TABLE MAS-7: Comparison of Approved and Forecasted DSIC Revenues

	Approved	Petitioner Forecasted	Difference
DSIC-7	2.12%	2.12%	0.00%
DSIC-7 Reconciliation	0.22%	0.00%	0.22%
DSIC-8	2.23%	2.02%	0.21%
Total DSIC Rate	4.57%	4.14%	0.43%
DSIC-7	$ 3,666,274	$ 3,536,993	$ 129,281
DSIC-7 Reconciliation	372,687	-	372,687
DSIC-8	3,862,073	3,367,607	494,466
Sub-total	7,901,034	6,904,600	996,434
Petitioner's DSIC-8 Adjustment	-	462,072	(462,072)
Total DSIC Revenues	$ 7,901,034	$ 7,366,672	$ 534,362

As this table demonstrates, Petitioner's forecasted DSIC revenues are understated by $534,362 compared to the DSIC revenues approved by the Commission. There are three aspects of this understatement. First, Petitioner forecasted DSIC-7 revenues that are $129,281 less than the DSIC 7 amount approved. Second, Petitioner forecasted DSIC-8 revenues that are $32,394 ($494,466 – $462,072) less than the DSIC 8 amount approved. Finally, in making its projection, Petitioner did not include the additional $372,687 of DSIC-7 reconciliation revenues approved by the Commission in January 2014.

Q: **What adjustment to Petitioner's forecasted DSIC revenues for the forward-looking test year do you propose?**

A: As discussed above, Petitioner is currently approved to recover $7,901,034 in total distribution system improvement charges. But Petitioner has forecasted only $7,366,672 in DSIC Revenues. Accordingly, I propose an increase to forecasted test year operating revenues of $534,362 to capture the remaining approved DSIC revenues as shown in Table MAS-7 above.

Determination of Petitioner's Projected DSIC Revenues

Q: Please explain how you determined that Petitioner forecasted $6,904,600 of DSIC revenues.

A: The file **\Exhibits\Revenue\Bill Analysis Files\INAW Billing Determinants Ending 12.31.15.xlsx [State Summary Tab]**[4], presents the calculation of projected water operating revenues for both 2014 and 2015 (lines 138 – 149). This file shows the determination of both volumetric (lines 81 – 92) and fixed revenues (lines 124 – 135) for each customer class and separately shows the calculation of DSIC revenues (lines 152 – 163). According to this file, test year projected water operating revenues subject to the DSIC are $166,713,200. Petitioner estimated the total effective DSIC rate as 4.14% - actual DSIC-7 rate of 2.12% and estimated DSIC-8 rate of 2.02% (see individual district tabs within file, lines 743-747). Multiplying 4.14% times the revenues subject to the DSIC ($166,713,200) yields DSIC revenues of $6,901,926 (rounded to $6,904,600) (Attachment MAS-13).

Determination of Petitioner's Forecasted DSIC-8 Revenues

Q: How did Petitioner determine that $3,400,000 was included in its forecasted revenues for DSIC-8?

A: Following the "trail" from the DSIC Adjustment file **\Exhibits\Revenue\Pro Forma Revenue Adjustments\IN 2014 Rate Case – DSIC Adjustment.xlsx** ultimately leads to a "dead-end" cell containing a hard-coded number

[4] Petitioner's flash drive, provided with its case-in-chief, begins with the following string: **\Departmental Folders\Finance\Rates\IN\Rate Cases\2014\Exhibits**

All my references to Petitioner's files will begin with the last folder (Exhibits). This is the first folder that contains any files.

($3,400,000) in the file **\Exhibits\Data to Compile Exhibits\2014 2015 Budget Models\Revenue\DSIC Overlay.xlsx**. Based on further review of this file, it appears that the $3,400,000 represents 2.02% times $168,183,595 of revenues subject to the DSIC. According to this file, the revenues subject to the DSIC ($168,183,595) come from the file **\Exhibits\Revenue\Budget Files\IN2014_2015 Budget Water Revenue Template (no rates).xls [State Summary Tab]**. Further review of that file reveals that these revenue amounts are based on 2014 calendar year revenues rather than the test year proposed in this Cause (December 2014 – November 2015).

Q: **Is the $3,400,000 an accurate estimate of total DSIC-8 revenues included in Petitioner's forecast?**

A: No. According to the file **\Exhibits\Revenue\Bill Analysis Files\INAW Billing Determinants Ending 12.31.15.xlsx [State Summary Tab]**, Petitioner's projected test year revenues subject to the DSIC are $166,713,200. (See also Attachment MAS-13.) Multiplying this revenue amount by the estimated 2.02% DSIC-8 rate assumed by Petitioner yields forecasted DSIC-8 revenues of $3,367,600. This is the amount that should have been reflected in Petitioner's DSIC revenue adjustment to accurately reflect DSIC-8 revenues in its test year projected operating revenues.

Difficulties Encountered

Q: **Did you encounter any difficulties in determining the amount of DSIC revenues included in Petitioner's forecasted test year operating revenues?**

A: Yes. In order to determine the amount of DSIC revenues included in Petitioner's forecasted 2015 operating revenues, I needed to follow a circuitous and convoluted trail of cell references through five (5) files and at least fourteen (14) worksheets. This process was extremely time-consuming. I also encountered further delay when I discovered that some of Petitioner's files were password protected. Such protections resulted in the deactivation of Excel formula audit functions, which further complicated my review.

Q: Please explain the steps you found necessary to follow the trail to the information needed.

A: Starting with the Excel File **\Exhibits\IN 2014 Rate Case – Pro Forma Revenue Requirement.xlsx,** the tab labeled [Rev Req Exhibit] reflected $199,574,356 of Total Company operating revenues (cell E18) and $199,180,164 of Total Water operating revenues (cell G18). Since DSIC revenues are based on water revenues only, I followed Cell G18's trail as detailed in Attachment MAS-14.

Ultimately, the trail led me to the file **\Exhibits\IN 2014 Rate Case – Pro Forma Income Statement.xlsx**. However, rather than referring directly to the source of the forecasted test year numbers, this file refers instead to two links: (1) the base period revenues and (2) the adjustments to base period revenues. These two references are then added together to yield test year forecasted revenues.

Finally, I found that the tab labeled "Link In" contained direct references to the source of the forecasted test year revenues - **\Exhibits\Revenue\Bill Analysis Files\INAW Billing Determinants Ending 12.31.15.xlsx**, tab labeled [Link Out-Revenue] where I was able to find the detail for forecasted revenues including the amount for DSIC revenues.

G. Operating Expenses

Q: What level of forecasted operating expenses does Petitioner propose in this Cause?

A: Petitioner proposes forecasted operating expenses of $69,098,756.

Q: Did Petitioner propose any adjustments to its forecasted operating expenses?

A: Yes. Petitioner proposed two adjustments to its forecasted operating expenses: (1) a retrospective adjustment to decrease insurance expense by $173,965 and (2) an increase of $25,000 to miscellaneous operating expense related to Petitioner's proposal to establish a customer assistance program. Total operating expense adjustments proposed by Petitioner resulted in a decrease of $148,965 yielding present rate *pro forma* operating expenses of $68,949,791.

Q: Does the OUCC accept Petitioner's forecasted test year operating expenses?

A: Not entirely. Although the OUCC accepts many of Petitioner's forecasted test year operating expenses, there are other expenses for which the OUCC proposes adjustments. Various OUCC witnesses discuss the OUCC's position regarding each forecasted test year operating expense and present the OUCC's proposed operating expense adjustments. Table 8 on page 53 of my testimony provides a comparison of the forecasted *pro forma* operating expenses proposed by Petitioner and the OUCC.

Q: Does the OUCC have any additional comments regarding Petitioner's projected level of operating expenses?

A: Yes. Although many of the expense reductions Petitioner proposes in this Cause appear to be the result of cost cutting measures, others are not. Just because an expense is being reduced does not mean that total costs are being reduced. In some cases, Petitioner is simply capitalizing costs it never capitalized before or increasing the amount of costs being capitalized. Telecommunications (cell phones) and incentive pay are two examples of costs that Petitioner began capitalizing in 2014 (Attachment MAS-15).

Q: Is Petitioner's capitalization of these expenses reasonable?

A: Yes. These costs are directly related to employees working on capital projects and therefore would be considered overhead that could be capitalized. The OUCC is not questioning Petitioner's change in policy. However, this policy change does not benefit ratepayers. Petitioner's reduced operating expenses are being offset by an increased return on and of additional capital costs.

Q: Are you aware of any other operating expense reductions that correspond to an increase in Petitioner's capital costs?

A: Yes. Petitioner's transportation expense is reduced primarily due to expiring vehicle leases. However, this operating expense (lease) is being replaced with a capital expenditure – the purchase of a vehicle. In other words, Petitioner has not reduced the number of its vehicles, it has substituted a lease with a vehicle purchase. This expense reduction does not yield the benefit to customers it appears to provide.

