

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER)
COMPANY, INC. FOR (1) AUTHORITY TO)
INCREASE ITS RATES AND CHARGES FOR WATER)
AND SEWER UTILITY SERVICE, (2) APPROVAL OF)
NEW SCHEDULES OF RATES AND CHARGES)
APPLICABLE THERETO, (3) AUTHORITY TO)
ESTABLISH AND IMPLEMENT SYSTEM)
DEVELOPMENT CHARGES, (4) AUTHORITY TO)
ESTABLISH AND IMPLEMENT CERTAIN)
CONNECTION FEES AND POLICIES AND NEW)
RULES AND REGULATIONS APPLICABLE)
THERETO, AND (5) AUTHORITY TO IMPLEMENT A)
REVENUE STABILITY MECHANISM)

CAUSE NO. 44450

TESTIMONY OF

JEROME D. MIERZWA – PUBLIC’S EXHIBIT NO. 10

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

MAY 2, 2014

Respectfully submitted,



Scott C. Franson, Atty. No. 27839-49
Deputy Consumer Counselor

**BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF INDIANA-AMERICAN WATER)
COMPANY, INC. FOR (1) AUTHORITY TO)
INCREASE ITS RATES AND CHARGES FOR)
WATER AND SEWER UTILITY SERVICE, (2))
APPROVAL OF NEW SCHEDULES OF RATES)
AND CHARGES APPLICABLE THERETO, (3))
AUTHORITY TO ESTABLISH AND IMPLEMENT)
SYSTEM DEVELOPMENT CHARGES, (4))
AUTHORITY TO ESTABLISH AND IMPLEMENT)
CERTAIN CONNECTION FEES AND POLICIES)
AND NEW RULES AND REGULATIONS)
APPLICABLE THERETO, AND (5) AUTHORITY)
TO IMPLEMENT A REVENUE STABILITY)
MECHANISM)**

CAUSE NO. 44450

DIRECT TESTIMONY

of

JEROME D. MIERZWA

On Behalf of

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

MAY 2, 2014

EXETER

Associates, Inc.
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CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *OUC*C Testimony of Jerome D. Mierzwa: *Public's Exhibit No. 10* has been served upon the following counsel of record in the captioned proceeding by electronic service on May 2, 2014.

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DIRECT TESTIMONY OF JEROME D. MIERZWA
CAUSE NO. 44450
INDIANA-AMERICAN WATER COMPANY, INC.

1 **I. INTRODUCTION**

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

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

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

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

1 utilized for internal planning purposes as well as in NFG Distribution's purchased gas
2 cost proceedings.

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

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

13 A. Yes. I have provided testimony on more than 200 occasions in proceedings before
14 the Federal Energy Regulatory Commission ("FERC"), utility regulatory
15 commissions in Delaware, Georgia, Illinois, Louisiana, Maine, Montana, Nevada,
16 New Jersey, Ohio, Pennsylvania, Rhode Island, Texas, and Virginia, as well as before
17 this Commission.

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

19 A. On January 24, 2014, Indiana-American Water Company, Inc. ("IAWC" or "the
20 Company") filed an application with the Commission to increase its rates for water
21 and wastewater service by \$19,645,000, or 9.84 percent. Exeter was retained by the
22 Indiana Office of Consumer Counselor ("OUCC") to review IAWC's water cost of
23 service study and water and wastewater rate design proposals. My testimony
24 addresses IAWC's water cost of service study and water and wastewater rate design
25 proposals.

1 **Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.**

2 A. Although the water cost of service study presented by IAWC witness Kerry A. Heid
3 is generally reasonable, my review and analyses found that several modifications to
4 that study are appropriate:

- 5 • Customer advances and contributions-in-aid-of-construction (“CIAC”), which
6 are a reduction to rate base, have been allocated to the functional categories of
7 “Common to All” mains (mains with a diameter greater than or equal to
8 12 inches), “Common to Small” mains (mains with a diameter less than
9 12 inches), and direct fire protection (hydrants) based on the relative
10 investment in these facilities. Mains-related customer advances and CIAC are
11 generally associated with smaller rather than larger-sized mains. Therefore,
12 unless the Company can demonstrate otherwise in its rebuttal testimony,
13 mains-related customer advances and CIAC should be reflected as a rate base
14 reduction primarily to smaller-sized mains investment;
- 15 • Bad debt expense has been assigned entirely to the billing functional cost
16 category in the Company’s water cost of service study. Bad debt expense
17 relates to the failure to recover all of IAWC’s functional costs, not just billing
18 costs. Therefore, bad debt expense should be allocated more broadly to all
19 functional cost categories. Sales-for-Resale customers should be excluded
20 from this broader allocation because they incur their own bad debt expense;
- 21 • Laboratory equipment investment and expenses have been allocated to the
22 average day and maximum day functional costs categories in the Company’s
23 water cost of service study. These costs should be allocated solely to the
24 average day functional cost category; and
- 25 • Payroll taxes have been allocated to functional cost categories based on total
26 plant investment, exclusive of intangible and general plant, in the Company’s
27 water cost of service study. Payroll taxes should be allocated based on the
28 labor costs allocated to each functional cost category.

