

ORIGINAL



STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
LAFAYETTE, INDIANA, FOR AUTHORITY TO)
ISSUE BONDS, NOTES, OR OTHER)
OBLIGATIONS, FOR AUTHORITY TO)
INCREASE ITS RATES AND CHARGES FOR)
WATER SERVICE, AND FOR APPROVAL OF A)
NEW SCHEDULE OF WATER RATES AND)
CHARGES APPLICABLE THERETO.)

CAUSE NO. 45006

APPROVED: MAY 16 2018

ORDER OF THE COMMISSION

Presiding Officers:

David Ziegner, Commissioner

Carol Sparks Drake, Administrative Law Judge

On November 8, 2017, the City of Lafayette, Indiana, (“Lafayette” or “Petitioner”) filed a Petition with the Indiana Utility Regulatory Commission (“Commission”) for approval of a new schedule of rates and charges for water service and issuance of up to \$19.8 million of water utility revenue bonds. Petitioner also prefiled on November 8, 2017, the direct testimony and exhibits of the following witnesses:

- Kerry J. Smith, Petitioner’s Water Utility Superintendent;
- Tony Roswarski, Lafayette’s Mayor;
- Dreama E. Doolittle, Executive Vice President of Wessler Engineering, Inc., and
- Jennifer Z. Wilson, Managing Director with Crowe Horwath, LLP.

Pursuant to Ind. Code § 8-1-2-61(b), the Commission held a public field hearing in this matter on February 7, 2018, at 6:00 p.m. at the Jefferson High School Auditorium, 1801 South 18th Street, Lafayette, Indiana.

The Indiana Office of Utility Consumer Counselor (“OUCC”) prefiled its case-in-chief on February 15, 2018. This included the direct testimony of the following employees within the OUCC’s Water/Wastewater Division:

- Richard J. Corey, Utility Analyst;
- Edward R. Kaufman, CRRA, Assistant Director; and
- James T. Parks, Utility Analyst II.

Lafayette and the OUCC (together, the “Parties”) prefiled their Joint Stipulation and Settlement Agreement (“Settlement Agreement”) and respective testimony in support of the Settlement Agreement on February 22, 2018. A Docket Entry was issued on March 8, 2018, requesting Petitioner to provide the amortization schedule supporting the Parties’ agreed debt

service. Petitioner on March 9, 2018, filed its response to the Docket Entry, providing the requested schedule.

A settlement hearing was held in this matter on March 15, 2018, at 9:30 a.m. in Hearing Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared by counsel at the hearing, and their evidence was admitted without objection.

Based upon applicable law and the evidence presented, the Commission finds:

1. **Notice and Jurisdiction.** Notice of the time and place of the hearing held in this Cause was given as required by law. Lafayette's water utility is a municipally owned utility, as defined in Ind. Code § 8-1-2-1(h), and as such, Petitioner is subject to the Commission's jurisdiction over changes to Petitioner's water utility rates and charges. Ind. Code § 8-1.5-3-8. In addition, Ind. Code § 8-1.5-2-19 requires the Commission's approval for Lafayette to issue debt to fund utility improvements when water utility assets or revenues are pledged as collateral. The Commission, therefore, has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner owns and operates plant and equipment for the production, transmission, and delivery of potable water to the public. Petitioner serves approximately 28,000 customers within and outside its municipal corporate limits, including one wholesale customer, the Town of Dayton. Petitioner's customer base includes residential, commercial, industrial, and other customers. Lafayette also provides public and private fire protection service and has approximately 3,360 fire hydrants.

Petitioner's existing rates and charges for water utility service were approved by the Commission in Cause No. 41845 on May 9, 2001, as modified by the Commission's Conference Minutes dated February 28, 2007, to add a fire protection surcharge. Petitioner's customer base has grown approximately 25% since its 2001 rate case.

3. **Requested Relief.** In Petitioner's case-in-chief, Petitioner requested approval of an across-the-board, approximately 51% rate increase in two phases. Petitioner also requested approval to issue waterworks revenue bonds in an amount not to exceed \$19.8 million to fund capital improvements to its system.

Pursuant to the Settlement Agreement, the Parties seek authorization for Petitioner to increase its rates and charges in two phases, with Phase I being an across-the-board increase of 32.76% to produce \$2,336,965 in additional annual operating revenue, to be effective upon issuance of the Order in this Cause. Phase II is to be effective January 1, 2019, and produce \$1,131,751 in additional annual operating revenue with an additional across-the-board increase of 11.95%. The Parties also agree that Petitioner should be authorized to issue water utility revenue bonds in a principal amount not to exceed \$19.8 million at interest rates not to exceed seven percent per annum.

4. **Test Year.** The test year selected for determining Petitioner's actual and pro forma operating expenses is the 12-months ended December 31, 2016, adjusted for changes that

are representative of future operations and sufficiently fixed, known, and measurable. The Commission finds the test year selected is sufficiently representative of Petitioner's normal operations to provide reliable data for ratemaking purposes.

5. Petitioner's Case-in-Chief. Mr. Smith, Petitioner's Water Utility Superintendent, provided an overview of Petitioner's plant, operations, and requested relief. He characterized the purpose of his direct testimony as supporting the proposed rate increase and Lafayette's related request to issue the Bonds to finance infrastructure improvements. He also provided background on Petitioner's water utility and its operations.

Mr. Smith testified that Petitioner last sought a general rate increase approximately 16 years ago in Cause No. 41845. The Order in Cause No. 41845, approved on May 9, 2001, authorized a 23% rate increase. Mr. Smith testified that the events of September 11, 2001, that occurred shortly after this rate increase exposed the vulnerability and risks associated with the operation of a water utility on federal, state, and local levels, prompting Lafayette to be proactive in risk management and to shift its spending priorities. To ensure continued delivery of safe drinking water with minimal disruption, Lafayette completed several key projects in lieu of the originally planned water tower and main replacement projects. The new projects included the elimination of dangerous gaseous chlorine at Petitioner's water treatment plants and the Columbian Park Booster Station by installing on-site sodium hypochlorite generation and feed equipment with back-up liquid chlorine feed equipment. Lafayette also installed security fencing and key card access to all facilities, plants, reservoirs, and water towers.

In addition, a new emergency generator facility was added at the Canal Road well field and at the Columbian Park Booster Station. Petitioner's SCADA system was upgraded for more accurate system monitoring and security. Mr. Smith stated that limited main replacements were completed, generally as either part of a larger infrastructure project or as a result of chronic pressure problems and recurrent main breaks. He testified that Lafayette continued to implement its metering program by regularly testing and changing out large and small meters and remote reading of large areas, reducing Petitioner's need to add staff for meter reading. Mr. Smith opined that Lafayette has prudently used any savings generated from delivery of capital improvements under budget or from unperformed capital projects identified in Cause No. 41845.