Table 8: Comparison of *Pro Forma* Operating Expenses

	Per Petitioner	Per OUCC	OUCC More (Less)	OUCC Witness
Salaries & Wages	$15,280,442	$15,070,534	$ (209,908)	Patrick
Employee Benefits				
Pensions	951,928	951,928	-	
Group Insurance	3,747,358	3,747,358	-	
Other Benefits	787,568	780,877	(6,691)	Patrick
Purchased Water	493,603	493,603	-	
Purchased Power	6,737,670	7,003,938	266,268	Corey
Chemical	1,820,591	1,903,139	82,548	Corey
Waste Disposal	1,228,608	1,228,608	-	
Maintenance	3,584,891	3,584,891	-	
Service Company Expense	20,826,305	17,979,148	(2,847,157)	Stull
Contractual Services	986,793	986,793	-	
Rents	619,064	611,735	(7,329)	Corey
Transportation	1,375,878	1,375,878	-	
Insurance Other than Group	1,750,844	1,750,844	-	
Building Maintenance & Services	945,981	945,981	-	
Customer Accounting	2,610,983	2,666,772	55,789	Corey
Telecommunication	577,628	577,628	-	
Postage, Printing, & Stationery	54,379	54,379	-	
Office Supplies & Services	946,629	946,629	-	
Advertising & Marketing	54,201	43,298	(10,903)	Corey
Bad Debt Expense	1,688,293	1,768,465	80,172	Patrick
Rate Case Expense	517,138	517,138	-	
Employee Related Costs	332,340	332,340	-	
Miscellaneous	1,030,676	837,357	(193,319)	Thacker
Pro Forma Operating Expenses	$68,949,791	$66,159,261	$(2,790,530)	

1. Service Company Expense

Q: What level of Service Company expense does Petitioner propose?

A: Petitioner proposes a forecasted Service Company expense of $20,826,305. According to Mr. VerDouw, this amount is based on the Service Company budget, which is projected to remain flat compared to its 2013 budget (VerDouw Testimony, page 32, lines 5-9).

Q: Did Petitioner file any revisions to its forecasted Service Company expenses?

A: Yes. On April 17, 2014, Petitioner filed its Third Submission of Revisions. Included in this filing was a revised Exhibit GMV-3, Schedule 9 that Petitioner declared was understated by $40,574 in its original filing. Total Service Company expenses per the revised Exhibit are $20,866,879.

Q: Is Petitioner seeking to revise its requested rate increase in this proceeding?

A: No. Petitioner stated it was filing the corrected schedules so that to the extent any other parties' proposals rely on those exhibits, the corrected figures may be used.

Q: Do you agree with Petitioner's revised forecasted Service Company expenses?

A: No. I don't agree with either the original or the revised forecast of Service Company expenses. Petitioner's forecasted Service Company expenses are based upon the Service Company's 2014 operating expense budget, rather than its 2015 operating expense budget. The Service Company's budget for the years 2013, 2014, and 2015 are presented in Table 9 below. Service Company budget information was provided by Petitioner in response to OUCC Data Request No. 17-11(Attachment MAS-16). Actual expenditures for 2013 were provided by Petitioner in response to OUCC Data Request No. 50-5 (Attachment MAS-17):

Table 9: Comparison of Service Company Costs

		Actual	Budget		
		2013	2013	2014	2015
Operating Expenditures	(A)	$ 234,377,688	$ 228,809,666	$ 235,391,470	$ 186,859,183
Capital Expenditures		80,347,395	65,411,400	29,525,918	44,116,321
Total Budget		$ 314,725,083	$ 294,221,066	$ 264,917,388	$ 230,975,504
Charged to Indiana	(B)	$ 21,600,939		$ 20,826,305	$ 18,242,000
(B) / (A)		9.22%		8.85%	9.76%

This data demonstrates that the budget for the Service Company is actually decreasing from 2013 through 2015 rather than remaining flat as Mr. VerDouw testified. Service Company operating expenditures are forecasted to decrease $48,532,287 from 2014 ($235,391,470) to 2015 ($186,859,183). This decrease is primarily driven by decreases in Customer Service Center expenses ($9,923,289), Information Technology Services ($14,968,735), and Finance ($4,878,267) (Attachment MAS-17).

Q: What level of Service Company expenses do you propose?

A: I propose that Service Company expense be composed of 11 months of the 2015 budget and 1 month of the 2014 budget to synch with the proposed test year in this Cause. As demonstrated in the Table 10 below, this method yields *pro forma* test year Service Company expense of $18,457,849.

Table 10:Updated Indiana-American Service Company Forecast

	2014	2015	
Service Company Budgeted Expenses	$ 235,391,470	$ 186,859,183	
Times: Indiana %	8.85%	9.76%	
Indiana Share of Annual Service Company	20,832,145	18,242,000	
	/12	/12	
Indiana Monthly Share of Service Company	1,736,012	1,520,167	
	x 1	x 11	
	$ 1,736,012	$ 16,721,837	$ 18,457,849

Q: Do you have any further adjustments to propose to Service Company expenses?

A: Yes. In Cause No. 44022, the Commission "found no evidence that the Business Development activities provide a benefit to ratepayers – in fact, the Commission is concerned that ratepayers may be subsidizing business development with limited offsetting benefits." I therefore propose to eliminate the costs of the

Service Company Business Development Department. Total operating expenses budgeted for the business development department for 2014 were $6,053,052 and for 2015 are $4,805,052 (Attachment MAS-17).

Table 11: OUCC Proposed Service Company Costs

	2014	2015	
Service Company Budgeted Expenses	$ 235,391,470	$ 186,859,183	
Less: Business Development Dept.	6,053,052	4,805,052	
	229,338,418	182,054,131	
Times: Indiana %	8.85%	9.76%	
Indiana Share of Annual Service Company	20,296,450	17,768,483	
	/12	/12	
Indiana Monthly Share of Service Company	1,691,371	1,480,707	
	x 1	x 11	
Pro forma Service Company Expense	$ 1,691,371	$ 16,287,777	$ 17,979,148

I propose the same calculation method as above, using one month of 2014 and eleven (11) months of 2015. As shown in the table above, this yields a *pro forma* test year Service Company expense of $17,979,148. OUCC Schedule 6, Adjustment 5, reflects a decrease of $2,847,157 to Service Company expense to incorporate these adjustments.

H. Depreciation and amortization expense

1. Depreciation Expense

Q: What level of forecasted test year depreciation expense does Petitioner propose?

A: Petitioner proposes forecasted test year depreciation expense based on a projected thirteen-month average utility plant in service for the period November 2014 through November 2015 of $1,405,807,835. After removing non-depreciable assets such as land, Petitioner applied a composite depreciation rate of 3.06% to yield projected test year depreciation expense of $42,572,740.

Q: Do you accept Petitioner's forecasted test year depreciation expense?

A: No. As discussed earlier in my testimony, the Commission has ordered that Petitioner's rate base be phased-in as it becomes used and useful. As the OUCC is proposing a rate base as of March 31, 2014, as adjusted, for Petitioner's initial rates, I am using that same rate base to calculate my proposed *pro forma* depreciation expense.

Q: Please explain your proposed *pro forma* depreciation expense.

A: I use the same method Petitioner used to calculate my *pro forma* depreciation expense as well as Petitioner's proposed composite depreciation rate of 3.06%. The only difference between the two calculations is the date at which utility plant in service is valued. As shown in Table 12 below, I propose *pro forma* depreciation expense of $41,484,748, a decrease of $1,087,992 from Petitioner's proposed test year depreciation expense. As Petitioner's rate base is phased-in through subsequent phases, depreciation expense would be increased accordingly.

Table 12: Calculation of *Pro forma* Depreciation Expense

Utility Plant in Service at 3/31/14			$ 1,373,255,913
Less:	Organization expenses	507,257	
	Franchises and consents	2,677	
	Land and land rights	16,243,141	
	Fully depreciated structure painting	197,248	
	Fully depreciated tank painting	594,856	
			(17,545,179)
Depreciable Book Original Cost UPIS			1,355,710,734
Times: Composite Depreciation Rate			3.06%
Pro forma Depreciation Expense			$ 41,484,748

2. Amortization Expense

Q: What level of forecasted test year amortization expense does Petitioner propose?

A: Petitioner proposed test year amortization expense of $1,011,705. This amount includes the annual amortization expense related to both deferred depreciation and post-in-service AFUDC related to the BT project. Petitioner also proposes to include the amortization of BT project SOP 98-1 costs[5]. Finally, Petitioner's proposed amortization expense was reduced by the amortization of 50% of Petitioner's Atrazine settlement over a five year period.

Q: Does the OUCC agree with Petitioner's projected test year amortization expense?

A: No. While the OUCC accepts Petitioner's proposed amortization of deferred depreciation and post-in-service AFUDC related to the BT Project, the OUCC disagrees with the amount of amortization included for both the SOP 98-1 costs and the Atrazine Settlement. OUCC Witness Mr. Charles Patrick discusses the OUCC's position regarding the Atrazine Settlement.

Q: Does the OUCC propose any additional adjustments to forecasted amortization expense?

A: Yes. The OUCC proposes additional adjustments to reflect the amortization of comprehensive planning studies for both the BT Project and the Warsaw Treatment Plant.

[5] Although Petitioner proposes to include these costs in rate base, for "return of" purposes, it proposes amortization of these costs over a ten year period rather than depreciation.

Q: Please explain the OUCC's disagreement with Petitioner's proposed amortization of the SOP 98-1 costs.

A: As discussed on page 38 of my testimony, the OUCC proposes to remove the AFUDC Petitioner recorded as part of its request to include SOP 98-1 costs in its rate base. Petitioner recorded AFUDC of $190,182 on these SOP 98-1 costs and this amount is included in Petitioner's proposal (Attachment MAS-11). The OUCC proposes to remove AFUDC from the amount of BT project costs to be amortized. OUCC Schedule 6, Adjustment 12, reflects a reduction of $19,018 ($190,182/10 years) to amortization expense.

Q: Please explain your proposed adjustment to reflect amortization of comprehensive planning study costs.

