

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 WASTEWATER UTILITY)
SERVICE THROUGH A THREE-STEP RATE)
IMPLEMENTATION, (2) APPROVAL OF NEW)
SCHEDULES OF RATES AND CHARGES)
APPLICABLE TO WATER AND WASTEWATER)
UTILITY SERVICE, INCLUDING A NEW)
UNIVERSAL AFFORDABILITY RATE, (3))
APPROVAL OF REVISED DEPRECIATION)
RATES APPLICABLE TO WATER AND) CAUSE NO. 45870
WASTEWATER PLANT IN SERVICE, (4))
APPROVAL OF NECESSARY AND)
APPROPRIATE ACCOUNTING RELIEF, (5))
APPROVAL OF THE EXTENSION OF)
SERVICE TO AN INFRASTRUCTURE)
DEVELOPMENT ZONE IN MONTGOMERY)
COUNTY, INDIANA AND AUTHORITY TO)
IMPLEMENT A SURCHARGE UNDER IND.)
CODE § 8-1-2-46.2, AND (6) APPROVAL OF)
PETITIONER’S PLANS TO DEVELOP FUTURE)
WATER SOURCES OF SUPPLY UNDER IND.)
CODE § 8-1-2-23.5.)**

PUBLIC’S EXHIBIT NO. 4

REDACTED TESTIMONY OF THOMAS W. MALAN

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

July 21, 2023

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that a copy of the *Public's Exhibit No. 4 - OUCC's Redacted Testimony of Thomas W. Malan on behalf of the OUCC* has been served upon the following in the captioned proceeding by electronic service on July 21, 2023.

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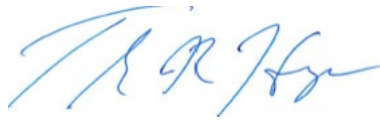
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**REDACTED TESTIMONY OF OUCC WITNESS THOMAS W. MALAN
CAUSE NO. 45870
INDIANA-AMERICAN WATER COMPANY, INC.**

I. INTRODUCTION

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

2 A: My name is Thomas W. Malan, and my business address is 115 W. Washington
3 St., Suite 1500 South, Indianapolis, IN 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 Utility Analyst with the Water-Wastewater Division. My qualifications and
7 experience are set forth in Appendix A.

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

9 A: I present the OUCC's position and make recommendations on a variety of expense
10 adjustments proposed by Indiana-American Water Company, Inc. ("Indiana
11 American," "INAWC," or "Petitioner"). These adjustments include salaries and
12 wages, benefits, contract services expense, and chemical expense.

13 **Q: Describe the review and analysis you performed.**

14 A: I reviewed Indiana American's petition, testimony, schedules, and workpapers. I
15 reviewed Petitioner's 2019, 2020, 2021, and 2022 annual reports submitted to the
16 Indiana Utility Regulatory Commission ("Commission" or "IURC"). I reviewed
17 ratepayer comments submitted to the OUCC. I also prepared discovery questions
18 and reviewed Petitioner's responses.

19 **Q: Do you sponsor any attachments?**

20 A: Yes. I sponsor the following attachments:

1 Attachment TWM-1 – Petitioner’s response to OUCC Data Request No. 15-30

2 Attachment TWM-2 – Petitioner’s response to OUCC Data Request No. 45-01

3 Attachment TWM-3 – Petitioner’s response to OUCC Data Request No. 13-18

4 Attachment TWM-4 – Petitioner’s response to OUCC Data Request No. 36-04

5 Attachment TWM-5 – Petitioner’s response to OUCC Data Request No. 36-03

6 Attachment TWM-6 – Petitioner’s response to OUCC Data Request No. 7-49

7 Attachment TWM-7 – Petitioner’s response to OUCC Data Request No. 36-06

8 **Q: If you do not discuss a specific topic or adjustment, does that mean you agree**
9 **with the Petitioner?**

10 A: No. My silence on any specific topic or adjustment does not indicate my approval
11 or agreement. My testimony is limited only to the matters I discuss herein.

II. SALARIES AND WAGES

A. Overview of Indiana American’s Proposal

12 **Q: What level of salary and wage expense does Petitioner propose in total?**

13 A: In its updated filing dated June 6, 2023, Petitioner proposes a Step 1 increase of
14 \$3,252,490 to base period salaries and wages expense of \$17,844,494 yielding Step
15 1 *pro forma* salaries and wages expense of \$21,096,984. Petitioner proposes a Step
16 2 increase of \$1,223,089 to Step 1 *pro forma* salaries and wages expense of
17 \$21,096,984 yielding Step 2 *pro forma* salaries and wages expense of \$22,320,073.

18 **Q: What are each of the *pro forma* adjustments Petitioner proposes to base period**
19 **salaries and wages expense?**

20 A: In Step 1 Petitioner proposes a \$709,640 increase for existing positions, an increase
21 of \$267,509 for its annual performance plan, an increase of \$82,541 for its long-
22 term performance plan, an increase of \$598,117 for overtime expense, and an
23 increase of \$1,594,683 to add new positions. In Step 2 Petitioner proposed a
24 \$724,564 increase for existing positions, an increase of \$91,878 for its annual

1 performance plan, an increase of \$7,636 for its long-term performance plan, an
 2 increase of \$109,879 for overtime expense, and an increase of \$289,132 to add new
 3 positions. (See Table 1 below.) Petitioner states it proposes these adjustments to be
 4 competitive with the labor market.