Mr. Smith testified that the proposed increase will provide the revenue necessary for Petitioner to undertake needed capital improvements that have arisen since Petitioner's last rate increase and cover increased operating costs. He noted that Lafayette has grown in the last 16 years, benefitting the system from a ratepayer standpoint, but this has placed increased strain on the system. Additional revenue is also needed to cover the rising costs of energy, chemicals, labor, insurance, and other costs, prompting Lafayette to seek increased rates to continue to supply its customers with safe, secure, and quality drinking water.

Mr. Smith generally described the process Petitioner undertook to determine which capital projects to include in this rate increase. Using a full system hydraulic model and an asset management evaluation of the system, Wessler Engineering, Inc. ("Wessler") and Lafayette established a Business Risk Exposure ("BRE") rating for the process assets and a priority decision matrix for the distribution system. The priority decision matrix scores projects based on

a BRE rating, number of lead service lines, water quality from dead end mains, available fire flow, and planned road work. Mr. Smith deferred to Ms. Doolittle for additional discussion of this scoring and its results.

Mr. Smith testified that Petitioner made numerous outreach efforts to its ratepayers and the public to explain the proposed rate increase. Lafayette's City Council held a public hearing on the rate ordinance on November 6, 2017, to hear ratepayer issues or concerns. Lafayette also made targeted customer contacts with its 16 largest customers and the Town of Dayton and met with the OUCC before filing its Petition.

Finally, Mr. Smith addressed several issues from Cause No. 41845, including providing the capital project reconciliation and an explanation of why the County Road 430 South Storage Tower that was proposed in Cause No. 41845 was not constructed. Mr. Smith testified that funds earmarked for the County Road 430 South Storage Tower were, instead, spent on projects to reduce Lafayette's vulnerable assets. He also supported the requested issuance of \$19.8 million in water utility revenue bonds to help finance capital improvement projects that are reasonable and necessary for Lafayette's water utility to continue providing safe and reliable water service.

Petitioner's elected Mayor, Tony Roswarski, also testified in support of the proposed rate increase, noting that he believes it is important for the Commission to know that Lafayette's chief executive, its elected officials, and its staff have been engaged in the process leading up to this filing and carefully considered the level of rate relief requested. Mayor Roswarski testified that Petitioner seeks a two-phased rate increase, with the first phase being a 35.98% increase and the second phase an 11.04% increase. The Mayor sponsored a copy of the Lafayette City Council's ordinances approving the proposed phased rate increase and issuance of the waterworks revenue bonds. Mayor Roswarski testified the requested rate increase and debt issuance are reasonable.

Mayor Roswarski explained how Lafayette has grown and expanded since its last rate increase. From a population perspective, Lafayette grew 19% between official decennial census publications (2000 – 2010) and another 7% since then based on recent estimates. Tippecanoe County has experienced similar growth, having grown 20% in the last 17 years. Petitioner's water utility serves many customers and industries inside and outside Lafayette's municipal boundaries. Mayor Roswarski stated that Lafayette has benefited from multiple expansions of Subaru of Indiana Automotive, along with new suppliers locating in the area. He testified that Petitioner has been able to maintain its rates at their current levels for so long because of the growth these companies prompted and Lafayette's expanding population, but Lafayette now needs to make substantial investments in its existing infrastructure and plan for future infrastructure needs to support residents, businesses, and the community.

Mayor Roswarski testified that safe, reliable, and adequate water supply is a basic building block for Lafayette's growth and is required to support the economic and population growth Lafayette is experiencing. The Mayor testified that Lafayette needs to invest in its water utility by replacing infrastructure that has reached the end of its useful life, by constructing infrastructure allowing a resilient water supply, and by developing a water utility system capable of serving the reasonably anticipated growth in Lafayette's service area. To that end, Mayor

Roswarski testified the requested rate relief will satisfy Lafayette's short-term and long-term needs for water utility improvements, will support continued excellent service to existing customers, and will position Lafayette for further growth and development.

From the Mayor's perspective, the requested rate increase will allow Lafayette to maintain a fiscally sustainable water utility and a safe and reliable water supply, undertake capital improvements needed to support growth and expansion, and replace infrastructure that has reached the end of its useful life. The Mayor testified that having a water utility that maintains adequate revenues to provide a safe, secure, and reliable supply of drinking water is a critical public policy goal. Mayor Roswarski testified that no one likes to increase rates, but the requested increases are necessary to provide revenues that allow for investment in needed infrastructure. Mayor Roswarski stressed the importance of Petitioner investing in its infrastructure and testified the rate increase will enable Petitioner to satisfy short- and long-term water utility investment needs, continue excellent service to its customers, and accommodate Lafayette's future growth and economic development. The Mayor testified that Lafayette's proactive approach to replacing aging infrastructure ensures Lafayette's water utility is not reactionary and focuses its energy on avoiding future problems rather than dealing with a constant flurry of emergency repairs.

Mayor Roswarski testified that he believes the proposed rate increase is reasonable. He stated that because Lafayette's water utility rates are some of the lowest in Indiana, the percentage increase is somewhat deceiving. According to the Mayor, the absolute dollar value increase for a 5,000 gallon per month residential customer on a 5/8" meter is \$6.18 per month after both phases of the requested rate increase. He testified that Lafayette is requesting the rate increase be phased in to lessen the impact on customers. Mayor Roswarski stated that if the requested rate increase is approved, his understanding is that Petitioner's rates and charges will still be in the lowest quartile for municipalities with populations of 25,000 or more which he believes is a testament to Lafayette's prudent operation of the water utility.

Ms. Doolittle, a registered professional engineer in Indiana and an Executive Vice President with Wessler, testified as to the Water System Capital Improvements Plan ("CIP") prepared for Petitioner. Ms. Doolittle initially described the process of gathering information for and preparing to undertake the CIP, including the development of a hydraulic model of Petitioner's system. She then described the highest priority needs of Petitioner's system, which Wessler derived through a business risk exposure rating on the components of Petitioner's system.

Ms. Doolittle testified that Petitioner's water system is generally in good shape; however, certain infrastructure investments are needed. She testified that Wessler's investigation and evaluation process identified several components at a high-risk exposure rating in Lafayette's water system, with the highest priority needs being in four categories: (a) Upper Pressure Zone – Additional Supply, Redundancy, and Upgrades; (b) Upper Pressure Zone – Water Storage and Pressure; (c) Glick Well Field Operations; and (d) Distribution System Improvements.

Ms. Doolittle explained that the Upper Pressure Zone – Additional Supply, Redundancy, and Upgrades improvements will address the risk posed by Petitioner's existing system

configuration where the Columbian Park Booster Station and the 5 million gallon (“MG”) concrete groundwater reservoir are the sole means of supplying water to the Upper Pressure Zone where 81% of Petitioner’s water demand is served. She testified that most large water users are in the Upper Pressure Zone and include critical facilities such as schools and healthcare facilities, as well as a substantial industrial load. To mitigate this risk and accommodate future customer growth in the Upper Pressure Zone, Ms. Doolittle testified an additional feed into the Upper Pressure Zone is necessary. The CIP proposes a new 6 MG per day booster station and a 3 MG ground storage reservoir be added to meet future demand and add redundancy to Petitioner’s service to the Upper Pressure Zone. Ms. Doolittle estimated the total cost of the projects for the Upper Pressure Zone – Additional Supply, Redundancy, and Upgrades at \$10,569,000.

