary hearing in Indianapolis and the public field hearings conducted in Gary, Muncie, and Jeffersonville, Indiana. The staff also reviewed written ratepayer comments. Finally, the staff participated in numerous internal meetings to frame and discuss the issues of this case.

Q: Please provide a summary of the OUCC's testimony.

A: The OUCC recommends a 14.08% increase in rates to produce additional revenues of $22,711,699 per year. The OUCC also recommends that the Commission deny Petitioner's request for recovery of a Pension/OPEB balancing account in the current case and proposes modifications to Petitioner's request for future recovery of a Pension/OPEB balancing account. More specifically, the OUCC recommends the Commission approve a Cost of Equity of 9.25% and various accounting adjustments.

The following OUCC witnesses will testify on the subjects indicated:

Margaret Stull (MAS)	Presents OUCC accounting schedules and discusses rate base, pension/OPEB balancing account, management fees (shared services), miscellaneous expense, income taxes, and proposes various adjustments and corrections affecting Petitioner's ultimate rates and charges.
Harold Riceman (HHR)	Addresses various issues including labor expense, group insurance expense, 401K expense, chemical expense, and payroll tax expense and proposes various adjustments and corrections affecting Petitioner's ultimate rates and charges.

Charles Patrick (CEP)	Addresses operating revenues, purchased water expense, purchased power expense, and expense normalization and proposes various adjustments and corrections affecting Petitioner's ultimate rates and charges.
Richard Corey (RJC)	Addresses various issues including regulatory expense, insurance other than group expense, customer accounting expenses, and rent expense and proposes various adjustments and corrections affecting Petitioner's ultimate rates and charges.
John Dahlstrom (JCD)	Discusses and recommends changes to Petitioner's proposed cost of service study and rate design.
Roger Pettijohn (RAP)	Discusses significant capital additions, excess plant at the Southern Indiana Operations Treatment Center, and capital cost deferral in Petitioner's five-year plan.
Harold Rees (HLR)	Discusses certain construction projects, Petitioner's on-site generation of chlorine compounds for disinfection, unaccounted for water, and Petitioner's maintenance and repair program.
Edward Kaufman (ERK)	Discusses and recommends Petitioner's appropriate cost of debt and equity.

Q: What is the scope of your testimony?

A: I present the OUCC's accounting schedules and proposed overall rate increase. Specifically, I discuss Petitioner's RCNLD Study and its relationship to its fair value rate base, adjustments to the weighted cost of capital related to long-term debt, and Rate Base. In addition, I address Petitioner's proposals for rate base treatment of a Pension/OPEB balancing account and capitalization of comprehensive planning studies. I further recommend that the Commission recognize the amortization of

Contributions in aid of Construction ("CIAC") as an off-set to depreciation of utility plant-in-service. I also discuss and support adjustments to various operating expenses including Pension and OPEB expenses, Management Fees (Shared Services), General Office Expense, Waste Disposal Expense, Maintenance Expense, Miscellaneous Expense, Depreciation Expense, and Amortization Expense. I discuss the calculation of the IURC fee, utility receipts taxes, and state and federal income taxes. I further recommend a management fee audit.

Q: What have you done to formulate your opinions and prepare your testimony in this cause?

A: I reviewed Petitioner's testimony, schedules, and workpapers filed in this cause. I also reviewed written ratepayer comments provided to the OUCC. I participated in the preparation of discovery questions and reviewed Petitioner's responses to those questions, which are attached hereto as MAS Appendix 1. Finally, I discussed the issues in this cause with other OUCC staff.

Q: Are any schedules submitted with your testimony?

A: Yes. The attached schedules reflect the issues and testimony of the OUCC witnesses in this Cause. I am sponsoring the following accounting schedules:

Schedule 1 – Revenue Requirement, Gross Revenue Conversion Factor, and Reconciliation of Net Operating Income Statement Adjustments

Schedule 2 – Comparative Balance Sheet as of November 30, 2007 and 2008

Schedule 3 – Comparative Income Statement for the Years Ended November 30, 2007 and 2008

Schedule 4 – *Pro forma* Net Operating Income Statement

Schedule 5 – Revenue Adjustments

Schedule 6 – Expense Adjustments
Schedule 7 – Tax Adjustments
Schedule 8 – Synchronized Interest
Schedule 9 – Allocation of Parent Company Interest
Schedule 10 – *Pro forma* Rate Base as of June 30, 2009
Schedule 11 – *Pro forma* Weighted Cost of Capital as of June 30, 2009
Schedule 12 – Fair Value Increment

Q: Are any attachments submitted with your testimony?

A: Yes. I have attachments 1 – 12 which are referenced within my testimony.

Q: Are any other items submitted with your testimony?

A: Yes. I sponsor the following appendix and reports with my testimony, which are identified as Volumes III, IV, V, VI, and VII.

- MAS Appendix 1 — Petitioner's written responses to OUCC data requests, excluding most attachments and electronic responses. (Volume III)
- MAS Report 1 — Regulatory Audit of 2006 and 2007 General Office Expense and Test Year 2009 Revenue Requirement of California-American Water Company (Overland Consulting) (Volume IV)
- MAS Report 2 — Pennsylvania American Water Implementation Plan in Response to the 2007-08 Stratified Management and Operations Audit (September 2008) (Volumes V, VI, and VII)

IV. Revenue Requirements

Q: Please explain the primary differences between the revenue requirements proposed by Petitioner and the OUCC.

A: Table MAS-2 presents a comparison of the revenue requirements proposed by

Petitioner and those proposed by the OUCC. The difference in proposed rate base is primarily due to Petitioner erroneously excluding from its calculation of rate base part of its CIAC and Customer Advances. The difference in weighted cost of capital is primarily due to cost of equity – Petitioner proposed 12.00% and the OUCC proposes 9.25%. (See testimony of OUCC witness Edward Kaufman.) The difference in weighted cost of capital is the primary cause of the difference in the fair value increments proposed by Petitioner and the OUCC. The difference in adjusted net income is due to various operating revenue and expense adjustments proposed by both parties with the primary drivers being labor and labor related expenses, chemical costs, and management fees.

Table MAS-2: Comparison of Revenue Requirements

	Per Pet	Per OUCC	OUCC More (Less)
Original Cost Rate Base	$ 667,486,440	$ 657,268,279	$ (10,218,161)
Times: Weighted Cost of Capital	8.57%	7.28%	-1.29%
Net Operating Income Required for Return on Rate Base	57,203,588	47,849,131	(9,354,457)
Add: Fair Value Increment	991,467	822,377	(169,090)
Net Operating Income Required -- Fair Value	58,195,055	48,671,508	(9,523,547)
Less: Adjusted Net Operating Income	30,643,390	35,540,647	4,897,257
Net Revenue Requirement	27,551,665	13,130,861	(14,420,804)
Gross Revenue Conversion Factor	172.8994%	172.964282%	0.0649%
Recommended Revenue Increase	$ 47,636,663	$ 22,711,699	$ (24,924,964)
Recommended Percentage Increase	29.32%	14.08%	-15.24%

Calculation of Recommended Percentage Revenue Increase

Q: Have you calculated your recommended percentage revenue increase in the same manner as Petitioner?

A: No. After reviewing Petitioner's calculation, I determined that Petitioner made an error in its calculation of the percentage increase needed to provide the revenue increase required to earn its proposed fair value net income. Petitioner's calculation is based on total operating revenues and includes $1,797,263 of other operating revenues that are not subject to increase in this cause. Including these other operating revenues in its calculation has the effect of understating the required percentage increase Petitioner would need to earn its proposed fair value return. A proper calculation of Petitioner's requested overall rate increase yields a 29.64% increase compared to the 29.32% increase included in its testimony, schedules, and workpapers. Petitioner's calculation would recover $515,012 less than the revenue increase it otherwise claims to require.

Revenues subject to increase per Petitioner	$ 160,715,046
Times: Petitioner's Recommended Increase	29.32%
Total Revenue Increase	47,121,651
Less: Revenue Increase Required	47,636,663
Revenue Shortfall	$ (515,012)

My recommended percentage revenue increase is calculated based on the OUCC's present rate revenues subject to increase ($22,711,699 / $161,306,564).

<u>**Gross Revenue Conversion Factor**</u>

Q: Please explain the purpose of a gross revenue conversion factor.

A: A gross revenue conversion factor calculates the amount of applicable additional operating expenses and taxes associated with the proposed revenue increase. These typically include bad debt expense, the IURC fee, utility receipts taxes, and state and federal income taxes. The proposed revenue increase must be "grossed up" for these additional expenses for a Utility to earn its authorized net operating income.

Q: Please explain how your proposed Gross Revenue Conversion Factor differs from Petitioner's.

A: Petitioner calculated a gross revenue conversion factor of 172.8994%. I determined that a gross revenue conversion factor of 172.964282% was more appropriate. There are three variances that explain the difference between these two factors. First, I updated the IURC fee to the current 2009 rate. I then adjusted the calculation of the state income tax rate to reflect the fact that utility receipts tax is not deductible for state income tax purposes. Finally, I adjusted the calculation of utility receipts tax to reflect the exemption of sales for resale revenues.

V. Weighted Cost of Capital

Q: What Weighted Cost of Capital does Petitioner propose?

A: Petitioner proposes a weighted cost of capital of 8.57%, which is based on a 12.00% cost of equity and a 7.15% cost of debt.

Q: Does the OUCC accept Petitioner's proposed Weighted Cost of Capital?

A: No. The OUCC proposes a 7.28% weighted cost of capital based on a 9.25% cost of equity and a 6.96% cost of debt. OUCC witness Edward Kaufman discusses the OUCC's proposed cost of equity. I propose adjustments to update the cost of long-term debt to reflect Petitioner's recent and proposed financing activities.

Q: Please explain your proposed adjustments to long-term debt.

A: Petitioner's cost for long term-debt, part of its weighted cost of capital, included a proposed American Water Capital Corp. ("AWCC") borrowing of $43,000,000 at a rate of 8.25%. (See SWR-1, Schedule 1, page 3). Subsequent to filing this case, Petitioner issued a portion of this debt in May 2009 -- $15,500,000 at a rate of 8.27%. However, in response to the Industrial Group's Discovery Set 5, Q-1(b), Petitioner advised of a low interest borrowing by stating the following (MAS Attachment 1):

> Petitioner has $27.5 million of debt remaining out of the planned total of $43 million. Of the $27.5 million, approximately $3,530,000 is comprised of forgivable and low interest loans through the Drinking Water State Revolving Fund Loan Program ("DWSRF"). The low interest loan portion, in the amount of $1,120,000 is expected to be issued in late October, 2009 at a rate of 2.87%. The remaining debt, $23,970,000 is expected to be issued in November 2009 in the form of a taxable thirty-year Note. The Company's most recent interest rate projection for that Note is 6.64%.

Based on the above statement, I updated the cost of debt to reflect Petitioner's most recent estimates.

Q: Did you make any other changes to Petitioner's calculation of the cost of long-term debt.

A: Yes. Petitioner's Exhibit SWR-1, Schedule 1, included estimated debt issuance costs of $1,599,000. Debt issuance costs reduce the carrying value of debt and increase the annual costs through amortization expense. The net effect is an increase in the cost of long-term debt. A formula in Petitioner's schedule neglected to include the debt issuance costs for the $43.0 million debt issuance in the calculation of the cost of long-term debt. I corrected this formula error in my calculation.

Q: What cost of long-term debt are you proposing?

A: The above adjustments yield a proposed cost of long-term debt of 6.96% (OUCC Schedule 11, Support Schedule 1).

VI. Replacement Cost New Less Depreciation Study

Q: Has Petitioner prepared and provided evidence regarding Replacement Cost New and Replacement Cost New Less Depreciation ("RCNLD") values in this proceeding?

A: Yes. Petitioner's witness Stacy Hoffman filed testimony and included Exhibits SSH-1, Schedules 1 and 2, which constitute the RCNLD Study. As Mr. Hoffman states, the RCNLD Study evaluates and determines the current Replacement Cost New ("RCN") and RCNLD of Petitioner's utility plant in service.

Q: What is Indiana-American's purpose for providing this type of evidence?

A: Mr. Hoffman states on page 25 of his testimony that the purpose of an RCNLD study is to assess the cost to reproduce the existing utility plant in service based on current material and equipment prices and current construction and wage levels.

Historically, Petitioner has presented a RCNLD Study as evidence in support of its fair value rate base. In fact, Petitioner has included a RCNLD Study as evidence in its last ten rate cases. Mr. Hoffman testified that he presents "the Company's Reproduction Cost New Less Depreciation Study ("RCNLD") for purposes of supporting the fair value of the Company's property." (p3). However, he does not state that the RCNLD study should be considered the fair value of Petitioner's rate base figure.

Q: What was the conclusion of Mr. Hoffman's study?

A: Mr. Hoffman determined that, as of June 30, 2009, the original cost of Petitioner's utility plant in service ("UPIS") is $1,070,510,609 and that the RCNLD is $1,855,648,769. (These figures include plant contributed to the Utility, which is treated as a Contribution-in-aid-of-Construction ("CIAC") for accounting purposes and is not considered by the Commission when determining rate base.)

Q: Did Petitioner use the RCNLD study to determine its fair value rate base?

A: No. I reviewed the testimony of Mr. Edward J. Grubb and found that he did not use the RCNLD Study to determine Petitioner's fair value rate base. Rather, Mr. Grubb stated in his testimony that he used a methodology employed by the Commission in Cause Nos. 40103, 40703, 42029 and 42520 to determine a fair value rate base figure of no less than $945,839,030 (p. 7). However, on page 6, Mr. Grubb did state the following:

> We contend the RCNLD adjusted for technological change represents the minimum fair value of those assets. Nevertheless, I

> recognize that in the last several rate orders for Indiana American, the fair value finding had been derived by updating the fair value finding from the prior rate case for inflation that has occurred since the valuation date and for net investor supplied plant additions that would not have been included in that fair value finding.

Mr. Grubb thus acknowledged that the Commission did not use the RCNLD studies in past cases to derive the fair value rate base.

Q: Do you have any recommendations regarding the use of Mr. Hoffman's RCNLD study to determine or support Petitioner's proposed fair value rate base figure?

A: Yes. I recommend that the Commission give no more weight to Petitioner's RCNLD study than it has given the studies offered in the past ten rate cases.

VII. Rate Base

Q: What rate base has Petitioner proposed in its case-in-chief and its supplemental testimony?

A: Petitioner proposed an original cost rate base of $658,887,080 based on actual plant as of November 30, 2008, plus estimates of net asset additions to be placed in service by June 30, 2009. In its supplemental filing, Petitioner updated its estimates with actual additional net assets through June 30, 2009 and is currently proposing an original cost rate base of $667,486,440.

Q: Do you accept Petitioner's proposed rate base?

A: No. I propose reductions to original cost rate base for assets not used and useful and necessary in the provision of utility service. I also propose corrections to amounts included for contributions in aid of construction ("CIAC"), customer advances, and the amortization of capitalized tank painting which also reduce original cost rate base. Finally, I increased rate base to include the amortization of contributed property.

Q: Have you reduced accumulated depreciation for the asset items removed from the used and useful rate base?

A: Yes. Because I am proposing the assets be removed from the used and useful rate base, I am also removing the associated accumulated depreciation.

Q: Do you accept Petitioner's proposal to include excess Pension/OPEB costs as a regulatory asset?

A: No. As discussed later in my testimony (starting on p. 22), I do not agree that it is appropriate to include these Pension/OPEB costs in rate base in this case.

Q: What amount do you recommend for rate base?

A: Based on the OUCC's proposed treatment, I recommend an original cost rate base of $657,268,279. The details of my calculation are on OUCC Schedule 10.

<u>Fixed Assets</u>

Q: Please describe the assets you removed from rate base.

A: I removed assets previously determined <u>not</u> to be used and useful and necessary in the provision of utility service. In Cause No. 42520, the Commission agreed with the OUCC and excluded from rate base the costs associated with one high service pump at the Southern Indiana Operation and Treatment Center. In accordance with that determination, I reduced utility plant by $753,378 and accumulated depreciation by $479,192 for a net reduction to rate base of $274,186. OUCC witness Roger Pettijohn discusses the exclusion of this pump in greater detail in his testimony.

Also in Cause No. 42520, the Commission agreed with the OUCC regarding Petitioner's meter replacement policy in the Muncie District and excluded 50% of the costs associated with purchasing new meters during calendar years 2002 and 2003. I reduced utility plant by $193,000 and accumulated depreciation by $150,748 for a net reduction to rate base of $42,252.

Corrections

Q: Please explain the corrections you made to certain amounts included in rate base.

A: I corrected the amounts included in rate base for the amortization of capitalized tank painting, CIAC, and customer advances. In reviewing Petitioner's filing, I noticed that the amounts included in Petitioner's Exhibit GMV-5-U for each of these items did not tie to its balance sheet. In response to OUCC Discovery Set No. 16, Q-224(b), Petitioner stated that it failed to include accounts 271110, 271150, and 271170 in its calculation of CIAC for rate base purposes. Petitioner provided a similar response to Q-224(c), stating that it failed to include accounts 252110, 252150, and 252170 in its calculation of customer advances for rate base purposes (MAS Attachment 2). The referenced accounts pertain to contributed mains, hydrants, and WIP. These corrections result in a decrease to original cost rate base of $931,868 (CIAC) and $8,917,709 (customer advances).

Regarding the discrepancy for capitalized tank painting, Petitioner indicated in its response to OUCC Discovery Set No. 16, Q-226, that Petitioner's Exhibit had made a "mistake" in that the amount shown as accumulated amortization for tank painting was actually the unamortized balance of capitalized tank painting. The correct amount should be $301,790 instead of $44,860 as shown (MAS Attachment 3). This correction results in a decrease of $256,930 to original cost rate base.

<u>**Amortization of Contributions In Aid of Construction ("CIAC")**</u>

Q: What is amortization of CIAC?

A: Amortization of CIAC is the practice of reducing the net amount of CIAC at the same rate that the corresponding asset is being depreciated.

Q: Has Petitioner amortized the amount of assets obtained by contributions as an off-set to the depreciation of those assets?

A: No.

Q: Do accounting standards require depreciating all depreciable assets?

A: No. In simple accounting terms, whether purchased through the investment by the owners or contributed by the customers, the assets are being consumed in the process of providing a service or product. For accounting and tax purposes, depreciation is an *allocation of the cost* of an asset over a period of time. For rate-making purposes, eliminating the depreciation on contributed property is necessary because the utility owner has no basis or "cost" in the asset. Depreciation is charged against earnings on the theory that the use of capital assets is a legitimate cost of doing business.[3] When contributed property is depreciated, the following happens: Expenses increase; net operating income and, therefore, retained earnings decrease; and shareholder equity decreases.

Q: **What does the National Association of Regulatory Utility Commissioners ("NARUC") say about amortizing CIAC?**

A: The NARUC system of Accounts ("NSoA") states the account for accumulated amortization of Contributions in Aid of Construction is used "if recognized by the Commission."

Q: **Is the depreciation of contributed property recognized in determining taxable income?**

A: No. Because the taxpayer has no basis in the contributed property, the recipient is denied depreciation on the property received as a contribution.

Q: **Is the accounting standard the same as the regulatory standard?**

A: That depends on what one considers the "regulatory standard." Clearly NARUC left the decision to state commissions. However, FERC (Federal Energy Regulatory Commission) and the FCC (Federal Communication Commission) require electric, gas, and telephone utilities to reduce the plant account balances to which contributions from customers are made by the amount of contributions – before applicable depreciation rates are applied.[4]

[3] http://dictionary.bnet.com/definition/depreciation.html. October, 2009
[4] Accounting for Public Utilities; Hahne & Aliff; Matthew Bender & Co., Inc.; § 4.04[7], page 4-39.

