

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 UTILITY)
SERVICE, (2) REVIEW OF ITS RATES)
AND CHARGES FOR WASTEWATER)
UTILITY SERVICE, (3) APPROVAL OF)
NEW SCHEDULES OF RATES AND)
CHARGES APPLICABLE TO WATER)
AND WASTEWATER UTILITY)
SERVICE, AND (4) AUTHORITY TO)
IMPLEMENT A LOW INCOME PILOT)
PROGRAM.)**

CAUSE NO. 45142

OUCC SETTLEMENT TESTIMONY

OF

MARGARET A. STULL - PUBLIC'S EXHIBIT NO. 10

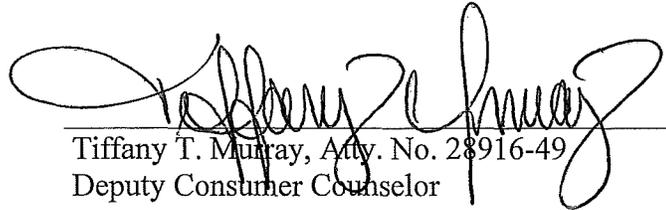
ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

March 18, 2019

Respectfully Submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR



Tiffany T. Murray, Atty. No. 28916-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Office of Utility Consumer Counselor's Settlement Testimony of Margaret A. Stull* has been served upon the following counsel of record in the captioned proceeding by electronic service on March 18, 2019.

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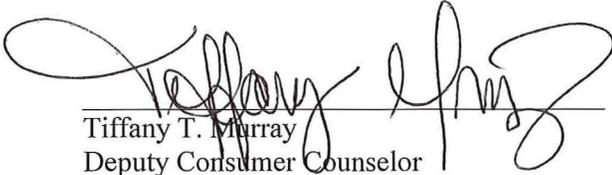
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SETTLEMENT TESTIMONY OF OUCC WITNESS MARGARET A. STULL
CAUSE NO. 45142
INDIANA AMERICAN WATER COMPANY, INC.

I. INTRODUCTION

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

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

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

5 A: I am employed by the Indiana Office of Utility Consumer Counselor (“OUCC”) as
6 a Chief Technical Advisor in the Water/Wastewater Division.

7 **Q: Did you previously submit direct testimony in this proceeding?**

8 A: Yes. I filed direct testimony in this proceeding that was designated as Public’s
9 Exhibit No. 1. This testimony included my professional credentials and outlined
10 various accounting issues, with supporting accounting schedules, giving effect to
11 all recommendations made by all OUCC witnesses who testified in this base rate
12 case.

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

14 A: I will explain the OUCC’s support of the settlement agreement (“Settlement”)
15 between Indiana American Water Company, Inc. (“Indiana American” or
16 “Petitioner”), the OUCC, the Indiana American Industrial Group, City of Crown
17 Point, Town of Schererville, Town of Whiteland, Sullivan-Vigo Rural Water
18 Corporation, Citizens Action Coalition, and Indiana Community Action

1 Association, Inc. (collectively, the “Settling Parties”) and how the public interest
2 will be served if the Commission approves the proposed Settlement.

3 **Q: Have you reviewed the settlement schedules prepared and presented by**
4 **Petitioner’s witness Greg Shimansky?**

5 A: Yes.

6 **Q: Do those schedules accurately portray the accounting adjustments agreed**
7 **upon in Settlement?**

8 A: Yes. Mr. Shimansky’s settlement testimony further explains the information
9 conveyed in the settlement schedules.

10 **Q: Which aspects of the Settlement will be addressed below?**

11 A: I discuss the overall rate increase including revenues, operation and maintenance
12 expenses, rate base, cost of equity, and capital structure. I also discuss the
13 agreement reached regarding both the low-income pilot program and the
14 conservation program. In addition, I discuss the agreement reached regarding the
15 various income tax related issues from Cause No. 45032-S4 that have been resolved
16 as a result of this Settlement. OUCC Witness Jerome Mierzwa provides settlement
17 testimony regarding rate design and class cost of service study issues.