Table 1: Comparison of Salaries and Wage Expense Adjustment

	Petitioner	OUC	OUC More (Less)
Base Year	\$ 17,844,494	17,844,494	-
Adjustments			
Base Wages Existing Positions	709,640	709,640	-
Annual Performance Plan	267,509	267,509	-
Long-Term Performance Plan	82,541	82,541	-
Overtime	598,117	598,117	-
New Positions Wages	1,594,683	1,594,683	-
Adjustment for vacant positions	-	(512,657)	(512,657)
Total Step 1 Adjustment	<u>3,252,490</u>	<u>2,739,833</u>	<u>(512,657)</u>
Step 1 <i>Pro forma</i> Salaries & Wages Expense	<u>\$ 21,096,984</u>	<u>\$ 20,584,327</u>	<u>\$ (512,657)</u>
Step 2 Adjustments			
Base Wages Existing Positions	\$ 724,564	\$ 724,564	\$ -
Annual Performance Plan	91,878	91,878	-
Long-Term Performance Plan	7,636	7,636	-
Overtime	109,879	109,879	-
New Positions Wages	289,132	289,132	-
Adjustment for vacant positions	-	(304,257)	(304,257)
Total Step 2 Adjustment	<u>1,223,089</u>	<u>918,832</u>	<u>(304,257)</u>
Step 2 <i>Pro forma</i> Salaries & Wages Expense	<u>\$ 22,320,073</u>	<u>\$ 21,503,159</u>	<u>\$ (816,914)</u>

5 **Q: Does Petitioner's proposal include additional employees?**

6 A: Yes. Petitioner proposes the addition of 46 new employees in this cause. In response
 7 to OUC DR 15-30, Part 5, Petitioner states "the vacancy and posted positions
 8 calculation was performed assuming 41 positions would be filled in 2023 and 5 in

1 2024. The 5 positions in 2024 should be 4 as the Supervisor Lead Services &
2 Compliance is being filled this year 2023.” (See Attachment TWM-1 - Petitioner’s
3 response to OUCC Data Request No. 15-30.) This results in a total of 46 new
4 positions being added between 2023 and 2024.

B. OUCC Recommendations

5 **Q: Does the OUCC accept Petitioner’s increase to salaries and wages expense?**

6 A: No. Petitioner failed to make an adjustment for expected position vacancies. The
7 OUCC accepts Petitioner’s adjustments to salaries and wages expense for Step 1
8 and Step 2. The OUCC also accepts the increase resulting from the addition of 46
9 new employees proposed in this cause. However, Petitioner made no adjustment
10 for perpetual vacant positions.

11 Through the normal course of business, Petitioner, like other large
12 employers, will continue to have vacancies. Petitioner has requested funding from
13 ratepayers for all positions, although a level of positions have historically remained
14 vacant. Petitioner did not have full employment through the base period or
15 verifiable link period. But Petitioner, nonetheless, projects to have full employment
16 of 408 employees by the end of the test year. (See Attachment TWM-2 - Petitioner’s
17 response to OUCC Data Request No. 45-01.) Ratepayers should not have to bear
18 the cost of an expense that Petitioner is not likely to incur. It may be Petitioner’s
19 intent to be fully staffed. However, the reality is that 100% staffing is not realistic.
20 Therefore, it would be imprudent to include the full salaries and wages for all
21 positions in Petitioner’s rate requirement.

1 **Q: What salaries and wages expense adjustment does the OUCC propose?**

2 A: The OUCC recommends a Step 1 increase of \$2,739,833 to base period salaries and
3 wages expense of \$17,844,494 yielding Step 1 *pro forma* salaries and wages
4 expense of \$20,584,327. The OUCC's recommendation includes a \$512,657
5 downward adjustment for vacant positions in Step 1, as discussed below.

6 The OUCC recommends a Step 2 increase of \$918,832 to Step 1 *pro forma*
7 salaries and wages expense of \$20,584,327 yielding Step 2 *pro forma* salaries and
8 wages expense of \$21,503,159. See Table 1, above. The OUCC's recommendation
9 includes a \$304,257 downward adjustment for vacant positions in Step 2, as
10 discussed below.

11 **Q: Please explain the methodology used in creating the OUCC's adjustment for**
12 **vacant positions.**

13 A: Petitioner's employment history demonstrates it has vacant positions and, as such,
14 it should not be permitted to assume there will be no vacant positions in the future
15 in its revenue requirements. Petitioner should be expected to have vacant or
16 unfilled positions at any time during its operations. To estimate Petitioner's vacant
17 positions (vacancy rate) I used historical data of Petitioner's past vacancy rates
18 (Attachment TWM-3 - Petitioner's response to OUCC Data Request No. 13-18)
19 and full-time employee equivalents (as reported on Petitioner's Annual Report to
20 the IURC) for the past ten years to calculate the expected percentage of vacancies.

21 **Q: Please explain how you determined a rate for vacant positions.**

22 A: I first used Petitioner's vacancies and number of full-time equivalents on December
23 31 for the years 2013 through 2022. See Table 2, below. I then divided the number
24 of vacancies by the number of full-time equivalents for each year to calculate a

1 vacancy percentage. I then averaged the vacancy percentage for all years, 2013 –
2 2022 to arrive at the average vacancy rate of 3.66%. Applying the historical
3 vacancy rate to its total employment indicates an average vacancy of 14.93
4 positions. To calculate the reduction in salaries and wages expense for vacant
5 positions I applied the vacancy rate to each step.

6 **Q: How did you apply the vacancy rate for each Step?**

7 A: Petitioner's proposal for Step 1 acknowledged it would have five positions that were
8 vacant, which understated vacancies based on its history of vacant positions.
9 Therefore, I reduced Petitioner's Salaries and Wages by 2.43%, which is the
10 difference between the 1.23% vacancy (five positions) Petitioner acknowledged for
11 Step 1 and the historical vacancy rate of 3.66%. For Step 2, Petitioner assumed full
12 employment of all 408 positions without any position vacancies. Therefore, I
13 multiplied the cost of 408 positions by the 3.66% historical vacancy rate to
14 determine the downward adjustment for Step 2.