A: As discussed at page 30-31 of my testimony, the OUCC removed the costs of two comprehensive planning studies related to the BT project and to the Warsaw treatment plant. Instead of earning a return and depreciating these costs, the appropriate treatment of these costs is deferral and amortization. For the BT project, I amortized $575,790 over 10 years, the life of the project, for an increase of $57,579 to forecasted amortization expense. For the Warsaw treatment plant, I amortized $92,195 over 15 years, the life of the study, for an increase of $6,146 to forecasted amortization expense (OUCC Schedule 6, Adjustment 12).

I. Taxes other than income

1. Utility Receipts Tax

Q: Please explain how your calculation of *pro forma* Utility Receipts Tax expense differs from Petitioner's calculation.

A: Three are two reasons why my utility receipts tax (URT) calculation differs from Petitioner's. First, the OUCC's proposed revenue adjustments differ from Petitioner's and, therefore, the amount of revenue the URT is applied to is different Second, Petitioner's calculation of URT does not reduce taxable revenues by bad debt expense as allowed (Attachment MAS-18).

Petitioner forecasted test year utility receipts tax expense of $2,667,435 and I propose *pro forma* test year utility receipts tax expense of $2,764,788 on taxable revenues of $197,484,741. (See OUCC Schedule 7, Adjustment 3.)

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

2. IURC Fee

Q: Please explain how your calculation of IURC Fee expense differs from Petitioner's calculation.

A: First, the OUCC's proposed revenue adjustments differ from Petitioner's and, therefore, the amount of revenue the IURC fee is applied to is different. Petitioner's forecasted test year IURC fee expense ($272,917) was calculated based on a 10% increase over the IURC fee budgeted for 2014 rather than as a percent of forecasted taxable revenues. My calculation adjusts *pro forma* operating revenues for those revenues that are excluded from the calculation, such as Sales for Resale. My calculation also reduces revenues for bad debt expense as allowed (Attachment MAS-19). Petitioner projected test year IURC fee expense of $272,917 and I propose *pro forma* test year IURC fee expense of $255,690 on revenues of $192,264,536. (See OUCC Schedule 7, Adjustment 1.)

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

J. <u>Income Taxes</u>

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 5. 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 proposed rate revenues recommended.

Q: In what way does your calculation of state 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 state income taxes and Petitioner's. I propose *pro forma* present rate state income tax expense of $4,930,023 as compared with Petitioner's proposed $3,960,871.

Q: In what way does your calculation of federal income tax differ from 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. I propose *pro forma* present rate federal income tax expense of $21,127,394 as compared with Petitioner's proposed $16,497,879. (See OUCC Schedule 7, Adjustment 5.)

The calculation for the adjustment to reflect a reduction in federal and state income tax due on the proposed decrease in rates is included in the Gross Revenue Conversion Factor (OUCC Schedule 1, Page 2 of 2) and was discussed previously in my testimony.

Q: Does Indiana-American pay federal income taxes?

A: No. Indiana-American is a member of its parent company's consolidated tax return and, therefore, has no federal income tax liability itself.

Q: Is Petitioner's parent company, American Water, currently paying federal income taxes?

A: No. American Water currently has a net operating loss carry-forward in excess of one billion dollars and is not currently paying federal income taxes.

IV. CALCULATION OF DSIC

A. Current DSIC Calculation

Q: What components are currently included in a Distribution System Improvement Charge?

A: Per IC § 8-1-31-3, DSIC costs are defined as depreciation expense and pretax return associated with eligible distribution system improvements. IC § 8-1-31-6 defines pretax return as "the revenues necessary to (1) produce net operating income equal to the public utility's weighted cost of capital multiplied by the *net* original cost of eligible distribution system improvements, and (2) pay state and federal income taxes applicable to such income." *(emphasis added)*

Q: How has the net original cost of eligible distribution system improvements been calculated in past DSIC cases?

A: In compliance with the Commission's first DSIC order issued February 27, 2003 (Attachment MAS-I), a utility nets distribution plant additions with distribution plant retirements to calculate the *net* original cost of eligible distribution system improvements. In past cases, this calculation included the following components:

DSIC Additions (Accounts 330, 331, 333, 334, and 335)
Add: Removal Costs related to retired plant
Less: DSIC Retirements
Salvage Value
Contributions-in-aid of Construction (CIAC)

B. Petitioner's Proposal

Q: What changes to the DSIC calculation does Petitioner propose?

A: Petitioner proposes a change in the treatment of asset retirements. To this end, Petitioner puts forth two proposals: (1) Treat retirements in the same manner as the Commission ordered for Indiana Michigan Power Company (I&M), Cause No. 44182, or (2) Treat retirements as the Commission ordered for Northern Indiana Public Service Company (NIPSCO), Cause No. 42150 ECR-21 (Roach Testimony, pages 64-65).

Q: What treatment did the Commission order in Cause No. 44182 regarding retirements?

A: In its Final Order in Cause No. 44182, the Commission determined it was not necessary to remove retirements for purposes of computing the incremental return for I&M's Cook Nuclear Power Plant Life Cycle Management (LCM) Project tracker. The Commission determined that retirements should be removed for purposes of computing the incremental depreciation expense portion of this tracker.

Q: What treatment did the Commission order in Cause No. 42150 ECR-21 regarding retirements?

A: In its Final Order in Cause No. 42150 ECR-21, the Commission determined that retirements should be removed when computing the incremental return for NIPSCO's ECR (environmental cost recovery) tracker. However, retirements should be removed at their net value, rather than their gross value, as it was included in rate base in NIPSCO's last base rate case. The Commission determined that retirements should not be removed for purposes of computing the incremental depreciation expense portion of this tracker.

Q: Why is Petitioner proposing a change to the current DSIC calculation?

A: Petitioner's main argument for its proposed change in the DSIC calculation is based on how retirements are accounted for in accordance with NARUC and the impact this accounting has on rate base. Mr. Roach stated that the accounting entries made to record the retirement of assets have no impact on original cost rate base and, therefore, should not be considered to determine net additions or the pretax return on those net additions.

Q: Does Petitioner propose to include retirements in its computation of depreciation expense?

A: Yes. Petitioner's proposed methodology would continue to remove retirements for purposes of computing depreciation expense. Even though the accounting for retirements has no impact on rate base, it does affect the computation of depreciation expense.

C. OUCC's Response

Q: Does the OUCC accept either of Petitioner's proposed changes to the current DSIC calculation?

A: No. There are several reasons why the OUCC does not believe any change is needed to the current calculation of the DSIC charge. The water distribution system improvement charge is not an asset tracker. The treatment of retirements for accounting purposes is not relevant to the DSIC calculation. Finally, Petitioner's proposal is not consistent with the Commission's order in Cause No. 42351 DSIC-1.

Q: Is there a way to reconcile the various methods the Commission has determined for the treatment of retirements?

A: Yes. The simplest explanation is that the Commission has purposely determined different methods of treating asset retirements depending upon the facts and circumstances of each type of case, including the purpose of the rate mechanism that is the subject of these cases.

Q: Please explain.

A: The I&M LCM and the NIPSCO ECR cases cited by Petitioner are both trackers created through legislation to provide expedited cost recovery of specific types of specialized construction costs. The costs being tracked in these cases are also specific to the electric or nuclear industry. Further, these trackers were created through separate legislation, each with its own discrete purposes and requirements.

Q: Is Petitioner's proposal consistent with the Commission's GAO 2005-4?

A: No. Appendix A, Part B of the Commission's GAO shows the approved DSIC calculation. (Attachment MAS-3) Line 3 lists "Less Retirements," establishing that the authorized DSIC calculation intended to give effect to retirements. While this calculation has previously been modified, Petitioner has not shown sufficient cause to do so in this case.

Q: Is the accounting for retirements relevant to the DSIC calculation?

A: No. The DSIC is not an asset tracker. The DSIC was meant to provide an incentive to Indiana water utilities to replace aging infrastructure through expedited cost recovery, not to track every change in a utility's distribution system rate base.

Q: Are there other components of distribution system rate base that are not incorporated into the DSIC calculation?

A: Yes. The DSIC does not take into consideration the increase in accumulated depreciation. Therefore, the DSIC allows a utility to earn a return on investments that the utility arguably made with ratepayer provided depreciation funds rather than investor supplied funds. This is part of the incentive, between base rate cases, provided to utilities to replace aging infrastructure.

D. Cause No. 42351 DSIC-l

Q: Has the treatment of retirements previously been considered in a DSIC proceeding?

A: Yes. In addition to several other issues, such as what qualifies as a "distribution system" improvement, the Commission considered the treatment of retirements in its Final Order in Cause No. 42351 DSIC-l issued on February 27, 2003.

Q: What evidence was presented in that Cause?

A: In its case-in-chief in Cause No. 42351 DSIC-l, Petitioner did not include retirements in its calculation of net original cost of distribution system improvements. In its case, the OUCC reduced Petitioner's proposed DSIC eligible improvements by the original cost of the related retirements. On rebuttal, Petitioner's witness Mr. Cutshaw disagreed with the OUCC's treatment and argued that mass asset accounting rules for retirements result in no change to the net book value of the Company's assets.

Q: Did the Commission agree with Mr. Cutshaw?

A: No. The Commission rejected Petitioner's proposed treatment of retirements and agreed with the OUCC's proposal to include retirements to determine net eligible distribution system improvements. In its discussion, the Commission noted while retiring an asset does not impact a utility's net book value under mass asset accounting rules, this "rationale may be technically correct, but it is also irrelevant since such a factor would only apply in original cost ratemaking." (Cause No. 42351 DSIC-l, Final Order dated February 27, 2003, page 22 – 23.) The Commission further noted that, "Mass accounting rules do not apply to the Commission's determination of a utility's fair value and any retirement of plant will impact the fair value rate base..." *(Id.)*

Q: Does the DSIC statute contemplate reducing eligible distribution system improvements?