18 **Q: In your opinion, is the Settlement in the public interest?**

19 A: Yes. There are a number of customer benefits generated by the Settlement, not least
20 of which is a substantive reduction to the overall rate increase sought by Petitioner.
21 The Settlement is a product of intense, arms-length negotiations, requiring each
22 party to compromise on difficult issues. In order to make such compromises, each
23 party must assess its litigation risk that the tribunal will find the other side’s case
24 more compelling. The Settlement strikes an appropriate balance between the

1 interest of the ratepayer and of Indiana American, while at the same time, the
2 numerous customer benefits outlined in the Settlement and described in detail
3 below, lead the OUCC, as the statutory representative of all ratepayers, to conclude
4 that the Settlement is an equitable resolution, supported by the evidence, and should
5 be approved.

II. RATE INCREASE

6 **Q: What is Indiana American requesting in this case?**

7 A: Indiana American requests Commission approval to increase its total operating
8 revenues 17.50%, or \$38,884,477 per year. Indiana American proposes this rate
9 increase be implemented in two steps with a Step 1 revenue increase of 8.22%
10 (additional revenues of \$18,273,669) and a Step 2 revenue increase of 8.57%
11 (additional revenues of \$20,610,808). The proposed Step 1 revenue increase is
12 based upon a forecasted test year of May 2019 through April 2020, a forecasted
13 rate base and capital structure as of April 30, 2019, and a proposed cost of equity
14 of 10.80%. The proposed Step 2 revenue increase is based upon a forecasted rate
15 base and capital structure as of April 30, 2020 with the same 10.8% proposed cost
16 of equity.

17 Additionally, Indiana American requests several rate design changes,
18 including a substantial increase to its fixed monthly charge, greater increases to
19 Area Two volumetric rates to bring these rates more in line with Area One rates,
20 consolidation of public fire protection monthly charges, and elimination of separate
21 pricing for public fire service for West Lafayette and Seymour. Finally, Indiana
22 American requests authorization for a “Low-Income Pilot Program” to provide a

1 discounted fixed monthly charge for those low-income customers that qualify for
2 the low-income home energy assistance program. The cost of this pilot program is
3 limited to \$200,000 per year and Indiana American proposes to defer these costs to
4 a regulatory asset for recovery in Indiana American's next base rate case.

5 **Q: As a result of the Settlement, what is the agreed upon revenue increase?**

6 A: The Settling Parties have agreed to an overall revenue increase of approximately
7 7.86%. Based on the Settlement, Indiana American will be allowed to increase rates
8 to collect, after completion of both steps of implementation, additional annual
9 revenues of \$17,500,000. This increase produces total annual operating revenues at
10 Step 2 of \$240,249,127 and produces net operating income after Step 2 of
11 \$74,268,732, which the Settling Parties stipulate is a fair return on the fair value of
12 Indiana American's rate base for purposes of this case.

13 Regarding Step 1 rates, the Settling Parties have agreed to a revenue
14 increase of approximately 1.72%, or additional revenues of \$3,836,226. For Step 2,
15 the Settling Parties have agreed to a revenue increase of approximately 6.03%, or
16 additional revenues of \$13,663,774.

III. PRO FORMA NET OPERATING INCOME

A. Operating Revenues

17 **Q: In the context of an overall settlement, did the Settling Parties agree to**
18 **operating revenues?**

19 A: Yes. The Settling Parties agreed to *pro forma* revenues at present rates for the test
20 year of \$222,749,127. Although this agreed *pro forma* revenues at present rates is
21 higher than that put forward by Indiana American in its testimony, this revenue

1 amount is not based on any particular calculation methodology or percentage of
2 declining usage. Higher *pro forma* revenues at present rates requires less of a
3 revenue increase when setting new rates; therefore, the higher revenue amount
4 agreed to in the Settlement is a benefit to customers. The Settling Parties agreed
5 test year operating revenues consist of water revenues of \$217,361,195, sewer
6 revenues of \$1,370,090, water late fee revenues of \$1,294,659, and other water
7 revenues of \$2,723,183.

B. Operating and Maintenance Expenses

8 **Q: In the context of an overall settlement, did the Settling Parties agree to total**
9 **operating and maintenance expense?**

10 A: Yes. The Settling Parties agreed to total operating and maintenance expense of
11 \$80,320,654 in Step 1 and \$77,966,232, excluding any proposed rate adjustments
12 for bad debt expense, in Step 2.¹ This represents an overall reduction of \$4,618,675
13 from Indiana American's rebuttal position, another customer benefit created by the
14 Settlement.² Taken as a whole, the negotiated adjustments represent agreements
15 reached by the Settling Parties as part of the overall package of settlement terms.