Indiana is one of a handful of states that has allowed depreciation of contributed property (i.e. does not require the amortization of CIAC). This policy has a significant drawback because it depends on the premise that depreciation is provided so that the utility may replace infrastructure at the end of its useful life. But a utility has no obligation to re-invest money received through depreciation. A better and more accurate view is that depreciation is a mechanism that allows a utility to recover its investment over the useful life of the asset. In other words, providing for recovery of depreciation in investor-supplied plant allows the utility a "return of" its investment in plant. But allowing depreciation on contributed plant allows the utility a "return of" capital that was never provided by the investors. In certain situations, the policy of allowing depreciation on contributed plant may also lead utilities into negative rate base situations. If a utility has a negative rate base, then it will not be able to earn a return and will have no incentive to make reasonable and prudent investment in plant. When amortization of contributed property is recognized, the rate base will never be negative.

Q: What does the OUCC recommend regarding the amortization of CIAC?

A: For the reasons stated above, the OUCC recommends amortizing CIAC and recognizing the amortization in rates.

Q: How have you calculated the amount of accumulated amortization of CIAC?

A: Since Petitioner has not been recording accumulated amortization of CIAC and has not done so out of reliance on the Commission's previous policies, I believe it is only fair to implement this on a going forward basis. Therefore, the accumulated amortization of CIAC has been calculated as one year's worth of amortization of CIAC using the average mains & hydrant depreciation rates. Most of Petitioner's contributed plant is for mains and hydrants[5].

Q: How does including accumulated amortization of CIAC affect rate base?

A: This increases the value of rate base.

Q: Is there a related adjustment to depreciation expense when determining the revenue requirements?

A: Yes. If the above ratemaking treatment is allowed for the rate base, a reduction to the amount of depreciation allowed in expenses must also be made via amortization of CIAC.

Q: Have you made such an adjustment?

A: Yes. The adjustment is shown on Schedule 6, adjustment 16.

Comprehensive Planning Studies

Q: What is Petitioner requesting in this case regarding comprehensive planning studies?

A: Petitioner asks the Commission to capitalize the costs it has incurred in preparing its comprehensive planning studies.

[5] Cause No. 42520, Petitioner's response to data request question #42 – witness J.L. Cutshaw and Petitioner's response to discovery set 15, Q-213 in the current case.

Q: Does the OUCC agree with Petitioner's proposal to capitalize comprehensive planning studies?

A: No. Amendments to comprehensive planning studies and tank inspection reports are not considered capital in nature and should not be included in rate base. For instance, the Uniform System of Accounts does not contain a description under components of construction costs that would allow Petitioner to treat these costs as capitalized items.

Q: What is the Commission's position regarding the capitalization of comprehensive planning studies?

A: This is an issue that has been litigated previously, most recently in Cause No. 42520. In the final order of Cause No. 42520, the Commission stated the following:

> "...comprehensive planning studies ....are not components of construction and, therefore, should neither be capitalized nor accrue AFUDC. Petitioner claimed these costs are engineering functions that ultimately lead to capital projects, and we agree. These engineering functions are used to evaluate what Petitioner's system may or may not need. A comprehensive plan is typically a current and projected analysis of a utility system's needs, and tank inspections are performed to evaluate the condition of a tank. Both tank inspections and comprehensive plans involve inspections, testing and reporting on the condition of plant specifically to determine the need for repairs, replacements, rearrangements and changes. These types of engineering functions can also be performed specifically for the purpose of preventing failure, restoring serviceability or maintaining life of plant. Based on Petitioner's definition of maintenance expense and the Accounting Instruction contained in the NARUC Uniform System of Accounts that defines AFUDC, tank inspections and comprehensive planning studies should not be considered a component of construction and, thus, should not be included as a capitalized cost that accrues AFUDC. We believe that comprehensive plans are for planning and a Preliminary Engineering Report PER may be developed

> from this plan, but it is the PER that is part of the construction project. Neither a comprehensive plan nor a tank inspection report is ever placed in service." (p. 19)

Q: Has Petitioner included the cost of any comprehensive planning studies in its original cost rate base in this cause?

A: It is not clear from Petitioner's filing whether it has included the cost of any comprehensive planning studies in its rate base. Consequently, Petitioner should identify whether it has included the cost of any comprehensive planning study in its rate base so that the rate base may be appropriately reduced.

VIII. Pension and Other Post-Employment Benefits

Proposed Balancing Account - General Discussion

Q: Please describe Petitioner's proposed "Balancing Account"

A: Indiana-American has proposed to create what it calls a "Balancing Account" for pension and other post-employment benefits ("OPEB"). According to Mr. Grubb, Indiana-American is requesting to defer under or over recovery of its Pension/OPEB expense as a regulatory asset or regulatory liability for future recovery from or flow-back to customers (Grubb Testimony, p. 32). Petitioner's balancing account request has two components – a current recovery and a future recovery. First, Petitioner proposes that "unrecovered" Pension/OPEB expense during the first six months of 2009 be recovered as part of its proposed rates in this case. Next, Petitioner proposes that any under or over recovery of Pension/OPEB expenses incurred after July 1, 2009 be recovered in future rate cases.

Q: How does Petitioner propose to calculate the costs to be included in the balancing account?

A: Petitioner proposes that the amount to be included in the balancing account is the difference between its actual Pension/OPEB expense and the Pension/OPEB expense it is allowed to recover in rates. Pension expense is based on SFAS 87 and OPEB expense is based on SFAS 106. Both of these amounts are "book" expense rather than a "cash" expense.

Q: It's clear that Petitioner is requesting a return <u>of</u> these under/over recovered expenses. Is Petitioner also requesting to earn a return <u>on</u> these under/over recovered expenses?

A: Yes. Petitioner is asking not just for a return <u>of</u> any under or over recovered expenses. Petitioner is also asking for a return <u>on</u> these under or over recovered expenses.

Q: Specifically what costs does Petitioner propose be eligible for this balancing account treatment?

A: Petitioner proposes that the balancing accounts would apply to both the direct Pension/OPEB costs incurred by Indiana-American and the Pension/OPEB costs allocated to Indiana-American from its Parent Company.

Q: Will the balancing account for future Pension/OPEB expenses work "both ways"?

A: Petitioner asserts that it can work both ways. If Petitioner over-recovers its Pension/OPEB expenses, the balancing account will create a regulatory liability which would reduce future Pension/OPEB expenses.

Q: Do you have any general concerns about how Petitioner proposes to calculate its deferred asset/liability?

A: Yes. The regulatory assets that Petitioner proposes to create are based on the difference between its recorded Pension/OPEB expenses and the amount included in Petitioner's authorized rates. It is not based on the actual cash payments that Petitioner makes (or will make) to its Pension or OPEB plans.

Q: How are the proposed pension and OPEB expenses not based on actual cash payments?

A: Petitioner's Pension/OPEB expenses (revenue requirements) are based on SFAS 87 and SFAS 106 (book expense). Its actual contribution (cash expense) is based on ERISA. The two often differ. In fact, in past years its SFAS 87 expense has exceeded its actual ERISA (cash) contribution. If Petitioner's Pension/OPEB accounting expense exceeds the amount authorized in rates, and if the amount authorized in rates exceeds its ERISA cash payment, then Petitioner would be able to create a regulatory asset without incurring a cash expense or making an investment. Where there is no investment - there should be no return. It is inappropriate to charge ratepayers a return on a non-cash expense.

Q: What other general concerns do you have?

A: Petitioner's proposal to create a regulatory asset will reduce its risk. The creation of a regulatory asset prevents Petitioner from incurring a loss on its Pension/ OPEB expenses. Despite these benefits, Petitioner makes no attempt to quantify the benefits (reduced cost of equity) that would be gained by Petitioner if it is authorized to record a deferred asset as it has proposed.

Balancing Account - Current Recovery

Q: Is it appropriate to refer to the current recovery as a balancing account?

A: No. The term "balancing account" should only apply where there is a reasonable possibility of creating either a regulatory asset or a regulatory liability. The portion of "unrecovered" expenses that Petitioner seeks to include in current rates is simply a request to recover expenses incurred in a prior period. Petitioner's proposal is a request to create a deferred (regulatory) asset. Petitioner is proposing to defer "unrecovered" Pension/OPEB expenses incurred from January 1, 2009 through June 30, 2009 and to recover these costs (plus carrying costs) in its proposed rates. Future ratepayers will be charged for expenses incurred in prior periods. The best description of this proposed treatment is not a balancing account but a proposal to record a deferred asset.

Q: What is the rate impact of the current component of the deferred accounting?

A: Petitioner includes $355,185 in its annual pension expense for unrecovered pension expense allegedly incurred during the first six months of 2009 and $118,474 in its annual OPEB expense for unrecovered OPEB expense allegedly incurred during the first six months of 2009. Petitioner also proposes to include $1,065,557 (Pension) and $355,421 (OPEB) in its rate base for unrecovered Pension and OPEB expenses allegedly incurred during the first six months of 2009 and would subsequently earn a return on its "unrecovered" Pension and OPEB expenses incurred during the first 6 months of 2009. These figures include both the expenses directly attributed to

Indiana-American employees and a portion attributed to Parent Company employees whose time is charged to Indiana-American Water.

Q: Should Indiana-American Water be permitted to recover these expenses?

A: No. This should be disallowed since it would constitute retroactive ratemaking.

Q: Why do you believe Petitioner should not be allowed to recover these past expenses in its future rates?

A: It is well established that the recovery of past operating expenses in future rates, or retroactive ratemaking, has been disallowed. I believe section 8 of the Commission's order in Cause No. 39195 summarizes the retroactive ratemaking concept very well.

> 8. **Discussion and Substantive Findings**. Under IC 8-1-2-68, the Commission is barred from adjusting a utility's rates retroactively; the Commission may only set a utility's rates prospectively, Indiana Telephone v. PSC 131 Ind. App. 314, 171 N.E.2nd 111 (1960). Most states have similar statutes proscribing retroactive ratemaking and the prohibition of retroactive ratemaking has been widely recognized by the courts. Nader v. FCC 520 F2nd 182, 202 (D.C. Cir. 1975): "It is . .. a cardinal principal of ratemaking that a utility may not set rates to recoup past losses, nor may the commission prescribe rates on that principal". An exception to this general prohibition has, however, in some jurisdictions, been created which allows future rate adjustment for past extraordinary expenses flowing from an extraordinary storm, Narragansett Electric company v. Burke 415 A.2d 177, 178 (1980).
>
> The prohibition against retroactive ratemaking serves two functions. It protects the ratepayers by insuring that present consumers will not be called upon to pay for past deficits in their future utility bills. Also, the rule prevents the utility from employing future rates as a means of ensuring the investments of its stockholders. Clearly, if a utility's income were guaranteed, the company would lose all incentive to operate in an efficient, cost effective manner, thereby leading to higher operating cost and eventual rate increases. Id. at

> 178, 179. In essence, the court in Narragansett ruled that it would ignore the prohibition against retroactive ratemaking because the storm and expenses resulting therefrom were extraordinary and the occurrence of such a storm was unpredictable and therefor the cost of power restoration could not be planned by company officials. Id. at 179.

Balancing Account - Future Recovery

Q: Are there elements of Petitioner's proposed future recovery that you consider to be retroactive ratemaking?

A: Yes. Petitioner proposes that the accrual of its balancing account for its next rate case begin on July 1, 2009. Petitioner's proposed "balancing account" would include "unrecovered" Pension/OPEB expenses that it incurs from July 1, 2009 until an order is issued in this cause. These "unrecovered" costs would then be included in Petitioner's next rate case. Creating a deferred asset of expenses that Petitioner is currently under-recovering is also retroactive ratemaking. If the proposed balancing account starts prior to when an order is issued in this case, it will be retroactive ratemaking.

Q: Petitioner asserts that its proposed balancing account will work both ways. Do you agree that the balancing account will work both ways for Petitioner's next rate case?

A: In theory, yes. In practice, no. If Petitioner is allowed to initiate its proposed balancing account for its Pension and OPEB expenses starting on July 1, 2009 (as it proposes), it would incur the same "under recovery" in the last six months of 2009 as it did during the first six months of 2009. Since none of the parameters of the calculation (neither the actual expense recorded nor the expense included in revenue requirements) will be different, Indiana American would record a deferred asset of

$1,065,557 (Pension) and $355,421 (OPEB) during the last six months of 2009, just as it did during the first six months.

Petitioner will likely continue to under collect (increase the balance of its proposed regulatory asset) during 2010 until new rates are in place. Thus, by the time new rates are in place, the proposed "regulatory assets" could easily have a balance of more than $2.0 million. Even if the market makes a full recovery, it is unlikely that the "balancing account" could change from a deferred asset to a deferred liability by the next rate case. Thus, at least for its next rate case, Petitioner's assertion that its proposed "balancing account" is intended to work both ways is unlikely to occur. If allowed, the balancing account should not start until rates are in place and there is a possibility that the balancing account could work both ways as asserted by Petitioner.

Q: What Pension/OPEB expense do you propose be included in Petitioner's revenue requirements in this case?

A: I am accepting Petitioner's proposed Pension and OPEB expense based upon the 2009 actuarial reports presented in its MSFR workpapers. The financial markets have recovered since Petitioner's actuarial reports were prepared. It follows that Petitioner's Pension and OPEB asset plan values have also rebounded which should lead to lower annual expense levels, all other factors being equal. In response to OUCC Discovery Set No. 10, Q-126, Petitioner stated that American Water's Pension Fund asset balance as of 7/31/09 was $592,946,230 (MAS Attachment 4). This compares with a fair value of $513,283,024 at12/31/08 or an increase of approximately 15.5%. Even though the market has recovered, I am not proposing any adjustment to Petitioner's proposed Pension and OPEB expenses, primarily because I am not an actuary and am not qualified to make a meaningful calculation of a more current Pension and OPEB expense level.

Q: Do you have any additional proposals related to Pension and OPEB expense?

A: Yes. In the event the Commission approves Petitioner's proposal with respect to future deferred recovery, I am proposing a modification to Petitioner's proposed Pension and OPEB balancing account. Petitioner should not be allowed to earn a return *on* these under or over recovered expenses. As discussed earlier, Pension and OPEB expense is not the same as Pension and OPEB funding requirements. It is entirely possible for Petitioner to accrue under recovered Pension or OPEB expenses but have no additional cash funding requirements. As such, a return on these expenses would be altogether inappropriate.

Q: Has Petitioner committed that any funds collected from the balancing account will, in fact, be used to fund its "underfunded" Pension/OPEB plans?

A: No. Petitioner has not stated what it intends to do with any funds collected from its proposed balancing account. This is an additional concern because without some kind of "guarantee", ratepayers could be asked to fund these costs yet again down the road. I recommend that the Commission require that any funds recovered through any authorized balancing accounts be restricted and used only to fund its Pension/OPEB plans.

Q: Please summarize your recommendation with respect to Petitioner's request related to Pension and OPEB expenses.

A: Petitioner's request to treat its Pension and OPEB expense as a regulatory asset should be disallowed. In particular, Petitioner should not be permitted to recover the "under recovered" costs incurred from January 1, 2009 through June 30, 2009 in current rates. Such recovery would be retroactive ratemaking. If otherwise allowed by the Commission, the balancing account should not start until an order is issued in this cause since including "unrecovered" expenses incurred during this rate case is also retroactive ratemaking. A balancing account for its future under or over recovered Pension/OPEB costs should begin accruing when an order in this case is issued, but not before. The under or over recovery of Pension and OPEB expenses should be the difference between the Pension and OPEB expense authorized in this cause and Petitioner's actual SFAS 87 and SFAS 106 expenses. Petitioner should be allowed recovery <u>of</u> the balance in this account (or flow-back to the ratepayers) in its next rate case but it should not be allowed to earn a return <u>on</u> the unamortized balance. Any amounts recovered through the balancing account should be restricted and used only to fund Petitioner's Pension/OPEB plans. Finally, I recommend that Petitioner's proposed Pension and OPEB expense be included in rates in this case, but not the current recovery of costs Petitioner says it under recovered during the period January through June 2009.

Final Concerns

Q: Are there other costs that may or will decrease that Petitioner has not proposed to track as part of this cause?

A: Yes. Petitioner has a high cost debt that may be refinanced or retired. For example, Petitioner's proposed cost of debt includes a debt issuance with a face amount of $7.1 million that retires on March 1, 2010 at an interest rate of 8.98%. To the extent that Petitioner retires or refinances this old debt with new debt, it will likely be issued at a rate below 8.98% and the new debt will reduce Indiana-American's cost of debt and subsequent cost of capital.

Q: Was there anything American Water could have done to mitigate the underfunded pension liability left to them by RWE?

A: Yes. In May of 2008 RWE made a $245 million equity infusion to American Water. Based on the oral testimony of Indiana-American witness Kalinovich, American Water used this money to retire debt and invest in capital projects. It appears that none of the funds provided by RWE to American Water were used to help reduce the underfunded pension liability left to American Water by RWE. In addition to losses incurred by the fund due to negative market returns in 2008, American Water and Indiana-American Water now ask ratepayers to rebuild its pension fund due to RWE's decisions during its ownership of American Water.

IX. Management Fees (Shared Services)

Audit of Management Fees

Q: Please explain Petitioner's Management Fee expense.

A: Petitioner's management fee expense represents costs from its Service Company, which provides "shared services" to all of American Water's subsidiaries, both regulated and unregulated. These services include administrative, human resources, accounting, customer service, information technology ("IT"), water quality, supply chain management, legal, and other services provided on a corporate-wide basis. These services are provided from various locations including American Water's corporate office in New Jersey and various IT and regional offices located throughout the country. These services can either be directly charged or allocated to each subsidiary and are invoiced on a monthly basis.

Q: Please explain American Water's allocation process and its impact on Indiana-American.

A: American Water uses several allocation formulas, including a "Tier-One" formula to allocate costs between regulated and non-regulated subsidiaries and "Regulated" formulas to allocate Service Company employees who provide no services to non-regulated subsidiaries. Indiana-American is one of American Water's larger regulated subsidiaries and, as such, is allocated a considerable amount of charges from the Service Companies. Although American Water has several allocation formulas, most charges are ultimately allocated based on the number of customers in each subsidiary. Because Indiana-American is a larger operating system, it has certain built in economies of scale. However, these economies of scale are diluted through American Water's allocation process since the allocation process charges the same amount per customer for the small inefficient systems as it does for the larger, more efficient ones.

Q: Were you able to conduct a thorough review of Petitioner's test year management fees?

A: No. It isn't possible to conduct a thorough review of management fees in the context of a rate case, especially an expedited rate case filed under the Commission's minimum standard filing requirements ("MSFR") rule. Petitioner's management fees include hundreds of thousands of transactions, most of which are small (less than $50). Therefore, even if some inappropriate charges are found, this would yield an immaterial adjustment. However, the cost of this adjustment in time and OUCC resources is considerable.

Q: Are there other factors that make a thorough review of Petitioner's management fees difficult?

A: Yes. In addition to the number of transactions to be reviewed, American Water's multi-level organizational structure makes reviewing and understanding the nature of the charges extremely difficult. American Water has "national" service company employees ("NSC") as well as a local service company ("LSC") employees providing services. These LSC employees are generally located at regional or divisional headquarters located around the country while the NSC employees are generally located in New Jersey. An understanding of the total costs being charged from each group is essential to determining the reasonableness of the charges.

Petitioner's current organizational structure and billing method make identification of the source of the charge difficult. Also, NSC charges can be and are allocated or directly charged to the LSC, where costs are further allocated to the subsidiaries. Following this "daisy chain" back from Indiana-American requires a great deal of time, fortitude and determination. Further, adding to this complexity is American Water's penchant for reorganizing frequently, causing attempts to compare expenses to prior years difficult and, sometimes, meaningless. To make matters more complicated, Petitioner changes the "designation" applied to its organizational "units" from one re-organization to the next. As an example, Indiana-American was previously in the Central "Region" but was reorganized in 2009 to the Eastern "Division."