A: Yes. The DSIC statute states that one component of the DSIC rate is the return on the "*net* original cost of eligible distribution system improvements." *(<u>emphasis added</u>.)* While the statute does not include a definition of the term "net original cost of eligible distribution system improvements," using the word "net" demonstrates that the statute contemplates an offset to eligible distribution system improvements.

Q: What calculation of DSIC eligible system improvements did the Commission approve in Cause No. 42351 DSIC-1?

A: Along with removal costs and contributions, both salvage value and retirements were included in the Commission's determination of net eligible distribution system improvements in DSIC-l. The Commission's determination in DSIC-l as described above suggests that the Commission could and has properly construed the term "*net* original cost of eligible distribution system improvements" to authorize it to offset retirements against Indiana-American's eligible distribution system improvements.

Q: Please summarize the OUCC's position regarding the treatment of retirements in the DSIC calculation.

A: In this Cause, Petitioner proposes to ignore retirements in the DSIC calculation. The DSIC is not an asset tracker but an incentive provided to Indiana water utilities to replace aging distribution system infrastructure. Further, this issue has already been decided in DSIC-1. Mr. Roach's reasoning in this Cause relies upon the same rejected theories Petitioner presented in DSIC-l; Petitioner has provided no new evidence that would warrant reversing the Commission's well-reasoned findings in Cause No. 42351 DSIC-l.

Nothing in Petitioner's case-in-chief refutes the Commission's rationale for including retirements in the calculation of the DSIC rate. Per the Commission's Final Order in Cause No. 42351 DSIC-1, if retirements are not included in the DSIC calculation, Petitioner will continue to earn a return on an asset that is no longer used and useful while simultaneously earning a return on the asset that replaced it. This result is unreasonable and unfair to Petitioner's ratepayers.

V. TARIFF ISSUES

Q: Is Petitioner seeking any changes to its tariff in this case?

A: Yes. Petitioner makes several proposals regarding its tariff, in addition to its proposed movement toward single tariff pricing. First, Petitioner proposes changes to how future DSIC increases are recovered as well as the application of the DSIC to fire protection charges. Second, Petitioner proposes that the bi-monthly customer meter charge in the Northwest District be double that of the monthly customer meter charge. Third, Petitioner proposes to phase in the rate increase for the Wabash District. Finally, Petitioner proposes to eliminate the fire protection charge for Sales for Resale customers.

I will discuss both of Petitioner's proposals regarding the DSIC charge as well as Petitioner's proposal to phase-in rates for the Wabash District. OUCC Witness Jerome Mierzwa discusses Petitioner's proposal regarding the bi-monthly customer meter charges in the Northwest District.

Q: Did Petitioner propose any new non-recurring charges?

A: Yes. Petitioner proposed to add a System Development Charge (SDC) of $500 and a Connection Fee of $800 to its current non-recurring tariff charges. This issue was deferred to the subdocket ordered in this case and will be addressed by the OUCC at that time.

A. Recovery of the DSIC

Q: Please explain Petitioner's proposal regarding recovery of future DSIC charges.

A: Petitioner proposes to recover future DSIC charges through the application of the increase to customer meter charges, private fire meter charges, and public fire hydrant charges only. The volumetric charges would no longer be subject to the DSIC charge.

Q: Does the OUCC accept Petitioner's proposal?

A: No. Petitioner's proposal would tend to overcharge the DSIC to residential customers and undercharge the DSIC to other customer classes. Essentially, Petitioner is proposing to allocate the costs of distribution system improvements based on the number and size of meters in its system. Because residential customers are the largest customer class, with the largest number of meters, they will be disproportionately affected by Petitioner's proposal. This issue is discussed further in Mr. Mierzwa's testimony.

Q: Has a similar issue been addressed previously regarding the recovery of DSIC charges?

A: Yes. In Cause No. 42351 DISC-4, the Industrial Group proposed a change to the method of calculating the DSIC from a volumetric charge to a percent of bill charge. In that case, the Industrial Group argued that the use of a strict volumetric calculation does not properly allocate the costs of the distribution system among customer classes and that allocating based upon the percentage of a customer's bill was more consistent with accepted cost allocation methodologies. The Commission agreed, determining that DSIC costs should be allocated based on a percent of bill method.

Q: What does the OUCC propose?

A: Just as a straight volumetric allocation of DSIC costs does not properly allocate the costs among the customer classes, neither does a straight allocation based on the number and size of meters. The OUCC proposes that no change be made to the recovery of DSIC charges.

B. Application of the DSIC to Fire Protection Charges

Q: Is there another aspect to Petitioner's request regarding the recovery of DSIC charges?

A: Yes. Petitioner is also proposing to apply the DSIC to fire protection charges. Currently, the charge is only applied to the customer meter charge and the volumetric charge.

Q: Does the OUCC oppose Petitioner's request to apply the DSIC to fire protection charges?

A: No. Although the OUCC believes that applying the DSIC to fire protection charges may lead to inequities in the allocation of the DSIC between customer classes, these inequities are not material or permanent because the DSIC will be reset to zero when Petitioner files its next rate case.

C. Phase-in of Wabash Rate Increase

Q: What does Petitioner propose regarding the movement of the Wabash District from Area Two to Area One?

A: Petitioner proposes that the resulting increase in rates be phased-in over three phases, or two years. The first phase would represent 50% of the proposed increase. The second phase, twelve months later, would represent an additional 25% of the proposed rate increase. The third and final phase, 24 months after an order is issued, would represent the final 25% of the overall proposed rate increase.

Q: Why is Petitioner making this proposal?

A: Petitioner stated that it received a number of customer complaints in the last case regarding the significance of the increase for West Lafayette and Warsaw.

Therefore, Petitioner adopted the phase-in approach for Wabash in order to be "progressive and responsive to the complaints Petitioner heard from the West Lafayette and Warsaw communities." (See Attachment MAS-18.)

Q: Does Petitioner request to include lost revenues as a regulatory asset?

A: Yes. This proposal will result in Petitioner not recovering its full revenue requirement for the first two years that rates are in place. As such, Petitioner proposes to defer these lost revenues and recover them in its next rate case. This proposed regulatory asset will accrue carrying charges and will be reflected in rate base, amortized over a three-year period.

Q: Doesn't this result in subsidization of the Wabash rate increase by all of Indiana-American's customers?

A: Yes. However, all Indiana-American Area One customers subsidize Area Two customers since Area Two customer rates do not reflect the full cost of service. There is little difference between Petitioner's proposal and the current situation.

Q: Does the OUCC oppose Petitioner's proposal?

A: This proposal will ease the rate shock experienced by the Wabash District customers. Further, other Indiana-American customers will be no worse off than they currently are. Therefore, the OUCC does not oppose Petitioner's proposal to phase-in rates for the Wabash District.

D. Comparison of Petitioner's Proposed Rate Increases

Table 13: Comparison of Proposed Water Rate Increase by District[6]

	Total Water	Residential	Commercial	Industrial
Area One				
Crawfordsville	8.29%	8.14%	4.62%	7.15%
Johnson County	7.87%	7.19%	4.92%	7.83%
Kokomo	9.33%	8.45%	5.93%	8.96%
Muncie	9.25%	8.26%	4.75%	4.08%
Newburgh	8.45%	6.89%	3.28%	-2.83%
Noblesville	7.41%	6.63%	3.67%	-7.90%
Northwest Indiana	13.32%	19.49%	1.21%	9.22%
Richmond	9.26%	8.51%	5.58%	9.82%
Seymour	8.25%	8.31%	3.63%	9.99%
Shelbyville	7.99%	7.71%	5.10%	9.53%
Somerset	7.32%	7.83%	4.20%	N/A
Southern Indiana	9.13%	8.18%	5.40%	10.32%
Sullivan	9.01%	8.30%	5.32%	10.23%
Summitvile	9.17%	8.33%	6.15%	13.05%
Terre Haute	8.96%	8.26%	3.95%	8.41%
Warsaw	8.01%	7.48%	3.90%	9.93%
Waveland	9.06%	7.91%	5.89%	N/A
West Lafayette	7.05%	7.16%	4.54%	3.80%
Area Two				
Mooresville	10.23%	9.35%	5.69%	12.65%
Winchester	10.05%	9.86%	4.58%	9.14%
Wabash	21.56%	18.41%	19.78%	30.47%

Q: Please explain Table 13 above.

A: Table 13 presents Petitioner's proposed average rate increases by customer class for each operating district. Although the overall revenue increase proposed by Petitioner is 9.84%, the actual average increases for each customer class vary depending upon the cost of service for that class. The actual average increases for a particular customer class vary slightly from one district to the next due to customer usage in each respective operating district.

[6] Data based on Exhibit GPR-7 – Operating Revenues by District.

This table shows that overall, commercial customer rates are increasing at a lower rate than those of residential customers or industrial customers. As expected, Wabash District rates are increasing the most due to their movement from Area Two rates to Area One rates.[7]

Q: Do you have any other comments regarding Table 13?

A: Yes. Table 13 above reveals a larger increase in the Northwest District rates than in other Area One districts. This issue is discussed in more detail in the testimony of Mr. Mierzwa.

VI. RECOMMENDATIONS

Q: Please summarize your recommendations to the Commission.

A: I recommend an overall rate decrease of 5.52% based on the review and analysis of myself and other OUCC analysts. As discussed and supported in the foregoing testimony, I further recommend that the Commission adopt the following adjustments to Petitioner's forecasted test year revenues and expenses:

- An increase to Petitioner's late fee revenue in the amount of $57,060 to yield forecasted present rate late fee revenues of $1,350,097;
- An increase to Petitioner's DSIC revenue in the amount of $534,362 to yield forecasted present rate DSIC revenues of $7,901,034;
- A decrease to Petitioner's Service Company costs in the amount of $2,847,157 to yield a total forecasted test year expense of $17,979,148.