¹ Step 2 operating and maintenance expense is calculated by taking total operating expense of \$78,005,239 as reflected on Appendix A to the Settlement Agreement and deducting \$39,007, the proposed rate increase to bad debt expense in Step 1.

² According to Indiana American's Schedule OPINC, page 1 of 3, provided as a late filed workpaper on January 25, 2019, total operating expenses before any proposed rate adjustments to bad debt expense was \$82,584,907. ($\$77,966,232 - \$82,584,907 = \$(4,618,675)$)

1 **Q: To what operating and maintenance expense adjustments did the Settling**
2 **Parties agree?**

3 A: The Settling Parties agreed to overall reductions to purchased water expense,
4 salaries and wages expense, OPEB expense, group insurance and other benefits,
5 support services, contract services, regulatory expense, and miscellaneous expense.
6 In order to fairly reflect the agreed revenues, which were higher than in Indiana
7 American's testimony, the Settling Parties agreed to overall increases to purchased
8 power expense, chemical expense, pension expense and bad debt expense. Table 1
9 presents the detail of operating expenses and the associated settlement adjustments
10 agreed upon.

Table 1: Operating and Maintenance Expense

| | IAWC Rebuttal | Settlement Adjustments | Step 1 | Settlement Adjustments | Step 2 |
|---------------------------------|---------------------|---------------------------|----------------------|---------------------------|----------------------|
| Purchased Water | \$ 498,786 | \$ (32,078) | \$ 466,708 | \$ - | \$ 466,708 |
| Fuel & Power | 7,258,539 | 14,280 | 7,272,819 | - | 7,272,819 |
| Chemicals | 1,958,515 | 17,519 | 1,976,034 | - | 1,976,034 |
| Waste Disposal | 1,551,249 | - | 1,551,249 | - | 1,551,249 |
| Salaries and Wages | 19,128,191 | (514,123) | 18,614,068 | - | 18,614,068 |
| Pension | 1,107,993 | 313,189 | 1,421,182 | 626,378 | 2,047,560 |
| OPEB | 440,112 | (810,329) | (370,217) | (1,620,659) | (1,990,876) |
| Group Insurance | 3,914,922 | (97,708) | 3,817,214 | - | 3,817,214 |
| Other Benefits | 1,411,459 | (35,227) | 1,376,232 | - | 1,376,232 |
| Support Services | 20,193,544 | (353,887) | 19,839,657 | - | 19,839,657 |
| Contract Services | 2,424,465 | (507,500) | 1,916,965 | - | 1,916,965 |
| Building Maint. & Services | 1,108,293 | - | 1,108,293 | - | 1,108,293 |
| Telecommunications | 857,216 | - | 857,216 | - | 857,216 |
| Postage, Printing, & Stationary | 48,481 | - | 48,481 | - | 48,481 |
| Office Supplies & Services | 646,700 | - | 646,700 | - | 646,700 |
| Advertising & Marketing | 54,389 | - | 54,389 | - | 54,389 |
| Employee Related Expense | 428,028 | - | 428,028 | - | 428,028 |
| Miscellaneous Expense | 2,737,127 | (214,250) | 2,522,877 | (1,360,141) | 1,162,736 |
| Rents | 375,085 | - | 375,085 | - | 375,085 |
| Transportation | 914,937 | - | 914,937 | - | 914,937 |
| Bad Debt Expense | 2,258,979 | 5,861 | 2,264,840 | - | 2,264,840 |
| Customer Accounting | 4,014,040 | - | 4,014,040 | - | 4,014,040 |
| Regulatory Expense | 697,055 | (50,000) | 647,055 | - | 647,055 |
| Insurance Other Than Group | 2,175,162 | - | 2,175,162 | - | 2,175,162 |
| Maint. Supplies & Services | 6,381,640 | - | 6,381,640 | - | 6,381,640 |
| | <u>\$82,584,907</u> | <u>\$ (2,264,253)</u> | <u>\$ 80,320,654</u> | <u>\$ (2,354,422)</u> | <u>\$ 77,966,232</u> |

1 **Q: Please highlight some of the agreed adjustments to Petitioner's operating**
2 **expenses.**

3 A: Purchased water was reduced by \$32,078 to reflect the settlement in Cause No.
4 45069 (Boonville Municipal Water). Salaries and wages, group insurance and
5 other benefits expense were reduced to reflect a reduction of ten (10) unfilled
6 positions. Pension and OPEB expenses were adjusted to reflect the results of the
7 most recent actuarial reports. Support services expense was reduced by \$507,500
8 to reflect the removal of business development costs. Regulatory expense was
9 adjusted by \$50,000, reducing the amount collected from customers for cost of this
10 rate case.