1 With respect to rate design and other proposed tariff changes, my findings and
2 recommendations are as follows:

- 3 • The Company's proposed distribution of the water service revenue increase to
4 the various customer classes is inconsistent with the results of its cost of
5 service study;
- 6 • In this proceeding, the OUCC is recommending that IAWC's water service
7 rates be decreased. I recommend that this decrease generally be distributed to
8 the various customer classes based on the results of the cost of service study
9 approved by the Commission in this proceeding. If the revenue for any class
10 is insufficient to recover the indicated cost of service, that class should not be
11 assigned any portion of the rate decrease. In this case, those customer classes
12 whose rates are recovering in excess of the indicated cost of service should be
13 assigned a rate decrease in proportion to the extent they are contributing
14 revenues in excess of the indicated cost of service.
- 15 • If the Commission authorizes a water service rate increase rather than a rate
16 decrease in this proceeding, I recommend that the increase be distributed
17 based on the OUCC's cost of service study, with a maximum increase of
18 approximately 15 percent to any sales service customer class, and that no
19 customer class receive a rate decrease;
- 20 • The various water service customer charges and public fire protection
21 surcharges adopted in this proceeding should be determined based on the cost
22 of service study and revenue requirement approved by the Commission in this
23 proceeding, with one exception for bi-monthly billed customers in the
24 Northwest District;
- 25 • The customer charges for bi-monthly customers in the Northwest District
26 should remain unchanged until these customers are converted to monthly
27 billing, at which time the general monthly billing customer charges should
28 apply;

- 1 • Separate water service block commodity sales rates for each customer class
2 should be developed to recover the difference between the revenues recovered
3 through monthly customer charges and the total revenues to be recovered
4 from each class. Within each class, the same percentage relationship
5 proposed by IAWC for Area One and Area Two customers can be maintained
6 to mitigate significant rate impacts;

- 7 • IAWC's water service Distribution System Improvement Charge ("DSIC") is
8 currently applied to all of the Company's charges for service, except for fire
9 protection. The Company is proposing that the DSIC be calculated and
10 recovered as a flat charge on a meter equivalency basis, including fire
11 protection. This proposal should be rejected; and

- 12 • IAWC's proposed rate for wastewater service should be maintained and
13 should not be reduced to reflect any reduction in the Company's claimed
14 wastewater revenue requirement approved by the Commission unless the full
15 cost of service rate would be less than the Company's proposed rate.

16 **Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?**

17 A. Following this introductory section, my testimony is divided into five additional
18 sections. The first additional section provides an overview of water utility cost of
19 service methodologies. Next, I address IAWC's water cost of service study. I then
20 address IAWC's proposed rate design for water service and distribution of the
21 proposed revenue increase among customer classes. In the fourth additional section, I
22 address IAWC's proposed change to its DSIC. In the final section of my testimony, I
23 address IAWC's rate design proposals for wastewater service.

1 **II. OVERVIEW OF WATER COST OF SERVICE METHODOLOGIES**

2 **Q. WHAT IS THE OBJECTIVE OF A COST OF SERVICE STUDY?**

3 A. A cost of service study is conducted to assist a utility or commission in determining
4 the level of costs properly recoverable from each of the various classes to which the
5 utility provides service. Allocation of recoverable costs to each class of service is
6 generally based on cost causation principles.

7 **Q. WHAT ARE THE PRIMARY COST OF SERVICE STUDY**
8 **METHODOLOGIES UTILIZED FOR WATER UTILITIES?**

9 A. The two most commonly used and widely recognized methods of allocating costs
10 to customer classes for water utilities are the base-extra capacity method and the
11 commodity-demand method. Both of these methods are set forth in the American
12 Water Works Association's ("AWWA") *Principles of Water Rates, Fees and*
13 *Charges* ("AWWA M1 Manual").