Ms. Doolittle testified that the Upper Pressure Zone also needs water storage and pressure projects to alleviate concerns over adequate pressure and fire protection in the southern portion of the Upper Pressure Zone, which currently experiences low pressure. To meet this need, the CIP proposes to add a 2 MG per day storage tank near Wea Ridge Elementary School. Ms. Doolittle estimated the cost of this project is \$4,685,000.

Ms. Doolittle identified several projects needed to support the Glick Well Field operations. The Glick Well Field contains five active groundwater wells in the Wabash River floodway that supply Lafayette with raw water. The pump motors are on elevated platforms above the 100-year flood elevations. Ms. Doolittle testified that when flooding occurs, the wells are inaccessible until the flood waters recede. The starters for the pump motors are showing significant wear and have a high probability of failure due to their age and physical condition. Ms. Doolittle stated that if a starter fails, the well will not operate. She testified the projects needed at the Glick Well Field include a new Motor Control Center, electrical service disconnect, well pump starters, and a submersible pump and motor estimated at \$383,000 and an on-site sodium hypochlorite generator estimated at \$250,000.

Ms. Doolittle also testified to 11 priority distribution system projects, which include 10 main replacement projects and one automatic hydrant flushing equipment project. The main replacement projects were selected to generate efficiencies with other infrastructure projects within Lafayette, such as road construction projects and a sewer interceptor project. Most of the main replacements involve replacing old cast iron pipe that scored high on the CIP priority list for main replacement. Ms. Doolittle testified the cost of the 11 distribution system projects is \$9,498,000.

Jennifer Z. Wilson, a certified public accountant and Managing Director with Crowe Horwath LLP, testified concerning Petitioner’s proposed rates and financing. Ms. Wilson testified the test year is the 12 months that ended December 31, 2016. Ms. Wilson presented a statement of income and an adjusted statement of income summarizing the adjustments detailed in the statement of income within the Rate and Financing Report. She testified that Lafayette petitioned for a two-phased 50.99% cumulative rate increase, although the Rate and Financing Report reflects a 51.17% rate increase could be justified. Ms. Wilson testified that increased operating revenues are required for Petitioner to meet its pro forma revenue requirements for operation and maintenance expenses, taxes other than income taxes, working capital, annual proposed debt service payment, and an annual amount for extensions and replacements. She

stated the proposed rate increases also allow Petitioner to meet the covenants contained in the bond ordinance, including the annual coverage requirement.

Ms. Wilson testified the difference between the proposed two phases is the amount available for extensions and replacements. In Phase I, Petitioner proposes an extensions and replacements amount that is a coverage factor of 35 percent of the estimated maximum annual debt service. In Phase II, the proposed extensions and replacements amount is the average annual amount calculated for the CIP. The proposed Phase I increase does not produce sufficient revenue to support the capital projects needed in the early years or the average of Petitioner's capital needs over an extended time period; therefore, Petitioner's depreciation fund will be used to support the projects during Phase I until the final phase of the increase is implemented to bring capital improvement funding up to the appropriate level.

Ms. Wilson testified that Petitioner's total annual revenue requirement in Phase I is \$9,840,108 and in Phase II is \$10,923,295. Ms. Wilson also testified that the proposed bonds are a reasonable and appropriate method of financing the capital projects Petitioner is proposing.

6. OUCC Case-in-Chief. In his direct testimony, OUCC witness Corey testified that Petitioner should be granted an across-the-board 44.30% rate increase, to be implemented in two phases. He testified this will produce an increase in water revenues of \$3,159,810 per year. Mr. Corey testified the primary differences between Lafayette's proposal and the OUCC's are in the calculation of Petitioner's revenue requirement, operating expenses, residential, commercial, and other revenues, and debt service. He testified the difference in the revenue requirement calculation is related to Petitioner not reducing its requirement by certain test year revenues and that the OUCC's increased revenues are due to the OUCC's test year and post-test year customer growth or normalization adjustments. Mr. Corey testified that the OUCC's lower proposed operating expenses are primarily due to additional expenses the OUCC identified as non-recurring, non-allowed, or capital in nature.

Mr. Corey testified to the adjustments the OUCC made that resulted in the lower suggested rate increase. Mr. Corey made five adjustments to Petitioner's revenues. First, Mr. Corey testified the OUCC accepted Petitioner's revenue adjustment for private fire hydrant rental. The OUCC then made four additional customer growth adjustments for test year residential, test year commercial, post-test year residential, and post-test year commercial. These adjustments resulted in a net increase of \$53,248 to Petitioner's test year operating revenues of \$7,274,770 which, when added to Petitioner's fire protection adjustment of \$40,760, yield pro forma operating revenues of \$7,368,777.

Next, Mr. Corey addressed expense adjustments. He stated the OUCC accepted Petitioner's operating expense adjustments for salaries, public employee retirement fund benefits, bi-annual valve assessment, non-recurring expenses, payroll taxes, utility receipts taxes, and payment in lieu of taxes. Mr. Corey testified to additional operating expense adjustments the OUCC made to remove transactions he identified as non-recurring, capital in nature, or should otherwise be disallowed. These additional operating expense adjustments reduced annual operation and maintenance ("O&M") expense by \$109,429. This category included \$43,586 in expenditures the OUCC considered capital in nature, \$4,568 that was disallowed for being

incurred prior to the test year, \$400 that were deemed non-utility related expenses, \$4,330 for expenditures included in the bond issuance, \$24,747 that Mr. Corey recommended amortizing over 3 years, and \$50,059 to be amortized over 5 years with \$40,047 of remaining amortization expense.

Mr. Corey testified that he also adjusted certain soft costs to be embedded in Petitioner's proposed bond issue by \$140,000. He testified the \$80,000 rate consultant fee Petitioner included in its borrowing seems high and probably assumes significant discovery by the OUCC and a level of controversy that will not occur in this Cause. Similarly, Mr. Corey stated the \$200,000 regulatory counsel fee estimate also appears to be very high since this case does not involve complicated controversies and relatively little discovery was served on Petitioner. He recommended including \$80,000 for regulatory counsel fees and testified this is more reflective of the costs the OUCC expects in a case of this type. Mr. Corey also relied on OUCC witness Kaufman for a debt service expense adjustment that reduced Petitioner's proposed debt service expense by \$73,813.