15 **Q: How did you calculate your adjustment?**

16 A: For Step 1 I multiplied Petitioner's *pro forma* salaries and wages expense of
17 \$21,096,984 by 2.43% to calculate a Step 1 decrease of \$512,657 ($\$21,096,984 * 2.43\% = \$512,657$) See Table 1, above. In Step 2 I multiplied Petitioner's *pro forma*
18 salaries and wages expense (\$22,320,073) as of 4/30/2025 by the average vacancy
19 rate of 3.66% to calculate a decrease of \$816,914 ($\$22,320,073 * 3.66\% =$
20 \$816,914), a portion of the Step 2 decrease is offset by the Step 1 reduction
21 (\$512,657) to calculate the Step 2 adjustment for vacant positions of \$304,257. See
22 Table 1, above.
23

Table 2: Vacancy Rate Calculation

Year	Full-Time Equivalent	Vacancy	Vacancy Percentage
2013	343	17	5%
2014	342	11	3%
2015	392	11.5	3%
2016	355	-7	-2%
2017	355	9	3%
2018	360	-2	-1%
2019	370	16	4%
2020	378	16	4%
2021	381	30	8%
2022	385	35	9%
		13.65	3.66%

C. Labor Capitalization

1 **Q: Does the labor expense presented above capture all labor costs?**

2 A: No.

3 **Q: Does Petitioner have additional capitalized labor costs associated with capital**
4 **projects?**

5 A: Yes. In the base period Petitioner capitalized <CONFIDENTIAL> [REDACTED]

6 <CONFIDENTIAL> of labor cost in addition to \$17,844,494 labor expense for a

7 total base period labor cost of <CONFIDENTIAL> [REDACTED]

8 <CONFIDENTIAL>. See Table 3, below.

<CONFIDENTIAL> Table 3: Labor Cost Breakdown

	Labor Expense	Confidential Capitalized Labor	Confidential Total Labor
Base Period	17,844,494		
Step 2	22,320,073		

<CONFIDENTIAL>

III. PAYROLL TAXES

A. Overview of Indiana American’s Proposal

- 1 **Q: What total amount of payroll taxes expense does Petitioner propose?**
 2 A: In its updated filing dated June 6, 2023, Petitioner proposed a Step 1 increase of
 3 \$253,597 to base period payroll taxes expense of \$1,326,838 for a Step 1 *pro forma*
 4 amount of \$1,580,435. Petitioner proposed a Step 2 increase of \$116,192 to Step
 5 1 *pro forma* payroll tax expense of \$1,580,435 yielding Step 2 *pro forma* payroll
 6 taxes expense of \$1,696,627.

B. OUCR Recommendations

- 7 **Q: Does the OUCR accept Petitioner’s increase to payroll taxes expense?**
 8 A: No. In conjunction with the reduction to salaries and wages expense proposed by
 9 the OUCR above, I recommend a corresponding reduction to payroll taxes expense.
 10 **Q: What payroll taxes expense adjustment does the OUCR recommend?**
 11 A: The OUCR recommends a Step 1 increase of \$214,379 to base period payroll taxes
 12 expense of \$1,326,838 yielding Step 1 *pro forma* group insurance expense of

1 \$1,541,217, which is \$39,218 less than that proposed by Petitioner ($\$512,657 * 7.65\% = \$39,218$). The OUCC recommends a Step 2 increase of \$92,916 to Step
2
3 1 *pro forma* payroll taxes expense of \$1,541,217 yielding Step 2 *pro forma* group
4 insurance expense of \$1,634,133, which is \$23,276 less than that proposed by
5 Petitioner ($\$304,257 * 7.65\% = \$23,276$).

IV. GROUP INSURANCE

A. Overview of Indiana American's Proposal

6 **Q: What level of group insurance expense does Petitioner propose in this cause in**
7 **total?**

8 A: In its updated filing dated June 6, 2023, Petitioner proposes a Step 1 increase of
9 \$912,777 to base period group insurance expense of \$3,809,310 for a Step 1 *pro*
10 *forma* amount of \$4,722,087. Petitioner proposes a Step 2 increase of \$312,265 to
11 Step 1 *pro forma* group insurance expense of \$4,722,087 yielding Step 2 *pro forma*
12 group insurance expense of \$5,034,352.

13 **Q: What are each of the *pro forma* adjustments Petitioner proposes to base period**
14 **group insurance expense?**

15 A: In Step 1 Petitioner proposes a \$377,382 increase in group insurance expense for
16 existing positions and a \$575,395 increase for its new positions. In Step 2 Petitioner
17 proposes a \$274,192 increase in group insurance expense for existing positions and
18 an increase of \$38,073 for its new positions. See Table 4, below.

B. OUCC Recommendations

1 **Q: Does the OUCC accept Petitioner's increase to group insurance expense?**

2 A: No. As with the salaries and wages adjustment the OUCC accepts the adjustments
3 Petitioner made to group insurance. However, Petitioner did not make an
4 adjustment for vacant positions.