C. Depreciation and Amortization Expense

11 **Q: Did the Settling Parties agree to depreciation and amortization expense?**

12 A: Yes. The Settling Parties agreed to Step 1 depreciation expense of \$48,122,367 and
13 Step 2 depreciation expense of \$52,528,975. In accordance with the Settlement,
14 Step 2 depreciation expense is capped at \$52,528,975 but may be adjusted
15 downward if Indiana American does not invest as much utility plant as it forecasted.

16 The Settling Parties agreed to amortization expense of \$274,699. This
17 includes amortization of comprehensive planning studies over a 15 year period and
18 amortization of BT SOP costs. Petitioner had originally proposed to include these
19 items in its rate base upon which it would earn a return.

D. Taxes Other than Income Tax Expense

1 **Q: Did the Settling Parties agree to taxes other than income tax expense?**

2 A: Yes. The Settling Parties agreed to taxes other than income tax expense of
3 \$17,318,632 after Step 1 and \$17,526,349 after Step 2.

E. Income Tax Expense

4 **Q: In the context of an overall settlement, did the Settling Parties agree to income**
5 **tax expense?**

6 A: Yes. As discussed in more detail in the Cause No. 45032-S4 section of my
7 testimony, the Settling Parties have agreed to income tax expense of \$14,622,534
8 after Step 1 and \$17,506,213 after Step 2. These amounts include \$(1,713,022) of
9 excess accumulated deferred income tax amortization expense. As explained in
10 more detail below, the amortization period used is the ARAM estimate of 41.49
11 years provided in Indiana American's rebuttal testimony. Resolving issues related
12 to Indiana American's tax subdocket within the context of this Settlement creates
13 certainty for customers by providing for timely return of excess income tax monies.

F. Gross Revenue Conversion Factor

14 **Q: Did the Settling Parties agree to a gross revenue conversion factor?**

15 A: Yes. The Settling Parties agreed to use a gross revenue conversion factor of
16 137.4850%. This compares to Indiana American's initial proposal of 137.5039%
17 and the OUCC's proposed 137.1185% (Step 2). The Settling Parties consider this
18 to be a fair compromise for purposes of an overall settlement.

IV. COST OF EQUITY AND CAPITAL STRUCTURE

1 **Q: Did the Settling Parties agree to a cost of equity?**

2 A: Yes. The Settling Parties agreed the Commission should authorize a 9.80% cost of
3 common equity based on a capital structure that consists of 46.59% debt and
4 53.41% common equity. This capital structure and cost of equity produce a
5 weighted cost of capital of 6.17% in Step 1 and 6.25% in Step 2, which the Settling
6 Parties agree is both reasonable and within the range of evidence that has been
7 submitted by the parties in this matter.

8 In its direct case, Indiana American proposed a 10.8% cost of common
9 equity based upon a capital structure with more than 56% equity and less than 44%
10 long term debt. Not only does the Settlement reduce Petitioner's proposed cost of
11 common equity by 100 basis points, the agreed equity to debt ratio is less equity
12 rich, bringing Petitioner closer to the debt/equity ratio used in its prior rate case and
13 closer to a 50/50 split. These two Settlement terms serve to reduce Petitioner's
14 overall revenue increase and produce more reasonable results.

V. RATE BASE

15 **Q: What rate base will be used for the implementation of initial rates (Step 1) as**
16 **a result of the Settlement?**

17 A: The Settling Parties agreed that Indiana American's initial rates will be based on its
18 actual original cost rate base as of April 30, 2019.

19 **Q: What rate base will be used for implementation of Step 2 rates as a result of**
20 **the Settlement?**

21 A: The Settling Parties agreed that Indiana American's actual net original cost rate
22 base at Step 2, upon which it is authorized to earn a reasonable return, will not

1 exceed \$1,182,170,152. This not-to-exceed cap is \$40 million less than Indiana
2 American's proposed Step 2 rate base in its case-in-chief. This reduction is
3 composed entirely of non-DSIC eligible plant assets.