Mr. Corey's Schedule 1 provided the OUCC's revenue and rate calculations reflecting the OUCC's proposed adjustments. Schedule 1 sets forth a total revenue requirement of \$10,744,931, which is \$178,364 less than Petitioner proposed, and with the recommended adjustments, a net revenue requirement of \$10,484,350, which is \$438,945 less than Petitioner proposed. Finally, Schedule 1 identifies a net revenue increase required amount of \$3,115,573. When the revenue conversion factor is applied to the net revenue increase required amount, Schedule 1 reflects a recommended increase in revenues of \$3,159,810 or 44.30% as compared to Lafayette's requested increase of 50.99%.

Mr. Kaufman testified concerning Petitioner's proposed bond issue and debt service expense. He made several adjustments to debt service expense, adjusting the bond interest rate lower than Petitioner proposed. Mr. Kaufman testified that Petitioner's proposed annual debt service uses "AA" interest rates (from May 17, 2017) plus 100 basis point. He used more current interest rate (February 2, 2018). According to Mr. Kaufman, during the nine months between May 2017 and February 2018, short-term and longer term interest rates for AA municipal bonds increased, but longer term interest rates beyond ten years did not increase as much short-term interest rates. Mr. Kaufman, therefore, testified that he reduced the spread over current interest rates from 100 basis points, as Ms. Wilson proposed, to 25 basis points. His position is that the bond issuance will take place within the next few months, justifying a smaller interest rate spread.

Mr. Kaufman also reduced Petitioner's debt service reserve by \$71,109 because Petitioner plans to pre-fund (borrow) its debt service reserve. Mr. Kaufman testified that after taking into account the updated interest rates, a smaller spread over current interest rates, and the decreased debt service reserve based on the adjustments Mr. Corey made, Lafayette's proposed debt service should be \$1,321,081 rather than \$1,394,894 as Petitioner proposed.

Finally, Mr. Parks testified concerning his review of Petitioner's physical utility plant and proposed capital projects. Mr. Parks described Petitioner's water utility system, including

Lafayette's well fields, treatment systems, distribution system, and storage tank. He testified that Lafayette's water system appears to be well-managed and well-maintained.

Mr. Parks testified that Petitioner currently owns and operates plant and equipment for the production, transmission, and delivery of potable water to the public in and around Lafayette. Petitioner also provides public and private fire protection service and has approximately 3,360 fire hydrants located inside and outside its municipal limits. According to Mr. Parks, Lafayette's water utility operates as a department under the oversight of Lafayette's Board of Public Works and Safety. Mr. Parks testified that Petitioner provided water service in 2016 to 28,455 customers representing an estimated population of 84,417, including residents of the Town of Dayton. At the end of 2016, Lafayette's customers included 25,480 residential, 2,743 commercial, 80 industrial, and 102 public authorities metered accounts plus 50 unmetered accounts. Mr. Parks testified that Petitioner's customer base has grown 25% since its last rate case in 2001, but according to utility data, water production and water sold have remained flat.

In describing the source of Lafayette's water, Mr. Parks testified that Lafayette uses groundwater drawn from the large Teays aquifer via two well fields that have 14 wells. Petitioner's well field are located along the east bank of the Wabash River. The Canal Road well field has nine gravel pack wells that were installed between 1954 and 1989. The Glick well field includes five wells, one being a gravel pack well installed in 1975 and four tube wells installed in 1994. The current firm rated capacities of the Canal Road and Glick well fields are 15.1 MG per day and 6.3 MG per day, respectively, for a combined 21.4 MG per day.

Mr. Parks characterized Lafayette's raw water supply as good quality. He testified that although Petitioner's wells are near the river, the United States Environmental Protection Agency ("EPA") and the Indiana Department of Environmental Management have not classified Lafayette's system as Groundwater Under the Direct Influence of Surface Water which would require additional treatment, monitoring, and treatment plant staffing.

From the Canal Road and Glick groundwater treatment plants, Mr. Parks testified that finished water flows to the lower pressure distribution system. There are no high service pumps at either treatment plant. Instead, the 150 horsepower multi-stage vertical turbine pumps at each well force groundwater from the well fields through the respective water treatment plants to transmission mains and on to the Columbian Park reservoir. This is an aboveground covered reservoir, constructed in 1875, that can store up to five MG. According to Mr. Parks, Petitioner's water transmission and distribution network includes approximately 394 miles of water mains ranging in diameter from 3/4-inch to 36-inches. These mains are primarily cast iron with ductile iron currently being used for replacement and new development mains.

Mr. Parks testified that Lafayette consistently produces excellent quality water. Petitioner currently requires that all new service lines installed between the water main tap and the meter pit be copper. He stated that in older parts of Lafayette, Petitioner has lead service lines. As water mains are replaced, Petitioner intends to systematically replace the lead service lines Lafayette owns up to the meter at the same time. Based on his discussions with Petitioner's Superintendent, this process may be done over more than 20 years. Mr. Parks recommended Petitioner begin a comprehensive lead service line replacement program phased in over time

with the goal of replacing all lead services, including the customer-owned service line from the meter pit. Mr. Parks testified that it has been documented that replacing only the utility owned portion of the line can disturb lead deposits on the service pipe and release it into the customer's water above the EPA's Lead Action Level.

Mr. Parks described Petitioner's valve exercising program and testified that it appears Lafayette has a good handle on its valve assets. He recommended Petitioner identify and compile a list of critical valves and consider establishing target frequencies for exercising critical valves more frequently to ensure they function properly. He explained that critical valves should be considered to include major valves serving hospitals, schools, assisted living centers, nursing homes, elevated water tanks, and major factories that allow them to be isolated from a portion of the overall distribution system so water service to these facilities can still be maintained while distribution system maintenance and leak repairs are made.

Mr. Parks testified that it appears Lafayette is proactively maintaining its water storage tanks and is maintaining these tanks in generally good condition and in compliance with relevant standards. Lafayette has budgeted dollars to begin draining and rinsing the tank interiors and power washing the tank exteriors in 2018. He also testified to Petitioner's non-revenue water figures and found them to be reasonable. Mr. Parks stated Lafayette's non-revenue water is relatively stable and well under control. He, nonetheless, recommended Petitioner continue with its long-term program to identify, reduce, and manage water losses.

Mr. Parks also reviewed the top down water audit the American Water Works Association recommends to identify areas where non-revenue water might be reduced. Mr. Parks suggested that as part of its non-revenue water control program, Lafayette perform annual top down water audits and periodically perform bottom up water audits.

Mr. Parks testified that Petitioner's projected flows near-term can be met with existing well field and treatment plant capacity. He testified that while Petitioner is not currently proposing to increase treatment plant capacity, Petitioner is planning to add capacity with a new well field and new treatment plant on the northeast side of its system.

Finally, Mr. Parks testified that the capital projects Petitioner is proposing, to be funded in part by the proposed bonds, are reasonable and Petitioner's proposed \$19.8 million financing through a revenue bond should be approved. He stated that Lafayette has shown itself to be a well-run water utility that produces high quality water and extends the useful life of its treatment and distribution assets through proper maintenance and operations. He characterized the recommended top-down and bottom-up water audits as additional opportunities to enhance Petitioner's operations that Lafayette is encouraged to consider.