5 **Q: What group insurance expense adjustment does the OUCC recommend?**

6 A: The OUCC recommends a Step 1 increase of \$798,030 to base period group
7 insurance expense of \$3,809,310 yielding Step 1 *pro forma* group insurance
8 expense of \$4,607,340. The OUCC recommends a Step 2 increase of \$242,755 to
9 Step 1 *pro forma* group insurance expense of \$4,607,340 yielding Step 2 *pro forma*
10 group insurance expense of \$4,850,095. (See Table 4 below)

11 **Q: Please explain the OUCC's adjustment to group insurance expense for vacant**
12 **positions.**

13 A: Reflecting the vacancies based on the historically average vacancy rates, I made the
14 same adjustments to group insurance expense for Step 1 and Step 2 (Step 1: 2.43%
15 and Step 2: 3.66%). For Step 1 I multiplied the group insurance expense of
16 \$4,722,087 (total group insurance expense before reduction) by 2.43% (3.66%
17 average vacancy rate – 1.23%) to calculate the adjustment for vacant positions of
18 (\$114,747) ($\$4,722,087 * -2.43\% = (\$114,747)$) see Table 4, below. For Step 2 I
19 multiplied the group insurance expense of \$5,034,352 (total group insurance
20 expense before reduction) by the average vacancy rate of 3.66% to calculate the
21 adjustment for vacant positions of (\$184,257) ($\$5,034,352 * -3.66\% = (\$184,257)$)
22 this decrease is offset by the Step 1 reduction (\$114,747) to calculate the Step 2
23 adjustment for vacant positions of (\$69,510) see Table 4, below.

Table 4: Comparison of Group Insurance Adjustment

	Petitioner	OUCC	OUCC More (Less)
Base Year	\$ 3,809,310	\$ 3,809,310	-
Adjustments			
Existing Positions	337,382	337,382	-
New Positions	575,395	575,395	-
Adj for vacant positions	-	(114,747)	(114,747)
Total Step 1 Adjust	<u>912,777</u>	<u>798,030</u>	<u>(114,747)</u>
Step 1 <i>Pro forma</i> Group Insurance Expense	<u>\$ 4,722,087</u>	<u>\$ 4,607,340</u>	<u>(114,747)</u>
Adjustments			
Existing Positions	274,192	274,192	-
New Positions	38,073	38,073	-
Adj for vacant positions	-	(69,510)	(69,510)
Total Step 1 Adjust	<u>312,265</u>	<u>242,755</u>	<u>(69,510)</u>
Step 2 <i>Pro forma</i> Group Insurance Expense	<u>\$ 5,034,352</u>	<u>\$ 4,850,095</u>	<u>\$ (184,257)</u>

V. OTHER BENEFITS**A. Overview of Indiana American's Proposal**

1 **Q: What level of other benefits expense does Petitioner propose in this cause in**
2 **total?**

3 A: In its updated filing dated June 6, 2023, Petitioner proposes a Step 1 increase of
4 \$452,448 to base period other benefits expense of \$1,290,321 for a Step 1 *pro forma*
5 amount of \$1,742,769. Petitioner proposes a Step 2 increase of \$94,817 to Step 1

1 *pro forma* other benefits expense of \$1,742,769 yielding Step 2 *pro forma* other
2 benefits expense of \$1,837,586.

3 **Q: What are each of the *pro forma* adjustments Petitioner proposes to base period**
4 **other benefits expense?**

5 A: In Step 1 Petitioner proposes a \$30,071 increase to 401(k) expense, a \$270,441
6 increase to defined contribution plan (DCP) expense, a reduction of \$7,156 to
7 employee stock purchase plan expense (ESPP), a \$21,499 increase to Voluntary
8 Employee Benefits Association (VEBA) expense, a \$928 increase for additional
9 miscellaneous benefits for existing positions, and a \$136,665 increase for additional
10 miscellaneous benefits for new positions. (See Table 5 below)

11 In Step 2 Petitioner proposes a \$92,229 increase to 401(k) expense, a
12 \$97,197 increase to DCP expense, a \$14,301 increase to ESPP expense, a \$9,820
13 increase to VEBA expense, a \$97 decrease to existing positions, and a \$118,633
14 decrease to new positions.

Table 5: Comparison of Other Benefits Expense Adjustment

	Petitioner	OUCC	OUCC More (Less)
Base Year	\$ 1,290,321	1,290,321	-
Step 1			
Adjustments			
401K	30,071	30,071	-
DCP	270,441	270,441	-
ESPP	(7,156)	(7,156)	-
VEBA	21,499	21,499	-
Existing Positions	928	928	-
New Positions	136,665	117,894	(18,771)
Adj for vacant positions	-	(41,885)	(41,885)
Total Step 1 Adjust	<u>452,448</u>	<u>391,792</u>	<u>(60,656)</u>
<i>Pro forma</i> Other Benefits Expense	<u>\$ 1,742,769</u>	<u>\$ 1,682,113</u>	<u>\$ (60,656)</u>
Step 2			
Adjustments			
401K	\$ 92,229	89,603	(2,626)
DCP	97,197	97,197	-
ESPP	14,301	13,229	(1,072)
VEBA	9,820	9,820	-
Existing Positions	(97)	(97)	-
New Positions	(118,633)	(118,633)	-
Adj for vacant positions	-	(24,544)	(24,544)
Total Step 2 Adjustment	<u>94,817</u>	<u>66,575</u>	<u>(28,242)</u>
<i>Pro forma</i> Other Benefits Expense	<u>\$ 1,837,586</u>	<u>\$ 1,748,688</u>	<u>\$ (88,898)</u>

B. OUCC Recommendations

1 **Q: Does the OUCC accept Petitioner's increase to other benefits expense?**

2 A: No. The OUCC accepts some, but not all, of Petitioner's proposed adjustments
3 while adding an adjustment for vacant positions. The OUCC accepts the
4 Petitioner's Step 1 adjustments to 401(k) expense, DCP expense, ESPP expense,
5 VEBA expense, and other benefits expense associated with existing positions.
6 However, the OUCC does not accept Petitioner's Step 1 adjustments for new
7 positions 401(k) and ESPP expense. For Step 2, the OUCC also accepts
8 Petitioner's Step 2 adjustments to DCP expense, VEBA expense, and existing
9 positions. However, the OUCC does not accept Petitioner's Step 2 adjustments to
10 401(k) expense and ESPP expense. The Step 2 401(k) and ESPP expense is
11 associated with new positions in this cause. Furthermore, as with the other
12 benefits adjustment, Petitioner made no adjustment to other benefits expense
13 for vacant positions. The OUCC's recommendations for Step 1 and Step 2
14 new employee 401(k) and new employee ESPP expense along with the
15 adjustments for vacant positions is discussed below.