4 **Q: Does the Settlement exclude certain items from Indiana American's rate base**
5 **calculation?**

6 A: Yes. The Settling Parties agreed Petitioner's rate base in this Cause will not include
7 the Business Transformation – SOP 98-01 costs or Comprehensive Planning
8 Studies. The amortization of these costs are included in operating expenses as
9 discussed above.

10 **Q: Did the Settling Parties agree to a process for implementing the Step 1 rate**
11 **increase?**

12 A: Yes. Indiana American will certify its net utility plant in service as of April 30,
13 2019 and calculate the resulting Step 1 rates using the capital structure reflected in
14 Table 3 of the Settlement Agreement. Step 1 rates will become effective upon the
15 later of the date of the Commission's order in this case or July 1, 2019. Indiana
16 American will serve all Settling Parties with its Step 1 certification as soon as
17 possible after the closing of its books following April 30, 2019.

18 **Q: Is the process for implementing the Step 2 rate increase the same as the Step 1**
19 **process?**

20 A: No, not entirely. While the initial certification process is similar, there is a rate base
21 cap on Step 2 rate base and there is a process for the OUCC and interested
22 intervenors to review and object to the certification. Specifically, in Step 2, Indiana
23 American will certify its net utility plant in service as of the end of the test year
24 (April 30, 2020) and calculate the resulting Step 2 rates using the capital structure

1 reflected in Table 3 of the Settlement Agreement. Step 2 rates will be based upon
2 actual net original cost rate base that does not exceed \$1,182,170,152 (“Rate Base
3 Cap”) and related depreciation expense not to exceed \$52,528,975.

4 Step 2 rates will become effective upon the later of the date the Company
5 certifies its end of test year net plant in service or May 1, 2020. The OUCC and
6 intervening parties will have 60 days from the date of certification to state any
7 objections to Indiana American’s certified test-year-end net plant in service. If
8 objections cannot be resolved informally, a hearing will be held to determine
9 Indiana American’s actual test-year-end net plant in service, and rates will be trued-
10 up (with carrying charges) retroactive to the date that Indiana American’s Step 2
11 rates became effective.

12 **Q: Does the Settlement impose a rate base cap on rate base additions as of April**
13 **30, 2020?**

14 A: Yes. The Settling Parties agreed that Indiana American’s actual net original cost
15 rate base as of April 30, 2020 is capped at \$1,182,170,152. To the extent Indiana
16 American’s actual rate base exceeds this cap, Indiana American is not foreclosed
17 from including these additional investments in rate base in a future general rate
18 case.

19 **Q: Does the Settlement impose any restrictions on future DSIC filings?**

20 A: Yes. The Settling Parties agree Petitioner may not apply for a DSIC for
21 improvements placed in service before April 30, 2020 unless more than
22 \$114,004,218 (excluding costs of removal and retirements) is invested in
23 distribution system improvements in the test year. In any application for a DSIC,

1 Indiana American must identify the plant additions comprising the \$114,004,218
2 of test year distribution system additions as well as those plant additions for which
3 DSIC recovery is sought.

4 **Q: Do the Settlement terms on rate base garner significant customer benefits?**

5 A: Yes. Indiana American did not propose to limit its rate base to an amount forecasted
6 in its testimony. Rather, it proposed to base its Step 2 rates on actual utility plant in
7 service as of April 30, 2020, which could have exceeded, or not, the forecasted
8 utility plant in service amount included in Indiana American's testimony. The Step
9 2 Rate Base Cap provides certainty to customers by way of setting a limit on Indiana
10 American's utility plant upon which it can earn a return. Moreover, the Rate Base
11 Cap is \$40 million less than Indiana American's forecasted Step 2 rate base, which
12 serves as a reduction to Indiana American's revenue increase. Customers also
13 benefit from the agreement that the assets which comprise the \$40 million rate base
14 reduction are not DSIC-eligible, so that the assets cannot be removed from Indiana
15 American's rate base to then be charged to customers as part of a future DSIC
16 proceeding.