7. Settlement Agreement and Settlement Testimony.

A. The Settlement Agreement. The Settlement Agreement, a copy of which is attached to this Order and incorporated by reference, provides the terms and conditions upon which the Parties agreed to resolve the issues in this Cause. In the Settlement Agreement, the Parties agree to specifics concerning Petitioner's rates and charges and the issuance of water

utility revenue bonds. In support of the settlement, Lafayette offered the supplemental testimony of Mr. Smith, Ms. Doolittle, and Ms. Wilson, and the OUCC offered the settlement testimony of Mr. Corey.

The Parties agree Petitioner's adjusted test year operating revenues at present rates were \$7,368,777, and Petitioner's current rates and charges are inadequate and should be increased. To this end, the Parties agree to a Phase I increase from pro forma test year revenues at current rates of \$2,336,965, and a Phase II increase from pro forma test year revenues at current rates of \$1,131,751. The Parties further agree that a 32.76% across-the-board increase for Petitioner's Phase I rates and charges should be approved and that an 11.95% across-the-board increase for Petitioner's Phase II rates and charges is merited and should be approved.

The Parties also agree that Petitioner's proposed water utility revenue bonds in a principal amount not to exceed \$19.8 million, at interest rates not to exceed seven percent per annum, should be approved, and Petitioner should, therefore, be authorized to issue up to \$19.8 million in principal amount of water utility revenue bonds subject to true-up within 30 days of closing. Because the precise interest rate and annual debt service will not be known until Lafayette's debt is issued, the Settlement Agreement provides that Lafayette shall file a revised tariff and a report with the Commission, with a copy served on the OUCC, explaining the terms of the new loan, including an amortization schedule, the amount of debt service reserve, and all issuance costs. The report is to include a revised tariff and calculate the rate impact in a manner similar to the OUCC's schedules in this Cause. Absent the OUCC and Lafayette both affirming in a written filing with the Commission that such rate impact is immaterial, Lafayette's rates are to be adjusted to match its actual cost of debt service, whether lower or higher, up to an interest rate of seven percent per annum.

The Parties further agree that if the bonds are not issued within four months after the Petitioner files its revised tariff with the Commission following the Order in this Cause, Petitioner should temporarily reserve the funds being collected in its rates for 2018 debt service and use those funds to offset the principal amount Petitioner borrows. In addition, if Petitioner spends any funds from its debt service reserve for the bonds for any reason other than to make the last bond payment, Lafayette shall provide a report to the Commission and the OUCC within five business days of such expenditure describing the reasons for such expenditure.

Finally, the Parties also agree that if Lafayette files a system integrity adjustment case pursuant to Ind. Code § 8-1-31.5, the 12-month period authorized for recovery through basic rates and charges will not begin prior to implementation of Petitioner's true-up tariff, if any, so the revenues used to calculate a system integrity adjustment more accurately reflect Petitioner's actual debt service costs.

B. Petitioner's Settlement Testimony. In his supplemental testimony, Mr. Smith addresses adjustments agreed upon in the Settlement Agreement. First, Mr. Smith supports recovering well cleaning and reservoir cleaning expenditures as annual O&M expenses rather than amortizing these expenses over three years as the OUCC originally proposed. He testified that Lafayette incurs well cleaning and reservoir cleaning expenses every year. While Petitioner rotates the wells and reservoirs that are cleaned, Mr. Smith testified these expenses are incurred

annually; consequently, these expenditures should be recovered as O&M expenses rather than amortized.

Mr. Smith testified that the Parties agreed to increase Petitioner's extensions and replacement budget by \$244,834 to allow Petitioner to undertake more main replacement projects. He testified this increased amount (\$244,834) will be placed in a restricted account dedicated to only main replacements, enabling Petitioner to undertake more main replacements because of these funds. Mr. Smith noted that the CIP Wessler prepared supported significantly more funding for main replacements. He testified the additional funding for main extensions will benefit Lafayette's customers by enabling Petitioner to undertake more main replacement projects, improving service quality, and will extend the life of the distribution system. He also testified that Petitioner will review the feasibility of undertaking the OUCC's recommendations on lead service lines, critical valve identification, and water audits, but he noted funds are not provided in the Settlement Agreement to undertake these recommendations. Mr. Smith testified that if public policy or economic factors dictate that one or more of the recommendations be undertaken, Lafayette will undertake what it deems appropriate, and he expressed appreciation for these recommendations.

Mr. Smith also testified that he believes the Settlement Agreement is a reasonable resolution of the issues in this Cause and is in the public interest. He noted that accelerating resolution of this Cause allows Petitioner to avoid costly litigation over a relatively small percentage of the proposed rate increase, take advantage of a greater portion of the 2018 construction season, and begin implementing Petitioner's infrastructure program sooner. He testified that settling the case will also afford customers more time to adjust to the Phase I rate increase before the Phase II rate increase is implemented.

Ms. Doolittle also testified in support of the Settlement Agreement. She stated the increased extensions and replacements budget agreed upon in the Settlement Agreement is reasonable given Lafayette's need for additional main replacements beyond those specifically proposed in her direct testimony. She testified that Lafayette's case-in-chief included only 10 of 39 priority main replacement projects, but there is a need for additional main replacements. Ms. Doolittle testified the increased budget for extensions and replacements will allow additional priority main replacements to be undertaken as identified in the CIP. She identified two main replacement projects, the Berkshaft Drive project and the Valley Street project, that can now be undertaken in conjunction with other infrastructure projects, such as planned road construction, to gain efficiencies. Ms. Doolittle stated she believes the Settlement Agreement is reasonable and in the public interest.

Ms. Wilson's settlement testimony also supported the Settlement Agreement. She testified that recovering the full well cleaning and reservoir cleaning expenses in the amount of \$24,747, rather than only \$8,249, increases Petitioner's O&M revenue requirement by \$16,498. Ms. Wilson testified this inclusion of \$16,498 in O&M increases the annual working capital revenue requirement to \$169,933. In addition, she stated the extensions and replacements revenue requirement also increased by \$244,834, an amount equal to that which the OUCC offset Lafayette's revenue requirement for tap fees and miscellaneous income.

Ms. Wilson also explained agreed changes to the rate case expense within the proposed debt issuance. She testified the proposed debt issuance par amount for rate consultant fees was reduced to \$60,000, but regulatory counsel fees have already exceeded \$80,000, so these fees were increased by \$30,000 from the OUCC's case-in-chief testimony to reflect the actual fees Petitioner is incurring. She stated the overall decrease in the par amount for rate case expenses also reduced the IURC fee and the underwriter's discount because their cost is a percentage of the par amount of the borrowing.