14 **Q. PLEASE SUMMARIZE EACH OF THESE METHODS.**

15 A. Under the base-extra capacity method, investment and costs are first classified into
16 four primary functional cost categories: base or average capacity, extra capacity,
17 customer, and direct fire protection. Extra capacity costs are commonly divided
18 between maximum day and maximum hour costs. Customer costs are commonly
19 further divided between meter and service related, and account or bill related costs.
20 Once investment and costs are classified into these functional categories, they are
21 then allocated to customer classes. Base costs are allocated according to average
22 water use, and extra capacity costs are allocated on the basis of the excess of peak
23 demands over average demands. Meter and service-related customer costs are
24 allocated on the basis of relative meter and service investment, or a proxy thereof.
25 Account-related customer costs are allocated in proportion to the number of

1 customers or the number of bills. The water cost of service study presented by IAWC
2 in this proceeding is sponsored by witness Heid and utilizes the base-extra capacity
3 methodology.

4 The commodity-demand method follows the same general procedures.
5 However, usage-related costs are classified as commodity and demand related rather
6 than as base and extra capacity related. Commodity-related costs are allocated to
7 customer classes on the basis of total water use (which is equivalent to average
8 demand), and demand-related costs are allocated on the basis of each class'
9 contribution to peak demand rather than on the basis of class demands in excess
10 of average use.

11 **III. EVALUATION OF IAWC'S WATER COST OF SERVICE STUDY**

12 **A. Allocation of Customer Advances and CIAC**

13 **Q. HOW WERE THE COSTS ASSOCIATED WITH MAINS INVESTMENT**
14 **ALLOCATED TO THE VARIOUS CUSTOMER CLASSES IN IAWC'S**
15 **WATER COST OF SERVICE STUDY?**

16 A. IAWC's water cost of service study allocates the investment associated with mains
17 with diameters sized 12 inches and greater to all customer classes (identified as
18 "Common to All" mains), and the investment associated with mains sized less than 12
19 inches to all classes except the Large Industrial and Sales-for-Resale classes
20 (identified as "Common to Small" mains). The Company claims that such an
21 allocation is appropriate because Large Industrial and Sales-for-Resale customers are
22 not served by mains sized smaller than 12 inches.

23 **Q. WHAT ARE CUSTOMER ADVANCES AND CIAC?**

24 A. Typically, when it is necessary to extend the Company's mains to connect customers
25 in a new development, the developer is required to install those mains pursuant to a

1 main extension agreement. After the new mains are installed, ownership of the new
2 mains is transferred to IAWC at the value of the installed mains. The value of the
3 transferred mains is recorded by IAWC as a customer advance. As new customers in
4 a development are connected to IAWC's system, the Company will refund to the
5 developer a portion of the customer advance. Upon expiration of the main extension
6 agreement, unrefunded customer advances are reclassified as CIAC.

7 **Q. HOW WERE CUSTOMER ADVANCES AND CIAC REFLECTED AND**
8 **ALLOCATED IN THE COMPANY'S WATER COST OF SERVICE STUDY?**

9 A. Customer advances and CIAC, which are reductions to net investment, have been
10 allocated to Common to All mains, Common to Small mains, and direct fire
11 protection (hydrants) based on the relative investment in these facilities.

12 **Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED ALLOCATION OF**
13 **CUSTOMER ADVANCES AND CIAC?**

14 A. No. Customer advances and CIAC would generally be associated with the
15 installation of smaller-sized mains rather than larger-sized mains and, therefore, the
16 Company's allocation of mains-related amounts results in a greater allocation to
17 Common to All mains sized 12 inches and greater than is appropriate. Under the
18 Company's proposed allocation, customer advances and CIAC are assigned
19 proportionately to all diameter sized mains based on investment. This includes mains
20 sized 24 to 60 inches in diameter.

21 **Q. DID YOU ATTEMPT TO DETERMINE WITH WHICH SIZED MAINS**
22 **CUSTOMER ADVANCES AND CIAC WERE GENERALLY ASSOCIATED?**

23 A. Yes. The OUCC submitted a number of data requests to the Company and held
24 discussions with the Company attempting to determine this information.¹ However,

¹ See OUCC 25-006, 25-009, 25-010, 45-010, and 45-018.

1 at this time, the Company has not provided information sufficient to assess the
2 reasonableness of its customer advances and CIAC allocations, and has indicated it
3 has no study or analysis to support its proposed allocations (OUCC 25-006).