16 **Q: What other benefits expense adjustment does the OUCC recommend?**

17 A: The OUCC recommends a Step 1 increase of \$391,792 to base period other benefits
18 expense of \$1,290,321 yielding Step 1 *pro forma* other benefits expense of
19 \$1,682,113. The OUCC recommends a Step 2 increase of \$66,575 to Step 1 *pro*
20 *forma* other benefits expense of \$1,682,113 yielding Step 2 *pro forma* other
21 benefits expense of \$1,748,688. See Table 5, above.

1. New Employee 401(k) Expense

1 **Q: What level of 401(k) expense does Petitioner propose for the new positions?**

2 A: Petitioner proposes Step 1 new employee 401(k) expense of \$95,145 and Step 2
3 new employee 401(k) expense of \$18,757.

4 **Q: Please explain how Petitioner calculated 401(k) expense for new positions**

5 A: Petitioner correctly multiplied the company's 401(k) rate by the salary of each new
6 position. Petitioner then summed the employer expense for each position to
7 calculate the total new employee 401(k) expense for each Step.

8 **Q: Does the OUCC accept Petitioner's adjustment for 401(k) new employee**
9 **expense?**

10 A: No. Petitioner calculated its proposal for new employee 401(k) expense assuming
11 100% participation rate of the employees added in this cause. Based on Petitioner's
12 response to OUCC DR 36-04 (Attachment TWM-4 – Petitioner's response to
13 OUCC Data Request No. 36-4) its five-year average 401(k) participation rate is
14 86% (See Table 6 below). Petitioner overstated new employee 401(k) expense by
15 assuming 100% participation rate.

Table 6: Petitioner's 401(k) Participation

<u>Year</u>	<u>Participation Rate</u>
2018	80%
2019	85%
2020	87%
2021	89%
2022	88%
5yr Avg. Participation	86%

1 **Q: What level of 401(k) expense does the OUCC recommend for the new**
2 **positions?**

3 A: The OUCC recommends Step 1 new employee 401(k) expense of \$81,826 (\$95,145
4 * 86% = \$81,826), which is \$13,319 less than that requested by Petitioner. The
5 OUCC proposes Step 2 new employee 401(k) expense of \$16,131 (\$18,757 * 86%
6 = \$16,131), which is \$2,626 less than Petitioner's request.

2. New Employee ESPP

7 **Q: What level of new employee ESPP expense does Petitioner propose?**

8 A: Petitioner proposes Step 1 new employee ESPP expense of \$8,654 and Step 2 new
9 employee ESPP expense of \$10,355.

10 **Q: Please explain how Petitioner calculated ESPP expense for new positions.**

11 A: Petitioner correctly multiplied the company's ESPP rate by the salary of each new
12 positions. Petitioner then summed the employer expense for each position to
13 calculate the total new employee ESPP expense for each Step.

14 **Q: Does the OUCC accept Petitioner's adjustment for ESPP new employee**
15 **expense?**

16 A: No. Petitioner calculated its proposal for new employee ESPP expense assuming
17 100% participation rate of the employees added in this cause. Based on Petitioner's
18 response to OUCC DR 36-03 (Attachment TWM-5 – Petitioner's response to
19 OUCC Data Request No. 36-3) its five-year average ESPP participation rate is 37%
20 (See Table 7). Thus, Petitioner overstated new employee ESPP expense by
21 assuming 100% participation rate.

Table 7: Petitioner's ESPP Participation

<u>Year</u>	<u>Participation Rate</u>
2018	30%
2019	37%
2020	41%
2021	39%
2022	36%
5yr Avg. Participation	37%

1 **Q: What level of ESPP expense does the OUCC recommend for the new**
2 **positions?**

3 A: The OUCC recommends Step 1 new employee ESPP expense of \$3,202 ($\$8,654 * 37\% = \$3,202$), which is \$5,452 less than Petitioner's request. The OUCC proposes
4 Step 2 new employee ESPP expense of \$629 ($\$1,701 * 37\% = \629.37), which is
5 \$1,072 less than Petitioner's request.
6

3. OUCC Recommendations

7 **Q: Please summarize the OUCC recommendations for Petitioner's other benefits**
8 **expense?**

9 A: Based on the above analysis the OUCC recommends a Step 1 increase of \$391,792
10 to base period other benefits of \$1,290,321 for a Step 1 *pro forma* amount of
11 \$1,682,113. The OUCC recommends a Step 2 increase of \$66,575 to Step 1 *pro*
12 *forma* present rates other benefits expense of \$1,682,113 yielding Step 2 *pro forma*
13 present rates other benefits expense of \$1,748,688.

VI. CONTRACT SERVICES

A. Overview of Indiana American's Proposal

1 **Q: What level of contract services expense did Indiana American propose in**
2 **total?**

3 A: In its initial filing, Indiana American proposed a Step 1 increase of \$3,933,528 to
4 base year contract services expense of \$1,945,675 yielding Step 1 *pro forma*
5 contract services expense of \$5,879,203.