Ms. Wilson also addressed interest rate issues. She testified that the basis point increase over "AA" interest rates was agreed to be 50 basis points rather than 25 basis points as the OUCC proposed in its case-in-chief. Ms. Wilson explained that the additional 25 basis points allows for the uncertainty of potential rate increases before the date the bonds are issued and for the uncertainty in what rating Petitioner will be assigned. She stated that while Petitioner hopes to be rated "AA", Petitioner could receive a lower rating, which would increase the basis points. Ms. Wilson testified that recent Federal Reserve actions and economic forces suggest open market interest rates will increase in the short-term and, therefore, affect Petitioner's cost of borrowing. Because of the risk of rising interest rates, she testified that Petitioner believes it is in its best interest to settle the case and move forward with completing the waterworks bond issuance.

Finally, Ms. Wilson testified that Petitioner agreed to file a true-up that reflects Lafayette's actual debt service expense. Petitioner also agreed that to the extent Petitioner files a system integrity adjustment case, Petitioner will use authorized revenues for the 12-month period after the trued-up rates are in effect. Ms. Wilson testified that Petitioner accepts the OUCC's other accounting adjustments as reflected in the OUCC's settlement exhibits.

C. OUCC's Settlement Testimony. In support of the Settlement Agreement, the OUCC filed the settlement testimony of Mr. Corey. He testified the Settlement Agreement represents a reasonable compromise of the OUCC and Lafayette's positions, that the settlement testimony provides an evidentiary basis to support the Parties' settlement, and the Parties' settlement should be considered to be in the public interest.

Mr. Corey addressed the accounting adjustments agreed upon in the Settlement Agreement and sponsored Schedule 1-S reflecting the agreements reached upon Petitioner's revenue requirements. He testified the OUCC and Lafayette agree that Lafayette's current rates and charges for water service should be increased to produce additional pro forma operating revenues of \$3,468,715, representing a 48.63% increase in Petitioner's rates and charges. Mr. Corey stated the Parties also agree Petitioner's rate increase should be across-the-board in two phases, with Petitioner increasing its rates 32.76% in Phase I to collect up to \$2,336,965 in additional net revenues and 11.95% in Phase II to collect up to \$1,131,751 in additional net revenues.

Mr. Corey testified the full \$24,747 incurred in the test year for well cleaning and reservoir cleaning is included in Petitioner's annual operations and maintenance expense, and he testified to the stipulated financial schedules which he sponsored. Mr. Corey testified that the OUCC and Lafayette also agreed upon the following four stipulations: (a) Petitioner's total test

year pro forma operating revenues at present rates equal \$7,368,777, which is the sum of Petitioner's revenues at current rates subject to increase of \$7,133,363 and other revenues not subject to increase of \$235,414 as set forth on Schedule 1-S; (b) the OUCC's adjustment for additional capitalized and non-recurring items is reduced to \$92,931; (c) in calculating Petitioner's net revenue requirement, the total revenue requirement is reduced by interest income of \$15,747 and other income of \$244,834, and the extensions and replacements revenue requirements for Phases I and II is increased by \$244,834 to \$733,047 in Phase I and \$1,816,234 in Phase II; and (d) subject to the Commission's approval, Lafayette should be authorized to issue waterworks revenue bonds in a principal amount not to exceed \$19,655,000, and the annual debt service amount of \$1,359,377 should be used to establish Lafayette's annual pro forma revenue requirement, as shown on Schedule 1-S. Mr. Corey testified that the Parties also agree Lafayette's rates should be trued-up to reflect the actual cost of the debt if the debt service amount is materially different from \$1,359,777; therefore, Lafayette will file a true-up report and revised tariff within 30 days of closing.

8. Commission Discussion and Findings. Settlements presented to the Commission are not ordinary contracts between private parties. *U.S. Gypsum, Inc. v. Ind. Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coal. of Ind., Inc. v. PSI Energy, Inc.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coal.*, 664 N.E.2d at 406.

Further, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *U.S. Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coal. of Ind., Inc. v. Public Service Co. of Ind., Inc.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Before the Commission can approve the Settlement Agreement, the Commission must determine whether the evidence in this Cause sufficiently supports the conclusion that the Settlement Agreement is reasonable, just, and consistent with the purpose of Ind. Code ch. 8-1-2 and that such agreement serves the public interest.

A. Petitioner's Rates. Based upon the evidence of record, particularly the testimony the Parties presented in support of the Settlement Agreement, the Commission finds the Settlement Agreement represents a reasonable resolution of the issues in this Cause. The Commission further finds that the terms of the Settlement Agreement are reasonable and that approval of the Settlement Agreement is in the public interest. The Parties settled on a two-phased, across-the-board rate increase of 32.76% in Phase I and 11.95% in Phase, which the Commission finds reasonable. Pro forma test year operating revenues at the proposed rates will be \$9,705,741 in Phase I and \$10,837,490 in Phase II. In accordance with the Settlement Agreement, the Commission finds that Petitioner's net revenue requirements are shown below:

	<u>Phase I</u>	<u>Phase II</u>	<u>Overall</u>
Operating Expenses	\$ 6,803,094	\$ 6,835,811	\$ 6,803,094
Taxes other than Income	296,007	328,725	328,725
Extensions and Replacements	733,047	1,816,234	1,816,234
Working Capital	169,933	169,933	169,933
Payment in Lieu of Taxes	572,148	572,148	572,148
Debt Service	1,359,377	1,359,377	1,359,377
Total Revenue Requirements	9,933,606	11,082,229	11,049,511
Less: Interest Income	(15,747)	(15,747)	(15,747)
Other Income	(244,834)	(244,834)	(244,834)
Net Revenue Requirements	9,673,025	10,821,648	10,788,930
Revenues at current rates subject to			
Less: increase	(7,133,363)	(9,470,327)	(7,133,363)
Other revenues at current rates	(235,414)	(235,414)	(235,414)
Net Revenue Increase Required	2,304,247	1,115,906	3,420,153
Divide by Revenue Conversion Factor (100% - 1.4%)	0.986	0.986	0.986
Recommended Increase	\$ 2,336,965	\$ 1,131,751	\$ 3,468,715
Recommended Percentage Increase	32.76%	11.95%	48.63%
Increase Requested	32.76%	11.95%	48.63%

Based on the rate increase approved above, the effect of Phase I on residential customers using 5,000 gallons per month (taking service from 5/8" meters) will be an increase of \$3.54 to \$14.34 over the current monthly bill of \$10.80. The increase in Phase II will be \$1.71 over the Phase I bill to a monthly bill of \$16.05.

B. Petitioner's Financing. In its case-in-chief, Lafayette sought authority to issue new waterworks revenue bonds in an amount not to exceed \$19.8 million, and testimony was presented upon the projects Petitioner intends to complete with the debt issuance. In the Settlement Agreement, the Parties agree that bonds in a principal amount not to exceed \$19.8 million at interest rates not to exceed seven percent per annum should be approved. Based upon the evidence, the Commission finds the capital projects to be funded with the waterworks utility bond proceeds are reasonably necessary for Lafayette to continue to provide adequate and efficient utility services and that Petitioner's proposed CIP is reasonably necessary to address

Petitioner's priority infrastructure needs and is supported by the evidence. These infrastructure projects will also enable Petitioner to provide adequate service in accordance with Ind. Code § 8-1.5-3-8.

