

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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PETITION OF THE CITY OF ANDERSON,)
INDIANA (1) FOR AUTHORITY AND)
APPROVAL TO INCREASE RATES AND)
CHARGES FOR WATER SERVICE,)
INCLUDING APPROVAL OF NEW)
SCHEDULE(S) OF RATES AND CHARGES)
FOR WATER SERVICE, AND (2) FOR)
AUTHORITY AND APPROVAL TO ISSUE)
BONDS, NOTES, OR OTHER OBLIGATIONS)
OF INDEBTEDNESS.)

CAUSE NO. 44510

APPROVED:

MAR 04 2015

ORDER OF THE COMMISSION

Presiding Officers:

Carolene Mays-Medley, Commission Vice Chair
Gregory R. Ellis, Administrative Law Judge

On July 2, 2014, the City of Anderson, Indiana (“Petitioner” or “Anderson”) filed its Verified Petition with the Indiana Utility Regulatory Commission (“Commission”) seeking authority to increase its rates and charges for water service, to create a new schedule of rates and charges, and to issue bonds, notes, or other obligations of indebtedness. Petitioner also filed its testimony and exhibits constituting its case-in-chief on July 2, 2014.

Ind. Code § 8-1-2-61 requires that in any general rate proceeding, which requires a public hearing and in which an increase in revenues is sought that exceeds the sum of \$2,500,000, the Commission is to conduct at least one public hearing in the largest municipality located within such utility’s service area. The Commission held a public Field Hearing in this Cause at 6:00 p.m. on September 22, 2014, in the Anderson City-County Auditorium 120 E. 8th Street Anderson, IN 46016.

On November 25, 2014, the Petitioner and the Office of Utility Consumer Counsel (“OUCC”) (collectively the “Parties”) filed their Joint Settlement Stipulation and Agreement (“Settlement Agreement”). In support of the Settlement Agreement, Petitioner filed its testimony and exhibits on November 25, 2014. The OUCC also filed its testimony and exhibits in support of the Settlement Agreement on November 25, 2014.

The Commission held an Evidentiary Hearing in this Cause at 9:30 a.m. on December 10, 2014, in Room 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of Petitioner and the OUCC were admitted into the record without objection. No members of the general public appeared or sought to testify at the hearing.

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

1. **Statutory Notice and Commission Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a municipally owned utility as defined in Ind. Code § 8-1-2-1(h). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Anderson's rates and charges for utility service. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is a municipality that owns and operates plant and equipment within the State of Indiana for the production, transmission, delivery, and furnishing of water to over 20,000 residential, commercial and industrial customers in and around the City of Anderson, Indiana. Petitioner's existing schedule of water rates and charges was approved by the Commission on December 20, 2006, in Cause No. 42914.

3. **Relief Requested.** In its Petition, Anderson requests Commission authority to issue bonds, notes, or other obligations of indebtedness in an amount not to exceed \$14,270,000, and at an interest rate not to exceed 6.0%, in order to provide adequate and efficient water service. Petitioner also requests authority to increase its rates in two phases, each of which will consist of a 21.18% increase or a compounded overall increase of 46.85%.

4. **Test Year.** The test year for determining Petitioner's annual revenue requirement in this Cause is the 12 months ended December 31, 2013, with adjustments for changes which are fixed, known, and measurable and which will occur within 12 months of the close of the test year. We find this test year to be sufficiently representative of Petitioner's ongoing operations to be used for ratemaking purposes.

5. **Settlement Agreement and Supporting Evidence.** The Parties' Settlement Agreement was offered and admitted into the evidentiary record as Joint Exhibit 1. A copy of the Settlement Agreement is attached hereto and incorporated by reference herein. The Parties indicate that the Settlement Agreement addresses all areas of Petitioner's requested relief, which includes new schedules of increased rates and charges and borrowing authority, among other things, as set forth in the Settlement Agreement.