6 Indiana American proposed a Step 2 increase of \$375,656 to Step 1 *pro*
7 *forma* contract services expense of \$5,879,203 yielding Step 2 *pro forma* contract
8 services expense of \$6,257,034.

9 On June 6, 2023, Indiana American amended its filing and proposed a Step
10 1 increase of \$3,860,017 to base year contract services expense of \$1,945,675
11 yielding Step 1 *pro forma* contract services expense of \$5,805,692.

12 Indiana American proposed a Step 2 increase of \$375,093 to Step 1 *pro*
13 *forma* contract services expense of \$5,805,692 yielding Step 2 *pro forma* contract
14 services expense of \$6,180,785.

15 **Q: Please explain how Petitioner calculated its adjustment to contract services**
16 **expense.**

17 A: Petitioner proposes three Step 1 adjustments to base year contract services expense.
18 The first was a \$71,930 decrease for the removal of lobbying expense. The second
19 adjustment was a \$3,890,759 increase for additional contracted line locates. The
20 third adjustment was a \$41,188 increase for inflation. This yields a total Step 1
21 increase to contractual services of \$3,860,017.

1 Petitioner proposes two Step 2 adjustments to Step 1 *pro forma* contract
2 services expense. The first adjustment was a \$303,771 increase for additional
3 contracted line locates. The second adjustment was a \$71,322 increase for inflation.
4 This yields a total Step 2 increase to contractual services of \$375,093.

5 **Q: Did Petitioner perform any analysis comparing the cost of contracting locates**
6 **versus self-performing?**

7 A: No. In response to OUCC DR 7-49 Petitioner stated in part “Indiana American does
8 not have analysis comparing the costs of contracting locates versus self –
9 performing due to the fact the decision to contract out was also highly based on the
10 seasonality of the locating work and the amount of other work to be completed.”
11 (See Attachment TWM-6 – Petitioner’s response to OUCC Data Request No. 7-49)

B. OUCC Recommendations

12 **Q: Do you accept Petitioner’s contract services adjustments?**

13 A: No. The OUCC accepts some, but not all, of Petitioner’s adjustments. The OUCC
14 accepts Petitioner’s Step 1 adjustments to remove lobbying expense of \$71,930 and
15 its adjustment adding \$42,769 to account for inflation. The OUCC also accepts
16 Petitioner’s Step 2 inflation adjustment. However, the OUCC recommends denial
17 of Petitioner’s proposed Step 1 and Step 2 adjustments for contracted line locates.

18 **Q: Why do you disagree with Petitioner’s proposed adjustment for line locates?**

19 A: Petitioner made no reduction to any other expense in this cause to offset the \$4.2
20 million total increase to contract services expense for additional contracted services
21 to perform line locates. Petitioner proposed no adjustments to reduce overtime or

1 wages that would not be needed for those line locates which would be performed
2 through contract services.

3 The OUCC also does not accept Petitioner's proposed increase because
4 there is no assurance the funds will be used for the intended purpose. As stated
5 later in my testimony, Petitioner, in its last rate case (Cause No. 45142), proposed
6 and received approval for \$507,528 of funds in for "additional contracted line
7 locates," yet no locates were performed by outside vendors.

8 Petitioner did not incur any base period expense for contracted line locates,
9 nor any time since. Moreover, Petitioner made no effort to outsource line locates
10 since Petitioner's self-imposed deferral of "non-essential frontline service work"
11 had ended¹ in December of 2021.

12 In response to OUCC DR 36-06, "With regards to Petitioner's response to
13 OUCC DR 7-46, please state the number of "Cleared" and "Marked" line locates,
14 respectively, performed for Petitioner by an outside vendor for each of the years
15 2016 – 2022" Petitioner responded, "None of Indiana American locates have been
16 done by an outside vendor."

17 Petitioner did not outsource line locates before, during, or after its self-
18 imposed deferral of "non-essential frontline service work" from March 2020
19 through December 2021². There was no requirement or mandate for utilities to use
20 employees, and not contractors, for line locates during the pandemic. Petitioner has

¹ Kari C. Britto, Direct testimony page 31, line 17 to page 32, line 6

² *Id.*

1 not sufficiently justified its failure to implement its prior proposal and request to
2 use additional contract services for performance of line locates.

3 Petitioner also failed to provide sufficient justification for this proposed
4 adjustment. It is unclear from INAWC's testimony and supporting schedules to
5 what extent line locates will be performed by contractors, instead of employees, or
6 whether these costs have been double counted in Petitioner's proposals. Because
7 Petitioner did not support its proposed adjustment, I recommend the Commission
8 reject the adjustment for contract services line locates.

9 **Q: Has Petitioner proposed to outsource line locates in the past?**

10 A: Yes. In its previous rate case, Cause No. 45142, Petitioner requested \$1,015,028
11 for additional contracted line locates. Through settlement the parties agreed that
12 Petitioner would receive \$507,528 for additional contracted line locates.

13 Petitioner received a revenue requirement in its last rate case that was
14 specifically for line locates. Petitioner has not outsourced any line locates since the
15 final order in Cause No. 45142. Petitioner was the only party in control of the funds
16 received through rates and therefore had the ability to outsource line locates if
17 desired. Petitioner did not acknowledge in testimony that this request was made in
18 the last rate case. Further, Petitioner made no explanation as to why this was not
19 completed.

20 **Q: What *pro forma* contract services expense do you recommend?**

21 A: I propose a Step 1 decrease of \$30,742 to base year contract services expense of
22 \$1,945,675, yielding Step 2 *pro forma* contract services expense of \$1,914,933.