17 **Q: How is the public interest served by the rate base terms in the Settlement?**

18 A: The Step 1 and 2 rate base certification process provides for a transparent review
19 of Indiana American's rate base, including plant in service and related calculations.
20 Should the Commission determine that a Step 2 rate base issue raised by the non-
21 Indiana American Settling Parties warrants a change to Indiana American's Step 2
22 rates, the Settlement provides that such a change be applied retroactively, with
23 carrying charges to be applied to the customer's benefit. This process serves as an

1 incentive for timely, thorough review of the assets Indiana American has certified
2 are in service and used and useful.

3 **Q: In the context of an overall settlement, have the Settling Parties agreed on**
4 **capital project information to be provided in future general rate cases?**

5 A: Yes. By agreeing that certain detailed information will be provided for capital
6 projects of a particular dollar amount in Indiana American's future general rate
7 cases that use a forward looking test period, the Settling Parties have resolved their
8 dispute regarding the support for Indiana American's forecasted capital projects for
9 purposes of the current case. This specific stipulation is intended to mitigate the
10 risk of future similar disputes.

11 Paragraph 6(a) of the Settlement delineates the capital project detail agreed
12 to by the Settling Parties. The Settling Parties agreed to a more rigorous level of
13 detail for capital projects in excess of \$500,000 than for those that are less than
14 \$500,000, in acknowledgement of the rate impact these higher dollar projects create
15 and the fact that capital projects that are less than \$500,000 are generally
16 reoccurring in nature and their cost estimates are generated in a different way. The
17 Settling Parties also agreed that for major projects, as those are defined in 170 IAC
18 1-5-1(l) , Indiana American will provide the OUCC with copies of the studies,
19 reports, or analysis, including the Comprehensive Planning Studies, if applicable
20 contemporaneous with Indiana American's case-in-chief filing.

21 **Q: How is the public interest served by the Settlement terms related to capital**
22 **project detail to be provided in Indiana American's future rate cases?**

23 A: The public interest is served by the clarity this Settlement term adds to the level of
24 support Indiana American will provide for its capital projects. Given the limits of

1 the procedural timeframe to evaluate a utility's rate case filed pursuant to Ind. Code
2 § 8-1-2-42.7, the public interest is served when the consumer parties receive
3 meaningful support for proposed capital expenditures as early in the review process
4 as possible. This Settlement term provides for a clearer understanding of what
5 support is to be provided. The Settlement also does not prohibit the OUCC or any
6 other intervenor from specifically identifying and asking for more detail,
7 documents, or information other than what Indiana American has agreed to provide
8 in Paragraph 6(a).

9 **Q: In the context of an overall settlement, have the Settling Parties agreed on**
10 **revisions to acquisition journal entries as identified by the OUCC in its direct**
11 **testimony?**

12 A: Yes. Based upon the evidence and filings in the respective cases, Indiana American
13 will revise the journal entry to record the acquisitions of Yankeetown and Merom
14 to reflect the journal entry submitted in Indiana American's Exhibit JCH-6 (Cause
15 No. 44400) and Indiana American's Exhibit JCH-5 (Cause No. 44399),
16 respectively. The public interest is served by adherence to Commission directives.
17 The journal entry to record the Russiaville acquisition matches the journal entry
18 ordered in Cause No. 44584 and thus will not be changed.

19 **Q: What is the resolution for treatment of comprehensive planning study costs?**

20 A: The Settling Parties agreed that the costs of conducting comprehensive planning
21 studies will be deferred and amortized over a 15-year period. As discussed above,
22 this amortization expense is included in Indiana American's revenue requirement.

VI. CAUSE NO. 45032-S4 PENDING ISSUES

1 **Q: Does this Settlement resolve all of the pending income tax issues as a result of**
2 **the Tax Cuts and Jobs Act of 2017 (“TCJA”) being litigated in Cause No.**
3 **45032-S4?**

4 A: Yes. This Settlement addresses (1) the refund of the regulatory liability created by
5 Indiana American’s over-collection of federal income tax during the period January
6 1, 2018 through July 31, 2018; (2) amortization of protected excess accumulated
7 deferred income taxes (“EADIT”); and (3) amortization of unprotected EADIT.