Q: What approach does the OUCC usually take when reviewing Petitioner's management fees?

A: In the last couple of rate cases, the OUCC has attempted to review a sampling of transactions (usually choosing one or two months) as thoroughly as time allowed. This approach to reviewing management fees used large amounts of resources and yielded very little in results. It also focused too much on the costs being allocated while ignoring the process that determined the allocated amount.

Q: Is there a better approach to reviewing Petitioner's management fees?

A: Yes. A far better approach would be to audit the source of these transactions, gaining an understanding of the reasonableness of the allocation methodologies employed as well as reviewing the actual transactions. This approach requires access to American Water's books and records as well as access to all of its subsidiaries' books and records. This expansive approach is essential to determining the appropriateness of American Water's allocation methodologies, which are at the heart of the bulk of charges included in management fees expenses. This approach allows the reviewer direct access to the employee recording the original transactions and would allow the reviewer to test that Petitioner's internal controls are working properly and that it is applying its allocation methods appropriately. As a whole, this method would provide a greater sense of comfort regarding the costs being charged to Indiana-American from the Service Companies.

Q: Have any states used this approach to review American Water's management fee expenses?

A: Yes. In reviewing California-American's rate application 08-01-027 (Filed January 30, 2008), the California Public Utilities Commission Division of Ratepayer Advocates contracted with Overland Consulting ("Overland") to review charges from the Service Companies[6] (MAS Report 1).

Q: What were the results of Overland's review?

A: Overland experienced difficulty getting information from American Water via the discovery process and found it necessary to resort to an on-site audit in New Jersey. Ultimately, Overland's review discovered several issues regarding American Water's allocation procedures. Although many of Overland's proposed adjustments are issues solely related to California operations, they found several issues related to

[6] The Overland report refers to these charges as "General Office" expenses.

allocation of costs that demonstrate a "bias" by American Water for over allocating costs to its regulated subsidiaries where it can recover these costs from ratepayers. Among other things, Overland found indications that American Water was over allocating its costs to the regulated subsidiaries and under allocating costs to its non-regulated subsidiaries. This over allocation occurred generally through the bias built-in to American Water's allocation formulas, but was also discovered in the way Customer Service Center ("CSC") costs are allocated. In addition to allocation issues at the CSC, Overland found escalating costs and "diseconomies of scale." It also determined that American Water allocated more than 100% of certain Service Company employees. This situation occurred when Service Company employees were allocated to a regulated subsidiary as part of rate case expense. In these situations, the employee's costs were allocated once as rate case expense and then the employee's costs were allocated again in the Service Company's general allocation process.

Q: Are you aware of any other audits or reviews focused on American Water or its subsidiaries?

A: Yes. The Tennessee Regulatory Authority ("TRA") recently ordered[7] a management fee audit of American Water (MAS Attachment 5) and is in the process of issuing a request for proposal for this audit. The TRA contacted its counterparts in every state where American Water has a presence in an attempt to create a multi-state initiative and spread the cost to all parties who would benefit from the results of such an audit.

[7] Docket No. 08-00039, Ordering Paragraph 10 (p.52).

In addition, the Pennsylvania Public Utility Commission recently engaged the services of Schumaker & Company to conduct a "Stratified Management and Operations Audit" of Pennsylvania-American Water Company (MAS Report 2). The audit was conducted pursuant to Section 516 of the Pennsylvania Public Utility Code requiring that the Pennsylvania Commission periodically examine the management effectiveness and operating efficiency of certain jurisdictional utilities.

Finally, Service Company costs were also an issue in a recent Illinois-American rate case[8]. The Illinois Commerce Commission ordered Illinois-American to"...submit with its next rate proceeding the study comparing the costs of services obtained from American Water Works Service Company, Inc. with costs of such services had they been obtained through competitive bidding on the open market, as further described in Section IV.B.l.d., above" (MAS Attachment 6).

Q: What are you recommending in this case?

A: I recommend the Commission order a review/audit of Indiana-American's books and records. I further recommend this review/audit be paid for by Indiana-American – and not Petitioner's ratepayers.

__Management Fee Expense__

Q: What does Petitioner propose for management fee expense in this case?

A: Petitioner proposes *pro forma* management fee expense of $19,059,753, which is a decrease of $866,200 from test year. Petitioner proposes various adjustments to test

[8] Illinois-American Water Company Cause No. 07-0507.

year expense to eliminate non-recurring or non-allowed expenses (total of $1,313,801). Petitioner also proposes to increase management fees for an inflation adjustment ($192,340) and an adjustment for increased salaries ($280,885). In addition, Petitioner reclassified the costs of certain Service Company employees from management fees to direct labor expense ($843,154) along with other labor related costs ($124,905) for these employees. Finally, Petitioner proposes an increase for known increases in Pension/OPEB costs ($942,435).

Q: Do you have any concerns regarding Petitioner's proposed Management Fee expense?

A: Yes. Petitioner's *pro forma* management fee expense represents a 23.00% increase over the management fees authorized in Cause No. 43187. Since Cause No. 43187, Petitioner has not added any water or sewer systems to its operations in Indiana (MAS Attachment 7). Likewise, the number of customers served has not increased materially during this period – less than 2% increase since Cause No. 43187. Considering that the services provided are similar in nature to those provided in Cause No. 43187, and no new services have been added, it is unreasonable that management fee expenses have increased by 23% during this same time period.

Q: Do you agree with Petitioner's proposed management fee expense?

A: No. As discussed above, Indiana-American's operations have not changed materially since its last rate case, Cause No. 43187. No additional utility systems have been added and no appreciable increase in customers has occurred to justify such an increase in service costs. It is not reasonable for Indiana ratepayers to be expected to shoulder such a large increase in an expense without specific and quantifiable reasons for the increase. In the case of management fees, there is not sufficient justification for an increase of this magnitude.

Q: What do you propose for management fee expense?

A: I propose a *pro forma* management fee expense of $17,675,629 or a decrease of $2,390,477 from test year expense (OUCC Schedule 6, Adjustment 8). This is a 14.07% increase over the management fee expense approved in Cause No. 43187.

	Petitioner	OUCC	More (Less)
Management Fees authorized in Cause No. 43187	$ 15,495,555	$ 15,495,555	$ -
Pro forma Management Fees in this cause	19,059,753	17,675,629	(1,384,124)
Increased Management Fees	$ 3,564,198	$ 2,180,074	(1,384,124)
Percent Increase from Cause No. 43187	23.00%	14.07%	-8.93%

Q: Please explain the approach you took to calculate your proposed adjustment?

A: As discussed above, a meaningful review of Petitioner's management fees is difficult at best within the constraints of a rate case, especially an expedited rate case such as this. Given the complicated nature of Petitioner's allocation process, the need to review this process in more detail at the Service Company level, and the OUCC's limited resources and time, I estimated *pro forma* management fees based upon the costs authorized in Cause No. 43187. Specifically, I started with the authorized management fees and divided by the customers as of 12/31/06 to calculate a 2006 cost per customer. I then escalated this cost for inflation during

2007 and 2008. To be fair and reasonable, I did not adjust for 2009 inflation since this number was negative. I then multiplied the adjusted 2009 cost per customer times the number of customers as of 09/30/09 to get estimated management fees. To this number I added the increased Pension/OPEB costs and the increased salary expenses proposed by Petitioner.

Management Fees authorized in Cause No. 43187		$ 15,495,555
Divided by : Number of Customers at 12/31/06		281125
2006 Cost per Customer		$ 55.12
Times: 2007 Annual Inflation Factor		4.1%
2007 Cost per Customer		$ 57.38
Times: 2008 Annual Inflation Factor		0.1%
2008/2009 Cost per Customer		$ 57.44
Times: Number of Customers at 09/30/09		286426
Estimated Management Fees		16,452,309
Add: Increased Pension/OPEB Costs	Per Pet.	942,435
Increased Salary Expense	Per Pet.	280,885
Pro forma Management Fee Expense		$ 17,675,629

This methodology is akin to using a hatchet to do a job better suited to a knife. The knife, in this case, would be the audit and review of costs at the American Water Service Company level, along with a review of the allocation process itself. As discussed above, the OUCC recommends that this review be conducted to provide the Commission and the OUCC a clearer understanding of what is included in the costs charged to Indiana-American from the Service Company and reassurance that these costs have been reasonably allocated.

Q: Do you have any additional comments on your calculation of *pro forma* management fee expense?

A: Yes. This is a conservative estimate and possibly overstates Indiana-American's total operating expense. This is due to the fact that Petitioner eliminated nine Service Company employees from management fee expense and included them in labor expense. The OUCC's labor expense includes the salaries of these nine employees but I have not eliminated any expense related to these employees from my calculation of *pro forma* management fee expense even though the salaries for these employees was included in the management fee expense authorized in Cause No. 43187.

X. Operating Expense Adjustments

<u>**Waste Disposal Expense**</u>

Q: Did Petitioner propose any adjustments to Waste Disposal Expense?

A: No. However, I am proposing several adjustments to remove non-recurring accrual adjustments in various districts and to adjust Kokomo expense to actual.

Q: Please explain your adjustments to eliminate non-recurring accrual adjustments.

A: During the test year, "true-up" adjustments were recorded to adjust the estimated costs of sludge removal being accrued over various periods of time. The costs of sludge removal are not necessarily expenditures incurred on an annual basis. Rather, these are costs that can be incurred infrequently over longer periods of time – five, ten, twenty, and even forty years. It is appropriate for Petitioner to include in its operating expenses the annual portion of these costs, calculated by dividing the estimated cost by the estimated time between cleanings. In December 2007, Petitioner made a number of adjustments to its estimate of waste disposal costs and adjusted its accrual accounts accordingly. In response to OUCC Discovery Set No. 23, Q-310, Petitioner stated that these adjustments were of a non-recurring nature (MAS Attachment 8). Petitioner's test year waste disposal expense includes the current estimate of sludge removal costs not incurred on an annual basis, the annual costs incurred during the test year, as well as these one-time adjustments. A decrease of $365,888 is proposed to waste disposal expense to eliminate these non-recurring adjustments.

Q: Are you proposing any other Waste Disposal Expense adjustments?

A: Yes. In response to OUCC Discovery Set No. 23 Q-310, Petitioner provided the actual costs incurred during the test year to clean the North and South lagoons in the Kokomo District. I propose an adjustment to adjust test year expense to reflect these actual costs. Per Petitioner, "Kokomo has two surface water sludge lagoons (north and south). The south surface water lagoon was cleaned in May of 2008 and the north was completed in June of 2008 by Merrill Bros. at a total cost for both lagoons of $107,073.32. The lagoons are cleaned annually."

Test Year Actual Costs - Merrill Bros.	$	107,073.32
Test Year Accrued Expense		
$10,000 x 12 months		120,000.00
Adjustment	$	(12,926.68)

A decrease of $12,927 is proposed to waste disposal expense to adjust for actual Kokomo costs. Overall, I propose *pro forma* waste disposal expense of $1,444.421, a decrease of $378,815 to test year expense (OUCC Schedule 6, Adjustment 7).

General Office Expense

Q: Have you accepted any of Petitioner's proposed general office expense adjustments?

A: Yes. I accepted Petitioner's adjustment for relocation expense.

Q: Are you proposing any general office expense adjustments?

A: Yes. I am proposing two adjustments to test year general office expense. I eliminated $37,429 of miscellaneous test year labor expenses recorded as general office expense. I am also proposing an adjustment to eliminate non-allowed expenses that provide no material benefit to rate-payers and are not necessary to provide utility service. These expenses should not be borne by rate-payers and include, among other things, sports sponsorships, memberships in civic organizations, and donations. A decrease of $15,303 is proposed to general office expense for these non-allowed costs. Overall, I propose *pro forma* general office expense of $1,363,145, an increase of $78,795 to test year expense (OUCC Schedule 6, Adjustment 13).

<u>Maintenance Expense</u>

Q: Have you accepted any of Petitioner's proposed maintenance expense adjustments?

A: Yes. I accepted Petitioner's adjustments to eliminate the net negative salvage value from maintenance expense. I also accepted Petitioner's adjustment to eliminate miscellaneous test year labor expenses recorded as maintenance expense.

Q: Are you proposing any additional maintenance expense adjustments?

A: Yes. I am proposing two adjustments to test year maintenance expense. I eliminated $13,806 of amortized tank painting costs related to tanks in the Mooresville and Warsaw districts. The Mooresville amortization period ended in August, 2009 and is not a recurring operating expense (MAS Attachment 9). Both of the Warsaw tanks being amortized have been recently. Therefore, the deferred asset being amortized should be written off and the amortization expense eliminated from operating expenses. The recent tank painting costs have been capitalized and the depreciation of these costs is included in depreciation expense. To include both the amortization of the prior tank painting costs and the depreciation of the new costs would be double recovery.

I also eliminated $3,163 of test year maintenance expenses related to the Richmond Call Center. The Richmond Call Center is no longer an asset used and useful in the provision of utility service. As such, any operating or maintenance expenses related to this asset should be excluded for rate-making purposes. I propose *pro forma* maintenance expense of $3,814,311 or a decrease of $6,641,648 to test year expenses (OUCC Schedule 6, Adjustment 14).

Miscellaneous Expense

Q: Have you accepted any of Petitioner's proposed maintenance expense adjustments?

A: Yes. I accepted several of Petitioner's proposed adjustments, including its adjustment to eliminate labor expense, to adjust for contract services, to eliminate the amortization of security expenses, to adjust for penalties, to annualize vehicle insurance expense, and to adjust for the cost of leased vehicles.

Q: Do you disagree with any of Petitioner's adjustments?

A: Yes. I disagree with Petitioner's adjustments for legal expenses, non-allowed expenses, and miscellaneous operations expense. OUCC witness Harold Riceman discusses the OUCC's disagreement with Petitioner's proposed adjustments to 401K expense and defined contribution plan ("DCP") expense.

Q: Are you proposing any additional miscellaneous expense adjustments?

A: Yes. I am proposing additional adjustments to exclude the lobbying portion of Petitioner's NAWC fees. I propose *pro forma* miscellaneous expense of $6,148,521 or an increase of $71,769 to test year expenses (OUCC Schedule 6, Adjustment 15). My *pro forma* miscellaneous expense is $538,213 lower than that proposed by Petitioner. Table MAS-3 provides a summary of the proposed adjustments to miscellaneous expense.

Table MAS-3: Summary of Miscellaneous Expense Adjustments

	Per Petitioner	Per OUCC	OUCC More (less)
Test Year Miscellaneous Expense	$ 6,076,752	$ 6,076,752	$ -
Adjustment for 401K Expense	50,717	26,052	(24,665)
Adjustment for DCP Expense	61,060	12,003	(49,057)
Eliminate Labor Expense	(22,128)	(22,128)	-
Adjustment for Advertising Expense	(430)	-	430
Adjustment for Charitable Contributions	(3,500)	-	3,500
Adjustment for Non-Allowed Expenses	-	(199,045)	(199,045)
Adjustment for Contract Services	(163,689)	(163,689)	-
Adjustment for Legal Expenses	140,088	96,220	(43,868)
Adjustment for Security Expense	(572,727)	(572,727)	-
Adjustment for Vehicle Insurance	(16,357)	(16,357)	-
Adjustment for Penalties	173,975	173,973	(2)
Adjustment for Misc. Operations Expense	100,000	(100,000)	(200,000)
Adjustment for Leased Vehicles	817,214	817,214	-
Adj for Leased Vehicles -- Fuel & Maint.	45,759	45,759	-
Eliminate lobbying portion of NAWC Fees	-	(11,485)	(11,485)
Pro forma Miscellaneous Expense	$ 6,686,734	$ 6,162,542	$ (524,192)

Non-Allowed or Non-Recurring Expense

Q: Please explain how your adjustment for non-allowed and non-recurring expenses differs from Petitioner's.

A: Petitioner proposed two minor adjustments related to non-allowed expenses. First, Petitioner eliminated a charitable contribution accrual that was not reversed during the test year in the amount of $3,500. Petitioner's intent with this entry was not to remove non-allowed expenses but, rather, to eliminate an inappropriate accrual. Second, Petitioner eliminated $430 of advertising expense the Company deemed inappropriate for recovery. No further explanation or detail was provided for this adjustment.

My proposed adjustment is the result of a thorough review of Petitioner's test year miscellaneous expenses (over 29,000 entries). I am proposing an adjustment to eliminate non-allowed and non-recurring expenses that provide no material benefit to ratepayers and are not necessary for the provision of utility service. These expenses should not be borne by ratepayers and include, among other things, sports sponsorships, memberships in civic organizations, employee awards, image building, sports tickets, and donations. Moreover, the Commission has disallowed these types of expenses in prior Indiana-American rate cases including Cause Nos. 42029, 42520 and 43187. My adjustment does not eliminate any Chamber of Commerce dues as the Commission has allowed these expenses to be included in operating expenses. However, if an expense was for sports sponsorships or other non-allowed types of activities, I did exclude it -- even if the description said "chamber of commerce." I do not believe that the Commission intended to allow these types of expenses under the guise of paying them to a chamber of commerce. A decrease of $199,045 is proposed to miscellaneous expense for these non-allowed and non-recurring costs.

Legal Expense

Q: Please explain Petitioner's proposed Legal Expense adjustment.

A: Petitioner proposed a three-year average as its *pro forma* legal expense based upon the years 2006, 2007, and test year. Petitioner asserted that "Legal expense varies year to year and depends on the number of cases and activity requiring legal expertise." Petitioner proposed an increase to miscellaneous expense of $140,088.

Q: Do you accept Petitioner's methodology?

A: No, not in this case. I disagree for several reasons. First, although I agree that legal expense can fluctuate from one year to the next, this is an expense that Petitioner has some control over and Petitioner's historical expenses since 2003 generally have not fluctuated more than 15% from year to year (excluding 2007). Petitioner's proposal increases test year legal expense by 54%.

In addition, Petitioner's 3-year average legal expense is overstated. In response to OUCC Discovery Set No. 18, Q-247, Petitioner provided its legal expenses for the years 1999 – 2005 (MAS Attachment 10). In its workpapers, Petitioner provided the legal expenses for the twelve months ended November 30, 2006, 2007, and 2008.

<u>Summary of Annual Legal Expenses:</u>

1999	$ 79,499	2004	$ 382,287
2000	138,989	2005	333,768
2001	208,312	2006	281,142
2002	221,848	2007	653,229
2003	410,460	2008	257,054

A review of Petitioner's historical legal expense reveals that the 2007 expenses are more than 50% higher (($653,229 – $410,460)/$410,460 =59%) than the next highest year. Including 2007 expenses skews the average and overstates any *pro forma* expense based on this analysis.

Q: What adjustment do you propose for legal expense?

A: I propose to increase test year legal expense by $96,220 to eliminate non-recurring prior period adjustments. Test year legal expense includes 2007 legal accrual reversals that should be eliminated. Once these accruals are reversed, test year legal expense is $353,274 and represents Petitioner's normal, recurring legal expense. As further evidence of this, calculation of a five-year average for the years 2003 through 2006 and adjusted 2008 (excluded 2007for reasons stated above) yields an average expense of $352,186. I propose a *pro forma* increase to miscellaneous expense of $96,220.

Miscellaneous Operations Expense

Q: **Please explain how your adjustment for miscellaneous operations expense differs from Petitioner's.**

A: While Petitioner and I agree that an adjustment needs to be made to reverse an accrual related to prior periods, my adjustment is a decrease to miscellaneous expense while Petitioner's adjustment is an increase. The entry in question was recorded in December 2007 as a debit to miscellaneous operating expenses to adjust November 2007 capital overhead. The correct elimination of this entry from test year expense is to credit, or decrease, miscellaneous expense for $100,000. In response to OUCC Discovery Set No. 18, Q-248, Petitioner stated that the OUCC was correct that this adjustment should have been a reduction to test year operating expenses (MAS Attachment 11).

