

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

CRYSTAL L. THACKER – PUBLIC’S EXHIBIT NO. 5

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

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *OUCC Testimony of Crystal L. Thacker – Public’s Exhibit No. 5* has been served upon the following counsel of record in the captioned proceeding by electronic service on May 2, 2014.

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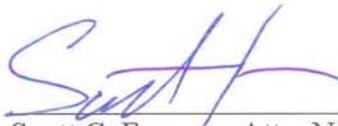
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TESTIMONY OF OUCC WITNESS CRYSTAL L. THACKER
CAUSE NO. 44450
INDIANA-AMERICAN WATER COMPANY, INC.

I. INTRODUCTION

1 **Q: Please state your name and business address.**

2 A: My name is Crystal L. Thacker, and my business address is 115 W. Washington
3 St., Suite 1500 South, Indianapolis, Indiana 46204.

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

5 A: I am employed as a Utility Analyst in the Indiana Office of Utility Consumer
6 Counselor's (OUCC) Electric Division.

7 **Q: Please describe your educational background and experience.**

8 A: I graduated from the Kelley School of Business in 2012 with a Bachelor of
9 Science degree in Business with majors in Accounting and Finance. I have been
10 employed by the OUCC for the past 11 years and worked on multiple cases
11 during that time. I have participated in a number of utility-related courses,
12 seminars and conferences.

13 **Q: What is the purpose of your testimony?**

14 A: I discuss without opposition Indiana-American Water Company, Inc.'s (Indiana-
15 American or Petitioner) forecasted waste disposal expense, contract services
16 expense and maintenance supplies and services expense. I discuss Petitioner's
17 test year miscellaneous expense and propose an adjustment.

18 **Q: Have you previously testified before the Indiana Utility Regulatory**
19 **Commission (Commission)?**

20 A: Yes.

1 **Q: Please describe the review and analysis you conducted in order to prepare**
2 **your testimony.**

3 A: I reviewed Petitioner's testimony, schedules, and workpapers in this cause. I
4 attended meetings with Indiana-American at the 555 E. County Line Road,
5 Greenwood, Indiana facility on March 5 and 7, 2014, and in the OUCC offices on
6 March 27, 2014. I participated in the preparation of discovery questions issued to
7 Indiana-American and reviewed responses received. Finally, I participated in
8 meetings with other OUCC staff to identify and discuss the issues in this Cause.

II. WASTE DISPOSAL

9 **Q: What forecasted amount does Indiana-American propose for its test year**
10 **waste disposal expense?**

11 A: Petitioner has budgeted \$1,228,608 for waste disposal, which is a decrease of
12 \$58,114 from the base period amount of \$1,286,722.

13 **Q: Do you propose any adjustments to Petitioner's proposed waste disposal**
14 **expense?**

15 A: No. Based on my analysis, including a review of Petitioner's lagoon and non-
16 lagoon budget expenses, Petitioner's support for the base period amount, and
17 Petitioner's support for the historical trend, I have no adjustments to propose to
18 Petitioner's forecasted test year waste disposal expense.

III. CONTRACT SERVICES

19 **Q: What forecasted amount does Petitioner propose for its test year contract**
20 **services expense?**

21 A: Petitioner budgeted \$986,793 for contract services; this is a decrease of \$112,599
22 from the base period amount of \$1,099,392.

1 **Q: What is Petitioner's explanation for the lower amount of contract services**
2 **expense?**

3 A: Petitioner attributes the decrease to known changes to audit fees and
4 Comprehensive Planning Studies.¹

5 **Q: Do you propose any adjustments to Petitioner's proposed contract services**
6 **expense?**

7 A: No.

IV. MISCELLANEOUS EXPENSE

8 **Q: What forecasted amount does Petitioner propose for its test year**
9 **miscellaneous expense?**

10 A: Petitioner budgeted \$1,030,676 for miscellaneous expenses; this is a decrease of
11 \$610,570 from the base period amount of \$1,641,246.

12 **Q: How does Indiana-American support its forecasted miscellaneous expense for**
13 **its test year?**

14 A: Mr. Roach testified that the forecasted miscellaneous expense was based on
15 Petitioner's 2013 budget with adjustments due to the Mooresville condemnation
16 suit and a proposed customer assistance grant program.²

17 **Q: Do you have any adjustments to Petitioner's forecasted miscellaneous**
18 **expense?**

19 A: Yes. As shown in OUCC Attachment CLT-2,³ Petitioner has budgeted and
20 included in miscellaneous expense as a revenue requirement \$109,986 for
21 charitable contributions.⁴ Charitable contributions are not appropriate to include
22 as a revenue requirement. Such expenses have long been considered by the
23 Commission to be non-allowed expenses that provide no material benefit to

¹ OUCC Attachment CLT-1.