4 **Q. WHAT DO YOU RECOMMEND WITH RESPECT TO THE ALLOCATION**
5 **OF MAINS-RELATED CUSTOMER ADVANCES AND CIAC IN IAWC'S**
6 **WATER COST OF SERVICE STUDY?**

7 A. Unless the Company can demonstrate in its rebuttal testimony that an alternative
8 allocation is appropriate, I recommend that mains-related customer advanced CIAC
9 be allocated based on the investment in mains sized 16 inches or less. The
10 Company's allocation of customer advances and CIAC to direct fire protection would
11 remain unchanged.

12 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDED ALLOCATION OF**
13 **MAINS-RELATED CUSTOMER ADVANCES AND CIAC?**

14 A. My recommendation is based on an analysis of customer advances and CIAC for
15 Citizens Water that I performed in recently concluded Cause No. 44306.

16 **B. Bad Debt Expense**

17 **Q. HOW HAS BAD DEBT EXPENSE BEEN ASSIGNED IN THE COMPANY'S**
18 **WATER COST OF SERVICE STUDY?**

19 A. Bad debt expense has been assigned solely to the billing functional cost category.
20 Billing costs are assigned to each customer class based on the number of bills.

21 **Q. IS IAWC'S ASSIGNMENT OF BAD DEBT APPROPRIATE?**

22 A. No. Bad debt expense relates to the failure to recover all of IAWC's functional costs,
23 not just billing costs. Therefore, bad debt expense should be allocated more broadly
24 to all functional cost categories based on the cost of service for each functional cost
25 category. This treatment is consistent with the approach followed in the AWWA M1

1 Manual. Sales-for-Resale customers should be excluded from this broader allocation
2 because they incur their own bad debt expense.

3 **C. Laboratory Equipment Investment and Expenses**

4 **Q. FOR WHAT PURPOSE IS LABORATORY EQUIPMENT GENERALLY**
5 **USED?**

6 A. Laboratory equipment is generally used for water quality testing purposes.

7 **Q. HOW HAVE LABORATORY EQUIPMENT INVESTMENT AND EXPENSES**
8 **BEEN ALLOCATED IN THE COMPANY'S WATER COST OF SERVICE**
9 **STUDY?**

10 A. Laboratory equipment investment and expenses have been allocated to functional cost
11 categories based on average day and maximum day demands.

12 **Q. IS THIS ALLOCATION REASONABLE?**

13 A. No. Based on the response to OUCC-62-007, IAWC is generally required to conduct
14 a number of water quality tests on a daily and weekly basis. IAWC's water quality
15 testing requirements are not based on maximum day demands and, therefore, these
16 costs should be allocated solely on average day demands.

17 **D. Payroll Taxes**

18 **Q. HOW WERE PAYROLL TAXES ALLOCATED IN IAWC'S WATER COST**
19 **OF SERVICE STUDY?**

20 A. Payroll taxes were allocated to functional cost categories based on total plant
21 investment, exclusive of intangible and general plant.

22 **Q. IS IAWC'S PROPOSED ALLOCATION REASONABLE?**

23 A. No. Payroll taxes should be allocated based on allocated labor. In the response to
24 OUCC-25-042, witness Heid agreed with this position.

1 **E. Revised Water Cost of Service Study**

2 **Q. HAVE YOU REVISED THE COMPANY'S WATER COST OF SERVICE**
3 **STUDY TO INCORPORATE YOUR RECOMMENDED MODIFICATIONS?**

4 A. Yes. I have revised the Company's water cost of service study to incorporate my
5 recommendations concerning the allocation of customer advances and CIAC, bad
6 debt expense, laboratory equipment investment and expenses, and payroll taxes. The
7 results of my revised cost of service study are presented in Schedule JDM-1.

8 **Q. HOW DO THE RESULTS OF YOUR REVISED WATER COST OF SERVICE**
9 **STUDY COMPARE TO THE STUDY FILED BY THE COMPANY?**

10 A. A comparison of the study filed by IAWC and my revised study, based on IAWC's
11 proposed revenue requirement, is presented in Table 2. My use of the Company's
12 proposed revenue requirement is used for comparison purposes only to highlight the
13 impact of my recommended changes to the Company's water cost of service study.
14 My use of the Company's proposed revenue requirement should not be considered an
15 endorsement of the Company's claim.