NAWC Lobbying Expenses

Q: **Please explain your adjustment to eliminate the lobbying portion of Petitioner's NAWC fees.**

A: A portion of the fees paid to the National Association of Water Companies include amounts for lobbying purposes. Lobbying expenses are non-allowed expenses for ratemaking purposes and should be eliminated from test year operating expenses. Per the NAWC's website, lobbying is 17% of the total fees assessed. Petitioner's 2008 NAWC fees were $69,732 paid in July 2008. Petitioner's *pro forma* NAWC fees are $57,878 ($69,732 x 83%). Petitioner's test year expense for NAWC fees is $69,363. Therefore, I propose a decrease to Petitioner's test year miscellaneous expense of $11,485 ($69,363 - $57,878) to eliminate the lobbying portion of these fees.

<u>Depreciation Expense</u>

Q: Please explain the differences between the Petitioner's and the OUCC's calculation of the amounts for depreciation expense.

A: Petitioner proposed *pro forma* depreciation expense of $31,321,576 or an increase of $10,822,418 over test year expense. The only difference between my depreciation expense proposal and Petitioner's is my exclusion of depreciation expense related to the rate base reductions I proposed for plant that was not used and useful in the provision of utility service. I propose *pro forma* depreciation expense of $31,227,688 for an increase of $10,728,418 over test year expense (OUCC Schedule 6, Adjustment 16).

<u>Amortization of Contributions in Aid of Construction (CIAC)</u>

Q: Why has the OUCC included amortization of CIAC to arrive at net operating income?

A: Pages 18-21 of this testimony explains the OUCC's reasons for off-setting depreciation expense for the amount of depreciation associated with contributed property. This is an accounting entry to off-set the depreciation expense to the extent the assets were contributed. Depreciation is the return of the original cost of utility plant in service. The owners receive cash for depreciation expense as part of the revenue requirements for an investor-owned utility. The OUCC maintains that the owners should not receive a return of plant which was contributed by others. By including the amortization of CIAC as an off-set to depreciation expense, the consumers will reimburse the utility owners only for that portion of plant that was provided by the utility owners.[9] I accepted all of Petitioner's proposed amortization expense adjustments. Overall, I propose a *pro forma* amortization expense of ($1,624,641) or a reduction of $1,624,641 to test year expense (OUCC Schedule 6, Adjustment 17).

XI. Tax Adjustments

IURC Fee

Q: Please explain how your proposed adjustment to IURC Fee Expense differs from Petitioner's adjustment.

A: The adjustment I made to IURC fee expense is primarily a result of updating the IURC fee to the 2009 rate of .1073599% and, to a lesser extent, the revenue adjustment recommendations discussed by OUCC witness Chuck Patrick. Petitioner used the 2008 IURC fee of .1203993% and proposed an increase of $29,778 to

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[9] Financing and Charges for Wastewater Systems, WEF Manual of Practice No. 27, McGraw-Hill, 2005, pg 243. "Recovery of annual depreciation on assets that the owner did not supply the original investment fund, i.e., contributed property, would inappropriately enrich the owner. State regulated utilities must exclude recovery of annual depreciation on all contributed property, although these utilities own all of their assets regardless of original funding source."

IURC fee expenses. In OUCC Schedule 7, Adjustment 1, I propose an increase of $6,017.

Utility Receipts Taxes

Q: Please explain how your proposed adjustment to Utility Receipts Tax Expense differs from Petitioner's adjustment.

A: The adjustments I made to utility receipts tax expense are a direct result of the operating revenue recommendations discussed by OUCC witness Chuck Patrick and a difference in the amount excluded for sales for resale ("SRF") revenue. Petitioner proposed *pro forma* utility receipts tax expense of $2,131,786 or an increase of $71,327 from the test year. I propose *pro forma* utility receipts tax expense of $2,135,684, or an increase of $75,225. (OUCC Schedule 7, Adjustment 3). My calculation of the Utility Receipts Tax adjustment for present rate revenues is similar to Petitioner's calculation. The primary difference is the amount excluded for SFR revenues. Petitioner excluded $8,183,506 of SFR revenues and I excluded $8,460,453. As demonstrated in Table MAS-4 below, these amounts differ due to Petitioner's exclusion of one SFR test year account and its failure to classify a portion of its DSIC revenue normalization adjustment as SFR.

Table MAS-4: Comparison of Pro Forma SFR Revenues

Account Number	Description	Per Petitioner	Per OUCC		OUCC More (Less)
401630	Sale for Resale AW22	$ -	$ 34,062		$ 34,062
401610	SFR Billed	8,023,513	8,023,513		-
401612	SFR Billed DSIC	159,994	159,994		-
	DSIC Normalization - SFR	-	242,885	(a)	242,885
	Pro Forma SFR	$ 8,183,507	$ 8,460,454		$ 276,947

(a) Total Test Year Sales for Resale	8,057,575
Times: DSIC Rate - 5%	5.00%
Pro forma Sales for Resale DSIC	402,879
Less: Test Yeare SFR DSIC	159,994
Portion of DSIC normailization attributable to SFR	$ 242,885

The calculation for the adjustment to reflect additional tax due on the proposed increase in rates is included in the Gross Revenue Conversion Factor (OUCC Schedule 1, Page 2 of 3) and was discussed previously in my testimony.

IDEM Safe Drinking Water Fee

Q: Please explain how your proposed adjustment to the IDEM Safe Drinking Water Fee differs from Petitioner's adjustment.

A: Petitioner's IDEM Safe Drinking Water Fee calculation uses total customer count as an approximation of the number of connections, including fire service customers. Per conversations with IDEM, this fee is assessed on the number of connections and fire service customers do not represent additional connections. A water utility does not provide only fire service to a customer – this is an additional charge on top of the water consumption charges assessed to the customer. As such, these fire service customers/connections are included in the customer count for each water consumption customer class and do not need to be counted again. Petitioner proposed *pro forma* IDEM fees of $269,277 or a decrease of $4,178 from the test year. I propose *pro forma* IDEM fees of $268,007, or a decrease of $5,448 (OUCC Schedule 7, Adjustment 5).

State and Federal Income Taxes

Q: Have you made a calculation for *pro forma* present rate federal and state income taxes?

A: Yes. *Pro forma* present rate Federal and State Income Tax adjustments are calculated on Schedule 7, adjustment 6 (a) and (b) respectively. The gross revenue conversion factor found on Schedule 1, page 2 has been used to determine the adjustment necessary to increase taxes based on the increased revenues recommended.

Q: In what way does your calculation of Federal income tax differ from that of Petitioner's?

A: Other than the differences in various proposed revenue and expense items, there is no difference between my calculation of federal income taxes and Petitioner's. Although I propose amortizing contributed plant, I have not included this in my calculation of federal taxable income. Petitioner has already taken this into consideration in its calculation of tax normalized depreciation expense, making it unnecessary for me to make an adjustment.

Q: In what way does your calculation of state income tax differ from Petitioner's?

A: Petitioner did not include "parent company interest expense" in its calculation of Indiana State income tax expense. As can be seen on attachment MAS-12, the

Indiana corporate income tax calculation begins with Federal taxable income. There are certain add-backs that Indiana requires, however interest expense is not one of them. If one includes the interest as an expense that would rightfully be deducted from revenue to establish Federal taxable income, then the interest expense should also be recognized when calculating Indiana taxable income.

XII. Recommendations

Q: Please summarize your recommendations.

A: The following are the recommendations provided in my testimony:

- The Commission should give Petitioner's RCNLD study no more weight than it has given it in the past ten rate cases when determining a fair value rate base.
- Utility Plant in Service should be decreased for items not used and useful in the provision of utility service.
- Amortization of Contributions in Aid of Construction should be recognized by the Commission.
- Comprehensive Planning Studies should be expensed rather than capitalized.
- A complete fixed asset inventory should be conducted and the results should be reflected on Petitioner's books and records.
- A management audit should be conducted outside the context of a rate case.
- Petitioner's request for current recovery of a balancing account should be denied.
- Petitioner's request for future recovery of under or over recovered Pension/OPEB expenses, if allowed, should not begin until an order in this Cause is issued. If a balancing account is allowed, Petitioner should be allowed a return of these expenses but not a return on these expenses.
- Utility rates should be increased by 14.08%

Q: Does this conclude your testimony?

A: Yes.

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Comparison of Petitioner's and OUCC's Recommended Revenue Increase (Decrease)

	Per Petitioner	Per OUCC	Ref	OUCC More (Less)
Original Cost rate Base	$ 667,486,440	$ 657,268,279	Sch 10	$ (10,218,161)
Times: Weighted Cost of Capital	8.57%	7.28%	Sch 11	-1.29%
Net Operating Income Required for Return on Original Cost Rate base	57,203,588	47,849,131		(9,354,457)
Add: Fair Value Increment	991,467	822,377	Sch 12	(169,090)
Net Operating Income Required -- Fair Value	58,195,055	48,671,508		(9,523,547)
Less: Adjusted Net Operating income	30,643,390	35,540,647	Sch 4	4,897,257
Net Revenue Increase Required	27,551,665	13,130,861		(14,420,804)
Gross Revenue Conversion Factor	172.8994%	172.964282%	Sch1 p2	0.064882%
Recommended Revenue Increase	$ 47,636,663	$ 22,711,699		$ (24,924,964)
Recommended Percentage Overall Increase	29.32%	14.08%		-15.24%

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Gross Revenue Conversion Factor

		Per Petitioner	Per OUCC		Pro forma Proposed Rate Adjustments
1	Gross revenue Change	100.00%	100.00%		$ 22,711,699
2	Less: Bad Debt Rate/ Uncollectible Expense	1.2505%	1.2505%		284,010
3					
4	Sub-total	98.7495%	98.7495%		
5	Less: IURC Fee (2009 - 2010 rate)	0.12101%	0.1073599%		24,383
6					
7	Income Before State Income taxes	98.62849%	98.64214%		
8					
9	Less: State Income Tax	8.2659%	8.384582%		1,904,281
10	Utility Receipts Tax	1.3825%	1.310781%	(a)	297,701
11					
12	Income before Federal income Taxes	88.9801%	88.946777%		
13					
14	Less: Federal income Tax	31.1430%	31.131372%		7,070,464
15					
16	Change in Operating Income	57.8371%	57.815405%		$ 13,130,860
17					
18	Gross Revenue Conversion Factor	172.8994%	172.964282%		

(a) The utility receipts tax calculation has been adjusted to exclude sales for resale revenues. Test Year sales for resale are $8,460,453 which equals 5.268152% of total revenues. Therefore, URT has been calculated based on 94.73185% of line 4.

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Reconciliation of Net Operating Income Statement Adjustments
Pro-forma Present Rates

	Per Petitioner	Per OUCC	OUCC More (Less)
Revenues			
Operating Revenues	$ 5,847,931	$ 6,439,449	$ 591,518
Other Revenues	(584,063)	(553,100)	30,963
			-
			-
Total Operating Revenues	5,263,868	5,886,349	622,481
O&M Expense			
Labor Expense	3,804,792	2,283,083	(1,521,709)
Employee Benefits			
Group Insurance	1,513,904	928,833	(585,071)
Pensions	1,841,989	1,486,804	(355,185)
Purchased Water	62,273	62,273	-
Purchased Power	319,082	(130,699)	(449,781)
Chemical Expense	1,484,748	576,917	(907,831)
Waste Disposal Expense	-	(378,815)	(378,815)
Management Fees	(866,200)	(2,250,324)	(1,384,124)
Regulatory Expense	101,422	101,422	-
Insurance Other Than Group	525,707	448,402	(77,305)
Customer Accounting	483,704	403,825	(79,879)
Rent Expense	106,447	96,719	(9,728)
General Office Expense	124,298	78,795	(45,503)
Maintenance Expense	(6,624,679)	(6,641,648)	(16,969)
Other Miscellaneous	609,982	85,790	(524,192)
Depreciation Expense	10,822,306	10,728,418	(93,888)
Amortization Expense	1,121	(1,624,641)	(1,625,762)
IURC Fee	29,778	6,017	(23,761)
Payroll Tax	223,069	126,457	(96,612)
Utility Receipts Tax	71,327	75,225	3,898
Property Taxes	2,835,792	2,835,792	-
Other General Taxes	(4,178)	(5,448)	(1,270)
			-
State Income Taxes	(1,328,313)	(753,782)	574,531
Federal Income Taxes	(5,796,706)	(2,472,526)	3,324,180
Total Operating Expenses	10,341,665	6,066,889	(4,274,776)
Net Operating Income	$ (5,077,797)	$ (180,540)	$ 4,897,257

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

COMPARATIVE BALANCE SHEET
As of November 30,

ASSETS	**2008**	**2007**	**Variance**
Utility Plant:			
Utility Plant in Service	957,636,087	$ 898,512,618	$ 59,123,469
Construction Work in Progress	59,963,447	23,485,926	36,477,521
Acquisition Adjustment	35,428,547	36,788,134	(1,359,587)
Less: Accumulated Depreciation	(229,362,279)	(220,263,888)	(9,098,391)
Net Utility Plant in Service	823,665,802	738,522,790	85,143,012
Non-Utility Plant, net	663,527	721,089	(57,562)
Other Investments	610,631	610,631	-
Current Assets:			
Cash and Cash Equivalents	(175,832)	753,425	(929,257)
Temporary Investments	-	-	-
Customer Accounts Receivable	11,974,530	11,003,559	970,971
Allowance for Uncollectible Accounts	(1,237,821)	(1,530,902)	293,081
Unbilled Revenues	8,574,804	8,578,583	(3,779)
FIT Refund due from Assoc. Companies	-	863,966	(863,966)
Miscellaneous Receivables	449,278	308,112	141,166
Materials and Supplies	1,452,585	1,171,139	281,446
Other Current Assets	1,315,083	1,085,616	229,467
Total Current Assets	22,352,627	22,233,498	119,129
Deferred Debits			
Debt and Preferred Stock	3,040,231	3,132,049	(91,818)
Rate Case Costs	417,021	864,692	(447,671)
Prelim Survey and Invest Charges	-	-	-
Regulatory Asset - Income Tax Recovery	11,862,666	11,784,379	78,287
Other Deferred Debits	11,398,113	11,481,047	(82,934)
Total Deferred Debits	26,718,031	27,262,167	(544,136)
Total Assets	$ 874,010,618	$ 789,350,175	$ 84,660,443

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

COMPARATIVE BALANCE SHEET
As of November 30,

LIABILITIES	2008	2007	Variance
Equity			
Common Stock	$ 92,760,900	$ 92,760,900	$ -
Paid in Capital	56,018,059	40,952,868	15,065,191
Retained Earnings	93,357,457	86,906,153	6,451,304
Total Common Equity	242,136,416	220,619,921	21,516,495
Preferred Stock	-	-	-
Long-term Debt	226,707,000	227,414,000	(707,000)
Total Capitalization	468,843,416	448,033,921	20,809,495
Contributions in Aid of Construction	86,215,159	79,302,421	6,912,738
Current Liabilities			
Bank Debt	31,412,488	5,382,078	26,030,410
Accounts Payable	15,570,185	10,629,141	4,941,044
Current Portion of Long-term Debt	27,701,000	8,838,750	18,862,250
Accrued Taxes	31,439,365	40,172,421	(8,733,056)
Accrued Interest	4,106,006	4,016,411	89,595
Customer Deposits	-	-	-
Dividends Declared	-	-	-
Other Current Liabilities	13,216,022	6,565,846	6,650,176
Other Current Liabilities	123,445,066	75,604,647	47,840,419
Deferred Credits			
Customer Advances for Construction	70,277,151	69,923,129	354,022
Deferred Income Taxes	85,790,087	79,569,539	6,220,548
Deferred Investment Tax Credits	1,849,229	2,070,154	(220,925)
Reg. Liab. - Inc. Tax Refund through rates	30,097,551	25,001,528	5,096,023
Other Deferred Credits	7,492,959	9,844,836	(2,351,877)
Total Deferred Credits	195,506,977	186,409,186	9,097,791
Total Liabilities and Capital	$ 874,010,618	$ 789,350,175	$ 84,660,443

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

COMPARATIVE INCOME STATEMENT
Twelve Months Ended November 30,

	2008	2007	Difference	Difference %
Operating Revenues				
Water Revenues	$ 154,526,700	$ 142,962,719	$ 11,563,981	8.09%
Sewer Revenues	340,415	318,686	21,729	6.82%
Other	2,350,363	684,663	1,665,700	243.29%
Total Operating Revenues	157,217,478	143,966,068	13,251,410	9.20%
Operating Expenses				
Salaries and Wages	13,415,893	12,825,503	590,390	4.60%
Employee Benefits				
Group Insurance	4,229,070	4,077,997	151,073	3.70%
Pensions	1,982,861	2,021,321	(38,460)	-1.90%
Purchased Water	789,955	915,845	(125,890)	-13.75%
Purchased Power	6,017,755	5,632,427	385,328	6.84%
Chemical Expense	1,700,030	1,644,001	56,029	3.41%
Waste Disposal Expense	1,823,236	2,038,200	(214,964)	-10.55%
Management Fees	19,925,953	18,675,780	1,250,173	6.69%
Regulatory Expense	454,758	409,711	45,047	10.99%
Insurance Other Than Group	1,266,896	1,635,749	(368,853)	-22.55%
Customer Accounting	4,047,104	4,437,960	(390,856)	-8.81%
Rents	516,418	175,289	341,129	194.61%
General Office Expense	1,284,350	1,306,945	(22,595)	-1.73%
Maintenance Expense	10,455,959	7,466,557	2,989,402	40.04%
Other	6,076,752	6,570,425	(493,673)	-7.51%
Total O&M Expense	73,986,990	69,833,710	4,153,280	5.95%
Taxes				
Other General Taxes	12,991,827	14,169,853	(1,178,026)	-8.31%
State Income Taxes	3,286,041	1,989,051	1,296,990	65.21%
Federal Income Taxes	10,278,960	8,739,208	1,539,752	17.62%
	26,556,828	24,898,112	1,658,716	6.66%
Depreciation Expense	20,499,270	21,960,894	(1,461,624)	-6.66%
Amortization Expense	453,203	341,091	112,112	32.87%
Total Operating Expenses	121,496,291	117,033,807	4,462,484	3.81%
Net Operating Income	35,721,187	26,932,261	8,788,926	32.63%

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

COMPARATIVE INCOME STATEMENT
Twelve Months Ended November 30,

	2008	2007	Difference	Difference %
Other Income				
Interest Income	$ 23,739	$ 182,639	(158,900)	-87.00%
Gain (Loss) on Disposition of Assets	(9,784)	-	(9,784)	
M & J Miscellaneous Income	179,837	1,177,754	(997,917)	-84.73%
AFUDC - Equity	1,431,536	314,374	1,117,162	355.36%
Rental Income - Non-Operating	(23,932)	120,975	(144,907)	-119.78%
Dividend Income - Common Stock	-	-	-	
Total Other Income	1,601,396	1,795,742	(194,346)	-10.82%
Other Deductions				
Miscellaneous Amortization	1,346,820	1,346,820	-	0.00%
Miscellaneous Other Deductions	215,644	188,897	26,747	14.16%
Taxes on Other Income and Deductions:				
State Income	(131,158)	551,852	(683,010)	-123.77%
Federal Income	(157,839)	2,231,890	(2,389,729)	-107.07%
Total Other Deductions	1,273,467	4,319,459	(3,045,992)	-70.52%
Net Income before Interest Charges	36,049,116	24,408,544	11,640,572	47.69%
Interest Charges				
Interest - Long-Term Debt	16,257,736	15,402,761	854,975	5.55%
Interest - Banks	678,664	1,029,807	(351,143)	-34.10%
Amortization - Debt Expense	201,933	209,618	(7,685)	-3.67%
Other	(30,663)	2,021	(32,684)	-1617.22%
Allowance for Funds Used During Constructi	(692,289)	(147,635)	(544,654)	368.92%
Total Interest Charges	16,415,381	16,496,572	(81,191)	-0.49%
Net Income	19,633,735	7,911,972	11,721,763	148.15%
Dividends on Common Stock	13,182,427	6,034,860	7,147,567	118.44%
Net Income to Retained Earnings	$ 6,451,308	$ 1,877,112	$ 4,574,196	243.68%