A. Evidence in Support of the Settlement Agreement.

1. **Petitioner's Evidence.** Petitioner offered the testimony and exhibits of Pete Heuer, John Skomp, and Robert Curry in support of the Settlement Agreement. Mr. Heuer is Chairman of the Anderson Board of Public Works for the City of Anderson, Indiana. Mr. Skomp is a Certified Public Accountant and Partner with Crowe Horwath LLP. Mr. Curry is a Registered Professional Engineer and Vice President of Curry & Associates, Inc. Consulting Engineers and Architects.

a. **Pete Heuer.** Mr. Heuer testified generally concerning Petitioner's characteristics and the requested rate increase. Mr. Heuer indicated that Petitioner's current rates and charges are not sufficient to meet its revenue requirements. He testified that Anderson employed the services of Curry & Associates, Inc. and American Structurepoint, Inc. to conduct an engineering study thoroughly analyzing the current condition of Anderson's system and the required remedies for improvement. Anderson also engaged Crowe Horwath LLP to prepare a rate study analyzing its current revenue requirements and the recommended rates and charges necessary to fund the general operations, maintenance, and capital improvement projects outlined in

the engineering study. Mr. Heuer further indicated the recommended rates and charges were set forth and approved by the Anderson Board of Public Works in Resolution No. 06-14 on February 25, 2014, and the Anderson Common Council approved the revised rates and charges in Ordinance No. 5-14 (the "Ordinance") on March 13, 2014. The Ordinance specified that Petitioner would seek Commission approval to increase its rates and charges, to issue debt to fund necessary capital improvements, and to pay for certain operation and maintenance expenses pending an increase in rates.

Mr. Heuer also provided an overview of the projects for which Anderson is seeking authority to issue debt. He explained that one project would be the replacement of its Lafayette Township water treatment plant ("Lafayette Treatment Plant") because the plant has surpassed its useful service life and is inefficient. Additionally, the Lafayette Treatment Plant has the potential for critical failure and serious down time in the near future. Another project is the replacement of four wells in the Lafayette Township water supply well field ("Lafayette Well Field"). The current wells are beyond their useful service lives and have a reduced production yield. He indicated that another project is the water main renewal project in the Homewood Development that will replace miles of two-inch galvanized water main that is currently suffering a high incident of leakage. Anderson also plans to repair and upgrade its Wheeler Avenue water treatment plant ("Wheeler Treatment Plant"). The final project is an in-depth hydrogeological study to research and quantify a new future source of water for Anderson.

b. John Skomp. Mr. Skomp testified concerning Petitioner's requested rate increase and borrowing authority and sponsored Petitioner's Exhibit JRS-1, the June 11, 2014 Rate and Financing Report (the "Report") prepared by Crowe Horwath that contains Petitioner's accounting evidence and Schedule of Present and Proposed Rates and Charges. He explained that while the accounting evidence he sponsored indicates a rate increase of almost 60% would be justified, Petitioner is limiting its request to an overall increase of 46.85% in rates and charges. Petitioner is requesting a phased-in increase, implementing a 21.18% increase to be effective upon issuance of the Commission's Order in this Cause with a second phase increase of 21.18% to be effective on January 1, 2016.

Mr. Skomp also provided supplemental testimony in support of the Settlement Agreement. He indicated that Petitioner supports the Settlement Agreement and requests that the Commission approve it. He also noted the lack of sufficient revenue has prevented the Petitioner from performing the projects contained in the Settlement Agreement while also operating and satisfying the legal requirements regarding its debt funding. The rates authorized in the Settlement Agreement should assist the Petitioner in accomplishing those projects for the long-term benefit of the Petitioner, the City of Anderson, and its citizens. Mr. Skomp concluded that the Settlement Agreement, if approved, would resolve all issues and is in the public interest.

c. Robert Curry. Mr. Curry's testimony provided a description of Anderson's waterworks and summarized the projects that the Petitioner desires to implement and complete. He also noted that his firm prepared the 2014 Preliminary Engineering Report (the "Engineering Report") which was included with his testimony as Petitioner's Exhibit REC-1. He testified that Petitioner owns and operates three water supply well fields known as the Lafayette Well Field, the Ranney Well Field and the Norton Well Field. The Lafayette Well Field was constructed in the late 1960s, the Ranney Well Field was constructed in 1947, and the Norton Well Field was constructed in approximately 1910.