[7] Data in Table 13 for Wabash District represents total rate increase (all phases combined).

I also recommend that, for purposes of establishing initial rates (Phase I) in the Final Order in this Cause, the Commission order the following adjustments to Petitioner's rate base:

- Petitioner's rate base cut-off date should be March 31, 2014 for actual rate base, plus all projects specifically identified in Petitioner's case-in-chief that are projected to be in service by November 30, 2014;
- Petitioner's proposal to include construction work-in-progress in rate base should be rejected; and
- Petitioner's proposal to include BT SOP 98-1 costs in rate base should be rejected. These costs should be recovered through amortization expense over a ten-year period.

I recommend the Commission authorize a reasonable and relevant capital structure based on Petitioner's November 30, 2014 projections.

I recommend the Commission reject Petitioner's proposal to exclude asset retirements from the calculation of the distribution system improvement charge. I also recommend the Commission reject Petitioner's proposal to apply the DSIC only to customer meter charges and fire protection charges.

Finally, I recommend that a utility's case-in-chief filing for a rate increase request that is based on a forward-looking test year should include:

- <u>All</u> supporting calculations and a complete and accurate description of the basis for each forecasted operating revenue and expense;
- Specific, identifiable adjustments to base period expenses and revenues to yield forecasted operating revenues and expenses;
- A full explanation for each hard-coded number;
- Excel files that can be manipulated and are not password protected;
- Excel files that allow the OUCC and Intervenors to easily change assumptions to see the impact these changes have on the forecasted revenue or expense;

- All files relied upon to prepare the revenue and expense forecasts or, if providing all files is too voluminous, a list of each file should be included with a utility's case-in-chief
- A "map" of all files used to calculate the forecasted revenue requirements.

Q: Does this conclude your testimony?

A: Yes.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

Margaret A. Stull

Margaret A. Stull
Indiana Office of Utility Consumer Counselor

May 2, 2014
Date

Cause No. 44450
Indiana-American Water Co., Inc.

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

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

		Per Petitioner Total	Per OUCC Phase I	Ref
1	Original Cost rate Base	$ 837,954,354	$ 827,132,691	Sch 8
2	Times: Weighted Cost of Capital	6.954%	6.119%	Sch 9
3	Net Operating Income Required for Return on Original Cost Rate base	58,271,346	50,612,249	
4	Add: Acquisition Adjustment - Indiana Cities	593,226	536,296	Sch 10
5	Acquisition Adjustment - NW & United	1,452,749	-	Sch 10
6	Net Operating Income Required	60,317,321	51,148,545	
7	Less: Adjusted Net Operating income	48,635,691	57,868,367	Sch 4
8	Net Revenue Increase Required	11,681,630	(6,719,822)	
9	Gross Revenue Conversion Factor	168.1738%	169.1052%	Sch 1, p 2
10	Recommended Revenue Increase	$ 19,645,440	$ (11,363,568)	
11	Percentage Increase over Total Operating Revenues at Present Rates	9.84%	-5.44%	
12	Percentage Increase over Revenues Subject to Increase at Present		-5.52%	

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

Gross Revenue Conversion Factor

Line			Calculation	Per Petitioner	Phase I	OUCC Pro forma Proposed Rate Adjustments
1				100.0000%	100.0000%	$ (11,363,568)
2	Less:	Late Fee Reduction to Gross Up		-0.6196%	0.0000%	-
3		Bad Debt Rate/ Uncollectible Expense		0.8459%	0.8459%	(96,124)
4						
5	Sub-total			99.7737%	99.1541%	
6	Less:	IURC Fee (2013 - 2014 rate)	(0.001329888 x Line 5)	0.1327%	0.1319%	(14,989)
7						
8	Income Before State Income taxes			99.6410%	99.0222%	
9						
10	Less:	State Income Tax	(0.0679 x Line 8)	6.7656%	6.7236%	(764,041)
11		Utility Receipts Tax	(1.4% x Line 5 x 0.952343)	1.3950%	1.3220% **(a)**	(150,227)
12						
13	Income before Federal income Taxes			91.4804%	90.9766%	
14						
15	Less:	Federal income Tax	(0.35 x Line 12)	32.0181%	31.8418%	(3,618,365)
16						
17	Change in Operating Income			59.4623%	59.1348%	$ (6,719,822)
18						
19	Gross Revenue Conversion Factor			168.1738%	169.1052%	

(a) The utility receipts tax calculation has been adjusted to exclude sales for resale revenues. Sales for Resale represent 4.9018% of Total Operating Revenues. Therefore, URT has been calculated based on 95.2343% (100% - 4.7657%) of line 5.

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

COMPARATIVE BALANCE SHEET AS OF

ASSETS	09/30/2011	09/30/2012	Base Period 09/30/2013	Petitioner Forecasted 11/30/2015	Forecasted More (Less)	Difference %
Utility Plant						
Utility Plant in Service	1,199,234,461	1,281,646,421	1,337,055,086	$ 1,425,843,714	$ 88,788,628	6.64%
Construction Work in Progress	17,010,982	18,763,645	9,459,156	33,696,095	24,236,939	256.23%
Acquisition Adjustment	31,576,385	30,216,798	28,857,211	25,731,183	(3,126,028)	-10.83%
Less: Accumulated Depreciation	(272,639,023)	(300,800,232)	(322,907,085)	(380,209,121)	(57,302,036)	17.75%
Net Utility Plant in Service	975,182,805	1,029,826,632	1,052,464,368	1,105,061,871	52,597,503	5.00%
Non-Utility Plant, net	594,086	569,724	561,521	515,123	(46,398)	-8.26%
Other Investments	-	-	-	-	-	0.00%
Current Assets						
Cash and Cash Equivalents	(281,921)	519,672	(70,792)	-	70,792	-100.00%
Customer Accounts Receivable, net	21,609,939	16,723,000	20,607,552	12,776,883	(7,830,669)	-38.00%
Unbilled Revenues	11,140,747	11,328,573	13,450,998	10,444,943	(3,006,055)	-22.35%
Materials and Supplies	1,870,694	1,942,654	1,535,297	1,365,047	(170,250)	-11.09%
Other Current Assets	597,511	945,339	1,036,388	468,148	(568,240)	-54.83%
Total Current Assets	34,936,970	31,459,238	36,559,443	25,055,021	(11,504,422)	-31.47%
Deferred Debits						
Regulatory Assets	26,934,771	26,577,128	32,242,879	29,870,433	(2,372,446)	-7.36%
Rate Case Costs	-	-	-	-	-	0.00%
Goodwill	610,630	610,631	610,631	610,631	-	0.00%
Other Deferred Debits	-	-	177,878	118,167	(59,711)	-33.57%
Total Deferred Debits	27,545,401	27,187,759	33,031,388	30,599,231	(2,432,157)	-7.36%
Total Assets	$ 1,038,259,262	$ 1,089,043,353	$ 1,122,616,720	$ 1,161,231,246	$ 38,614,526	3.44%

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

COMPARATIVE BALANCE SHEET AS OF

LIABILITIES	09/30/2011	09/30/2012	Base Period 09/30/2013	Petitioner Forecasted 11/30/2015	Forecasted More (Less)	Difference %
Equity						
Common Stock	$ 92,760,900	$ 92,760,900	$ 92,760,900	$ 92,760,900	$ -	0.00%
Paid in Capital	103,090,900	120,125,947	120,164,994	120,274,549	109,555	0.09%
Retained Earnings	109,691,449	119,814,561	124,816,841	142,029,825	17,212,984	13.79%
Total Common Equity	305,543,249	332,701,408	337,742,735	355,065,274	17,322,539	5.13%
Preferred Stock	150,000	-	-	-	-	0.00%
Long-term Debt	318,522,086	318,270,166	360,034,242	352,905,457	(7,128,785)	-1.98%
Total Capitalization	624,215,335	650,971,574	697,776,977	707,970,731	10,193,754	1.46%
Contributions in Aid of Construction	107,227,841	113,059,459	118,327,277	120,346,668	2,019,391	1.71%
Current Liabilities						
Short-term Debt	40,877,330	42,640,693	8,536,640	(2,096,456)	(10,633,096)	-124.56%
Accounts Payable	11,750,429	4,993,643	18,481,978	10,497,857	(7,984,121)	-43.20%
Current Portion of Long-term Debt	150,374	121,920	125,474	128,034	2,560	2.04%
Accrued Taxes	15,743,261	18,941,978	13,733,799	5,875,749	(7,858,050)	-57.22%
Accrued Interest	5,425,696	5,566,882	6,145,493	4,773,820	(1,371,673)	-22.32%
Other Current Liabilities	8,161,430	17,518,897	7,481,215	6,429,712	(1,051,503)	-14.06%
Other Current Liabilities	82,108,520	89,784,013	54,504,599	25,608,716	(28,895,883)	-53.02%
Deferred Credits						
Customer Advances for Construction	59,705,033	56,207,228	54,169,236	61,626,352	7,457,116	13.77%
Deferred Income Taxes	116,394,631	124,495,687	143,276,163	187,928,778	44,652,615	31.17%
Deferred Investment Tax Credits	1,229,330	1,010,582	791,834	516,157	(275,677)	-34.82%
Reg. Liab. - Inc. Tax Refund through rates	39,025,285	41,523,175	45,839,097	52,688,597	6,849,500	14.94%
Accrued Pension	(1,904,000)	(4,647,542)	(5,626,448)	(6,462,451)	(836,003)	14.86%
Accrued Postretirement Benefit	3,197,798	3,330,144	3,468,550	3,360,842	(107,708)	-3.11%
Other Deferred Credits	7,059,489	13,309,033	10,089,435	7,646,856	(2,442,579)	-24.21%
Total Deferred Credits	224,707,566	235,228,307	252,007,867	307,305,131	55,297,264	21.94%
Total Liabilities and Capital	$ 1,038,259,262	$ 1,089,043,353	$ 1,122,616,720	$ 1,161,231,246	$ 38,614,526	3.44%