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Pro-forma Net Operating Income Statement

	Year Ended 11/30/2008	Adjustments	Sch Ref	*Pro-forma* Present Rates	Adjustments	Sch Ref	*Pro-Forma* Proposed Rates
Operating Revenues	$ 154,867,115	$ 6,439,449	5-1	$ 161,306,564	$ 22,711,699	1	$ 184,018,263
Other Revenues	2,350,363	(553,100)	5-2	1,797,263			1,797,263
Total Operating Revenues	157,217,478	5,886,349		163,103,827	22,711,699		185,815,526
O&M Expense							
Labor Expense	13,415,893	2,283,083	6-1	15,698,976			15,698,976
Employee Benefits							
Group Insurance	4,229,070	928,833	6-2	5,157,903			5,157,903
Pensions	1,982,861	1,486,804	6-3	3,469,665			3,469,665
Purchased Water	789,955	62,273	6-4	852,228			852,228
Purchased Power	6,017,755	(130,699)	6-5	5,887,056			5,887,056
Chemical Expense	1,700,030	576,917	6-6	2,276,947			2,276,947
Waste Disposal Expense	1,823,236	(378,815)	6-7	1,444,421			1,444,421
Management Fees	19,925,953	(2,250,324)	6-8	17,675,629			17,675,629
Regulatory Expense	454,758	101,422	6-9	556,180			556,180
Insurance Other Than Group	1,266,896	448,402	6-10	1,715,298			1,715,298
Customer Accounting	4,047,104	403,825	6-11	4,450,929	284,010	1	4,734,939
Rent Expense	516,418	96,719	6-12	613,137			613,137
General Office Expense	1,284,350	78,795	6-13	1,363,145			1,363,145
Maintenance Expense	10,455,959	(6,641,648)	6-14	3,814,311			3,814,311
Other Miscellaneous	6,076,752	85,790	6-15	6,162,542			6,162,542
Depreciation Expense	20,499,270	10,728,418	6-16	31,227,688			31,227,688
Amortization Expense	453,203	(1,624,641)	6-17	(1,171,438)			(1,171,438)
Taxes Other than Income:							
IURC Fee	166,843	6,017	7-1	172,860	24,383	1	197,243
Payroll Tax	1,077,637	126,457	7-2	1,204,094			1,204,094
Utility Receipts Tax	2,060,459	75,225	7-3	2,135,684	297,701	1	2,433,385
Property Taxes	9,408,927	2,835,792	7-4	12,244,719			12,244,719
Other General Taxes	277,961	(5,448)	7-5	272,513			272,513
Income Taxes:							
State Income Taxes	3,286,041	(753,782)	7-6	2,532,259	1,904,281	1	4,436,540
Federal Income Taxes	10,278,960	(2,472,526)	7-6	7,806,434	7,070,464	1	14,876,898
Total Operating Expenses	121,496,291	6,066,889		127,563,180	9,580,839		137,144,019
Net Operating Income	$ 35,721,187	$ (180,540)		$ 35,540,647	$ 13,130,860		$ 48,671,507

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Revenue Adjustments

(1)
Operating Revenues

To adjust Water and Sewer operating revenues to *pro forma* levels.

Test Year Operating Revenues	$	154,867,115
Operating Revenue Adjustments (see detail below)		6,439,449
Pro-Forma Present Rate Operating Revenues	$	161,306,564

Detail of Adjustment Before Allocation:

Bill Analysis Reconciliation	Pet Petitioner	$	(15,900)
Adjustment for Unbilled Revenue	Pet Petitioner		3,777
Portage billing error (fire protection surcharge)	CEP		270,389
DSIC Normalization	CEP		5,469,492
Revenue Normalization -- Test Year			
Residential Customers	CEP		(349,314)
Commercial Customers	CEP		(368,961)
Customer Growth -- Through 6/30/09			
Residential Customers	CEP		943,194
Commercial Customers	CEP		486,772
Total Adjustment		$	6,439,449

(2)
Other Revenues

To adjust other operating revenues to *pro forma* levels.

Test Year Other Revenues	$	2,350,363
Revenue Adjustments (see detail below)		(553,100)
Pro-Forma Present Rate Revenues	$	1,797,263

Detail of Adjustment Before Allocation:

Adjustment for large accounts with Change in Status	Per Petitioner		(400,898)
Adjustment for Other O&M Billings	Per Petitioner		(183,165)
Increase in NSF fee under proposed tariffs	CEP		33,363
Reclass rental expense - Vigo County Redevelopment Commission	CEP		(2,400)
Total Adjustment Before Corporate Allocation		$	(553,100)

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Expense Adjustments

(6-1)
Labor Expense

To adjust labor expense for *pro forma* wage levels and actual employee count as of June 30, 2009.

Test Year Labor Expense		$	13,415,893
Adjustments (see detail below)			2,283,083
***Pro forma* Labor Expense**		$	15,698,976
Detail of Adjustment(s):			
Adjust for 353 full time and 12 temporary employees	HHR	$	2,283,083
Total Adjustment -- Increase (Decrease)		$	2,283,083

(6-2)
Group Insurance Expense

To adjust group insurance expense to *pro forma* levels based on recommended employee levels.

Test Year Group Insurance Expense		$	4,229,070
Adjustments (see detail below)			928,833
***Pro forma* Group Insurance Expense**		$	5,157,903
Detail of Adjustment(s):			
Adjustment of group insurance expense	HHR	$	92,649
Adjustment for current OPEB Expense	MAS		836,184
Total Adjustment -- Increase (Decrease)		$	928,833

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Expense Adjustments

(6-3)
Pension Expense

To adjust pension expense for the 2009 Towers & Perrin actuarial report.

Test Year Pension Expense		$	1,982,861
Adjustments (see detail below)			1,486,804
***Pro forma* Pension Expense**		$	3,469,665
Detail of Adjustment(s):			
Annualize pension expense	Per Petitioner	$	1,486,804
Total Adjustment -- Increase (Decrease)		$	1,486,804

(6-4)
Purchased Water

To adjust purchased water expense for known rate increases.

Test Year Purchased Water Expense		$	789,955
Adjustments (see detail below)			62,273
***Pro forma* Purchasd Water Expense**		$	852,228
Detail of Adjustment(s):			
Annualized Increase - Shelburn, In	Per Petitioner		60,593
Annualized Increase - Evansville, In	Per Petitioner		1,680
Total Adjustment -- Increase (Decrease)		$	62,273

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Expense Adjustments

(6-5)
Purchased Power

To adjust purchased power expense for known rate increases and to eliminate non-recurring or non-allowed expenses.

Test Year Purchased Power Expense		$	6,017,755
Adjustments (see detail below)			(130,699)
***Pro forma* Purchasd Power Expense**		$	5,887,056

Detail of Adjustment(s):

Adjustment for actual rate increases	CEP	$	7,634
Adjustment for accruals and misc. fuel and power charges	Per Petitioner		(144,908)
Eliminate purchased power for non-utility plant *(Richmond Call Center)*	CEP		(9,494)
Expense normalization	CEP		16,069
Total Adjustment -- Increase (Decrease)		$	(130,699)

(6-6)
Chemical Expense

To adjust chemical expense for known price increases as of 8/31/09.

Test Year Chemical Expense		$	1,700,030
Adjustments (see detail below)			576,917
***Pro forma* Chemical Expense**		$	2,276,947

Detail of Adjustment(s):

Annualize chemical price increases as of 8/31/09	HHR	$	570,699
Expense normalization	CEP		6,218
Total Adjustment -- Increase (Decrease)		$	576,917

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Expense Adjustments

(6-7)
Waste Disposal Expense

To adjust waste disposal expense to eliminate non-recurring accrual adjustments and adjust Kokomo accrual for actual costs.

Test Year Waste Disposal Expense		$	1,823,236
Adjustments (see detail below)			(378,815)
***Pro forma* Waste Disposal Expense**		$	1,444,421

Detail of Adjustment(s):

Reverse non-recurring 12/07 Accrual True-up (Johnson County)	MAS	$	(265,387)
Reverse non-recurring 12/07 Accrual True-up (Northwest IN)	MAS		(98,468)
Reverse non-recurring 12/07 Accrual True-up (Shelbyville)	MAS		(2,033)
Adjust Kokomo expense to actual	MAS		(12,927)
Total Adjustment -- Increase (Decrease)		$	(378,815)

(6-8)
Management Fees

To adjust management fees to reflect the level of expenses from Cause No. 43187 updated for inflation and known increases in Pension/OPEB costs.

Test Year Management Fees		$	19,925,953
Adjustments (see detail below)			(2,250,324)
***Pro forma* Management Fees**		$	17,675,629

Detail of Adjustment(s):

Adjustment to reflect increase over 2006 expenses	MAS	$	(3,473,644)
Increase to salary expense for Service Company employees	Per Petitioner		280,885
Known increases in Pension, OPEB, and other benefit expense	Per Petitioner		942,435
		$	(2,250,324)

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Expense Adjustments

(6-9)
Regulatory Expense

To adjust rate case expense to *pro forma* levels.

Test Year Regulatory Expense		$	454,758
Adjustments (see detail below)	Per Petitioner		101,422
***Pro forma* Regulatory Expense**		$	556,180

Detail of Adjustment(s):

Total estimated rate case expense for this cause	$	1,112,360
Amortized over 2 years		/2
Annual pro forma regulatory expense		556,180
Less: Test Year regulatory expense		(454,758)
Total Adjustment -- Increase (Decrease)	$	101,422

(6-10)
Insurance Other than Group

To adjust insurance other than group expense to reflect current insurance premiums.

Test Year Insurance other than Group Expense	$	1,266,896
Adjustments (see detail below)		448,402
***Pro forma* Insurance Other Than Group Expense**	$	1,715,298

Detail of Adjustment(s)

Adjust general liability insurance to 2009 rates	RJC	$	289,877
Adjust workers' comp. insurance to 2009 rates	Per Petitioner		70,345
Adjust risk and personal prop. Ins. to 2009 rates	Per Petitioner		88,180
Total Adjustment -- Increase (Decrease)		$	448,402

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Expense Adjustments

(6-11)
Customer Accounting Expense

To adjust customer accounting expense to *pro forma* levels.

Test Year Customer Accounting Expense		$	4,047,104
Adjustments (see detail below)			403,825
***Pro forma* Customer Accounting Expense**		$	4,450,929

Detail of Adjustment(s)

Adjustment for present rate uncollectibles	RJC	$	411,364
Elimination of uncollectible expense for miscellaneous invoices	RJC		(76,406)
Adjustment for postage and mailing expense	Pet Petitioner		63,051
Expense Normalization - Postage	CEP		5,816
Total Adjustment -- Increase (Decrease)		$	403,825

(6-12)
Rent Expense

To adjust rent expense to *pro forma* levels.

Test Year Rent Expense		$	516,418
Adjustments (see detail below)			96,719
***Pro forma* Rent Expense**		$	613,137

Detail of Adjustment(s)

Sub-lease agreement broken by Lessee -- Greenwood Office	RJC	$	96,719
Total Adjustment -- Increase (Decrease)		$	96,719

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Expense Adjustments

(6-13)
General Office Expense

To adjust general office expense to *pro forma* levels.

Test Year General Office Expense		$	1,284,350
Adjustments (see detail below)			78,795
***Pro forma* General Office Expense**		$	1,363,145
Detail of Adjustment(s)			
Relocation Expense Adjustment	Per Petitioner	$	131,527
Eliminate Labor expense	MAS		(37,429)
Eliminate non-allowed expenses	MAS		(15,303)
Total Adjustment -- Increase (Decrease)		$	78,795

(6-14)
Maintenance Expense

To adjust maintenance expense to eliminate non-recurring or non-allowed expenses.

Test Year Maintenance Expense		$	10,455,959
Adjustments (see detail below)			(6,641,648)
***Pro forma* Maintenance Expense**		$	3,814,311
Detail of Adjustment(s)			
Eliminate net negative salvage	Per Petitioner		(6,623,121)
Eliminate labor expense	Per Petitioner		(1,558)
Eliminate maintenance costs for Richmond Call Center	MAS		(3,163)
Eliminate amortization of Mooresville and Warsaw tank painting	MAS		(13,806)
Total Adjustment -- Increase (Decrease)		$	(6,641,648)

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Expense Adjustments

(6-15)
Other Miscellaneous Expense

To adjust miscellaneous expense for non-recurring or non-allowed expenses.

Test Year Other Miscellaneous Expense		$	6,076,752
Adjustments (see detail below)			85,790
***Pro forma* Other Miscellaneous Expense**		$	6,162,542

Detail of Adjustment(s)

Adjustment for 401K Expense	HHR	$	26,052
Adjustment for defined contribution plan expense	HHR		12,003
Eliminate labor expense	Per Petitioner		(22,128)
Eliminate lobbying portion of NAWC Fees (17%)	MAS		(11,485)
Eliminate non-allowed and non-recurring expenses	MAS		(199,045)
Adjustment for contract services	Per Petitioner		(163,689)
Adjustment for legal expense	MAS		96,220
Adjustment for security expense	Per Petitioner		(572,727)
Adjustment for vehicle insurance	Per Petitioner		(16,357)
Adjustment for penalties	Per Petitioner		173,973
Adjustment for miscellaneous operations expense	MAS		(100,000)
Adjustment for leased vehicles	Per Petitioner		817,214
Adjustment for leased vehicles - fuel and maintenance	Per Petitioner		45,759
Total Adjustment -- Increase (Decrease)		$	85,790

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Expense Adjustments

(6-16)
Depreciation Expense

To adjust depreciation expense to *pro forma* levels.

Test Year Depreciation Expense		$ 20,499,270
Adjustments (see detail below)		10,728,418
***Pro forma* Depreciation Expense**		$ 31,227,688

Detail of Adjustment(s)

Pro forma Utility Plant in Service		$ 1,074,707,751
Less: Land and land rights	13,989,357	
Organization	507,257	
Franchise	2,677	
Distribution Reservoirs - orig paint (fully depreciated)	505,868	
Regulatory Asset - Deferred Depreciation	2,121,238	
Property held for future use	6,600	
		(17,132,997)
Pro forma Depreciable Utility Plant in Service		1,057,574,754
Times: Composite Depreciation Rate per Depreciation Study		2.96%
Gross Depreciation Expense	Per Petitioner	31,321,576
Less: Depreciation Expense - Muncie Meters (7.44%)	MAS	(44,994)
Less: Depreciation Expense - Southern Indiana Pump (6.49%)	MAS	(48,894)
Pro forma Depreciation Expense		31,227,688
Less: Test Year Depreciation Expense		20,499,270
Total Adjustment -- Increase (Decrease)		$ 10,728,418

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Expense Adjustments

(6-17)
Amortization Expense

To adjust amortization expense to *pro forma* levels.

Test Year Amortization Expense	$	453,203
Adjustments (see detail below)		(1,624,641)
***Pro forma* Amortization Expense**	$	(1,171,438)

Detail of Adjustment(s)

Amortization of contributed plant	MAS	$	(1,625,762)
Reclass of limited term plant amortization	Per Petitioner		21,937
Reclass amortization of regulatory asset -- AFUDC Debt	Per Petitioner		(122,384)
Reclass and adjustment of deferred depreciation	Per Petitioner		85,596
Reclass and adjustment of deferred depreciation	Per Petitioner		4,224
Reclass and adjustment of deferred depreciation	Per Petitioner		11,748
Total Adjustment -- Increase (Decrease)		$	(1,624,641)

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Tax Adjustments

(7-1)
IURC Fee

To adjust the IURC fee for the current rate in effect and for present rate *pro forma* revenues.

Test Year IURC Fee	$	166,843
Adjustments (see detail below)		6,017
***Pro forma* IURC Fee**	$	172,860

Detail of Adjustment(s):

Pro forma Present Rate Revenues	$	163,103,827
Less: *Pro forma* Bad Debt Expense		(2,093,545)
Net Taxable Revenues	$	161,010,282
Times Current Rate		0.1073599%
Pro forma IURC Fee		172,860
Less: Test Year IURC Fee		(166,843)
Total Adjustment -- Increase (Decrease)	$	6,017

(7-2)
Payroll Tax

To adjust payroll tax expense for *pro forma* labor adjustments.

Test Year Payroll Tax Expense	$	1,077,637
Adjustments (see detail below)		126,457
***Pro forma* Payroll Tax Expense**	$	1,204,094

Detail of Adjustment(s):

Adjust payroll taxes for *pro forma* labor adjustments	HHR Attachment 6	$	126,457
Total Adjustment -- Increase (Decrease)		$	126,457

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Tax Adjustments

(7-3)
Indiana Utility Receipts Tax

To adjust Indiana Utility Receipts Tax for *pro forma* present rate revenue adjustments.

Pro forma Present Rate Revenues	$ 163,103,827
Less: Sales for Resale	(8,460,453)
Exemption	(1,000)
Pro forma Uncollectible Expense	(2,093,545)
Taxable Revenues	152,548,829
Times: Tax Rate (1.4%)	1.40%
Pro-Forma Utility Receipts Tax	2,135,684
Less: Test Year	(2,060,459)
Total Adjustment -- Increase (Decrease)	$ 75,225

(7-4)
Property Tax

To adjust property tax expense for major projects and general utility plant additions through 6/30/09. *Pro forma* property tax calculated using 2007 property tax rates (payable in 2008).

Test Year Property Tax	$ 9,408,927
Adjustments (see detail below)	2,835,792
***Pro forma* Property Tax**	$ 12,244,719

Detail of Adjustment(s):

Property Taxes on Utility Plant Additions	Per Petitioner	$ 2,835,792
Total Adjustment -- Increase (Decrease)		$ 2,835,792

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Tax Adjustments

(7-5)
Other General Taxes

To adjust general tax expense for *pro forma* IDEM safe drinking water fee.

Test Year IDEM safe drinking water fee		$	273,455
Adjustments (see detail below)	MAS		(5,448)
***Pro forma* IDEM safe drinking water fee**		$	268,007

Detail of Adjustment(s):

Number of Customers at 06/30/09 (excludes fire service customers)		282,113
Times: IDEM fee per customer connection		0.95
Pro forma IDEM safe drinking water fee		268,007
Less: Test Year IDEM safe drinking water fee		(273,455)
Total Adjustment -- Increase (Decrease)	$	(5,448)

(7-6)
Federal and State Income Taxes

To adjust federal and state income taxes to pro forma present rates levels.