8 **Q: To what have the Settling Parties agreed regarding the regulatory liability**
9 **created by the over-collection of federal income taxes during 2018?**

10 A: The Settling Parties have agreed the \$5,821,888 balance of Indiana American’s
11 regulatory liability, created as a result of the Commission’s January 3, 2018 order
12 in Cause No. 45032, shall be flowed to customers as a bill credit commencing with
13 implementation of Step 2 rates. This bill credit will be flowed back ratably over a
14 twelve-month period and will be allocated among customer classes in accordance
15 with the allocation methodology associated with the underlying rates that generated
16 the regulatory liability.

17 **Q: To what have the Settling Parties agreed regarding the amortization of**
18 **EADIT?**

19 A: The Settling Parties have agreed that, for purposes of Step 1 rates, Indiana
20 American will use an amortization period of 41.49 years as provided in Indiana
21 American’s rebuttal in this Cause. The Settling Parties agree this estimate produces
22 a result that is approximately the same as using the average rate assumption method.
23 Subject to other terms in the Settlement, this amortization period will be applied to
24 the entirety of Indiana American’s EADIT balance, including unprotected EADIT.

1 **Q: What have the Settling Parties agreed to regarding the treatment of**
2 **unprotected EADIT created as a result of Indiana American’s tax repair**
3 **expense deduction?**

4 A: The Settling Parties agree that Indiana American will seek a Private Letter Ruling
5 (“PLR”) from the Internal Revenue Service (“IRS”) requesting a determination
6 whether the Commission has the discretion to order an amortization for EADIT
7 related to Indiana American’s repairs deduction that is faster than ARAM.
8 Importantly, the Settling Parties agree the PLR request is not an opportunity for
9 advocacy for one outcome or another and that the PLR request will be drafted using
10 neutral and unbiased language. To achieve this agreement, the Settling Parties will
11 confer on the wording of the draft PLR request to objectively frame the issue before
12 the PLR request is submitted to the IRS for resolution subject to IRS guidelines and
13 requirements.

14 Indiana American will file notice of the results of the ruling with the
15 Commission and all parties to the tax subdocket within 10 business days of receipt
16 of the PLR. Any costs associated with the PLR are as yet unknown, and it would
17 be premature to take a position on any recovery of those costs; therefore, the
18 Settling Parties agreed to take no position at this time as to whether Indiana
19 American can recover costs associated with the PLR request.

20 **Q: What have the Settling Parties agreed if the IRS rules that repairs related**
21 **EADIT must be amortized using ARAM?**

22 A: If the IRS issues a PLR ruling that amortization of repairs related EADIT cannot
23 be faster than ARAM without causing a normalization violation, the Settling Parties
24 agree Indiana American will continue to use the estimate providing annual

1 amortization of \$1.7 million for purposes of Step 1 and Step 2 rates until Indiana
2 American's next general rate case, at which point the EADIT amortization will be
3 trued up using the actual ARAM calculation. In that event, the Commission shall
4 issue an order to dismiss the tax subdocket proceeding.

5 **Q: What have the Settling Parties agreed if the IRS rules that repairs related**
6 **EADIT amortization can be amortized faster than ARAM and is at the**
7 **discretion of the Commission?**

8 A: If the IRS issues a PLR ruling that the Commission has discretion to order
9 amortization for EADIT related to Indiana American's repairs deduction that is
10 faster than ARAM, or otherwise determining that amortization using non-
11 normalized accounting would be appropriate, the Settling Parties agree to seek that
12 the Commission establish, by order in the tax subdocket, the appropriate
13 amortization period for such non-normalized EADIT and order Indiana American
14 to file revised rates to reflect the revised amortization for the non-normalized
15 EADIT (unprotected) along with the true-up for the actual ARAM calculation for
16 all EADIT required to be normalized (protected).

17 **Q: Do these terms of the Settlement generate customer benefits?**

18 A: Yes. In its testimony in Cause No. 45032 S4, Indiana American advocated that the
19 regulatory liability created by excess income tax expense in 2018 should be used
20 for customer owned lead line replacements. The Settlement provides for a refund
21 of these dollars instead. Moreover, the Settlement terms on the PLR provide a path
22 forward to providing customers with a full EADIT refund that complies with IRS
23 guidance, while at the same time, an EADIT refund based on ARAM will be

1 initiated so there is no further delay of the customer refund while the PLR is
2 pending.

3 **Q: Is the public interest served by the tax terms of the Settlement?**

4 A: Yes. The issues at play in Indiana American's tax subdocket, which was highly
5 contested and has been fully briefed, are interconnected with setting Indiana
6 American's ongoing revenue requirement in this case. Reaching a consolidated
7 resolution, as this Settlement does, is efficient and promotes administrative
8 economy.