² Petitioner's Exhibit GPR, pages 57 and 58.

³ Data compiled for OUCC Attachment CLT-2 from Petitioner's response to OUCC DR 43-001 and Petitioner's Test Year Budget.xlsx file.

⁴ \$121,254 charitable contribution deductible less \$11,268 charitable donations community.

1 ratepayers and are not necessary for the provision of water service. These
2 expenses should not be borne by Indiana-American's ratepayers. The
3 Commission has disallowed these types of expenses in prior Indiana-American
4 rate cases including Cause Nos. 42029, 42520, 43680, and 44022.

5 In addition, Petitioner included in its revenue requirements as
6 miscellaneous expense, a portion of the amount it expects to incur in defending a
7 condemnation action to acquire its assets. Petitioner failed to exclude \$58,333
8 from the test year for these condemnation expenses. Such expenses are likewise
9 considered to be non-allowed and non-recurring expenses. These non-allowed
10 and non-recurring expenses account for \$168,319 of the OUCC's proposed
11 adjustment.

12 **Q: Do you have any other adjustments to Petitioner's forecasted miscellaneous**
13 **expenses?**

14 **A:** Yes. Petitioner proposed a \$50,000 customer assistance grant program that would
15 be funded partially through rates. Half of the funds (\$25,000) would be
16 embedded in rates as a revenue requirement, while the other half would be
17 provided by shareholders. At this time, Petitioner has not performed any analysis
18 to determine the appropriateness of this program or its parameters. For instance,
19 Petitioner has performed no analysis to determine the number of customers it
20 expects to assist nor the average amount of assistance the program will provide.⁵

21 Mr. Roach testified that Indiana-American would use a third-party agency to

⁵ OUCC Attachment CLT-3.

1 administer the program.⁶ But Indiana-American has not estimated the amount of
2 administration fees that will be incurred,⁷ or how an administrator will be chosen.
3 As a result of the lack of support from Petitioner that describes how this program
4 will be administered, I cannot determine whether this program will generate a
5 benefit for customers. Moreover, Petitioner's proposal necessarily means that all
6 of its customers will be subsidizing the cost of serving other customers. Petitioner
7 has not provided any analysis or explanation why it is appropriate to require
8 customers to subsidize the expenses of other customers. If in the future,
9 Petitioner wishes the Commission to consider such a program, it should include in
10 the proposal more detail and consider making participation in paying for such a
11 program voluntary.

12 **Q: What *pro forma* miscellaneous expense do you propose?**

13 A: I propose an adjustment of \$193,319 to decrease the budget for the test year to
14 \$812,357 (see OUCC Schedule 6, Adjustment 10).

V. MAINTENANCE SUPPLIES AND SERVICES

15 **Q: What amount does Petitioner propose for its forecasted maintenance supplies**
16 **and services expense for the forward-looking test year?**

17 A: Petitioner budgeted \$3,584,891 for maintenance supplies and services expenses;
18 this is a decrease of \$1,606,322 from the base period amount of \$5,191,213.

19 **Q: How does Indiana-American calculate maintenance supplies and services**
20 **expense for the test year?**

⁶ Petitioner's Exhibit GPR, page 58.

⁷ OUCC Attachment CLT-4.

1 A: Petitioner analyzed the historical trends for the past four years and decided to
2 forecast the expense based on 2012 actual expense minus the accelerated
3 maintenance expense performed in 2012.⁸

4 **Q: Do you propose any adjustments to Petitioner's proposed contract services**
5 **expense?**

6 A: No. Based on my analysis, including a review of the expenses that are listed in
7 the budget, the base period and historical trend, I have no adjustments to contract
8 services expense to propose.

9 **Q: In conducting your review, did you have any difficulty accessing the**
10 **information you needed to conduct your review?**

11 A: Yes. For example, one of the matters I reviewed was Petitioner's Maintenance
12 Supplies and Services expense. To verify the reasonableness of Petitioner's
13 forecast for that expense, I began by consulting Petitioner's workpapers. I found
14 it was necessary to track that expense through eight (8) worksheets within three
15 (3) files. At the end of the track, I found a hard-coded cell input. This hard-coded
16 cell input was a dead end, since no explanation accompanied the input. I then
17 conducted formal discovery in which I asked for the support. After multiple
18 rounds of discovery, I received the information I was not able to derive from the
19 workpapers and electronic files we had initially been provided.

20 **Q: Do you have any recommendations regarding Petitioner's filing?**

21 A: Yes. For Petitioner's next rate case, to avoid unnecessary delay and additional
22 work for the parties, Petitioner's support for its projected expenses should be

⁸ OUCG Attachment CLT-5.

1 more transparent and more accessible. I illustrate the difficulty of finding the
2 source of the Petitioner's forecasted expense in OUCC Attachment CLT-6.

VI. OUCC RECOMMENDATIONS

3 **Q: Please summarize your recommendations to the Commission in this cause.**

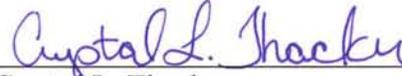
4 A: I recommend Petitioner's forecasted miscellaneous expense be decreased by
5 \$193,319 to \$812,357. I also recommend the Commission direct Petitioner to
6 provide more transparent and accessible support for its forecasted expenses in its
7 next rate case.

8 **Q: Does this conclude your testimony?**

9 A: Yes.

AFFIRMATION

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



Crystal L. Thacker

Indiana Office of Utility Consumer Counselor

May 2, 2014

Date

Cause No. 44450

Indiana-American Water Co., Inc.

OUC 21-008

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 44450

Information Requested:

Please provide any detail, analysis and documentation in electronic format to support and describe the “known changes included for Comprehensive Planning Studies and audit fees per American Water guidance” as referenced on page 32, lines 18 and 19 of Petitioner’s Exhibit GMV.

Requested By: Daniel M. LeVay – dlevay@oucc.in.gov – 317-232-2494
Scott Franson – sfranson@oucc.in.gov – 317-232-2786
Tiffany Murray - timurray@oucc.in.gov – 317-232-2494
Office of Utility Consumer Counselor (OUCC)

Witness: Gary M. VerDouw

Information Provided:

The base year audit fees include one-time charges for procedures performed by the Company’s external auditing firm.

See attachment OUC 21-008-R1.

OUCC 21-008

Contract Services			(\$000's)
Base year		\$	1,099
External Engineering - Comprehensive Planning Studies			
Base year	\$	103	
Test year		<u>50</u>	(53)
Audit Fees			
Base year	\$	256	
Test year		<u>217</u>	(40)
All other			(20)
Test Year		<u>\$</u>	<u>987</u>

**Indiana American Budget
Miscellaneous Expense**

	<u>2013 Budget</u>	<u>Test Year Budget</u>
Miscellaneous Expense	\$ 1,052,440	1,005,676
51700000 interco cost of sales	-	-
52000000 Material & Supplies	119,909	120,119
52001000 Material &Supplies- Oper	-	-
52001500 M & S Oper - Customer Accounting	-	-
52002000 Subcontract Materials	-	-
52500000 Misc Exp Natural Acct	106,444	132,408
52513200 business Development	-	-
52514000 Charitable Contribution Deductible	-	121,254
52514100 Charitable Contribution Nondeductible	-	-
52514500 Charitable Donations_Health_Edu_Env	13,235	-
52514600 Charitable Donations_Community	107,253	(11,268)
52514700 Community Partnerships	79,096	40,000
52514800 Community Commercial Initiatives	-	-
52514900 Customer Education	-	-
52514901 Customer Edu Comm-Reg	-	-
52514902 Customer Edu-Third Party	-	-
52514903 Customer Edu Comm-Issues	-	-
52514904 Customer Edu Comm-Conservation	-	-
52514905 Customer Education Communication_Printed	-	-
52514907 Customer Edu_Press Release	-	-
52514908 Customer Edu-Media Editorial	-	-
52514909 Customer Edu-Video and Photo	-	-
52514910 Customer Edu_Online Dev	-	-
52515000 Community Relations_Events	-	-
52515001 Community Relations-Specialty	4,000	-
52522000 Community Relations	70,500	129,804
52525000 Condemnation Costs	-	58,333
52525500 Conservation Expense	185,000	185,000
52527000 Directors Fees	-	24,000
52527100 Directors Expenses	-	-
52540000 Amort Bus Services Proj Exp	-	-
52549000 njuries and Damages	24	-
52549500 Inventory Physical Write_off Scrap	-	-
52554500 Lab Supplies	198,479	146,827
52556000 Lobbying Expenses	-	-
52556500 Low Income Pay Program	-	-
52564000 Penalties Nondeductible	-	-
52564017 Fines & Penalties	-	-
52564020 Liquated Damages	-	-
52568000 Research & Development	46,800	52,024
52579000 Trustee Fees	18,000	18,000
52585000 Discounts Available	(60,000)	(120,000)
52585100 Discounts Lost	-	-
52586000 PO Small Price Differences_within tolerance	-	-
52588000 Divestiture expenses	-	-
57556600 Loss on contract	-	-
52524000 Co Dues/Membership Deductible	116,057	92,020
52524100 Co Dues/Membership Nondeductible	3,503	-
52528100 Dues/Membership Nondeductible	500	-
52528000 Dues/Membership Deductible	36,141	9,655
52548100 Hiring Costs	-	-
52513000 Brochures and Handouts	7,500	7,500

OUCC 74-004

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 44450

Information Requested:

In reference to the Customer Assistance Grant Program proposed on page 57 of Petitioner's Exhibit GPR, please provide any studies/analysis performed by Indiana-American to determine: (1) the basis for the \$50,000 proposed grant program funding, (2) the number of customers Indiana-American expects to assist with the proposed grant program funding, and 3) the average amount of assistance per customer that Indiana-American expects to grant?

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Scott Franson – sfranson@oucc.in.gov – 317-232-2786
Tiffany Murray - timurray@oucc.in.gov – 317-232-2494
Office of Utility Consumer Counselor (OUCC)

Witness: Gregory P. Roach

Information Provided:

Please see Petitioner's response to OUCC 33-001 and OUCC 74-003. Petitioner has conducted no studies or analysis and has not developed any expectations concerning number of customers who will be assisted or the average amount of assistance.

OUCC 74-003

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 44450

Information Requested:

In reference to the Customer Assistance Grant Program proposed on page 57 of Petitioner's Exhibit GPR, what amount of administration fees does Indiana-American expect to incur? What percentage of the proposed program funding of \$50,000 will be used for the expected administration fees?

Requested By: Daniel M. LeVay – dlevay@oucc.in.gov – 317-232-2494
Scott Franson – sfranson@oucc.in.gov – 317-232-2786
Tiffany Murray - timurray@oucc.in.gov – 317-232-2494
Office of Utility Consumer Counselor (OUCC)

Witness: Gregory P. Roach

Information Provided:

Please see Petitioner's response to OUCC 33-001. Petitioner has no experience with a program such as that proposed and is proposing its Customer Assistance Grant Program largely on a pilot basis with a relatively modest financial commitment. As such, Petitioner does not know at this point what amount of administration fees will be incurred.

OUCC 43-003

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 44450

Information Requested:

Please provide the following information regarding the Maintenance Supplies and Services historical trends referenced on page 60 of Petitioner's Exhibit GPR:

- a. Please state the specific data used to evaluate and analyze these historical trends, including both the type of data used as well as the time periods included.
- b. Please explain in detail how this historical data was analyzed. For example, did Petitioner compare average maintenance supplies and services expenses over a period of time? Did Petitioner conduct a trend analysis? Did Petitioner select certain data points to analyze?
- c. Please provide, in an Excel format, all historical information or data evaluated, as discussed in (a) above, and all analysis performed on this information or data, as discussed in (b) above.

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

Witness: Gary M. VerDouw

Information Provided:

- a. Please refer to attachment, OUCC 43-003-R1.xls.
- b. The Company's forecast for the test year maintenance supplies and services expenses were based on keeping expenses flat to the 2012 levels, even though they are below the four year average.
- c. Please refer to attachment, OUCC 43-003-R1.xls.

Indiana American Water
 2009 -2012 Maintenance Supplies and Service Expenses
 (000's)

Year	Total maintenance	less net negative salvage	less 2012 accelerated maint	Adjusted maintenance
2009	\$ 9,729	\$ (6,361)		\$ 3,368
2010	11,127	(6,962)		4,165
2011	3,952	-		3,952
2012	5,139		(1,606)	3,533
Average				<u>\$ 3,755</u>
Test year				\$ 3,586

Flow chart to track Future Test Year Maintenance Supplies and Services as of 11/30/2015