Class	Company	OUC	Change
Residential	108,932,313	\$105,780,554	(\$3,151,759)
Commercial	50,179,619	51,420,537	1,240,918
Industrial	17,527,023	18,516,347	989,324
Public Fire	21,907,308	23,607,171	699,863
Private Fire	4,205,233	4,205,233	0
Sales for Resale	12,177,331	12,398,986	221,655
Total	\$214,928,827	\$214,928,827	\$0

1 **IV. WATER SERVICE RATE DESIGN**

2 **Q. BRIEFLY DESCRIBE IAWC'S WATER SERVICE RATE DESIGN**
3 **PROPOSALS AND PROPOSED DISTRIBUTION OF ITS REQUESTED**
4 **REVENUE INCREASE.**

5 A. In IAWC's 1997 base rate proceeding (Cause No. 40703), the Commission approved,
6 and IAWC began a phased approach to adopt single tariff pricing for all of its water
7 districts. Currently, all rates other than the commodity charges and public fire
8 protection surcharges are the same for all customers in each of the 21 water districts
9 served by IAWC. IAWC has in place two separate sets of declining block
10 commodity rates – Area One Commodity Charges and Area Two Commodity
11 Charges. Area One Commodity Charges are assessed to all customers except those in
12 the Mooresville, Winchester, and Wabash Districts. Customers in these three districts
13 are assessed Area Two Commodity Charges. In this proceeding, IAWC is proposing
14 to phase Wabash District customers into Area One over a 24-month period. All
15 customers would also be assessed the same public fire protection surcharges.

16 IAWC is proposing to distribute its requested increase as shown in Table 3,
17 exclusive of the Public Fire Surcharge. The Company claims its proposed
18 distribution is based on the results of its water cost of service study with adjustments
19 to mitigate what it claims are the significant rate impacts that would occur for certain
20 customers.

Table 3					
Company-Proposed Water Service Revenue Distribution⁽¹⁾					
Class	Present Rates	Proposed Rates	Increase	Percent	(+/- Cost)⁽²⁾
Residential	\$101,049,377	\$111,312,822	\$10,263,445	10.2%	\$2,380,509
Commercial	48,541,592	50,952,779	2,411,186	5.0	773,160
Industrial	14,233,237	15,620,893	1,387,656	9.8	(1,906,130)
Public Fire	17,499,708	21,907,248	4,407,540	25.2	(60)
Private Fire	4,205,232	4,205,233	0	0.0	0
Sales for Resale	9,793,809	10,741,018	947,209	9.7	(1,436,313)
Underrecovery ⁽³⁾	0	188,835	188,835	N/A	188,834
Subtotal	\$195,322,956	\$214,928,827	\$19,605,871	10.0	\$0
Other and Misc.	3,857,204	3,790,740	(147,464)	(38)	0
Total	\$199,180,160	\$218,638,566	\$19,458,407	9.8%	\$0

(1) Exclusive of Public Fire Surcharge.
(2) Negative amount indicates that the customer class would be recovering less than the indicated cost of service, and a positive amount indicates that the customer class would be recovering more than the indicated cost of service
(3) The rates proposed by IAWC underrecover IAWC's claimed cost of service by this amount.

1 **Q. DO YOU HAVE ANY INITIAL COMMENTS ON THE COMPANY'S**
2 **PROPOSED REVENUE DISTRIBUTION?**

3 A. Yes. Currently, at present rates, the Industrial and Sales-for-Resale classes are
4 providing revenues which reflect approximately 80 percent of the cost of service
5 under the Company's study at the Company's proposed revenue requirement. The
6 Residential class is contributing revenues that are 93 percent of the Company's
7 indicated cost of service. Exclusive of the Public Fire Protection surcharge, the rate
8 increase proposed by the Company for the Industrial and Sales-for-Resale classes are
9 9.8 percent and 9.7 percent, respectively, while the revenue increase proposed for the
10 Residential class is 10.2 percent. Because the Residential class is receiving a larger
11 increase than the Industrial and Sales-for-Resale classes, but is already paying a
12 higher percentage of the indicated cost of service, it appears that the Company's

1 proposed revenue distribution is inconsistent with the results of the Company's water
2 cost of service study.

3 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE**
4 **REVENUES TO BE COLLECTED FROM EACH OF THE VARIOUS**
5 **CUSTOMER CLASSES?**

6 A. In its water cost of service study, IAWC claims that at present rates, revenues from
7 water service are \$195.3 million, and the cost of providing water sales service, or
8 water service revenue requirement, is \$214.9 million, indicating that a rate increase of
9 \$19.6 million is required. The OUCC is recommending a water service revenue
10 requirement of \$192.8 million, or a decrease of \$2.5 million from present rates. I
11 recommend that this decrease generally be distributed to the various customer classes
12 based on the results of the cost of service study approved by the Commission in this
13 proceeding. If the revenue for any class is insufficient to recover the indicated cost of
14 service, that class should not be assigned any portion of the rate decrease. In this
15 case, the classes whose rates are recovering revenues in excess of the indicated cost
16 of service should be assigned a rate decrease in proportion to the extent they are
17 contributing revenues in excess of the indicated cost of service.

18 In Table 4, I present an example estimating revenues by customer class which
19 would result under the OUCC's revenue requirement, revenue distribution and cost of
20 service study recommendations. I have estimated the resulting revenues for each
21 class by proportionally scaling back each class' indicated cost of service to reflect the
22 OUCC's water service revenue requirement recommendation.

Table 4				
Example of OUCC Recommended Water Service Revenue Decrease by Class at the OUCC's Recommended Revenue Requirement				
Class	Present Rates	Proposed Rates	Decrease	Percent
Residential	\$106,976,609	\$99,346,541	\$(7,630,068)	(7.1%)
Commercial	51,243,738	47,874,342	(3,369,396)	(6.6%)
Industrial	14,275,518	14,233,237	(42,281)	(0.3%)
Public Fire	17,609,487	17,499,708	(109,779)	(0.6%)
Private Fire	4,177,200	4,085,405	(91,795)	(2.2%)
Sales for Resale	9,818,879	9,793,809	(25,070)	(0.3%)
Total	\$204,101,432	\$192,833,043	\$(11,268,389)	(5.5%)

1 **Q. IF THE COMMISSION DOES NOT ADOPT THE REVENUE**
2 **REQUIREMENT RECOMMENDATION OF THE OUCC AND INSTEAD**
3 **APPROVES A RATE INCREASE, WHAT IS YOUR RECOMMENDATION**
4 **WITH RESPECT TO THE DISTRIBUTION OF THAT INCREASE TO THE**
5 **VARIOUS CUSTOMER CLASSES?**

6 A. In the event that the Commission authorizes a rate increase for IAWC, I recommend
7 that the revenue increase be distributed based on the cost of service for each customer
8 class. That is, the distribution of the revenue increase should be determined by
9 adjusting the cost of service study approved by the Commission in this proceeding to
10 reflect the water service revenue requirement approved by the Commission in this
11 proceeding. An exception to this approach would be for those instances for which a
12 rate decrease is indicated for a particular class. Where a decrease is indicated, that
13 class should receive no increase.

14 In addition, depending on the magnitude of the rate increase approved by the
15 Commission, adopting my cost of service based distribution of the revenue increase
16 could result in significant rate impacts on the Industrial and Sales-for-Resale classes.

17 There are no absolute rules as to the maximum increase which should be assigned to a

1 particular class in a particular proceeding. However, based on the increases proposed
2 by the Company in this proceeding and the rate increases provided for in the recently
3 concluded Citizens Water proceeding, I would suggest that the increase to the
4 Industrial and Sales-for-Resale classes be limited to approximately 15 percent.

5 **Q. DO YOU HAVE ANY RECOMMENDATIONS CONCERNING THE**
6 **SPECIFIC RATES TO BE ADOPTED IN THIS PROCEEDING?**

7 A. Yes. The various customer and Public Fire Protection charges and surcharges
8 proposal by IAWC are determined through the Company's water cost of service
9 study. The various customer and Public Fire Protection charges and surcharges
10 adopted in this proceeding should be those determined based on the water cost of
11 service study and revenue requirement approved by the Commission in this
12 proceeding, with one exception.

13 **Q. WHAT IS THAT EXCEPTION?**

14 A. There are customers in the Company's Northwest District which are billed on a bi-
15 monthly basis. It is expected that these customers will be converted to monthly
16 billing in the near future. While being billed on a bi-monthly basis, the Company is
17 proposing a bi-monthly customer charge which is twice the customer charge to be
18 assessed to monthly billed customers. I believe that this would result in a significant
19 rate impact for some customers in the Northwest District. To mitigate this significant
20 rate impact, I recommend that bi-monthly customers continue to be billed the existing
21 bi-monthly customer charge of \$21.49 until they are converted to monthly billing.
22 After conversion, these customers should be assessed the same monthly charges as all
23 other customers. Any revenue deficiency resulting from adopting this
24 recommendation should be deferred and recovered in the Company's next base rate

1 case. Deferral of the revenue deficiency would be consistent with the Company's
2 proposed 24-month phase-in of Wabash District customers into Area One.