1 I propose a Step 2 increase of \$71,322 to Step 1 *pro forma* contract services expense
 2 of \$1,914,933, yielding Step 1 *pro forma* contract services expense of \$1,986,255.
 3 (See Table 8 below.)

Table 8: Contract Services Expense Comparison

	Petitioner Proposed	OUCC Proposed	OUCC More (Less)
Base Year Contract Services as of 9/30/2022:	\$1,945,675	\$1,945,675	-
Detail of Adjustments to Contract Services Expense:			
Removal of Lobby Expense	(71,930)	(71,930)	-
Additional Contracted Line Locates	3,890,759	-	(3,890,759)
Adjustment for Inflation	41,188	41,188	-
Total Pro Forma Adjustment	<u>3,860,017</u>	<u>(30,742)</u>	<u>(3,890,759)</u>
Step 1 <i>Pro Forma</i> Contract Services Expense:	<u>\$5,805,692</u>	<u>\$1,914,933</u>	<u>(3,890,759)</u>
Detail of Adjustments to Contract Services Expense:			
Additional Contracted Line Locates	303,771	-	(303,771)
Adjustment for Inflation	71,322	71,322	-
Total Pro Forma Adjustment	<u>375,093</u>	<u>71,322</u>	<u>(303,771)</u>
Step 2 <i>Pro Forma</i> Contract Services Expense:	<u>\$6,180,785</u>	<u>\$1,986,255</u>	<u>(\$4,194,530)</u>

VII. CHEMICAL EXPENSE

4 **Q: What level of chemical expense did Indiana American propose?**
 5 A: In its initial filing, Indiana American proposed a Step 1 increase of \$2,573,775 to
 6 base year chemical expense of \$3,719,112 yielding Step 1 *pro forma* chemical
 7 expense of \$6,292,887. Indiana American proposed a Step 2 increase of \$348,813

1 to Step 1 *pro forma* chemical expense of \$6,292,887 yielding Step 2 *pro forma*
2 chemical expense of \$6,641,700.

3 On June 6, 2023, Indiana American amended its filing and proposed a Step
4 1 increase of \$2,981,484 to base year chemical expense of \$3,719,112 yielding Step
5 1 *pro forma* chemical expense of \$6,700,596. In its updated filing Indiana American
6 proposed a Step 2 increase of \$2,426,941 yielding Step 2 *pro forma* chemical
7 expense of \$9,127,537.

8 **Q: What reason did Petitioner provide for updating and increasing its chemical**
9 **expense adjustments in Steps 1 and 2?**

10 A: Petitioner stated there was a “Conversion Error in calculation historic base period
11 usage (quantity) and forecasted usage” and stated “In light of the transition from
12 gaseous chlorine to liquid chlorine (sodium hypochlorite) and the difference in the
13 amount chemical utilized in the treatment process [sic]. Indiana Plant average
14 monthly usages for Southern, Northwest, Johnson County, Shelbyville, Terre
15 Haute, and Noblesville with the 2024 conversions were revised using 10 times the
16 gaseous chlorine usage to the existing sodium hypochlorite usage starting in 2024.”
17 See Petitioner’s Second Submission of Corrections to Direct Testimony and
18 Exhibits, Appendix A.

19 **Q: Does the OUCC accept Indiana American’s adjustment to chemical expense?**

20 A: Yes. The OUCC accepts Indiana American’s updated adjustment to chemical
21 expense.

VIII. RECOMMENDATIONS

22 **Q: Please summarize your recommendations to the Commission.**

23 A: I recommend the Commission approve the following:

- 1 ▪ The OUCC's Step 1 *pro forma* salaries and wages expense of \$20,584,327
- 2 and Step 2 *pro forma* salaries and wages expense of \$21,503,159.
- 3 ▪ The OUCC's Step 1 *pro forma* group insurance expense of \$4,607,340 and
- 4 Step 2 *pro forma* group insurance expense of \$5,218,609.
- 5 ▪ The OUCC's Step 1 *pro forma* other benefits expense of \$1,682,113 and
- 6 Step 2 *pro forma* other benefits expense of \$1,748,688.
- 7 ▪ The OUCC's Step 1 *pro forma* contract services expense of \$1,914,933 and
- 8 Step 2 *pro forma* contract services expense of \$1,986,255.
- 9 ▪ Petitioner's Step 1 *pro forma* chemical expense of \$6,700,596 and Step 2
- 10 *pro forma* chemical expense of \$9,127,537.

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

12 **A: Yes.**

APPENDIX A - QUALIFICATIONS

1 **Q: Please describe your educational experience.**

2 A: In December of 2002 I received a Bachelor's degree in Business Administration
3 focusing in Accounting from Indiana University Kelley School of Business. In
4 December of 2012 I received my Master of Science in Accounting from Indiana
5 University Kelley School of Business, Indianapolis Indiana.

6 **Q: Please describe your professional experience.**

7 A: I was hired as a Utility Analyst in Water / Wastewater division of the OUCC on
8 April 30, 2018. Prior to being hired by the OUCC, I was the controller of All Trades
9 Staffing. I have over fifteen years of accounting experience. I worked for several
10 years as a Financial Analyst in the insurance and healthcare industries. I have
11 participated in conferences and seminars regarding utility regulation, rate making
12 and financial issues. I have completed the National Association of Regulatory
13 Utility Commissioners (NARUC) Eastern Utility Rate School. I also regularly
14 attend the National Association of State Utility Consumer Advocates (NASUCA)
15 Accounting and Tax committee monthly meetings.