Under Ind. Code § 8-1.5-2-19(b), when a municipality, such as Lafayette, issues debt, it must show the rates and charges "will provide sufficient funds for the operation, maintenance, and depreciation of the utility, and to pay the principal and interest of the proposed bond issue, together with a surplus or margin of at least ten percent (10%) in excess." Ind. Code § 8-1-2-19(b). Using the figures from OUCC Schedule 1-S, the Commission finds Lafayette has met the standard under Ind. Code § 8-1.5-2-19(b) and, therefore, certifies that Petitioner's authorized rates and charges provide sufficient funds for O&M and depreciation and to pay the principal and interest of the proposed bond issue, together with a surplus or margin of at least ten percent in excess. The Commission also finds that the proposed bond is a reasonable manner in which to finance the capital improvements and should be approved subject to the conditions set forth in the Settlement Agreement. Accordingly, consistent with the Settlement Agreement, if Lafayette does not issue the waterworks revenue bonds within four months after filing a revised tariff with the Commission following the Order in this Cause, Petitioner shall temporarily reserve the funds collected in rates for its 2018 debt service and use those funds to offset the amount Petitioner borrows.

C. Borrowing Report and True-Up. The evidence demonstrates the amount of Petitioner's actual cost of debt, including the interest rate and issuance costs, will not be known until after Petitioner issues the proposed bonds; therefore, consistent with the Settlement Agreement, within 30 days of closing on the bonds, Petitioner shall file a report with the Commission, and serve a copy on the OUCC, explaining the terms of the new debt, including an amortization schedule, the amount of debt service reserve, and all issuance costs. The report shall also include a revised tariff with the rate impact calculated in a manner similar to the OUCC's schedules in this Cause. The revised rates shall go into effect unless both the OUCC and Lafayette make a written filing with the Commission stating such rate impact is immaterial. Lafayette's rates shall be adjusted to match its actual cost of debt service, whether lower or higher, up to an interest rate of seven percent per annum.

D. Miscellaneous Agreements. The Commission further finds reasonable and appropriate the Parties' agreement in the Settlement Agreement that if Petitioner spends any of the funds from its debt service reserve for the bonds for any reason other than to make the last payment on the bonds, Lafayette shall provide a report to the Commission and the OUCC within five business days describing the reasons for such expenditure. The Commission finds this report shall be in writing and in addition to detailing the reasons for such expenditure, shall state the amount so expended.

The Parties also agree that if Petitioner files a system integrity adjustment case, the 12-month period authorized for recovery through basic rates and charges will not begin prior to the implementation of the trued-up tariff, if any, so the revenues used to calculate a system integrity adjustment more accurately reflect Petitioner's actual debt service costs. The Commission finds this agreement is reasonable.

E. Conclusion Regarding Settlement Agreement. Consistent with our discussion above and the evidence presented, the Commission finds the Settlement Agreement is reasonable, supported by the evidence, and in the public interest. We, therefore, approve the Settlement Agreement, a copy of which is attached to this Order.

F. Use of the Settlement Agreement. The Parties agree the Settlement Agreement should not be used as precedent in any subsequent proceeding or be deemed an admission in any other proceeding except as necessary to enforce the terms of the Settlement Agreement or the Order issued in this Cause. Consequently, with regard to future citation of the Settlement Agreement, the Commission finds that our approval herein should be construed in a manner consistent with the Commission's findings in *Richmond Power & Light*, Cause No. 40434, 1997 Ind. PUC LEXIS 459, at 19-22 (IURC March 19, 1997).

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Settlement Agreement filed in this Cause on February 22, 2018, and attached to this Order is approved.
2. Petitioner is authorized to increase its rates and charges for water service in two phases and on an across-the-board basis by 32.76% in Phase I and by 11.95% in Phase II over adjusted test year revenues in order to increase Phase I annual operating revenues by \$2,336,965 to produce Phase I total annual operating revenues of \$9,705,741, and increase Phase II annual operating revenues by \$1,131,751 to produce Phase II total annual operating revenues of \$10,837,490.
3. Petitioner shall establish a restricted account into which \$244,834 shall be placed to be used only for main replacement projects consistent with the Settlement Agreement.
4. Prior to implementing the approved rates, Petitioner shall file the tariff and applicable rates schedules under this Cause for approval by the Commission's Water/Wastewater Division. Such rate(s) shall be effective on or after the Order date subject to Division review and agreement with the amounts reflected.
5. Lafayette is granted a Certificate of Authority to issue additional waterworks revenue bonds in an amount not to exceed \$19.8 million and at an interest rate not to exceed seven percent per annum, consistent with Finding No. 8.B. Within 30 days of closing on its debt issuance, Lafayette shall file a report in this Cause explaining the terms of its debt issuance, including an amortization schedule, the amount of debt service reserve, and all issuance costs and the report shall include a revised tariff unless Lafayette and the OUCC make a written filing with the Commission stating such rate impact is immaterial, consistent with Finding No. 8.C.
6. In accordance with Ind. Code § 8-1-2-85, Lafayette shall pay a fee to the Secretary of the Commission equal to \$0.25 for each \$100 of waterworks revenue bonds issued within 30 days of the receipt of the financing proceeds authorized in this Order.

7. In accordance with Ind. Code § 8-1-2-70, Lafayette shall pay within 20 days from the date of this Order and prior to placing into effect the rates and charges approved in this Order the following itemized charges, as well as any additional charges which were or may be incurred in connection with this Cause.

Commission Charges:	\$ 3,823.49
OUCG Charges:	\$ 12,395.51
Legal Advertising Charges:	\$ <u>314.26</u>
Total:	\$ 16,533.26

Lafayette shall pay all charges into the Commission public utility fund account described in Ind. Code § 8-1-6-2, through the Secretary of the Commission.

8. This Order shall be effective on and after the date of its approval.

HUSTON, FREEMAN, AND ZIEGNER CONCUR; OBER ABSENT:

APPROVED: MAY 16 2018

**I hereby certify that the above is a true
and correct copy of the Order as approved.**



Mary M. Becerra
Secretary of the Commission

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION) OF LAFAYETTE, INDIANA, FOR) AUTHORITY TO ISSUE BONDS, NOTES,) OR OTHER OBLIGATIONS, FOR) AUTHORITY TO INCREASE ITS RATES) AND CHARGES FOR WATER SERVICE,) AND FOR APPROVAL OF A NEW) SCHEDULE OF WATER RATES AND) CHARGES APPLICABLE THERETO)	CAUSE NO. 45006
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JOINT STIPULATION AND SETTLEMENT AGREEMENT

On November 8, 2017, the City of Lafayette, Indiana (“Petitioner” or “Lafayette”) filed with the Commission its Petition initiating this Cause and its case-in-chief. The Indiana Office of the Utility Consumer Counselor (the “OUCC”) and Petitioner, being all of the parties to this cause (Lafayette and the OUCC, collectively, the “Parties”, and individually, a “Party”), have after arms-length settlement negotiations reached an agreement with respect to all of the issues before the Indiana Utility Regulatory Commission (the “Commission”) in this Cause. The Parties therefore stipulate and agree for purposes of resolving all of the issues in this Cause, to the terms and conditions set forth in this Joint Stipulation and Settlement Agreement (this “Settlement”).