FEDERAL INCOME TAX

Pro forma Present Rate Revenues	OUCC Schedule 4	$	163,103,827
Less:			
Pro forma Operating & Maintenance Expenses	OUCC Schedule 4		71,138,367
Depreciation-Tax Normalized	Per Petitioner		25,952,986
Amortization	OUCC Schedule 4		454,324
General Taxes	OUCC Schedule 4		16,029,870
Amortization of ITC	Per Petitioner		(229,964)
Permanent Taxable Differences	Per Petitioner		(159,875)
Allocation of Parent Company interest	Per Petitioner		3,316,899
Synchronized Interest-See Sch. 8	OUCC Schedule 8		21,098,312
Federal Taxable Income (Before State Taxes)			25,502,908

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Tax Adjustments

(7-6)
State and Federal Income Taxes (Continued)

Federal Taxable Income (Before State Taxes)		25,502,908
Less: State Income Taxes		2,532,259
Allocation of Parent Company Interest	Per Petitioner	-
Add: Amortization of Reg. Assets/Liab.	Per Petitioner	5,122
Federal Taxable Income		22,975,771
Times: Federal Tax Rate		35.0%
Sub-Total		8,041,520
Add: SFAS 109 Amortization to FIT	Per Petitioner	(5,122)
Investment Credit Amortization	Per Petitioner	(229,964)
Federal Income Taxes		7,806,434
Less: Test Year Expense		(10,278,960)
Total Adjustment -- Increase (Decrease)		$ (2,472,526)
STATE INCOME TAX		
Federal Taxable Income (Before State Taxes)		$ 25,502,908
Add: Amortization of Reg. Assets/Liab.	Per Petitioner	(194,379)
Utility Receipts Tax	7-4	2,135,684
State Taxable Income		27,444,213
Times: Supplemental Income Tax Rate		8.5%
State Supplemental Income Tax		2,332,758
Add: SFAS Amortization to SIT	Per Petitioner	199,501
Total State Income Taxes		2,532,259
Less: Test Year Expense		3,286,041
Total Adjustment -- Increase (Decrease)		$ (753,782)

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Synchronized Interest Calculation

Calculation of interest synchronization expense for purposes of calculating Federal and State income taxes.

Total Original Cost Rate Base-See Sch. 10	$	657,268,279
Add: Indiana Cities Acquisition Adj.		-
Northwest Acquisition Adj.		-
		657,268,279
Times: Weighted Cost of Debt		3.21%
Synchronized Interest Expense	$	21,098,312

		Amount	Percent Of Total	Cost Rate	Weighted Cost
Long Term Debt	$	286,074,759	46.03%	6.96%	3.21%
Common Equity		273,585,059	44.02%	9.25%	
Preferred Stock		270,000	0.04%	6.00%	
Deferred Income Taxes		58,961,589	9.49%	0.00%	
Deferred ITC-Pre 1971		51,033	0.01%	0.00%	
Post Retirement Benefits, net		2,443,592	0.39%	0.00%	
Accum. Depreciation-Muncie Sewer		57,224	0.01%	0.00%	
Total excluding JDITC	$	621,443,256	100.00%		3.21%

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Calculation of Original Cost Rate Base

	Per Petitioner	Per OUCC	OUCC More (Less)
Utility Plant In Service as of 06/30/09	$ 1,060,504,129	$ 1,060,504,129	$ -
Add: *Pro forma* Major Projects	15,150,000	15,150,000	-
Captialized Tank Painting	346,651	346,651	-
Pro forma Regulatory Assets			-
Deferred Depreciation	3,669,204	3,669,204	-
Post-in-service AFUDC	5,577,073	5,577,073	-
Less: Southern Indiana Pump (42520)	-	753,378	753,378
Muncie Meters (42520)	-	193,000	193,000
Pro forma Utility Plant in Service	1,085,247,057	1,084,300,679	(946,378)
Accumulated Depreciation of Utility Plant in Service	272,221,385	272,221,385	-
Add: Amortization of Capitalized Tank Painting	44,860	301,790	256,930
Amortization of Deferred Depreciation	1,090,305	1,090,305	-
Amortization of Post-in-service AFUDC	1,795,845	1,795,845	-
Less: Southern Indiana Pump (42520)	-	479,192	479,192
Muncie Meters (42520)	-	150,748	150,748
	275,152,395	274,779,385	(373,010)
Net Utility Plant in Service	810,094,662	809,521,294	(573,368)
Deductions:			
Contributions-in-aid of Construction (CIAC)	89,388,248	90,320,116	931,868
Accumulated Amortization of CIAC	-	(1,625,762)	(1,625,762)
Customer Advances	57,073,179	65,990,888	8,917,709
Somerset Capacity Adjustment	178,005	178,005	-
	146,639,432	154,863,247	8,223,815
Additions:			
Acquisition Adjustment, net	586,468	586,468	-
Excess Pension and OPEB Costs (Jan - June 2009)	1,420,978	-	(1,420,978)
Materials and Supplies	2,023,764	2,023,764	-
	4,031,210	2,610,232	(1,420,978)
Total Original Cost Rate Base	$ 667,486,440	$ 657,268,279	$ (10,218,161)

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

***Pro forma* Weighted Cost of Capital**
As of 06/30/09

	Amount	Percent of Total	Cost	Ref	Weighted Cost
Long Term Debt	286,074,759	45.91%	6.96%	Support Sch. 1	3.20%
Deferred Income Taxes	58,961,589	9.46%	0.00%		0.00%
Accum. Depreciation-Muncie Sewer	57,224	0.01%	0.00%		0.00%
Post Retirement Benefits, net	2,443,592	0.39%	0.00%		0.00%
Deferred ITC-Pre 1971	51,033	0.01%	0.00%		0.00%
JDITC - Post 1970	1,670,480	0.27%	8.08%	Support Sch. 2	0.02%
Preferred Stock	270,000	0.04%	6.00%	Support Sch. 3	0.00%
Common Equity	273,585,059	43.91%	9.25%	ERK	4.06%
	$ 623,113,736	100.000%			7.28%

INDIANA-AMERICAN WATER COMPANY, INC.

CAUSE NUMBER 43680

***Pro forma* Imbedded Cost of Long Term Debt**
As of June 30, 2009

First Mortgage Bonds	Interest Rate	Date Issued	Maturity Date	Face Amount Outstanding @ 12/31/08	Pro-forma Face Amt. Outstanding @ 11/30/09 Adjusted to @6/30/09	Pro-forma Unamort. Debt Exp. @ 6/30/09	Pro-forma Carrying Value @ 6/30/09	Annual Interest	Annual Amort.	Total Annual Cost
Series B	6.9900%	01/01/94	01/01/24	9,000,000	9,000,000	125,799	8,874,201	629,100	8,520	637,620
Series C	5.9000%	06/01/96	06/01/26	-	-	277,095	(277,095)	-	16,380	16,380
Series D	5.0000%	12/01/98	12/01/28	7,865,000	7,865,000	623,974	7,241,026	393,250	32,136	425,386
General Mortgage Bonds										
Series	8.9800%	03/01/90	03/01/10	7,100,000	7,100,000	1,936	7,098,064	637,580	2,904	640,484
Series	7.1100%	05/11/94	05/01/24	15,500,000	15,500,000	60,698	15,439,302	1,102,050	4,092	1,106,142
Series	7.3800%	09/01/95	09/01/15	12,000,000	12,000,000	61,050	11,938,950	885,600	9,900	895,500
Series	7.4500%	12/01/95	09/01/15	28,000,000	28,000,000	44,548	27,955,452	2,086,000	7,224	2,093,224
Bonds	5.9000%	09/01/92	09/01/22	-	-	221,516	(221,516)	-	16,824	16,824
Bonds	5.3500%	12/01/93	12/01/23	-	-	246,160	(246,160)	-	17,376	17,376
Series	7.8000%	07/01/97	07/01/27	10,000,000	10,000,000	31,752	9,968,248	780,000	1,764	781,764
Series	6.8450%	07/01/98	07/01/28	19,000,000	19,000,000	79,572	18,920,428	1,300,550	4,188	1,304,738
Series	6.9000%	07/01/99	07/01/09	20,000,000	-	-	-	-	-	-
Bonds	4.8750%	10/26/06	10/01/36	25,770,000	25,770,000	614,562	25,155,438	1,256,288	22,553	1,278,841
AWCC Intercompany Borrowing										
Series	6.8700%	03/30/01	03/29/11	22,800,000	15,200,000	43,050	15,156,950	1,044,240	25,830	1,070,070
Series	6.0500%	12/01/03	12/01/13	-	-	21,208	(21,208)	-	869	869
Series	5.7700%	07/01/07	12/01/21	16,000,000	16,000,000	46,245	15,953,755	923,200	3,700	926,900
Series	6.5830%	10/01/07	10/01/37	33,000,000	33,000,000	314,551	32,685,449	2,172,390	11,102	2,183,492
Series	6.2500%	05/15/08	05/15/18	27,000,000	27,000,000	91,478	26,908,522	1,687,500	10,259	1,697,759
Series	8.2500%	02/04/09	12/01/38	-	22,000,000	807,290	21,192,710	1,815,000	27,432	1,842,432
Series	8.2700%	05/01/09	05/01/39	-	15,500,000	-	15,500,000	1,281,850	-	1,281,850
Series	6.6400%	11/15/09	11/15/39	-	23,970,000	1,599,600	22,370,400	1,591,608	53,320	1,644,928
Tax Exempt/Gov't Related										
SRF - Prairieton	2.9000%	01/05/01	01/01/21	294,000	275,000	8,970	266,030	7,975	718	8,693
SRF - Gary	2.9000%	06/15/01	07/01/21	739,000	692,000	6,187	685,813	20,068	516	20,584
SRF Low Interest Debt	2.8700%	10/01/09			1,120,000	-	1,120,000	32,144	-	32,144
SRF Forgivable Loans	0.0000%	10/01/09			2,410,000	-	2,410,000	-	-	-
Obligations-Capital Leases										
Capital Leases				-	-	-	-	-	-	-
				$ 254,068,000	$ 291,402,000	$ 5,327,241	$ 286,074,759	$ 19,646,393	$ 277,607	$ 19,924,000

Cost of Long Term Debt (Total Annual Cost/Carrying Value @ 12/31/03)	6.96%

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Required Return On Post-1970 Investment Tax Credit Balances
As of June 30, 2009

	Amount	Percent Of Total	Cost Rate	Weighted Cost
Investor Supplied Capital:				
Long Term Debt	$ 286,074,759	51.09%	6.96%	3.56%
Preferred Stock	270,000	0.05%	6.00%	0.00%
Common Equity	273,585,059	48.86%	9.25%	4.52%
Totals	$559,929,818	100.00%		8.08%

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Pro forma Cost of Preferred Stock
As of June 30, 2009

		Date Issued	Interest Rate	Outstanding at Par @ 12/31/06	Net Proceeds @ 12/31/06	Annual Dividends	Total Annual Cost
Cumulative Preferred Stock							
Series I	$100 PAR	1967	6.0000%	270,000	270,000	16,200	16,200
Total				$ 270,000	$ 270,000	$ 16,200	$ 16,200

Cost of Preferred Stock (Total Annual Cost/Net Proceeds) 6.00%

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 43680

Fair Value Increment

Acquisition Adjustment		
1993 Purchase of Indiana Cities	$	17,412,009
1999 Purchase of Watson Rural Water		-
1999 Purchase of Northwest		-
2000 Purchase of United Utilities		-
Total Acquisition Adjustment		17,412,009
Less: Accumulated Amortization as of 6/30/09		(6,115,627)
Acquisition Adjustment net of Amortization		11,296,382
Times: Rate of Return		7.28%
Fair Value Increment	$	822,377

No. IAIG 5-001

DATA INFORMATION REQUEST
Indiana American Water Company
Cause No. 43680

Date Requested: 10/09/09

Information Requested:

Referring to Indiana-American's response to IAIG 03-003, please answer the following:

a. The Company stated that it issued $15.5 million debt at a rate of 8.27% of a planned $43 million issuance. However, the Note Purchase Agreement attached to this response shows an issuance of $25.5 million at a rate of 8.27%. Please reconcile these two issuance amounts.

b. Please state whether Indiana-American intends to issue the remaining amount of the planned $43 million debt issue. If yes, please identify the date(s), amount and estimated cost (interest rate) of any additional debt issuances.

c. On an electronic spreadsheet with all formulas intact, please update Petitioner's Exhibit SWR-1, Schedule 1, to reflect the issuance of $15.5 million debt and the full $43 million debt issuance.

Requested By: Bette J. Dodd, Lewis & Kappes, P.C. -- 317-639-1210 -- bdodd@lewis-kappes.com

Information Provided:

a. The Company's debt issuance in May 2009 was in the amount of $15.5 million. The reference to $25.5 million on the Note Purchase Agreement is the total amount of the issuance by American Water Capital Corp. (AWCC), of which $15.5 million was allocated to Indiana-American. The remaining $10 million was allocated to other American Water subsidiaries.

b. The Company has $27.5 million of debt remaining out of the planned total of $43 million. Of the $27.5 million, approximately $3,530,000 is comprised of forgivable and low interest loans through the Drinking Water State Revolving Fund Loan Program ("DWSRF"). The low interest loan portion, in the amount of $1,120,000, is expected to be issued in late October, 2009 at a rate of 2.87%. The remaining debt, $23,970,000, is expected to be issued in November 2009 in the form of a taxable thirty-year Note. The Company's most recent interest rate projection for that Note is 6.64%.

No. IAIG 5-001

DATA INFORMATION REQUEST
Indiana American Water Company
Cause No. 43680

c. Petitioner's Exhibit SWR-1, Schedule 1 includes the full $43 million issuance. It is assumed in the schedule that the debt would be at an interest rate of 8.25%. The May issuance was an actual rate of 8.27%. The balance of the issuance is still estimated until the closings occur. It is Petitioner's intention to update Exhibit SWR-1, Schedule 1, to the actual issuances as a part of its rebuttal filing and/or prior to the final evidentiary hearing (depending upon the closing dates). Petitioner has already provided an electronic version of the exhibit in discovery, so the Industrial Group should be able to modify it based upon the May issuance and the more up-to-date interest projections for the balance.

No. OUCC 16-224

DATA INFORMATION REQUEST
Indiana American Water Company
Cause No. 43680

Date Requested: 10/01/09

Information Requested:

Regarding Petitioner's Exhibit GMV-5-U, Schedule 1, please answer the following questions:

a. Please explain why actual accumulated depreciation for plant in service ($262,458,933) does not agree with the amount reflected in Petitioner's comparative balance sheet ($229,362,279) (Exhibit GMV-8, Schedule 2, page 1 of 1)

b. Please explain why actual contributions-in-aid of construction ($85,155,702) does not agree with the amount reflected in Petitioner's comparative balance sheet ($85,215,159) (Exhibit GMV-8, Schedule 2, page 1 of 1)

c. Please explain why actual customer advances ($62,974,452) do not agree with the amount reflected in Petitioner's comparative balance sheet ($70,277,151) (Exhibit GMV-8, Schedule 2, page 1 of 1).

Requested By: Daniel M. Le Vay, OUCC – 317-233-3236 – dlevay@oucc.in.gov and infomgt@oucc.in.gov

Information Provided:

a. The difference, $33,096,654, between Accumulated Depreciation for Plant in Service $262,458,933 reported on GMV-5-U and $229,362,279 reported on GMV-8, is included included in Account 256250 Asset retirement obligation/NNS, which is included in Reg. Liab-inc.tax.refund thru rates in exhibit GMV-8. See Response to OUCC17-231. The amount is the liability for removal costs and is a component of the Reserve for Accumulated Depreciation. The amount is reported separately from Accumulated Depreciation for Financial Reporting purposes.

b. The Company failed to include accounts 271110, 271150 and 271170 in its calculation of CIAC for rate base purposes. See Response to OUCC 15-208.

c. The Company failed to include accounts 252110, 252150 and 252170 in its calculation of customer advances for rate base purposes. See response to OUCC 15-208.

Prepared By: Gary Akmentins / Peter Thakadiyil

No. OUCC 16-226

DATA INFORMATION REQUEST
Indiana American Water Company
Cause No. 43680

Date Requested: 10/01/09

Information Requested:

Please explain why tank painting costs ($58,342) listed in the schedule provided at tab #45, (Workpapers Book 10 of 12) do not agree with the amount included in Petitioner's proposed rate base schedule (Exhibit GMV-5-U). Why is this same amount ($58342) shown as accumulated amortization of tank painting costs in Exhibit GMV-5-U)?

Requested By: Daniel M. Le Vay, OUCC -- 317-233-3236 – dlevay@oucc.in.gov and infomgt@oucc.in.gov

Information Provided:

Petitioner's Exhibit GMV-5 and Petitioner's Exhibit GMV-5 –U have a mistake in that they list capitalized tank painting accumulated depreciation as $58,342 as of November 30, 2008. The amount of $58,342 is the remaining amount of capitalized tank painting to be amortized as of November 30, 2008. The amount of accumulated depreciation that should be shown in Petitioner's Exhibit GMV-5 and Petitioner's Exhibit GMV-5 –U as of November 30, 2008 is $288,309. The capitalized tank painting accumulated depreciation as of June 30, 2009 as shown on Line 12 of Petitioner's Exhibit GMV-5 –U, Schedule 1 should be $301,790 instead of $44,860 as shown.

Prepared By: Gary M. VerDouw

No. OUCC 10-126

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 43680

Requested From: Edward Grubb
Date Requested: 8/21/09

Information Requested:

Please provide the 7/31/09 fair value of American Water's Pension Fund Assets.

Requested By: Daniel M. Le Vay, Office of Utility Consumer Counselor (OUCC)
317-232-2494 – dlevay@oucc.in.gov

Information Provided:

The estimated Fair Value of American Water's Pension Fund Assets as of 7/31/2009 was $592,946,230.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

January 13, 2009

IN RE:	)	
	)	
PETITION OF TENNESSEE AMERICAN WATER	)	**DOCKET NO.**
COMPANY TO CHANGE AND INCREASE CERTAIN	)	**08-00039**
RATES AND CHARGES SO AS TO PERMIT IT TO	)	
EARN A FAIR AND ADEQUATE RATE OF RETURN	)	
ON ITS PROPERTY USED AND USEFUL IN	)	
FURNISHING WATER SERVICE TO ITS CUSTOMERS	)	

ORDER

TABLE OF CONTENTS

9. The Revenue Deficiency shall be addressed by new rates reflecting a 4.37% increase to the overall revenues in each class allocated as follows:

(1) 4.37% increase to each base and volumetric rate for each customer class, with the exception of the Other Water Utilities class;

(2) 4.37% increase to the rates for Catoosa and Fort Oglethorpe;

(3) 12.77% increase to the rates for Signal Mountain at the earliest date allowed by the contract;

(4) 12.77% increase to the rates for and Walden's Ridge at the earliest date allowed by the contract; and

(5) decrease to commercial revenues of approximately $75,000 effective September 2009, to account for the additional revenue recovered by annualizing the Signal Mountain and Walden's Ridge rate increase.

10. Tennessee American Water Company shall develop a Request For Proposal ("RFP") for a comprehensive management audit by an independent certified public accountant and file the RFP in this docket no later than six months from September 22, 2008 for approval by the Authority before issuing the RFP.

11. Tennessee American Water Company is directed to file tariffs with the Authority that are designed to produce an increase of $1,655,541 in incremental revenues for service rendered and any tariffs necessary to be consistent with this Order.

12. The tariffs shall be filed within thirty days of the date of decision, September 22, 2008.

13. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen days from the date of this Order.

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION C

Illinois-American Water Company	:	
	:	
Proposed general increase in water and sewer rates. (Tariffs filed August 31, 2007)	: : :	07-0507

ORDER

DATED: July 30, 2008

Order are just and reasonable for purposes of this proceeding and should be adopted; and

(13) the new tariff sheets authorized to be filed by this Order shall reflect an effective date not less than five working days after the date of filing, with the tariff sheets to be corrected within that time period if necessary.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the Proposed Tariffs proposing a general increase in rates, filed by Illinois-American Water Company on August 31, 2007, are hereby permanently cancelled and annulled.

IT IS FURTHER ORDERED that Illinois-American Water Company is authorized and directed to file new tariff sheets with supporting workpapers in accordance with Findings (11), (12), and (13) of, and other determinations in, this Order, applicable to service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that upon the effective date of the new tariff sheets to be filed pursuant to this Order, the tariff sheets presently in effect for water and sewer service rendered by Illinois-American Water Company which are replaced thereby are hereby permanently canceled and annulled.