16 **Q: Have you previously testified before the Indiana Utility Regulatory**
17 **Commission?**

18 A: Yes, I have testified before the Indiana Utility Regulatory Commission.

AFFIRMATION

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



By: Thomas W. Malan
Cause No. 45870
Office of Utility Consumer Counselor (OUCC)

Date: July 21, 2023

OUCG 15-030

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45870

Information Requested:

Please list each position Petitioner proposes to add through April 30, 2025, including the following information each new position proposed: (1) job title; (2) description of job duties; (3) business reason for adding position; (4) district; and (5) when Petitioner has projected each position will be filled (month and year).

Information Provided:

1. Please refer Direct Testimony of Kari C. Britto_Attachment KCB -1 for the positions proposing to be added with job titles.
2. Please see OUCG 15-030_Attachments 01 through 18 for job description information.
3. Please refer to Direct Testimony of Kari C. Britto_Attachment KCB-1 under the notes section for business reason of adding the position.
4. Please refer to Attachment KCB -1 for the positions proposing to be with region or district associated.
5. Please see the INAWC 2023 Rate Case - Labor and Related workpaper; the vacancy and posted positions calculation was performed assuming 41 positions would be filled in 2023 and 5 in 2024. The 5 positions in 2024 should be 4 as the Supervisor Lead Services & Compliance is being filled this year 2023.

The 44 positions referenced in the direct testimony of Ms. Britto were in reference to new positions, while the labor and related workpapers are the vacancies at that time.

Attachment:

OUCG 15-030_Attachment 01
OUCG 15-030_Attachment 02
OUCG 15-030_Attachment 03
OUCG 15-030_Attachment 04
OUCG 15-030_Attachment 05
OUCG 15-030_Attachment 06
OUCG 15-030_Attachment 07
OUCG 15-030_Attachment 08
OUCG 15-030_Attachment 09
OUCG 15-030_Attachment 10
OUCG 15-030_Attachment 11
OUCG 15-030_Attachment 12
OUCG 15-030_Attachment 13
OUCG 15-030_Attachment 14

OUCG 15-030_Attachment 15
OUCG 15-030_Attachment 16
OUCG 15-030_Attachment 17
OUCG 15-030_Attachment 18

OUCC 45-001

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45870

Information Requested:

In response to OUCC Data Request No. 13-18, Petitioner stated:

Please see the chart below for INAWC vacancies...The projections filed in the proceeding are not based on the budget, instead they are based on actual historical base year expenses (which already reflects vacancies) in addition to the new positions that are needed.

Based on the OUCC's review of Petitioner's "45870 CONFIDENTIAL INAWC 2023 Rate Case – Labor and Related.xlsx," tabs "Non-Union Workpaper" and "Union Workpaper," while the annualized 2022 vacant positions reflect no salary, vacancies are reflected as filled beginning in January 2023 through the end of the forward-looking test year.

Please explain specifically how Petitioner's historic level of vacancies are reflected in its labor projections in this case.

Information Provided:

Projections begin with historical base year dollars, which will reflect the fact that some of the positions were vacant during a portion of the base period. Those positions that were unfilled as of the end of the base period are assumed to be filled as a part of the build up of the forecast and are included in the 408 total full time equivalent employees discussed by Witness Britto.

OUCG 13-018

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45870

Information Requested:

Please state the number of vacant employment positions as of December 31 for each of the years during the period 2013 through 2022 broken down by union and non-union employees.

Information Provided:

Please see the chart below for INAWC vacancies. A detailed breakdown of union vs. non-union headcount is not available for the year 2013 – 2018, only final headcount vs budget numbers for that year. The projections filed in the proceeding are not based on the budget, instead they are based on actual historical base year expenses (which already reflects vacancies) in addition to the new positions that are needed.

Year	Vacancy	Union	Nonunion
2013	17	N/A	N/A
2014	11	N/A	N/A
2015	11.5	N/A	N/A
2016	-7	N/A	N/A
2017	9	N/A	N/A
2018	-2	N/A	N/A
2019	16	11	5
2020	16	10	6
2021	30	16	14
2022	35	18	17

OUCG 36-004

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45870

Information Requested:

Please state the percentage of employees participating in Petitioner's 401K plan for each of the years 2018 - 2022.

Information Provided:

Please see the chart below:

Year	% Indiana American Employees Participating in 401K
2018	80%
2019	85%
2020	87%
2021	89%
2022	88%

OUCG 36-003

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45870

Information Requested:

Please state the percentage of employees participating in Petitioner's ESPP for each of the years 2018 - 2022.

Information Provided:

Please see the chart below:

Year	% Indiana American Employees Participating in ESPP
2018	30%
2019	37%
2020	41%
2021	39%
2022	36%

OUCG 07-049

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45870

Information Requested:

Has Indiana American performed any analysis comparing the cost of contracting locates versus self-performing? If yes, please provide this analysis. If no, please explain how the decision was made.

Information Provided:

Indiana American does not have analysis comparing the costs of contracting locates versus self – performing due to the fact the decision to contract out was also highly based on the seasonality of the locating work and the amount of other work to be completed. The Company did not increase its employee count with field employees to keep up with the high demand of locates, service orders, cross connection audits, fire service audits, hydrant and valve maintenance, leak detection and other items. The Company analyzed the number of full-time employees it takes in order to locate full time and discussed if that amount of employees, if repurposed, would be sufficient to satisfy the employee staffing needs.

OUCC 36-006

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45870

Information Requested:

With regards to Petitioner's response to OUCC DR 7-46, please state the number of "Cleared" and "Marked" line locates, respectively, performed for Petitioner by an outside vendor for each of the years 2016 – 2022.

Information Provided:

None of Indiana American locates have been done by an outside vendor.