3 **Q. BRIEFLY EXPLAIN HOW THE COMPANY DETERMINED ITS**
4 **PROPOSED SALES COMMODITY CHARGES.**

5 A. IAWC's existing commodity rate structure consists of three blocks, which are
6 applicable for each retail sales customer class:

- 7 Block 1 (First 15 Mgal)
- 8 Block 2 (Next 3,725 Mgal)
- 9 Block 3 (Over 3,740 Mgal)

10 A separate commodity charge is applicable for Sales-for-Resale customers. Separate
11 block commodity charges are applicable for Area One and Area Two, but within Area
12 One and Area Two, the commodity charges are identical. The block commodity rates
13 proposed by IAWC are not determined by the Company's water cost of service study.
14 The Company's block commodity rates were determined by first developing what the
15 Company considered to be acceptable bill impacts for Area Two customers, and
16 recovering the remaining revenue requirement from Area One customers with
17 adjustments to minimize what the Company considered to be significant bill impacts.

18 **Q. WHAT IS YOUR RECOMMENDATION CONCERNING THE COMMODITY**
19 **CHARGES TO BE ESTABLISHED IN THIS PROCEEDING?**

20 A. I generally recommend that separate block commodity sales rates for each customer
21 class be developed to recover the difference between the revenues recovered through
22 customer charges and the total revenues to be recovered from each class. Within each
23 class, the same percentage relationship proposed by IAWC for Area One and Area
24 Two customers can be maintained to mitigate significant rate impacts.²

² The revenue difference between Area One and Area Two rates is minimal.

1 **Q. WHAT IS THE BENEFIT TO ADOPTING DIFFERENT BLOCK**
2 **COMMODITY RATES FOR EACH CUSTOMER CLASS?**

3 A. The Company's current approach of charging each customer class the same block
4 rates makes it difficult to align revenues for a customer class with the cost of serving
5 that class. Each customer class, except the Residential class, has consumption in each
6 of the three commodity rate blocks.³ Thus, a change to one of the block rates will
7 affect the relationship between revenues and the cost of service of all classes, and that
8 change will not be consistent between classes. Charging different commodity rates to
9 each customer class will simplify the process of aligning revenues and the cost of
10 service.

11 **Q. IS IT COMMON TO CHARGE EACH CUSTOMER CLASS DIFFERENT**
12 **COMMODITY RATES?**

13 A. Yes. This approach has been adopted by many water utilities, including Citizens
14 Water.

15 **Q. IS CHARGING EACH CUSTOMER CLASS A DIFFERENT COMMODITY**
16 **RATE INCONSISTENT WITH SINGLE TARIFF PRICING APPROVED BY**
17 **THE COMMISSION IN CAUSE NO. 40703?**

18 A. No. The single tariff pricing issue in Cause No. 40703 was related to charging
19 different rates to the same customer classes in different districts, or locations.
20 Charging different rates to different customer classes was not an issue.

³ The Residential Class has consumption in two of the three commodity rate blocks.

1 **V. DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**

2 **Q. BRIEFLY EXPLAIN HOW IAWC'S CURRENT DSIC IS ASSESSED.**

3 A. IAWC's current DSIC is a percentage increase assessed to all rates for service, except
4 for fire protection.

5 **Q. WHAT IS IAWC PROPOSING WITH RESPECT TO ITS DSIC?**

6 A. IAWC is proposing to apply the DSIC only to the fixed customer monthly meter
7 charge, the private fire meter charge, and the public fire hydrant charge. The DSIC
8 would no longer be applied to commodity charges.

9 **Q. WHAT IS THE BASIS FOR IAWC'S PROPOSED CHANGE TO THE DSIC?**

10 A. IAWC witness Gregory P. Roach claims that costs eligible for recovery through the
11 DSIC are fixed costs which do not vary with volume, and that fixed costs should not
12 be recovered through commodity charges.

13 **Q. SHOULD IAWC'S PROPOSED CHANGE TO THE DSIC BE APPROVED?**

14 A. No. In the Company's most recent DSIC filing, the most significant cost item was
15 mains investment. Under the base-extra capacity cost allocation method used in the
16 Company's water cost of service study and described in the AWWA M1 Manual,
17 mains costs are largely recovered through volumetric rates. The Company's proposal
18 to recover mains costs through the fixed monthly charge would be inconsistent with
19 the Company's water cost of service study. In addition, including DSIC incurred
20 investment in the fixed monthly customer charge would contribute to rate instability
21 because those costs would be included in volumetric charges in the Company's next
22 base rate case. The vast majority of the Company's costs of providing service are
23 fixed, and recovering all fixed costs through the fixed monthly customer charge as
24 witness Roach suggests would result in monthly customer charges in the \$50 to \$60
25 range for a typical customer with a 5/8-inch meter.