IT IS FURTHER ORDERED that Illinois-American Water Company shall submit with its next rate proceeding for each service area a new cost of service study as described in the prefatory portion of this Order.

IT IS FURTHER ORDERED that Illinois-American Water Company shall submit with its next rate proceeding the study comparing the costs of services obtained from American Water Works Service Company, Inc. with costs of such services had they been obtained through competitive bidding on the open market, as further described in Section IV.B.6.d., above.

IT IS FURTHER ORDERED that all objections or motions in this proceeding that have not been ruled upon are hereby deemed disposed of in a manner consistent with the ultimate conclusions herein contained.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 30th day of July, 2008.

(SIGNED) CHARLES E. BOX

Chairman

Schererville 02-009

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 43680

Date Requested: 8/4/09

Information Requested:

Petitioner's Exhibit EJG-4, the Support Service Structure and Billing document section V says: "All formulas are revised annually, effective January 1, based on December 31 customer counts. When a significant acquisition occurs, the formula percentages are adjusted at that time to reflect the new customer proportions." When is the last time that the Service Company formulas were revised at a time other than January 1? Please provide a list of all utility acquisitions during the last three calendar years along with the number of customers added by acquisition.

Requested By: Parvin Price, Bose McKinney & Evans LLP- Attorneys At Law
317-684-5213 – pprice@boselaw.com

Information Provided:

The last time the Service Company formulas were revised at a time other than January 1 was when the Citizens Water Company acquisition closed in January, 2002. Following are the number of acquisitions and customer count by state for the past three years (i.e., 1-408 represents one acquisition with 408 customers):

	2008	2007	2006
California American		1-408	
Hawaii American			1-177
Illinois American		1-50	
Missouri American	2-224		
New Jersey American	1-111	1-7,200	
Pennsylvania American	4-3,500	1-480	6-3,900
Tennessee American			1-209
West Virginia American	2-3,000	2-1,066	

Prepared By: Bob Engle

No. OUCC 23-310

DATA INFORMATION REQUEST
Indiana American Water Company
Cause No. 43680

Date Requested: 10/13/09

<u>Information Requested:</u>

Please answer the following questions regarding waste disposal expense (see also Exhibit 23-310):

a. In the Crawfordsville District, $222 per month or $2,664 total was recorded to the test year GL. All of these entries were described as "monthly sludge/waste accrual." Please state whether this is an accrual or an amortization. If this is an accrual, please state what specific expense and vendor is being accrued for and why no actual invoice was received during the entire test year. If this is an amortization, please provide a copy of the original invoice being amortized and the amortization period being used.

b. In the Johnson County District, $3,238 per month or $38,896 total was recorded to the test year GL. All of these entries were described as "monthly sludge/waste accrual." Please state whether this is an accrual or an amortization. If this is an accrual, please state what specific expense and vendor is being accrued for and why no actual invoice was received during the entire test year. If this is an amortization, please provide a copy of the original invoice being amortized and the amortization period being used.

c. Please explain the purpose of the following entries, whether they are of a recurring nature, and why this expense is in addition to the "accrual" discussed in (b) above:

District Name	Object	Document Type	Document #	GL Date	Amount	Explanation	Remark
IN-Johnson County	511100	JE	101205	12/31/07	4,758.00	Sludge Accrual true up 12/07	JCO-Sugar Creek #1
IN-Johnson County	511100	JE	101205	12/31/07	12,150.00	Sludge Accrual true up 12/07	JCO-Marlin #3 Sludg
IN-Johnson County	511100	JE	101205	12/31/07	13,040.00	Sludge Accrual true up 12/07	JCO-Webb Sludge Acc
IN-Johnson County	511100	JE	101205	12/31/07	38,167.00	Sludge Accrual true up 12/07	JCO-Marlin #2 Sludg
IN-Johnson County	511100	JE	101205	12/31/07	80,241.00	Sludge Accrual true up 12/07	JCO-Marlin #1 Sludg
IN-Johnson County	511100	JE	101205	12/31/07	########	Sludge Accrual true up 12/07	JCO-Sugar Creek #2

d. In the Kokomo District, $10,500 per month or $126,000 total was recorded to the test year GL. All of these entries were described as "monthly sludge/waste accrual." Please state whether this is an accrual or an amortization. If this is an accrual, please state what specific expense and vendor is being accrued for and why no actual invoice was received during the entire test year. If this is an amortization, please provide a copy of the original invoice being amortized and the amortization period being used.

No. OUCC 23-310

DATA INFORMATION REQUEST
Indiana American Water Company
Cause No. 43680

Date Requested: 10/13/09

Information Requested:

e. In the Newburgh District, $119 and $416 per month or $6,420 total was recorded to the test year GL. All of these entries were described as "monthly sludge/waste accrual." Please state whether these are accruals or amortizations. If these are accruals, please state what specific expense(s) and vendor(s) is being accrued for and why no actual invoice was received during the entire test year. If these are amortizations, please provide a copy of the original invoice(s) being amortized and the amortization period(s) being used.

f. In the Northwest District, $30,000 per month or $360,000 total was recorded to the test year GL. All of these entries were described as "monthly sludge/waste accrual" and were in addition to $566,939.16 of transactions related to the Gary Sanitary District (approximately $47,000 per month). Please state whether these additional entries are accruals or amortizations. If these are accruals, please state what specific expense and vendor is being accrued for and why no actual invoice was received during the entire test year. If these are amortizations, please provide a copy of the original invoice being amortized and the amortization period being used. Also, please state why these additional expenditures are necessary given that 12 months of expenses related to the City of Chesterton and Gary Sanitary District are already included in test year expense.

g. Please explain in detail why the charges from Gary Sanitary District doubled from approximately $25,000 per month to $50,000 or more per month. Is the increase in expenditures due to a price increase, volume increase, or other?

h. In the Shelbyville District, $839 per month or $9,229 total was recorded to the test year GL. All of these entries were described as "monthly sludge/waste accrual." Please state whether this is an accrual or an amortization. If this is an accrual, please state what specific expense and vendor is being accrued for and why no actual invoice was received during the entire test year. If this is an amortization, please provide a copy of the original invoice being amortized and the amortization period being used.

No. OUCC 23-310

DATA INFORMATION REQUEST
Indiana American Water Company
Cause No. 43680

Date Requested: 10/13/09

Information Requested:

i. In the Southern Indiana District, $357 per month or $4,284 total was recorded to the test year GL. All of these entries were described as "monthly sludge/waste accrual." Please state whether this is an accrual or an amortization. If this is an accrual, please state what specific expense and vendor is being accrued for and why no actual invoice was received during the entire test year. If this is an amortization, please provide a copy of the original invoice being amortized and the amortization period being used. These accruals were recorded in addition to actual payments to Jeffersonville Sewer Dept (approx. $350 per month). Please explain why both actual charges from Jeffersonville Sewer and an accrual should both be included in test year waste disposal expense.

j. Please explain the purpose of the following entries, what is being accrued, and why no actual invoice was received during the entire test year. If these entries are actually amortizations, please provide the original invoice being amortized and the amortization period.

District Name	Account Description	Document Type	Document #	GL Date	Amount	Explanation	Remark
IN-Summitville	Waste Disposal Exp WT	JE	2104	11/30/08	3,500.00	Summitville Lagoon Clearing	Summitville Lagoon
IN-Summitville	Waste Disposal Exp WT	JE	2104	11/30/08	6,500.00	Summitville Lagoon Clearing	Lagoon Cleaning Sum

k. In the Wabash District, approximately $305 per month or $5,174 total was recorded to the test year GL. All of these entries were described as "monthly sludge/waste accrual." Please state whether this is an accrual or an amortization. If this is an accrual, please state what specific expense and vendor is being accrued for and why no actual invoice was received during the entire test year. If this is an amortization, please provide a copy of the original invoice being amortized and the amortization period being used.

No. OUCC 23-310

DATA INFORMATION REQUEST
Indiana American Water Company
Cause No. 43680

Date Requested: 10/13/09

Information Requested:

l. In the Wabash Valley District, approximately $278 per month or $3,336 total was recorded to the test year GL. All of these entries were described as "monthly sludge/waste accrual." Please state whether this is an accrual or an amortization. If this is an accrual, please state what specific expense and vendor is being accrued for and why no actual invoice was received during the entire test year. If this is an amortization, please provide a copy of the original invoice being amortized and the amortization period being used.

m. In the Warsaw District, $450 per month or $5,400 total was recorded to the test year GL. All of these entries were described as "monthly sludge/waste accrual." Please state whether this is an accrual or an amortization. If this is an accrual, please state what specific expense and vendor is being accrued for and why no actual invoice was received during the entire test year. If this is an amortization, please provide a copy of the original invoice being amortized and the amortization period being used.

Requested By: Daniel M. Le Vay, OUCC -- 317-233-3236 – dlevay@oucc.in.gov and infomgt@oucc.in.gov

Information Provided:

a. The accrual schedule is detailed in OUCC 23-310 R1. The next scheduled waste disposal is in 2028.
b. The accrual schedule is detailed in OUCC 23-310 R1. The next scheduled waste disposal is in 2010.
c. The Johnson County entries are not recurring – they are accrual true up entries. These are further detailed in OUCC 23-310 R2.
d. The accrual schedule is detailed in OUCC 23-310 R1. Kokomo has two surface water sludge lagoons (north and south). The south surface water lagoon was cleaned in May of 2008 and the north was completed in June of 2008 by Merrill Bros. at a total cost for both lagoons of $107,073.32. The lagoons are cleaned annually.

KOKOMO

e. The accrual schedule for Newburgh District ($119 per month) and Noblesville District ($416 per month) is detailed in OUCC 23-310 R1. The next scheduled waste disposal is in 2009, but has not occurred yet.
f. The accrual schedule is detailed in OUCC 23-310 R1. Northwest's Borman Park plant's two basins are cleaned annually.
   In 2008 the North Basin was cleaned by Gullett Sanitation Services, Inc. for $195,385.95, by Microbac Laborator for $2,809.25, and Gary Sanitary District for $29,134.21 for a total of $227,329.41.
   In 2008 the South Basin was cleaned by Gullett Sanitation Services, Inc. for $145,562.69, by Microbac Laborator for $1,641.80, and Gary Sanitary District for $10,107.79 for a total of $157,312.28.
   The expenditures to the City of Chesterton (for Storm Water) and the additional expenditures to Gary Sanitary District (for Filter Backwash Water) are fees that are not part of the accrued sludge removal.
g. The increase to Gary Sanitary District is mainly the result of a rate increase from $3500/MG to $6500/MG.
h. The accrual schedule is detailed in OUCC 23-310 R1. The next scheduled waste disposal is in 2017.
i. The accrual schedule is detailed in OUCC 23-310 R1. The next scheduled waste disposal was in 2008, but has not occurred yet.
   The payments to Jeffersonville Sewer Dept. are monthly Sewer and Drainage Charges and are not part of the accrued sludge removal.
j. These entries are for an accrual for services provided by Bowen for backwash tank repairs. The entries were reversed on 12/1/2008 and the actual amount from the invoice was posted on 12/17/2008 for $10,300.
k. The accrual for Wabash District in 2008 was $305 for Jan – Sept and $958 for Oct – Dec. The accrual schedule is detailed in OUCC 23-310 R1. Cleaning was completed in 2008 by Bastin Logan ($2469.50) and by Gullett Sanitation Services, Inc. (12/08 for $42,474.32)
l. The accrual schedule is detailed in OUCC 23-310 R1. The next scheduled waste disposal is in 2027.
m. The accrual schedule is detailed in OUCC 23-310 R1. The next scheduled waste disposal is in 2017.

Prepared By: Lew Keathley

Indiana-American Water Company
Accrued Waste Disposal (Includes Waste Disposal and Sludge Disposal)
Account Number 241210
As of 11/30/08

SLUDGE ACCRUAL

Company	Business Unit	Period	Amount	Months in period	Monthly Accrual	Expense Account	Months Accrued	At Month End: Total Accrued	Payments	Adjustments	Balance
Kokomo-North Lagoon-Sludge Accrual	101005	4/1/2007 - 3/31/2008	60,000.00	12	5,000.00	511100.13	20	(100,000.00)	35,691.11		(64,308.89)
Kokomo-South Lagoon-Sludge Accrual	101005	4/1/2007 - 3/31/2008	60,000.00	12	5,000.00	511100.13	20	(100,000.00)	35,691.11		(64,308.89)
Kokomo-Phillips Street-Sludge Accrual	101005	6/1/2007 5/31/2017	60,000.00	120	500.00	511100.13	18	(9,000.00)	35,691.11		26,691.11
									747.95		747.95
Total Kokomo			180,000.00		[illegible]			(209,000.00)	107,821.27	-	(101,178.73)
Wabash-Plant #1-Sludge Accrual	104505	3/1/1987 - 3/31/2008	47,800.00	492	100.00	511100.13	500	(49,808.00)			(49,808.00)
Wabash-Plant #2-NEW	104505	11/1/2007 11/30/2037	75,000.00	360	208.00	511100.13	13	(2,704.00)	2,469.50		(234.50)
Total Wabash			122,800.00		308.00			(52,510.00)	2,469.50		(50,040.50)
Warsaw- East Plant	104605	3/1/1997 - 3/31/2017	60,000.00	240	250.00	511100.13	141	(35,250.00)			(35,250.00)
Warsaw- West Plant	104605	3/1/1997 - 3/31/2022	60,000.00	300	200.00	511100.13	141	(28,200.00)			(28,200.00)
Total Warsaw			120,000.00		450.00			(63,450.00)	-		(63,450.00)
Crawfordsville-Sludge Accrual	105005	3/1/1998 - 3/31/2028	80,000.00	360	222.00	511100.13	129	(28,638.00)			(28,638.00)
Total Crawfordsville			80,000.00		222.00			(28,638.00)	-	-	(28,638.00)
Johnson County-Sugar Creek 1-Sludge Accrual	105505	6/1/1997 - 5/30/2012	209,000.00	180	1,161.00	511100.13	138	(160,218.00)			(160,218.00)
Johnson County-Sugar Creek 2-Sludge Accrual	105505	6/1/1997 - 5/30/2012	99,000.00	180	550.00	511100.13	138	(75,900.00)			(75,900.00)
Johnson County-Webb-Sludge Accrual	105505	5/1/1990 - 5/30/2010	25,000.00	240	104.00	511100.13	223	(23,192.00)			(23,192.00)
Johnson County-Martin 1-Sludge Accrual	105505	12/1/2007 - 12/31/2017	94,000.00	121	777.00	511100.13	12	(9,324.00)			(9,324.00)
Johnson County Martin 2-Sludge Accrual	105505	6/1/2000 - 5/30/2010	61,000.00	120	508.00	511100.13	102	(51,816.00)			(51,816.00)
Johnson County-Martin 3-Sludge Accrual	105505	5/1/1997 - 5/30/2017	33,000.00	240	138.00	511100.13	139	(19,182.00)			(19,182.00)
								1,060.77	3,906.66		4,967.43
True up Johnson County										1,060.77	1,060.77
Total Johnson County			521,000.00		3,238.00			(338,571.23)	3,906.66	1,060.77	(333,603.80)
Noblesville-North Lagoon-Sludge Accrual	108005	5/31/2000 - 5/31/2010	25,000.00	120	208.00	511100.13	102	(21,216.00)			(21,216.00)
Noblesville-South Lagoon-Sludge Accrual	108005	5/31/2000 - 5/31/2010	25,000.00	120	208.00	511100.13	102	(21,216.00)			(21,216.00)
Total Noblesville			50,000.00		416.00			(42,432.00)	-	-	(42,432.00)
Shelbyville - Blue River 1	108505	12/1/2007 - 12/31/2027	66,000.00	240	275.00	511100.13	12	(3,300.00)		(0.56)	(3,300.56)
Shelbyville - Blue River 2	108505	9/1/2007 5/30/2017	66,000.00	117	564.00	511100.14	15	(8,460.00)			(8,460.00)
									456.00		456.00
Total Shelbyville			132,000.00		839.00			(11,760.00)	456.00	(0.56)	(11,304.56)
Wabash Valley - Ret Area #1	107005	3/1/1997 - 3/31/2027	50,000.00	360	139.00	511100.13	141	(19,599.00)			(19,599.00)
Wabash Valley - Ret Area #2	107005	3/1/1997 - 3/31/2027	50,000.00	360	139.00	511100.13	141	(19,599.00)			(19,599.00)
Total Wabash Valley			100,000.00		278.00			(39,198.00)	-	-	(39,198.00)
Southern Indiana-Sludge Accrual	107505	7/1/2006 - 10/31/2008	10,000.00	28	357.00	511100.13	29	(10,353.00)			(10,353.00)
Total Southern Indiana			10,000.00		357.00			(10,353.00)	-	-	(10,353.00)
Newburgh-Sludge Accrual	109005	6/1/2002 - 5/31/2009	10,000.00	84	119.00	511100.13	78	(9,282.00)			(9,282.00)
											0.00
Total Newburgh			10,000.00		119.00			(9,282.00)	-	-	(9,282.00)
Northwest-Borman Park North-Sludge Accrual	109005	6/1/2006 - 3/1/2008	262,500.00	21	12,500.00	511100.13	16	(358,389.00)	227,329.41	43,559.59	(87,500.00)
Northwest-Borman Park South-Sludge Accrual	109005	6/1/2007 - 8/31/2008	162,500.00	13	12,500.00	511100.13	16	(200,000.00)	157,312.28	(32,312.28)	(75,000.00)
Northwest Ogden Dunes-Sludge Accrual	109005	12/1/2007 - 11/30/2012	300,000.00	60	5,000.00	511100.13	12	(60,000.00)			(60,000.00)
True up Northwest											0.00
Total Northwest			725,000.00		30,000.00			(618,389.00)	384,641.69	11,247.31	(222,500.00)
Total			2,050,800.00		67,277.00			(1,423,543.23)	499,295.12	12,307.52	(911,940.59)

Indiana American Water
American Water-Central Region
Sludge Accrual Analysis
As of December 31, 2007

District	Accrual			Dec P&L Impact			Recurring		
							Montly		
	Prior Schedule Cost	Curr Est Cost	Variance	True-up	Recurring	Total	Accrual	ABP	Incr/(Decr)
Johnson County-Sugar Creek 1-Sludge Accrual	40,000	209,000	169,000	118,092	1,161	119,253	1,161	222	939
Johnson County-Sugar Creek 2-Sludge Accrual-	-	99,000	99,000	4,758	550	5,308	550	-	550
Johnson County-Webb-Sludge Accrual	10,000	25,000	15,000	13,040	104	13,144	104	42	62
Johnson County-Marlin 1-Sludge Accrual	10,000	94,000	84,000	80,241	777	81,018	777	83	694
Johnson County-Marlin 2-Sludge Accrual	10,000	61,000	51,000	38,187	508	38,675	508	83	425
Johnson County-Marlin 3-Sludge Accrual	10,000	33,000	23,000	12,150	138	12,288	138	42	96
Total Johnson County	80,000	521,000	441,000	266,448	3,238	269,686	3,238	472	2,766

No. OUCC 20-277

DATA INFORMATION REQUEST
Indiana American Water Company
Cause No. 43680

Date Requested: 10/06/09

Information Requested:

Please describe and explain in detail any deferred maintenance expenses being amortized for the Mooresville, Warsaw, and West Lafayette districts including the exact nature of the expenditures being amortized and what amortization period is being used.

Requested By: Daniel M. Le Vay, OUCC -- 317-233-3236 – dlevay@oucc.in.gov and infomgt@oucc.in.gov

Information Provided:

The deferred maintenance expense is for tank painting charges that were formerly United Water properties.