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

COMPARATIVE INCOME STATEMENT
FOR THE TWELVE MONTHS ENDED

	09/30/2011	09/30/2012	Base Period 09/30/2013	Petitioner Forecasted 11/30/2015	Forecasted More (Less)	Difference %
Operating Revenues						
Water Revenues	$190,002,812	$194,716,697	$ 194,105,069	$ 195,322,960	$ 1,217,891	0.63%
Sewer Revenues	347,247	358,558	402,400	393,847	(8,553)	-2.13%
Other	3,285,147	3,654,721	2,822,364	3,857,549	1,035,185	36.68%
Total Operating Revenues	193,635,206	198,729,976	197,329,833	199,574,356	2,244,523	1.12%
Operating Expenses						
Salaries and Wages	16,044,248	15,845,539	15,552,661	15,280,442	(272,219)	-1.75%
Employee Benefits						
Pensions	2,738,900	2,726,685	2,797,079	951,928	(1,845,151)	-65.97%
Group Insurance	5,130,163	4,481,500	4,363,288	3,747,358	(615,930)	-14.12%
Other Benefits	901,303	784,820	813,878	787,568	(26,310)	-3.23%
Purchased Water	677,812	633,594	722,097	493,603	(228,494)	-31.64%
Purchased Power	6,316,835	7,001,232	6,705,824	6,737,670	31,846	0.47%
Chemical	2,078,713	1,770,016	1,680,203	1,820,591	140,388	8.36%
Waste Disposal	2,717,779	801,318	1,286,722	1,228,608	(58,114)	-4.52%
Maintenance	4,166,747	4,097,386	5,191,213	3,584,891	(1,606,322)	-30.94%
Management Fees (Service Company Costs)	19,404,420	19,317,400	21,600,939	20,826,305	(774,634)	-3.59%
Contractual Services	1,340,526	1,508,944	1,099,392	986,793	(112,599)	-10.24%
Rents	736,387	659,088	585,044	619,064	34,020	5.81%
Transportation	2,189,307	1,886,005	1,737,901	1,375,878	(362,023)	-20.83%
Insurance Other than Group	1,606,215	1,730,117	1,492,202	1,750,844	258,642	17.33%
Building Maintenance & Services	1,020,376	987,499	1,045,387	945,981	(99,406)	-9.51%
Customer Accounting	2,752,479	2,705,716	2,541,557	2,610,983	69,426	2.73%
Telecommunication	703,671	695,627	865,146	577,628	(287,518)	-33.23%
Postage, Printing, & Stationery	65,060	54,597	85,230	54,379	(30,851)	-36.20%
Office Supplies & Services	396,568	390,207	524,101	946,629	422,528	80.62%
Advertising & Marketing	53,781	58,352	40,245	54,201	13,956	34.68%
Bad Debt Expense	2,243,546	1,637,667	2,685,613	1,688,293	(997,320)	-37.14%
Rate Case Expense	547,009	615,641	550,063	517,138	(32,925)	-5.99%
Employee Related Costs	253,322	373,057	179,245	332,340	153,095	85.41%
Miscellaneous	1,284,505	1,533,261	1,641,246	1,030,676	(610,570)	-37.20%
Total O&M Expense	75,369,672	72,295,268	75,786,276	68,949,791	(6,836,485)	-9.02%
Taxes						
Other General Taxes	16,227,138	13,582,591	15,742,009	17,945,679	2,203,670	14.00%
State Income Taxes	4,760,043	3,802,093	3,516,898	3,960,871	443,973	12.62%
Federal Income Taxes	16,066,481	19,639,294	15,498,065	16,716,627	1,218,562	7.86%
Amortization of Investment Tax Credits	(218,748)	(218,748)	(218,748)	(218,748)	-	0.00%
	36,834,914	36,805,230	34,538,224	38,404,429	3,866,205	11.19%

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

COMPARATIVE INCOME STATEMENT
FOR THE TWELVE MONTHS ENDED

	09/30/2011	09/30/2012	Base Period 09/30/2013	Petitioner Forecasted 11/30/2015	Forecasted More (Less)	Difference %
Depreciation Expense	$ 26,070,293	$ 27,902,094	$ 29,323,635	$ 33,681,059	$ 4,357,424	14.86%
Removal Costs	7,321,711	7,730,213	8,225,074	8,891,681	666,607	8.10%
Amortization Expense	465,318	478,388	493,279	1,011,705	518,426	105.10%
Total Operating Expenses	146,061,908	145,211,193	148,366,488	150,938,665	2,572,177	1.73%
Net Operating Income	47,573,298	53,518,783	48,963,345	48,635,691	(327,654)	-0.67%
Other Income						
Interest Income	563	3,728	345	-	(345)	-100.00%
Gain (Loss) on Disposition of Assets	-	-	141,886	-	(141,886)	-100.00%
AFUDC - Equity	733,654	1,338,788	932,357	253,521	(678,836)	-72.81%
Other Miscellaneous Income	12,040	(13,429)	679	9,806	9,127	1344.18%
Total Other Income	746,257	1,329,087	1,075,267	263,327	(811,940)	-308.34%
Other Deductions						
Miscellaneous Amortization	1,346,822	1,346,822	1,346,821	1,346,822	1	0.00%
Miscellaneous Other Deductions	155,476	71,279	54,966	96,400	41,434	75.38%
Taxes on Other Income and Deductions:						
General Taxes	-	-	-	-	-	0.00%
State Income	(127,211)	(117,010)	(102,899)	-	102,899	-100.00%
Federal Income	(479,286)	(462,287)	(408,674)	-	408,674	-100.00%
Total Other Deductions	895,801	838,804	890,214	1,443,222	553,008	38.32%
Net Income before Interest Charges	47,423,754	54,009,066	49,148,398	47,455,796	(1,692,602)	-3.44%
Interest Charges						
Interest - Long-Term Debt	18,727,763	20,425,351	21,925,754	20,740,220	(1,185,534)	-5.41%
Interest - Short-Term Debt	164,200	184,061	65,395	(18,489)	(83,884)	-128.27%
AFUDC - Debt	(315,204)	(1,064,876)	(800,855)	(105,737)	695,118	-86.80%
Amortization of Debt Expense	278,648	257,784	290,957	655,654	364,697	125.34%
Other Interest Expense	(15)	77,048	(15)	-	15	-100.00%
Total Interest Charges	18,855,392	19,879,368	21,481,236	21,271,648	(209,588)	-0.99%
Net Income	28,568,362	34,129,698	27,667,162	26,184,148	(1,483,014)	-5.36%
Preferred Dividends Declared	20,998,046	24,006,586	22,664,885	27,925,622	5,260,737	23.21%
Net Income to Retained Earnings	$ 7,570,316	$ 10,123,112	$ 5,002,277	$ (1,741,474)	$ (6,743,751)	-134.81%
Dividend Payout Ratio	73.50%	70.34%	81.92%	106.65%		