1. Borrowing Authority.

- A. Approval of Debt; Authorization to Issue Bonds. The Parties stipulate and agree that the water utility revenue bonds (the “Bonds”) in a principal amount not to exceed \$19.8 million at interest rates not to exceed seven percent (7%) per annum should be approved and that Lafayette shall be authorized to issue the Bonds.
- B. Delayed Issuance of Bonds. If Lafayette does not issue the Bonds within four (4) months after it has filed a revised tariff with the Commission, it should temporarily reserve the funds collected in rates for its 2018 debt and use those funds to offset the amount it borrows.

- C. True-Up. Within thirty (30) days of closing on the Bonds, Lafayette shall file a report with the Commission and serve a copy on the OUCC, explaining the terms of the new loan, including an amortization schedule, the amount of debt service reserve and all issuance costs. The report should include a revised tariff and also calculate the rate impact in a manner similar to the OUCC's schedules. Unless the OUCC and Lafayette both declare in a writing filed with the Commission that such rate impact is immaterial, Lafayette's rates should be adjusted to match its actual cost of debt service, whether lower or higher up to an interest rate of seven percent (7%) per annum.
- D. Debt Service Reserve. If Petitioner spends any of the funds from its debt service reserve for the Bonds for any reason other than to make the last payment on the Bonds, Lafayette shall provide a report to the Commission and the OUCC within five (5) business days describing the reasons for such expenditure.
- E. System Integrity Adjustment Period. If Petitioner files a System Integrity Adjustment case, it agrees the 12 month period authorized for recovery through basic rates and charges will not begin prior to the implementation of the trued-up tariff, if any, so that the revenues used to calculate a system integrity adjustment shall more accurately reflect Petitioner's actual debt service costs.

2. Stipulated Rates and Revenues.

- A. Test Year Operating Revenues. The Parties stipulate and agree that Lafayette's adjusted test year operating revenue at present rates is \$7,368,777, as depicted on Schedule 4-S to Public's Exhibit No. 1-S.
- B. Revenue Requirement. The Parties stipulate and agree that Lafayette's current rates and charges are inadequate and that Lafayette's rates and charges should be increased as follows:
 - i. Phase I: Lafayette's rates should be immediately upon the issuance of a Commission Order on an across-the-board basis by 32.76% so as to produce \$2,336,965 in additional annual operating revenue.
 - ii. Phase II: Effective as of January 1, 2019, Lafayette's rates should be increased on an across-the-board basis by 11.95% so as to produce \$1,131,751 in additional annual operating revenue.

C. Pro Forma Authorized Rates. After adjustments (including the issuance of the Bonds), the Parties stipulate and agree that Lafayette's pro forma test year operating revenues will be \$9,705,741, in Phase I and \$10,837,490, in Phase II, as reflected in Schedule 4-S to Public's Exhibit No. 1-S. The Parties further stipulate and agree that Lafayette's revenue requirements for the rate increase is depicted on Schedule 1-S to Public's Exhibit No. 1-S. The Parties stipulate and agree that the rate increases provided herein are just and reasonable and should be approved.

D. Adjustments. The parties agree and stipulate to the following adjustments reflected in the foregoing figures:

- i. O&M Expense. The well cleaning and reservoir cleaning expenses shall be recovered as annual O&M expenses rather than amortized over 3 years.
- ii. Increased E&R Budget. Lafayette's extensions and replacements budget should be increased by \$244,834 and such increased amount should be placed in a dedicated account used only for main replacement projects.
- iii. Debt Service Expense. The interest rate spread over current interest rates to estimate the interest rate on the Bonds is 50 basis points. The regulatory counsel fees should be increased by \$30,000.

These changes are set forth on the financial schedules attached to Public's Exhibit No. 1-S.

E. Financial Schedules. The Parties stipulate for settlement purposes to the financial schedules included with Public's Exhibit No. 1-S.

3. Submission of Evidence. The Parties stipulate to the admission into evidence in this Cause of the testimony previously filed (Lafayette's Case-in-Chief and the OUCC's Case-in-Chief), and any testimony in support of this Settlement of the OUCC and on behalf of Lafayette. Further, each Party waives cross-examination of the other's witnesses with respect to such testimony. The Parties shall not offer any further testimony or evidence in this proceeding, other than this Settlement and the above-identified testimony and exhibits. If the Commission should request additional evidence to support the Settlement, the Parties shall cooperate to provide such requested additional evidence.

4. **Proposed Final Order.** The Parties agree to cooperate on the preparation and submission to the Commission of a proposed order that reflects the terms of this Settlement and the settlement testimony submitted pursuant to Section 3 hereof.
5. **Sufficiency of Evidence.** The Parties stipulate and agree that the evidentiary material identified immediately above constitutes a sufficient evidentiary basis for the issuance of a final order by the Commission adopting the terms of this Settlement, and granting the relief as requested herein by Lafayette and agreed to by the OUCC.
6. **Commission Alteration of Agreement.** The concurrence of the Parties with the terms of this Settlement is expressly predicated upon the Commission's approval of this Settlement. If the Commission alters this Settlement in any material way, unless that alteration is unanimously and explicitly consented to by the Parties, this Settlement shall be deemed withdrawn.
7. **Authorization.** The undersigned represent that they are fully authorized to execute this Settlement on behalf of their respective clients or parties, who will be bound thereby.
8. **Non-Precedential Nature of Settlement.** The Parties stipulate and agree that this Settlement shall not be cited as precedent against the OUCC or Lafayette in any subsequent proceeding or deemed an admission by any party in any other proceeding, except as necessary to enforce the terms of this Settlement or the final order to be issued in this Cause before the Commission or any court of competent jurisdiction on these particular issues and in this particular matter. This Settlement is solely the result of compromise in the settlement process and, as provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the items resolved herein in any future regulatory or other proceeding, and, failing approval by the Commission, shall not be admissible in any subsequent proceeding.
9. **Counterparts.** This Settlement may be executed in one or more counterparts (or upon separate signature pages bound together into one or more counterparts), all of which taken together shall constitute one agreement.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have executed this Settlement on the dates set forth below.

City of Lafayette, Indiana

By: Tony Roswarski
Tony Roswarski
Mayor

Dated: 2-22-18

Indiana Office of the Utility Consumer Counselor

By: Daniel M. Le Vay
Daniel M. Le Vay
Deputy Consumer Counselor

Dated: 2/22/18