VII. LOW-INCOME PILOT PROGRAM AND CONSERVATION PROGRAM

9 **Q: Have the Settling Parties reached agreement on how the low-income pilot**
10 **program will be funded?**

11 A: Yes. The Settling Parties agree the total program cost for the low-income pilot
12 program ("LIPP") will be borne evenly (50/50) between a deferred asset and non-
13 deferred contributions from Indiana American. For every year of the LIPP, except
14 Years One and Two, Indiana American will contribute up to \$300,000 per year. Of
15 the maximum \$300,000 annual contribution, which will be distributed evenly over
16 the three selected LIPP locations, an amount not to exceed \$150,000 per year will
17 be accrued in a deferred asset for recovery in Indiana American's next general rate
18 case. The Settling Parties have agreed to a reservation of rights as to the allocation
19 among customer classes of the deferred contribution in Indiana American's next
20 base rate case.

1 **Q: What are the contributions to be made in Years One and Two of the LIPP?**

2 A: In Year One of the LIPP, only the \$150,000 deferred asset will be contributed, with
3 the remaining non-deferred portion of the first year's contribution to be made at the
4 time of the second year's contribution. Accordingly, for Year Two of the LIPP, the
5 maximum contribution to be made by Indiana American could be as high as
6 \$450,000, with \$300,000 from Indiana American's non-deferred contribution and
7 \$150,000 in the deferred asset. All subsequent annual contributions will not exceed
8 \$300,000.

9 **Q: How many locations will be included in the LIPP?**

10 A: The Settling Parties agreed that three locations will be included in the LIPP, with
11 Gary, Indiana added as an additional location to the two cities Indiana American
12 identified in its testimony.

13 **Q: Have the Settling Parties agreed to a utility-sponsored water conservation
14 program?**

15 A: Yes. The Settlement provides that Indiana American will conduct a good faith
16 review of market potential and customer impact of a utility-sponsored water
17 conservation program in its service territory. Indiana American agrees such a
18 utility-sponsored water conservation program proposal could include non-
19 behavioral, measure-based conservation efforts, such as device distribution
20 programs, direct installation programs, manufacturer buy down programs, and
21 rebate and voucher programs for water conservation measures and services. The
22 results of these initiatives will be shared with the Settling Parties at meetings to be
23 held on mutually agreeable dates.

1 **Q: Why are the Settlement terms on the LIPP and Conservation Program in the**
2 **public interest?**

3 A: The LIPP is intended to provide bill relief to qualifying, low-income customers in
4 identified areas. The Settlement provides for an additional \$100,000 in annual
5 funding for the LIPP and it expands the areas in which eligible customers can
6 participate to include Gary, Indiana. Indiana American proposed in its prefiled
7 testimony that the LIPP be funded entirely through customer rates, while the
8 OUCC's testimony advocated for shareholder funding of this pilot program. The
9 Settlement strikes an even balance between these two positions, providing for both
10 ratepayer and shareholder funding for the LIPP. The agreed Conservation Program
11 serves the public interest as a means to examine any public benefit from Indiana
12 American's good faith review of market potential and customer impact.

VIII. CONCLUSION

13 **Q: Given the revenue requirement reductions discussed in your testimony, does**
14 **the Settlement represent a fair compromise of disputed issues that reasonably**
15 **protect consumer interests?**

16 A: Yes. The customer benefits generated by the Settlement are detailed throughout my
17 testimony. The Settlement represents a compromise that the OUCC and other
18 Settling Parties support as fair, reasonable, and beneficial to both the utility and
19 customers. The Settling Parties also value the certainty and speed of implementing
20 negotiated outcomes such as this. The Settlement is in the public interest, supported
21 by the evidence, and should be approved.

22 **Q: Does this conclude your settlement testimony?**

23 A: Yes.

AFFIRMATION

I affirm the representations I made in the foregoing testimony are true to the best of my knowledge, information, and belief.

A handwritten signature in black ink that reads "Margaret A. Stull". The signature is written in a cursive style and is positioned above a horizontal line.

By: Margaret A. Stull
Cause No. 45142
Indiana Office of
Utility Consumer Counselor

3/18/19

Date: