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

HEATHER R. POOLE – PUBLIC'S EXHIBIT NO. 6

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 Heather R. Poole – Public's Exhibit No. 6*** has been served upon the following counsel of record in the captioned proceeding by electronic service on May 2, 2014.

Nicholas K. Kile
Hillary J. Close
BARNES & THORNBURG LLP
11 South Meridian Street
Indianapolis, Indiana 46204
nkile@btlaw.com
hclose@btlaw.com

City of Crown Point
Robert M. Glennon
ROBERT GLENNON & ASSOCIATES, P.C.
3697 N. County Road 500 East
Danville, IN 46122
glennon@iquest.net

Town of Schererville
Cities of West Lafayette, Gary, and Winchester
Town of Chesterton
Sullivan-Vigo Rural Water Corporation
L. Parvin Price
BOSE MCKINNEY & EVANS LLP
111 Monument Circle, Suite 2700
Indianapolis, IN 46204
pprice@boselaw.com

Industrial Group
Bette J. Dodd
Joseph P. Rompala
LEWIS & KAPPES
One American Square, Suite 2500
Indianapolis, IN 46282
bdodd@lewis-kappes.com
jrompala@lewis-kappes.com

Sullivan-Vigo Rural Water Corporation
Christopher B. Gambill
WAGNER, CRAWFORD AND GAMBILL
416 South Sixth Street
Terre Haute, IN 47807
cgambill@wcgfirm.com

Ramsey Water Company, Inc.
Marcus M. Burgher IV
BURGHER & BURGHER, PC
200 North Elm Street
Corydon, IN 47112
burgherlaw@frontier.com

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

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

OUCC TESTIMONY OF WITNESS HEATHER R. POOLE
CAUSE NO. 44450
INDIANA-AMERICAN WATER COMPANY, INC.

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Heather R. Poole, and my business address is 115 West Washington Street, Suite 1500 South, Indianapolis, IN 46204.

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

A: I am employed by the Indiana Office of Utility Consumer Counselor (OUCC) as a Senior Utility Analyst. I have worked as a member of the OUCC's Natural Gas Division since December of 2010.

Q: Please describe your educational background and experience.

A: I graduated from the School of Business at Ball State University in Muncie, Indiana with a Bachelor of Science Degree in Accounting in May 2001 and a Master of Science Degree in Accounting in May 2002. From September 2002 through September 2010, I worked for London Witte Group, LLC, a CPA firm in Indianapolis, Indiana, as a Senior Staff Accountant. I prepared and reviewed individual, corporate, not-for-profit, property and payroll tax returns. I also prepared compilations, reviews and audit reports in compliance with GAAP for a variety of utility companies and not-for-profit organizations; prepared depreciation schedules; and guided clients through year-end accounting processes, including preparation and review of adjusting entries. I prepared and reviewed Gas Cost Adjustment (GCA) petitions, as well as annual reports filed with the

Indiana Utility Regulatory Commission (Commission) for natural gas companies within the State of Indiana. I also prepared rate case exhibits and schedules filed with the Commission on behalf of various gas utility clients.

In December 2010, I began my employment with the OUCC as a Utility Analyst II. In October 2012, I was promoted to Senior Utility Analyst. My current responsibilities include reviewing and analyzing GCA petitions and rate cases filed by Indiana natural gas, electric and water utilities with the Commission. I also review special contracts, tariff, financing, certificate of public necessity, pipeline safety adjustment, alternative regulatory plan, 7-Year Plan, and Transmission, Distribution, and Storage System Improvement Charges (TDSIC) Tracker cases. While employed at the OUCC, I completed NARUC's Utility Rate School hosted by the Institute of Public Utilities at Michigan State University and the Institute of Public Utilities Advanced Regulatory Studies Program at Michigan State University. I am also a member of the Indiana CPA Society.

Q: **Have you previously testified before the Commission?**

A: Yes, I have testified in GCAs, rate cases, TDSIC Trackers, tariff and special contract cases involving gas utilities. I also provided extensive testimony in the Commission's investigation into the existing GCA procedures and schedules.

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

A: The purpose of my testimony is to describe why the Commission should reject Indiana-American Water Company, Inc.'s (Petitioner or Indiana-American) proposal to include $5,833,015 of prepaid pension assets as of November 30, 2015 in rate base.

Q: Please describe the review and analysis you conducted to prepare your testimony.

A: I reviewed Petitioner's testimony, exhibits and supporting documentation. I also reviewed discovery responses and participated in meetings with other OUCC staff members to identify and address the issues in this Cause.

II. RATE BASE - PREPAID PENSION ASSET

Q: Please explain Petitioner's proposal regarding a prepaid pension asset.

A: Petitioner's witness Gary VerDouw states that the "prepaid pension asset included on Line 30 of Petitioner's Exhibit GMV-4 Schedule 1 reflects the cumulative difference between cash pension contributions and the pension costs accrued to expense for Indiana American." Testimony of Gary Verdouw, p. 44. He goes on to say:

> Indiana American recovers pension expense in accordance with ASC 715, which is an accrual method of accounting for pension. However, cash contributions, governed by several federal laws, can vary from the accrued pension expense recorded per ASC 715. Including the prepaid pension balance in rate base reflects the variance that can exist between recovered costs and the investments the Company makes to provide benefits earned in the provision of water service.

Id., p. 45.

Q: When did Indiana-American start using ASC 715 for accounting purposes?

A: Petitioner requested, and the Commission accepted, Petitioner's proposal to use this methodology for accounting purposes in Cause No. 42520, approved in November 2004.

Q: Has Indiana-American requested a prepaid pension asset be included in rate base prior to this proceeding?

A: No. This is the first rate case in which Indiana-American has requested a prepaid pension asset be included in rate base.

Q: Have you reviewed Petitioner's cash contributions paid to the pension plan, as well as pension expense?

A: Yes. In discovery, the OUCC asked Petitioner to provide the detailed calculation of Petitioner's prepaid pension asset of $5,626,448 as of September 30, 2013, broken down by each component of the calculation, the basis for each component, and the calculation of each component for each calendar year from 1990 through 2013. In response to OUCC Data Request No. 83-008, Petitioner stated the prepaid pension asset is made up of credits for ASC 715 pension expense accruals, as well as debits for contributions to the pension plan. See Attachment HRP-1. However, Petitioner only provided these amounts for the period of 2005 through 2013. Total expense accruals to the pension plan for the period of 2005 through 2013 were $23,364,560. Total cash contributions to the pension plan for the period of 2005 through 2013 were $34,591,279.

Q: Have you reviewed the pension costs recovered from ratepayers through rates?

A: Yes. In discovery, the OUCC asked Petitioner to provide the total pension costs recovered from ratepayers through rates for the period of 1990 to 2013. In response to OUCC Data Request No. 83-010, Petitioner stated the information from 1990 to 2001 was not readily available. Petitioner did provide an estimate of the total pension costs recovered through rates for 2001 through 2013 as $24,333,618. See Attachment HRP-2.

Q: How is a prepaid pension asset or liability created?

A: Petitioner's prepaid pension asset is the result of implementing accounting rules promulgated under Accounting Standards Codification (ASC) 715, which includes Financial Accounting Standards (FAS) #87 – Accounting for Pensions. These rules require the recording of an asset or liability for the difference between total contributions to the pension plan and total accrued pension expense. To the extent that total pension contributions are greater than total pension expenses recorded, the result is a prepaid pension asset. To the extent that total pension expenses recorded are greater than total pension contributions, the result is a pension liability.

Q: Based on an analysis of the period of 2005 through 2013, does it appear Petitioner has contributed more to the pension plan than was accrued for pension expense?

A: Yes. Based on the information provided by Petitioner for the period of 2005 through 2013, Petitioner did contribute more to the pension plan than it accrued in pension expense.

Q: Do you accept Petitioner's proposal to include the prepaid pension asset in rate base?

A: No. It is not reasonable to include Petitioner's excess pension contributions in rate base. Rate base is calculated from the net investment in physical properties plus an allowance for working capital. *See,* Ind. Code § 8-1-2-6. These excess pension contributions do not represent either an investment in physical properties or working capital.

Q: Are there any guidelines on what should be included in rate base as used and useful plant?

A: Yes. Indiana Code § 8-1-2-6(a) states the Commission shall value all property of every public utility actually used and useful for the convenience of the public at its fair value. A prepaid pension asset does not constitute property that is used and useful for the convenience of the public at its fair value, and a prepaid pension asset does not provide quality, reliable utility service to Indiana ratepayers.

Q: What is meant by the term working capital?

A: The term working capital refers to the day-to-day expenses which accrue during the period between the time of billing and the time customers actually pay for their utility service. Working capital is often calculated by performing a lead-lag study. A lead-lag study uses historical data and actual payment requirements to measure the differences in the time frames between (1) the time services are rendered until the revenues for those services are received; and (2) the time that the costs associated with providing those services, such as labor and materials, are incurred until they are paid for by the utility. The difference between these periods, expressed in days, multiplied by the average daily operating expense provides the amount of cash working capital required.

Q: Did Petitioner include working capital in its rate base calculation?

A: No. Petitioner did not include working capital in its rate base calculation.

Q: Did Petitioner perform a lead-lag study in this case?

A: No. Lead-lag studies in Indiana often return a negative result due to property taxes being paid two to three years in arrears. Therefore, most larger investorowned utilities in Indiana do not perform lead-lag studies or include working capital in their rate base calculation.

Q: What is your recommendation regarding Petitioner's prepaid pension asset?

A: Because Petitioner's prepaid pension asset is not considered either used and useful plant or working capital in rate base, the prepaid pension asset should not be included in rate base.

III. OTHER EMPLOYEE BENEFIT PLANS

Q: Does Petitioner have other employee benefit plans that are similar to the pension plan?

A: Yes. Petitioner also maintains a postretirement benefit plan, also known as Other Post Employment Benefits (OPEB). The postretirement benefit represents benefits other than pension distributions paid to employees during their retirement years. The main components of postretirement benefits include life insurance and medical plans. Both pension plans and postretirement benefit plans take into consideration contributions made by the Company to the plans. Both plans also invest contributions paid by the Company to cover benefit obligations to be paid to employees.

Q: Are OPEB plans accounted for in a manner similar to pension plans?

A: Yes. ASC 715 also provides guidance for OPEB accounting (formerly FAS #106), which are similar to the rules for pensions. To the extent that total OPEB contributions are greater than total OPEB expenses recorded, the result is a prepaid OPEB asset. Conversely, to the extent that total OPEB expenses recorded are greater than total OPEB contributions, the result is an OPEB liability.

Q: Does Petitioner have a prepaid OPEB asset or liability?

A: Yes. Petitioner has an OPEB liability.

Q: Has Petitioner included its postretirement benefit (OPEB) liability as an offset to rate base in this case?

A: No. Petitioner has included the postretirement benefit liability in its capital structure as a zero cost of capital. In discovery, the OUCC asked why Petitioner did not net the prepaid pension asset with the postretirement benefit liability. In response to OUCC Data Request No. 83-025, as shown on Attachment HRP-3, Petitioner stated:

> This is essentially what the Company has proposed in this proceeding. In prior proceedings, the Company's Post Retirement Benefit Liability was included in the revenue requirement calculation but the Prepaid Pension Asset was not. In prior proceedings, the Post Retirement Benefit Liability has been calculated by netting account 26221000 Accrued OPEB against account 18631000 Reg Asset Deferred OPEB, and treating the net liability as zero cost capital. This was also done in this proceeding, in which the balances in those accounts are forecasted to be ($2,579,644) and $0 respectively. This net liability may be seen on Petitioner's Exhibit GPR-5, Schedule 1, page 1, line 7, where the $2,579,644 net liability is treated as zero cost capital. By introducing the Prepaid Pension asset into rate base, the Company is functionally netting the Prepaid Pension Asset against the already recognized Post Retirement Benefit Liability in the revenue requirement.

Q: What is your recommendation regarding Petitioner's other employee benefit plans?

A: Because Petitioner's prepaid pension asset should not be included in rate base, the OUCC recommends Petitioner include the prepaid pension asset in the capital structure as a zero cost of capital, similar to the OPEB liability.

IV. RECOMMENDATIONS

Q: What does the OUCC propose in relation to Petitioner's methodology of including the prepaid pension asset in rate base and the postretirement benefit liability in the capital structure?

A: The OUCC proposes the prepaid pension asset of $5,541,209 be netted with the OPEB liability of $2,579,644 within the capital structure as a zero cost of capital as of November 30, 2014. As stated above, the prepaid pension asset is not used and useful physical property and Petitioner did not request working capital in this case. Therefore, the prepaid pension asset should not be included in rate base. Because the pension and OPEB plans are similar in nature, they should be treated in the same manner during a rate case. If the prepaid pension asset becomes a pension liability in the future, it should still be included in the capital structure, as the OPEB liability is now. OUCC witness Margaret Stull has included the prepaid pension asset as part of the capital structure, as shown on OUCC Schedule 9.

Q: Why is the OUCC accepting special ratemaking treatment for pension and OPEB expenses?

A: The key difference between pension/OPEB expense and labor or other operating expenses is the control Petitioner has over the amount to be expensed and the amount paid. Pension/OPEB expenses are dependent on many variables over which Petitioner has little or no control, including market conditions and interest rates. This is contrasted with labor and other operating expenses, where Petitioner is in control of the amounts incurred and expensed.

Q: Does this conclude your testimony?

A: Yes.

AFFIRMATION

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

Heather R. Poole

Heather R. Poole
Indiana Office of Utility Consumer Counselor

May 2, 2014
Date

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

OUCC 83-008

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

Information Requested:

For Indiana-American, please provide the detailed calculation of Petitioner's prepaid pension asset of $5,626,448, including each component of the calculation, the basis for each component, and the calculation of each component.

a. For each component included above, please provide the annual amount for that component for each calendar year from 1990 through 2013.

b. For each component included above, provide the forecasted amount for January 1, 2014 through November 30, 2014.

c. For each component included above, provide the forecasted amount for December 1, 2014 through November 30, 2015.

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 calculation of the prepaid pension asset may be found in the Excel spreadsheet IN 2014 Rate Case - Prepaid Pension Asset.xlsx, on the "Workpaper" tab. This excel file was included on the USB drive submitted with the original filing. The path to the file is: \Departmental Folders\Finance\Rates\IN\Rate Cases\2014\Exhibits\Rate Base\Workpapers\IN 2014 Prepaid Pension Asset.xlsx". This is also shown in MSFR #10, on pages 1465-1468 of 1512.

The calculation begins with the balance in account 26212000 as of September 30, 2013, which is $5,626,448.02. This balance is advanced through December 2013 per the general ledger, for an ending balance of $5,389,155. After this, there are only two components to the forecast calculation:

OUCC 83-008

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

Information Provided (Continued):

1) Credits for ASC 715 pension accruals:
These credits are ($153,135) per month in 2014, and ($109,995) per month in 2015. The basis of this component is the forecasted gross ASC 715 accrual for 2014 and 2015 less some amortization activity in 2014.

2) Debits for Contributions to Pension Plan:
These quarterly contributions are forecasted for February, May, August, and November of each year, and are equal to $459,135 per quarter in 2014 and $589,950 per quarter in 2015. The basis for this component is the forecasted calendar year contributions for Indiana American of $1,836,540 in 2014 and $2,359,800 in 2015. Each of these annual figures is divided by four to derive the quarterly contribution. These may be found on the "Pension" tab of the Excel file referenced above.

a. The components described above are shown below for years 2005-2013:

	Credits for Gross ASC 715 Accruals	Debits for Contributions to Pension Plan
2005	$ (2,192,317)	$ 966,231
2006	(2,080,923)	3,150,895
2007	(1,714,623)	2,494,948
2008	(1,783,170)	3,941,777
2009	(3,722,574)	3,808,621
2010	(3,120,394)	4,475,816
2011	(2,658,452)	7,612,341
2012	(3,049,896)	4,790,760
2013	(3,042,211)	3,349,890

b. and c. Please see table:

	Credits for Gross ASC 715 Accruals	Debits for Contributions to Pension Plan
Jan. 1, 2014 - Nov. 30, 2014	$(1,684,486)	$1,836,540
Dec. 1, 2014 - Nov. 30, 2015	(1,370,423)	2,359,800

OUCC 83-010

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

Information Requested:

For Indiana-American, please provide the annual amount of pension costs recovered through rates for each calendar year from 1990 through 2013.

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:

Please refer to the table below. The information from 1990 to 2000 is not available. Please note that the amounts below are not prorated. If the allowed amount was effective prior to the end of the year, the full amount is reflected for the year.

	Indiana American
Year	**Pension allowed per Commission**
2001	($64,804)
2002	($30,570)
2003	($30,570)
2004	$1,717,523
2005	$1,717,523
2006	$1,717,523
2007	$2,371,171
2008	$2,371,171
2009	$2,371,171
2010	$3,469,666
2011	$3,469,666
2012	$2,627,074
2013	$2,627,074

OUCC 83-025

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

Information Requested:

According to Petitioner's Exhibit GMV-4, schedule 1, Petitioner has a projected prepaid pension asset of $5,833,015 as of November 30, 2015. Please explain why Petitioner has not netted the prepaid pension asset with the projected postretirement benefit liability as of November 30, 2015.

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Information Provided:

This is essentially what the Company has proposed in this proceeding. In prior proceedings, the Company's Post Retirement Benefit Liability was included in the revenue requirement calculation but the Prepaid Pension Asset was not. In prior proceedings, the Post Retirement Benefit Liability has been calculated by netting account 26221000 Accrued OPEB (legacy system account 262210) against account 18631000 Reg Asset Deferred OPEB (legacy system account 186417), and treating the net liability as zero cost capital. This was also done in this proceeding, in which the balances in those accounts are forecasted to be ($2,579,644) and $0 respectively. This net liability may be seen on Petitioner's Exhibit GPR-5, Schedule 1, page 1, line 7, where the $2,579,644 net liability is treated as zero cost capital. By introducing the Prepaid Pension asset into rate base, the Company is functionally netting the Prepaid Pension Asset against the already recognized Post Retirement Benefit Liability in the revenue requirement.