Description	Amortization Period		
Warsaw			
Winona	9/1/1994	-	8/31/2009
West Tank	7/1/1998	-	6/30/2013
West Lafayette			
Barbarry	7/1/1998	-	6/30/2013
Mooresville			
Morningstar	9/1/1994	-	8/31/2009

Prepared By: Peter Thakadiyil

No. OUCC 18-247

DATA INFORMATION REQUEST
Indiana American Water Company
Cause No. 43680

Date Requested: 10/02/09

Information Requested:

Please provide Indiana-American's annual legal expense for each of the calendar years for the period 1999 – 2005. (Note: Legal expense does not include rate case expense.)

Requested By: Daniel M. Le Vay, OUCC -- 317-233-3236 – dlevay@oucc.in.gov and infomgt@oucc.in.gov

Information Provided:

The annual legal expense for the calendar years 1999-2005 is below.

Year	Amount
1999	$ 79,499
2000	$138,989
2001	$208,312
2002	$221,848
2003	$410,460
2004	$382,287
2005	$333,768

Prepared By: Lew Keathley

No. OUCC 18-248

DATA INFORMATION REQUEST
Indiana American Water Company
Cause No. 43680

Date Requested: 10/02/09

Information Requested:

A review of Indiana-American's general ledger revealed the following entry:

District	District Name	Object	Account Description	Document #	GL Date	Amount	Explanation	Remark
1001	IN-Corp	575000	Misc Oper AG	30821251	12/01/07	#########	ADJ Capital OH - Nov 2007	Cap OH Adj Nov07

This is the only entry during the test year in the amount of $100,000.00 exactly. This appears to be the source of the adjustment to miscellaneous expenses on Exhibit GMV-4, Schedule 8, line 25 (Support Schedule 8k). Is this the entry referred to in the Miscellaneous Expense Adjustment on line 25? If the above entry is not the entry referred to in the adjustment, please provide the correct entry details. If it is the correct entry, please explain why the adjustment isn't a reduction to operating expenses since the entry above is a debit to operating expenses.

Requested By: Daniel M. Le Vay, OUCC -- 317-233-3236 – dlevay@oucc.in.gov and infomgt@oucc.in.gov

Information Provided:

The original debit entry dated December 1, 2007 shown above is correct and represents a reversal of a credit entry in the same amount posted on November 30, 2007. You are correct in your assessment that this should have been a reduction to test year operating expenses.

Prepared By: Tim Schiller

Form IT-20
State Form 44275
(R5/ 8-06)

Indiana Department of Revenue

Indiana Corporate Adjusted Gross Income Tax Return

For Calendar Year Ending December 31, 2006 or Other Tax Year
Beginning AA _____/_____ 2006 and Ending BB _____/_____/_____

(Do not write above) Page 1

Name of Corporation B		Check box if name changed. B1 ☐ Federal Identification Number A
Number and Street C	Indiana County or O.O.S. D	Principal Business Activity Code H
City E	State F	ZIP code G	Telephone Number I ( )

J. Check all boxes that apply: 1 ☐ Initial Return 2 ☐ Final Return 3 ☐ In Bankruptcy 4 ☐ Insurance Co. 5 ☐ Farmer's Cooperative

K. Date of incorporation I _______ in the state of J _______

L. State of commercial domicile _______

M. Year of initial Indiana return _______

N. Location of records if different from above address:

O. Check box if the corporation paid any quarterly estimated tax using different Federal Identification numbers ☐ (*List on Schedule H any other Federal Identification numbers used to make payments.*)

P. Check box if you file federal Form 1120 on a consolidated basis. ☐

Q. If filing on a unitary basis, are there any material changes in circumstances since the last petition was filed? .... 1 Yes 2 No

R. Is 80% or more of your gross income derived from making, acquiring, selling or servicing loans or extensions of credit? .... 1 Yes 2 No
(*If yes, do not file Form IT-20. You must file Form FIT-20.*)

S. Is this a consolidated return for adjusted gross income tax? 1 Yes 2 No
(*If yes, complete consolidated listing on Sch. 8-D.*)

T. Is this return filed on a combined unitary basis? .... 1 Yes 2 No
(*If yes, include unitary apportionment addendum.*)

U. In determining taxable income did you deduct any intangible expenses or directly related intangible interest expenses paid to 50% owned affiliates? .... 1 Yes 2 No

V. Indicate if a federal extension of time to file return was filed. (*If yes, attach extension to return.*) .... 1 Yes 2 No
Enter federal electronic confirmation number: 3 _______

Computation of Adjusted Gross Income Tax

1. Federal taxable income (before federal net operating loss deduction and special deductions) 1
2. Net qualifying dividends deduction from federal Schedule C, Form 1120 2
3. Subtract line 2 from line 1 3

Modifications for Adjusted Gross Income

4. Add back: All state income taxes based on or measured by income 4
5. Add back: All charitable contributions (IRC Section 170) 5
6a. Add back: Domestic production activities deduction (IRC Section 199) 6a

The following adjustment applies to short tax years and fiscal years that begin on or after July 1, 2006.

6b. Add back: Intangible expenses and any directly related intangible interest expenses used to reduce IRC Section 63 taxable income to the extent that the deduction is not allowed under IC 6-3-2-20(b), from Part 3(b) of Schedule PIC. (*Complete Schedule PIC on page 4 to make a declaration if you meet any of the exceptions to the requirement to add back deductions for intangible expenses.*) 6b

7. Add or subtract: (Explain on Schedule H):
   (a) Net bonus depreciation allowance 7a
   (b) Excess IRC Section 179 deduction 7b
8. Deduct: Interest on U.S. government obligations less related expenses 8
9. Deduct: Foreign gross up (IRC Section 78). Attach federal Form 1118 9
10. Subtotal (Add lines 3 through 6b, plus result from lines 7a and 7b, subtract lines 8 and 9) 10

2006 IT-20

Other Adjustments

11. Foreign Source Dividends (from worksheet on page 4) and other adjustments. Enter deductions in <brackets> 11
12. Subtotal of income with adjustments (add lines 10 and 11) 12
13. Deduct: All source nonbusiness income or (loss) and non-unitary partnership distributions from IT-20 Schedule F, column C, line (10) 13
14. Taxable business income: Subtract line 13 from line 12 14

Apportionment of Income for Entity with Multi-state Activities

15. Check one of the following apportionment methods used, attach completed schedule and enter percentage on line 15d.
   15a ☐ Schedule E, from line 4c
   15b ☐ Schedule E-7, from line 30 (for interstate transportation)
   15c ☐ Other approved method (including domestic insurance companies)

15d. Enter Indiana apportionment percentage, if applicable (round percent to two decimals) .... 15d ___ ___ . ___ ___ %

16. Indiana apportioned business income: Multiply line 14 by percent on line 15d 16
If apportionment of income is not applicable, enter the total amount from line 14.

Add Allocated and Previously Apportioned Income to Indiana

17. Enter Indiana nonbusiness income or (loss) and Indiana non-unitary partnership income or (loss) from IT-20 Schedule F, column D, line (11) 17
18. Indiana adjusted gross income before net operating loss deduction: Add lines 16 and 17 18

Deduct from Indiana Adjusted Gross Income

19. Indiana net operating loss deduction. See instructions. Enter as a positive amount from column (4) of revised Schedule IT-20NOL(s) *for each loss year* 19
20. Taxable adjusted gross income. Subtract line 19 from line 18. Enter here. Carry positive result to line 21 on page 2 of return 20

VN

IT-20 **2006 Indiana Corporate Adjusted Gross Income Tax Return** Page 2

Tax Calculation

21. Enter amount of Indiana adjusted gross income subject to tax from line 20 21
22. Indiana adjusted gross income tax: Multiply line 21 by 8.5% (0.085). Result may not be less than zero 22
    Note: If using alternate tax rate calculation, attach completed Schedule M from page 20 and check box. 22b ☐
23. Sales/use tax due from worksheet on page 19 23

Nonrefundable Tax Liability Credits (Attach all supporting documentation)

24. College and University Contribution Credit (CC-20) page 4 of return.... a.(807) 24b
25. Indiana Research Expense Tax Credit (IT-20REC) .... a.(822) 25b
26. Enterprise Zone Employment Expense Tax Credit (EZ 2) .... a.(812) 26b
27. Enterprise Zone Loan Interest Tax Credit (LIC) .... a.(814) 27b

Other Tax Liability Credits

28. Enter name of credit ________ Code No. a. ___ 28b
29. Enter name of credit ________ Code No. a. ___ 29b
30. Enter name of credit ________ Code No. a. ___ 30b
31. Total of nonrefundable tax liability credits (Add lines 24b through 30b. Sum of credits applied may not exceed line 22.) 31
32. Total taxes due: Add lines 22 and 23, subtract line 31. (Cannot be less than zero) 32

Credit for Estimated Tax and Other Payments

33. Total quarterly estimated income tax paid (itemize quarterly IT-6/EFT payments below.)
    Qtr 1 ______ Qtr 2 ______ Qtr 3 ______ Qtr 4 ______ 33
34. Enter overpayment credit from tax year ending a ________ 34
35. Enter this year's extension payment 35
36. Other Payments/EDGE credit (Attach supporting evidence.) 36
37. Total payments and credits: Add lines 33 through 36 37

Balance of Tax Due or Overpayment

38. Balance of Tax Due: If line 32 is greater than line 37, enter the difference as the tax balance due 38
39. Penalty for Underpayment of Income Tax from attached Schedule IT-2220 39
40. Interest: If payment is made after the original due date, compute interest. (Contact the Department for current interest rate.) 40
41. Late Penalty: If paying late enter 10% of line 38; see instructions. If lines 22 and 23 are zero enter $10 per day filed past due date, see instructions 41
42. Total Amount Owed: Add lines 38 through 41.
    Make check payable to Indiana Department of Revenue .... Pay in U.S. funds ▶ 42
43. Overpayment: If sum of lines 32, 39 and 41 is less than line 37, enter the difference as an overpayment 43
44. Refund: Enter portion of line 43 to be refunded 44
45. Overpayment Credit: Amount of line 43 less line 44 to be applied to the following year's estimated tax account ... 45

Certification of Signatures and Authorization Section

I authorize the Department to discuss my return with my tax preparer. CC ☐ Yes

DD

For Department Use

▶ *Under penalties of perjury, I declare I have examined this return, including all accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct and complete.*

Company's e-mail address EE

Signature of Corporate Officer	Date	Print or Type Name of Corporate Officer LL	Title MM
Print or Type Paid Preparer's Name FF		Preparer's FID, SSN, or PTIN Number NN	Check One: OO 1☐ Federal I.D. Number 2☐ Social Security Number 3☐ PTIN Number
Street Address GG		Preparer's Daytime Telephone Number PP	
City HH	State II / ZIP+4 JJ	Preparer's Signature	

Please mail forms to : **Indiana Department of Revenue, 100 N. Senate Ave., Indianapolis, IN 46204-2253.**

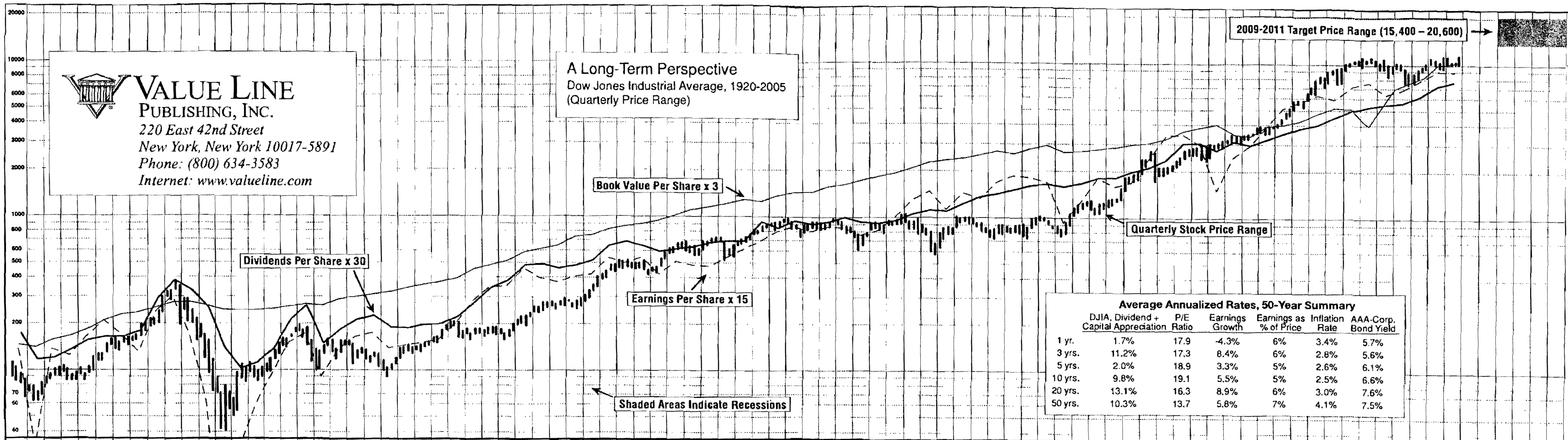
(Direct Testimony of Edward R. Kaufman, continuing from p. 8, line 17).

Q: What type of returns have the water industry earned over the last 10 years compared to the major stock indexes?

A: In response to OUCC Data Request 19, Question 255, Petitioner provided a copy of LONGBOW Research's September 9, 2009 report, "Water Utilities: A Closer Look at the Valuation Premium." On page 6 of the report under the heading "Other Factors Contributing To The Valuation Premium," the LONGBOW analysts write, "...water utilities out-performed other utility sectors over the last 10 years (water up, 117% vs. electric up 32% and gas down 28%)..." The 117% figure for the water industry equates to a compound annual return of approximately 7.79%.

(Note - The LONGBOW report was originally provided to OUCC as a confidential data response. Shortly before OUCC filed Mr. Kaufman's testimony, LONGBOW agreed to permit OUCC to use the above quote in public testimony. Pursuant to Petitioner's request, OUCC continues to treat the remainder of the LONGBOW report as a confidential document.)

[END OF PAGE 8A – Testimony continues on page 9, line 3.]



Average Annualized Rates, 50-Year Summary

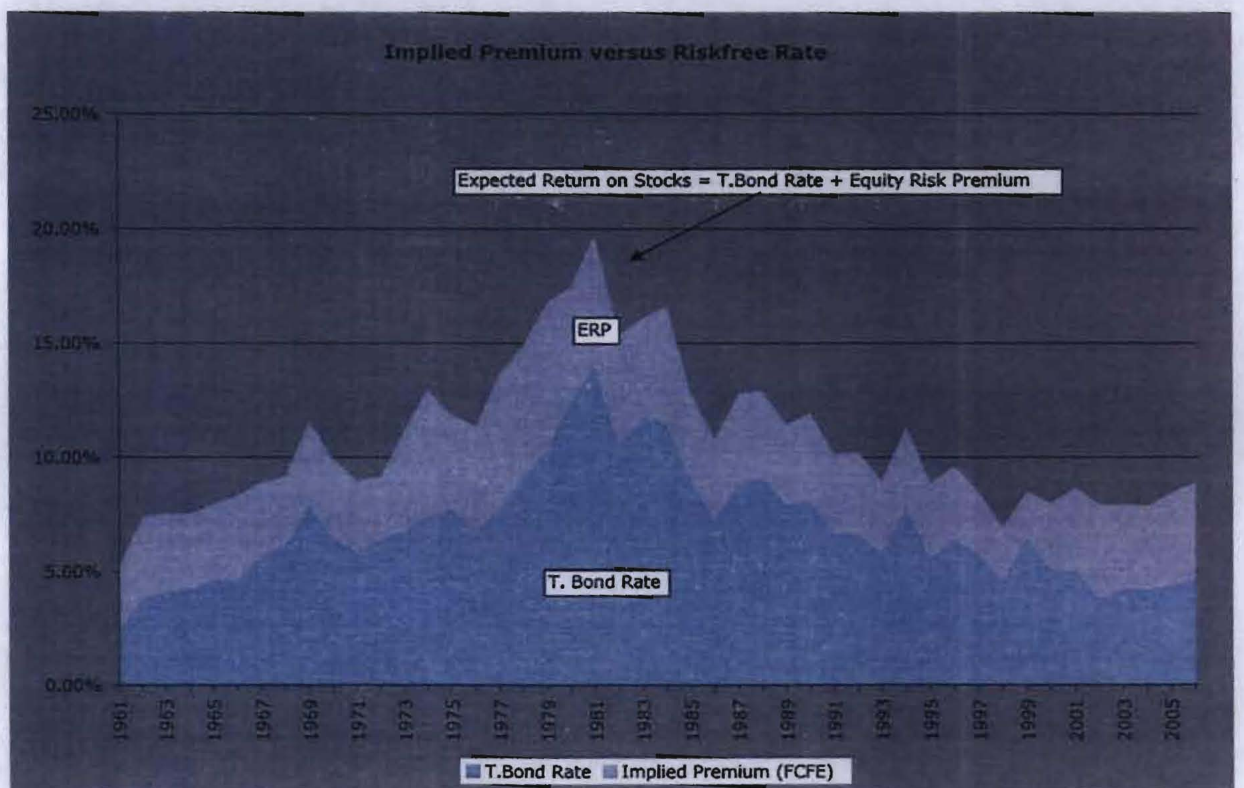
	DJIA, Dividend + Capital Appreciation	P/E Ratio	Earnings Growth	Earnings as % of Price	Inflation Rate	AAA-Corp. Bond Yield
1 yr.	1.7%	17.9	-4.3%	6%	3.4%	5.7%
3 yrs.	11.2%	17.3	8.4%	6%	2.8%	5.6%
5 yrs.	2.0%	18.9	3.3%	5%	2.6%	6.1%
10 yrs.	9.8%	19.1	5.5%	5%	2.5%	6.6%
20 yrs.	13.1%	16.3	8.9%	6%	3.0%	7.6%
50 yrs.	10.3%	13.7	5.8%	7%	4.1%	7.5%

Legend	Average*	1920–2011
Earnings per share (A)	–	[illegible]
Dividends per share	–	[illegible]
Book Value per share (B)	–	[illegible]
Price-Earnings Ratio (C)	14.5	[illegible]
Price-Dividend Ratio	26.6	[illegible]
Earned as a % of Book Value	13.4%	[illegible]
Earned as a % of Avg. Price	7.4%	[illegible]
Dividend Yield	4.2%	[illegible]
Earnings Growth Rate	5.3%	[illegible]
Dividend Growth Rate	4.9%	[illegible]
Book Value Growth Rate	5.7%	[illegible]
Earn's as % of Price + Earn's Growth	12.7%	[illegible]
Dividend Yield + Dividend Growth	9.2%	[illegible]
Moody's Aaa Corp. Bond Yield	5.9%	[illegible]
CPI Growth Rate Inflation	3.0%	[illegible]
Real L.T. Aaa Corp. Bond Yield	3.0%	[illegible]
DJIA High for Year	–	[illegible]
DJIA Low for Year	–	[illegible]
DJIA Average for Year	–	[illegible]
S&P 500 Avg. for Year	–	[illegible]
Value Line Avg. for Year	–	[illegible]
Gross Domestic Product (D)	–	[illegible]

* Average 1920 - 2005 inclusive. (A) Excludes net nonrecurring per share loss [illegible] Copyright 2006 by Value Line Publishing, Inc.

ERK ATTACHMENT 2
CAUSE NO. 43680
Page 1 of 1

Implied Premium versus RiskFree Rate



ERK ATTACHMENT 7
CAUSE NO. 43680
Page 4 of 4

From: donotreply@urc.in.gov
Sent: Tuesday, November 03, 2009 4:55 PM
To: Daniels, Sandy
Subject: File Uploaded Successfully

Your file has been uploaded successfully and is in the process of verification.
Tracking Number:ae10c49062ce
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Date/Time Filed:11/3/2009 4:54:36 PM
Cause Number:43680
Sub Docket Number:NONE
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