INDIANA-AMERICAN WATER COMPANY, INC.
TOTAL COMPANY
CAUSE NUMBER 44450

***Pro Forma* Net Operating income Statement**

	Base Period Ended 9/30/2013	Increase (Decrease)	Forecasted TY Ended 11/30/2015	Petitioner Adjustments	Petitioner *Pro Forma* Present Rates 11/30/2015	OUCC Adjustments	Sch Ref	Test Year Ended 11/30/2015 OUCC *Pro Forma* Present Rates	Proposed Rate Adjustments	Sch Ref	*Pro Forma* Proposed Rates
Operating Revenues											
Water Revenues	$ 194,105,069	$ 1,291,757	$ 195,396,826	$ (73,870)	$ 195,322,956	$ 8,778,476	5-1	$ 204,101,432	$ (11,268,389)	1	$ 192,833,043
Sewer Revenues	402,400	(8,046)	394,354	(507)	393,847	-		393,847	(21,744)	1	372,103
Late Fees (Penalties)	1,115,116	157,921	1,273,037	-	1,273,037	57,060	5-2	1,330,097	(73,435)	1	1,256,662
Other Revenues	1,707,248	1,530,562	3,237,810	(653,298)	2,584,512	653,298	5-3	3,237,810			3,237,810
Total Operating Revenues	197,329,833	2,972,194	200,302,027	(727,675)	199,574,352	9,488,834		209,063,186	(11,363,568)		197,699,618
O&M Expense											
Salaries and Wages	15,552,661	(272,219)	15,280,442	-	15,280,442	(209,908)	6-1	15,070,534			15,070,534
Employee Benefits											
Pensions	2,797,079	(1,845,151)	951,928	-	951,928	-		951,928			951,928
Group Insurance	4,363,288	(615,930)	3,747,358	-	3,747,358	-		3,747,358			3,747,358
Other Benefits	813,878	(26,310)	787,568	-	787,568	(6,691)	6-2	780,877			780,877
Purchased Water	722,097	(228,494)	493,603	-	493,603	-		493,603			493,603
Purchased Power	6,705,824	31,846	6,737,670	-	6,737,670	266,268	6-3	7,003,938			7,003,938
Chemical	1,680,203	140,388	1,820,591	-	1,820,591	82,548	6-4	1,903,139			1,903,139
Waste Disposal	1,286,722	(58,114)	1,228,608	-	1,228,608	-		1,228,608			1,228,608
Maintenance	5,191,213	(1,606,322)	3,584,891	-	3,584,891	-		3,584,891			3,584,891
Service Company Charges	21,600,939	(774,634)	20,826,305	-	20,826,305	(2,847,157)	6-5	17,979,148			17,979,148
Contractual Services	1,099,392	(112,599)	986,793	-	986,793	-		986,793			986,793
Rents	585,044	34,020	619,064	-	619,064	(7,329)	6-6	611,735			611,735
Transportation	1,737,901	(362,023)	1,375,878	-	1,375,878	-		1,375,878			1,375,878
Insurance Other than Group	1,492,202	432,607	1,924,809	(173,965)	1,750,844	-		1,750,844			1,750,844
Building Maintenance & Services	1,045,387	(99,406)	945,981	-	945,981	-		945,981			945,981
Customer Accounting	2,541,557	69,426	2,610,983	-	2,610,983	55,789	6-7	2,666,772			2,666,772
Telecommunication	865,146	(287,518)	577,628	-	577,628	-		577,628			577,628
Postage, Printing, & Stationery	85,230	(30,851)	54,379	-	54,379	-		54,379			54,379
Office Supplies & Services	524,101	422,528	946,629	-	946,629	-		946,629			946,629
Advertising & Marketing	40,245	13,956	54,201	-	54,201	(10,903)	6-8	43,298			43,298
Bad Debt Expense	2,685,613	(997,320)	1,688,293	-	1,688,293	80,172	6-9	1,768,465	(96,124)	1	1,672,341
Rate Case Expense	550,063	(32,925)	517,138	-	517,138	-		517,138			517,138
Employee Related Costs	179,245	153,095	332,340	-	332,340	-		332,340			332,340
Miscellaneous	1,641,246	(635,570)	1,005,676	25,000	1,030,676	(193,319)	6-10	837,357			837,357
Depreciation Expense	37,548,709	5,024,031	42,572,740	-	42,572,740	(1,087,992)	6-11	41,484,748			41,484,748
Amortization Expense	493,279	613,266	1,106,545	(94,840)	1,011,705	(176,453)	6-12	835,252			835,252
Taxes Other than Income											
IURC Fee	232,461	40,456	272,917		272,917	(17,227)	7-1	255,690	(14,989)	1	240,701
Payroll Tax	1,205,805	(15,452)	1,190,353		1,190,353	(12,368)	7-2	1,177,985			1,177,985
Utility Receipts Tax	2,580,689	86,746	2,667,435		2,667,435	97,353	7-3	2,764,788	(150,227)	1	2,614,561
Property Taxes	11,439,859	2,081,837	13,521,696		13,521,696	(1,328,487)	7-4	12,193,209			12,193,209
Other General Taxes	283,195	10,083	293,278		293,278			293,278			293,278
Income Taxes											
State Income Taxes	3,516,898	443,973	3,960,871		3,960,871	964,533	7-5	4,925,404	(764,041)	1	4,161,363
Federal Income Taxes	15,498,065	1,218,562	16,716,627		16,716,627	4,607,325	7-5	21,323,952	(3,618,365)	1	17,705,587
Amortization of Investment Tax Credits	(218,748)	-	(218,748)		(218,748)			(218,748)			(218,748)
Total Operating Expenses	148,366,488	2,815,982	151,182,470	(243,805)	150,938,665	256,154		151,194,819	(4,643,746)		146,551,073
Net Operating Income	$ 48,963,345	$ 156,212	$ 49,119,557	$ (483,870)	$ 48,635,687	$ 9,232,680		$ 57,868,367	$ (6,719,822)		$ 51,148,545

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

Revenue Adjustments

(1)
Water Operating Revenues

To adjust Water Operating Revenues to *pro forma* levels.

Base Period Water Operating Revenues	$ 194,106,009
Portion of Corporate Revenues allocable to Sewer Revenues	(940)
Petitioner Water Operating Revenue Adjustments	1,291,757
Petitioner additional adjustments for bill analysis, fire protection, and DSIC	(73,870)
Petitioner *Pro forma* Water Operating Revenues	195,322,956
OUCC Water Operating Revenue Adjustments (see detail below)	8,778,476
OUCC *Pro forma* Water Operating Revenues	$ 204,101,432

Detail of Adjustments:

Residential Revenues	**CEP**	$ 6,889,817
Commercial Revenues	**CEP**	3,256,827
Reverse Petitioner's Fire Service adjustment	**CEP**	52,990
DSIC Revenue Adjustment	**MAS**	534,362
Declining Usage	**ERK**	(1,955,520)
Total Adjustment -- Increase (Decrease)		$ 8,778,476

(2)
Late Fee Revenues

To adjust late fee revenues to *pro forma* levels.

Base Period Other Revenues	$ 1,115,116
Petitioner Other Operating Revenue Adjustments	157,921
Petitioner *Pro forma* Other Operating Revenues	1,273,037
OUCC Other Operating Revenue Adjustments (see detail below)	57,060
OUCC *Pro forma* Other Operating Revenues	$ 1,330,097

Detail of Adjustments:		**MAS**	
Petitioner forecasted late fee revenues	(1)	1,273,037	
Petitioner forecasted water and sewer revenues	(2)	195,791,180	
Late Fee as a percent of revenues	(3) = (1)/(2)	0.65%	
OUCC forecasted additional revenues	(4)	8,778,476	
Increased Late Fee Revenues due to additional revenues forecasted.		(3) * (4)	57,060
Total Adjustment -- Increase (Decrease)			$ 57,060

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

Revenue Adjustments

(3)
Other Revenues

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

Base Period Other Revenues		$ 1,707,248
Other Revenue Adjustments		1,530,562
***Pro forma* Other Operating Revenues**		3,237,810
OUCC Other Revenue Adjustments (see detail below)		653,298
OUCC *Pro forma* Other Operating Revenues		$ 3,891,108

Detail of Adjustments:

Reverse Petitioner's adjustment eliminating Usage Data Reading Fees	**CEP**	653,298
Total Adjustment -- Increase (Decrease)		$ 653,298

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

Expense Adjustments

(6-1)
Labor Expense

To adjust labor expense incentive pay.

Base Period Labor Expense at 09/30/2013		$ 15,552,661
Increase (Decrease)		(272,219)
Petitioner *Pro forma* Labor Expense at 11/30/2015		15,280,442
OUCC Adjustments to Labor Expense (see detail below)		(209,908)
OUCC *Pro forma* Labor Expense at 11/30/2015		$ 15,070,534
Detail of Adjustment(s):		
Reduction to annual incentive pay	**CEP**	$ (91,091)
Reduction to long-term incentive pay	**CEP**	(38,149)
Remove Business Development labor costs	**CEP**	(80,668)
Total Adjustment -- Increase (Decrease)		$ (209,908)

(6-2)
Other Employee Benefits Expense

To adjust other employee benefits expense to *pro forma* levels based on removal of business development labor.

Base Period Other Employee Benefits Expense at 09/30/2013		$ 813,878
Increase (Decrease)		(26,310)
Petitioner *Pro forma* Other Employee Benefits Expense at 11/30/2015		787,568
OUCC Adjustments to Other Employee Benefits Expense (see detail below)		(6,691)
OUCC *Pro forma* Other Employee Benefits Expense at 11/30/2015		$ 780,877
Detail of Adjustment(s):		
Remove costs related to Business Development labor	**CEP**	(6,691)
Total Adjustment -- Increase (Decrease)		$ (6,691)

(6-3)
Purchased Power

To adjust purchased power expense for additional expense due to customer growth.

Base Period Purchased Power Expense at 09/30/2013		$ 6,705,824
Increase (Decrease)		31,846
Adjusted Test Year Purchased Power Expense		6,737,670
Allocation of Corporate Costs		-
Petitioner *Pro forma* Purchased Power Expense at 11/30/2015		6,737,670
OUCC Adjustments to Purchased Power Expense (see detail below)		266,268
OUCC *Pro forma* Purchased Power Expense at 11/30/2015		$ 7,003,938
Detail of Adjustment(s):		
Customer Growth Adjustment	**RJC**	$ 266,268
Total Adjustment -- Increase (Decrease)		$ 266,268

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

Expense Adjustments

(6-4)
Chemical Expense

To adjust chemical expense for additional expense due to customer growth.

Base Period Chemical Expense at 09/30/2013		$	1,680,203
Increase (Decrease)			140,388
Adjusted Test Year Chemical Expense			1,820,591
Allocation of Corporate Costs			-
Petitioner *Pro forma* Chemical Expense at 11/30/2015			1,820,591
OUCC Adjustments to Chemical Expense (see detail below)			82,548
OUCC *Pro forma* Chemical Expense 11/30/2015		$	1,903,139
Detail of Adjustment(s):			
Customer Growth Adjustment	**RJC**	$	82,548
Total Adjustment -- Increase (Decrease)		$	82,548

(6-5)
Service Company Expense

To adjust Service Company charges to reflect 2015 budget and to remove business development costs.

Base Period Management Fee Expense at 09/30/2013		$	21,600,939
Increase (Decrease)			(774,634)
Petitioner *Pro forma* Management Fee Expense at 11/30/2015			20,826,305
OUCC Adjustments to Management Fee Expense (see detail below)			(2,847,157)
OUCC *Pro forma* Management Fee Expense at 11/30/2015		$	17,979,148
Detail of Adjustment(s):			
Update forecast based on 2015 budget	**MAS**	$	(2,368,456)
Eliminate Business Development Expense	**MAS**		(478,701)
Total Adjustment -- Increase (Decrease)		$	(2,847,157)

(6-6)
Rent Expense

To adjust rent expense to reflect allocation of rent expense to Michigan American and to adjust Greenwood office rent.