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VI. WASTEWATER SERVICE RATE DESIGN

Q. WHAT IS IAWC PROPOSING WITH RESPECT TO THE CHARGES FOR WASTEWATER SERVICE?

A. The current rate for wastewater service is \$69.46 per month. IAWC claims that the full cost of service rate for wastewater service would be \$102.51, thus a move to full cost of service wastewater rates would reflect a rate increase of nearly 50 percent. To mitigate the rate impact on wastewater customers, the Company is proposing to increase the current monthly charge from \$69.46 to \$76.50. This creates a revenue shortfall of \$147,464 which would be recovered through the rates for water service.

Q. IS IAWC'S WASTEWATER RATE DESIGN PROPOSAL ACCEPTABLE?

A. Yes. However, the proposed monthly rate of \$76.50 should not be reduced to reflect any reduction in the Company's claimed wastewater revenue requirement approved by the Commission unless the full cost of service rate would be less than \$76.50.

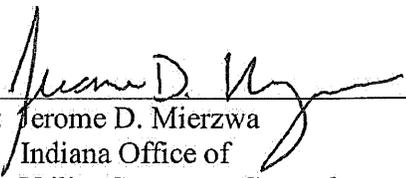
Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

VERIFICATION

STATE OF INDIANA)
)
COUNTY OF MARION) ss:

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


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

Subscribed and sworn to before me, a Notary Public, this 1 day of May 2014.


Signature

Deborah M Adams
Printed Name

My Commission Expires: 2/2015

My County of Residence: PG

**BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF INDIANA-AMERICAN WATER)
COMPANY, INC. FOR (1) AUTHORITY TO)
INCREASE ITS RATES AND CHARGES FOR)
WATER AND SEWER UTILITY SERVICE, (2))
APPROVAL OF NEW SCHEDULES OF RATES)
AND CHARGES APPLICABLE THERETO, (3)) CAUSE NO. 44450
AUTHORITY TO ESTABLISH AND IMPLEMENT)
SYSTEM DEVELOPMENT CHARGES, (4))
AUTHORITY TO ESTABLISH AND IMPLEMENT)
CERTAIN CONNECTION FEES AND POLICIES)
AND NEW RULES AND REGULATIONS)
APPLICABLE THERETO, AND (5) AUTHORITY)
TO IMPLEMENT A REVENUE STABILITY)
MECHANISM)**

SCHEDULES ACCOMPANYING THE

DIRECT TESTIMONY

of

JEROME D. MIERZWA

On Behalf of

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

MAY 2, 2014

EXETER

Associates, Inc.
10480 Little Patuxent Parkway
Suite 300
Columbia, Maryland 21044

**INDIANA-AMERICAN WATER COMPANY
 COST OF SERVICE STUDY
 COMPARISON OF REVENUES UNDER PRESENT RATES
 TO COST OF SERVICE**

Line	Customer Class	(1)	(2)	(3)	(4)	(5)		(6)
		Revenues Under Present Rates (a)	Cost of Service Excluding Bad Debt (b)	Allocation of Bad Debt	Cost of Service Including Bad Debt (b)	Indicated Increase Over Present Rates for Cost-Based Rates \$	%	
						(4) - (1)	(5) / (1)	
1	Residential	\$101,049,377	\$102,176,680	\$9,603,874	\$105,780,554	\$4,731,177	4.68%	
2	Commercial	\$48,541,592	\$49,668,674	\$1,751,864	\$51,420,537	\$2,878,945	5.93%	
3	Industrial	\$ 14,233,237.04	\$17,885,507	\$630,840	\$18,516,347	\$4,283,110	30.09%	
4	Industrial - Other		\$0	\$0	\$0	\$0	N/A	
4	Sale for Resale	\$ 9,793,808.85	\$12,398,986	\$0	\$12,398,986	\$2,605,177	26.60%	
5	Public Fire Protection	\$ 17,499,707.84	\$21,836,959	\$770,211	\$22,607,171	\$5,107,463	29.19%	
6	Private Fire Protection	\$4,205,232	\$4,061,963	\$143,269	\$4,205,232	(\$0)	0.00%	
7	Revenues From Sales	\$195,322,956	\$208,028,769	\$6,900,058	\$214,928,827	\$19,605,871	10.04%	
8	Other Operating Revenues	\$3,857,204	\$3,857,204	\$0	\$3,857,204	\$0		
9	Sewer Subsidy	\$0	(\$147,464)	\$0	(\$147,464)	(\$147,464)		
10	Total Operating Revenues	\$199,180,160	\$211,738,508	\$6,900,058	\$218,638,566	\$19,458,407	9.77%	

(a) Adjusted for DSIC.
 (b) Adjusted for sewer operations.