Base Period Rent Expense at 09/30/2013		$	585,044
Increase (Decrease)			34,020
Petitioner *Pro forma* Rent Expense at 11/30/2015			619,064
OUCC Adjustments to Rent Expense (see detail below)			(7,329)
OUCC *Pro forma* Rent Expense at 11/30/2015		$	611,735
Detail of Adjustment(s)			
Rent expense allocated to Michigan-American	**RJC**	$	(5,044)
Adjustment to Greenwood Rent	**RJC**		(2,285)
Total Adjustment -- Increase (Decrease)		$	(7,329)

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

Expense Adjustments

(6-7)
Customer Accounting Expense

To adjust customer accounting expense for additional expense due to customer growth.

Base Period Customer Accounting Expense at 09/30/2013		$	2,541,557
Increase (Decrease)			69,426
Adjusted Test Year Customer Accounting Expense			2,610,983
Allocation of Corporate Costs			-
Petitioner *Pro forma* Customer Accounting Expense at 11/30/2015			2,610,983
OUCC Adjustments to Customer Accounting Expenses (see detail below)			55,789
OUCC *Pro forma* Customer Accounting Expense at 11/30/2015		$	2,666,772
Detail of Adjustment(s)			
Customer Growth Adjustment	**RJC**	$	55,789
Total Adjustment -- Increase (Decrease)		$	55,789

(6-8)
Advertising and Marketing

To adjust advertising and marketing expense primarily to eliminate non-allowed or non-recurring expenses.

Base Period Advertising and Marketing Expense at 09/30/2013		$	40,245
Increase (Decrease)			13,956
Petitioner *Pro forma* Advertising and Marketing Expense at 11/30/2015			54,201
OUCC Adjustments to Advertising and Marketing Expense (see detail below)			(10,903)
OUCC *Pro forma* Advertising and Marketing Expense at 11/30/2015		$	43,298
Detail of Adjustment(s)			
Remove non-allowed advertising and marketing	**RJC**		(10,903)
Total Adjustment -- Increase (Decrease)		$	(10,903)

(6-9)
Bad Debt Expense

To adjust bad debt expense for *pro forma* revenues.

Base Period Bad Debt Expense at 09/30/2013		$	2,685,613
Increase (Decrease)			(997,320)
Petitioner *Pro forma* Bad Debt Expense at 11/30/2015			1,688,293
OUCC Adjustments to Bad Debt Expense (see detail below)			80,172
OUCC *Pro forma* Bad Debt Expense at 11/30/2015		$	1,768,465
Detail of Adjustment(s)			
Pro forma present rate adjustment to reflect increased projected revenues	**CEP**		80,172
Total Adjustment -- Increase (Decrease)		$	80,172

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

Expense Adjustments

(6-10)
Miscellaneous Expense

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

Base Period Miscellaneous Expense at 09/30/2013			$	1,641,246
Adjustments (see detail below)				(635,570)
Petitioner *Pro forma* Miscellaneous Expense at 11/30/2015				1,005,676
OUCC Adjustments to Miscellaneous Expense (see detail below)				(193,319)
OUCC *Pro forma* Miscellaneous Expense at 11/30/2015			$	812,357
Detail of Adjustment(s)				
Eliminate non-allowed charitable contributions	**CLT**		$	(109,986)
Eliminate costs related to Mooresville condemnation proceeding	**CLT**			(58,333)
Remove costs associated with customer assistance program	**CLT**			(25,000)
Total Adjustment -- Increase (Decrease)			$	(193,319)

(6-11)
Depreciation and Removal Cost Expense

To adjust depreciation expense to *pro forma* levels.

Base Period Expense at 09/30/2013			$	37,548,709
Increase (Decrease)				5,024,031
Petitioner *Pro forma* Expense at 11/30/2015				42,572,740
OUCC Adjustments to Expense (see details below)				(1,087,992)
OUCC *Pro forma* Expense at 03/31/2014			$	41,484,748
Detail of Adjustments:	**MAS**			
Utility Plant in Service at 3/31/14 as adjusted		$ 1,373,255,913		
Less: Organization Expenses (301000)		507,257		
Franchises and consents (302000)		2,677		
Land and land rights (303000, 353000)		16,243,141		
Fully depreciated structure painting (304301)		197,248		
Fully depreciated tank painting (330002)		594,856		
Depreciable Book Original Cost UPIS				$1,355,710,734
Times: Composite Depreciation Rate				3.06%
Pro Forma Depreciation Expense			$	41,484,748
Less: Petitioner's Pro Forma Depreciation Expense at 11/30/2015				(42,572,740)
Total Adjustment -- Increase (Decrease)				(1,087,992)

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

Expense Adjustments

(6-12)
Amortization Expense

To adjust amortization expense to *pro forma* levels.

Base Period Amortization Expense at 09/30/2013			$	493,279
Increase (Decrease)				613,266
Sub-total				1,106,545
Petitioner's Adjustments				(94,840)
Petitioner *Pro forma* Amortization Expense at 11/30/2015				1,011,705
OUCC Adjustments to Amortization Expense (see detail below)				(176,453)
OUCC *Pro forma* Amortization Expense at 11/30/2015			$	835,252

Detail of Adjustment(s)

Increase to Atrazine settlement amortization	**CEP**		$	(221,160)
Amortization of BT SOP-98-1 costs ($5,224,318-190,182 / 10 years)	**MAS**			
OUCC Proposed Amortization		503,414		
Less: Petitioner's Proposed Amortization Expense		522,432		
Reduction to Amortization Expense				(19,018)
Amortization of Comprehensive Planning Studies	**MAS**			
Warsaw Plant ($92,195 / 15 years)	**MAS**			6,146
BT Project ($575,790 / 10 years)	**MAS**			57,579
Total Adjustment -- Increase (Decrease)			$	(176,453)

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

Tax Adjustments

(7-1)
IURC Fee

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

Base Period IURC Fee at 09/30/2013	$ 232,461
Increase (Decrease)	40,456
Petitioner *Pro forma* IURC Fee at 11/30/2015	272,917
OUCC Adjustments to IURC Fee (see detail below)	(17,227)
OUCC *Pro forma* IURC Fee at 11/30/2015	$ 255,690

Detail of Adjustment(s):

Pro forma Present Rate Revenues	**OUCC Schedule 4**	$ 209,063,186
Less: Sales for Resale		(9,808,980)
Less: Other Revenues	**OUCC Schedule 5-4**	(3,891,108)
Less: Late Fee Revenues	**OUCC Schedule 5-3**	(1,330,097)
Less: *Pro forma* Bad Debt Expense	**OUCC Schedule 6-21**	(1,768,465)
Net Taxable Revenues		$ 192,264,536
Times Current Rate		0.1329888%
Pro forma IURC Fee		255,690
Less: Petitioner *Pro forma* IURC Fee		272,917
Total Adjustment -- Increase (Decrease)		$ (17,227)

(7-2)
Payroll Tax

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

Base Period Payroll Tax Expense at 09/30/2013	$ 1,205,805
Increase (Decrease)	(15,452)
Petitioner *Pro forma* Payroll Tax Expense at 11/30/2015	1,190,353
OUCC Adjustment to Payroll Tax Expense (see detail below)	(12,368)
OUCC *Pro forma* Payroll Tax Expense at 11/30/2015	$ 1,177,985

Detail of Adjustment(s):

Adjust payroll taxes for incentive pay adjustments	**CEP**	$ (7,521)
Adjust payroll taxes for reduction in labor related to business development activities	**CEP**	(4,847)
Total Adjustment -- Increase (Decrease)		$ (12,368)

INDIANA-AMERICAN WATER COMPANY, INC.
CAUSE NUMBER 44450

Tax Adjustments

(7-3)
Indiana Utility Receipts Tax

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

Base Period Utility Receipts Tax at 09/30/2013	$ 2,580,689
Increase (Decrease)	86,746
Petitioner *Pro forma* Utility Receipts Tax at 11/30/2015	2,667,435
OUCC Adjustments to Utility Receipts Tax (se +	97,353
OUCC *Pro forma* Utility Receipts Tax at 11/30/2015	$ 2,764,788

Detail of Adjustment(s):

Pro forma Present Rate Revenues at 11/30/2015	**OUCC Schedule 4**	$ 209,063,186
Less: Sales for Resale (including DSIC)		(9,808,980)
Exemption		(1,000)
Pro forma Uncollectible Expense	**OUCC Schedule 6-9**	(1,768,465)
Taxable Revenues		197,484,741
Times: Tax Rate (1.4%)		1.40%
OUCC *Pro forma* Utility Receipts Tax at 11/30/2015		2,764,788
Less: Petitioner Pro forma Utility Receipts Tax at 11/30/2015		(2,667,435)
Total Adjustment -- Increase (Decrease)		$ 97,353

(7-4)
Property Tax

To adjust property tax expense to reflect expense payable in 2015.

Base Period Property Tax at 09/30/2013	$ 11,439,859
Increase (Decrease)	2,081,837
Petitioner *Pro forma* Property Tax at 11/30/2015	13,521,696
Adjustments (see detail below)	(1,328,487)
OUCC *Pro forma* Property Tax at 11/30/2015	$ 12,193,209

Detail of Adjustment(s):

Reduction to property tax expense to reflect OUCC rate base position	**RJC**	(1,328,487)
Total Adjustment -- Increase (Decrease)		$ (1,328,487)