He testified that Petitioner also operates two water treatment plants known as the Lafayette Treatment Plant and the Wheeler Treatment Plant. The Wheeler Treatment Plant was originally constructed in 1947 and its most recent renovation occurred in 1968. The Lafayette Treatment Plant was constructed new in 1969 and no significant upgrades have been made to this water treatment plant. The Lafayette Treatment Plant was originally rated at approximately 8,300,000 gallons per day (“gpd”) and currently has a safe operating capacity of approximately 5,000,000 gpd. The Wheeler Treatment Plant was originally rated at approximately 9,800,000 gpd and currently is capable of producing approximately 5,500,000 gpd. The capacity of this water treatment plant is limited by the volume of water produced by the water supply wells. He also indicated that Petitioner has a very large water distribution system containing water mains of various materials ranging from cast iron, steel, PVC, asbestos-cement, prestress concrete, and ductile iron. The ages of the various existing water mains range from the time of origination of the water works up to current-day installations. The distribution system has significant excessive water loss issues and extensive effort has been made to reduce water loss. The most significant cause of water loss appears to be galvanized steel water mains installed shortly after World War II.

Mr. Curry testified that improvements to the water supply for the City of Anderson are needed in the very near term. He recommended that improvements be made to the Lafayette Well Field first because it will produce the most economical source of water to develop and provides the most dependability, reliability and maintainability for year-around operation. He indicated this well field has been confirmed to contain a reliable daily water supply of 12,000,000 gpd. Mr. Curry recommended the installation of a new water treatment plant to replace the Lafayette Treatment Plant to alleviate the potential threat to the City of Anderson’s public water supply. He indicated that through the replacement of wells in the Lafayette Well Field, Anderson will gain a reliable 8,000,000 gpd of water supply and production capability should function well for the next 25 to 30 years. However, the Wheeler Treatment Plant should be considered a short-term asset in terms of its remaining useful life.

2. The OUCC’s Evidence. The OUCC offered the testimony and exhibits of Scott A. Bell and Margaret A. Stull in support of the Settlement Agreement. Mr. Bell is the Director of the OUCC’s Water/Wastewater Division. Ms. Stull is a Senior Utility Analyst in the OUCC’s Water/Wastewater Division.

a. Scott A. Bell. Mr. Bell testified the Settlement Agreement will resolve all of the issues before the Commission in this Cause and that the Settlement Agreement is in the public interest. Mr. Bell discussed how certain agreed provisions will promote, in the long term, the provision of quality reliable water service to Anderson’s more than 20,000 residential, commercial, and industrial customers. He indicated in his testimony that the Parties agree that in order to meet the financial, technical, and managerial challenges Petitioner faces, it should develop several plans, starting with a strategic plan that will establish and set forth the Petitioner’s goals, strategies, objectives, and key performance indicators. The Parties also agree that the development of an asset management plan will allow the Petitioner to gather information about the water-system assets, and enable the Petitioner to manage the risks of possible failures and operate the assets in the most cost-effective manner. An asset management plan can include recommended strategies for maintaining, renewing, or replacing assets. Petitioner has agreed to comply with the American Water Works Association (“AWWA”) G200 Standards regarding the inspection and proper maintenance of its water storage tanks. Petitioner has also agreed to perform

and present a cost of service study in its next general rate case and acknowledged that its water demand characteristics have changed significantly due to the addition of Nestlé as a customer. Petitioner has also agreed to evaluate its smart grid system to identify cost-effective customer benefits and implement them if reasonably possible.

Mr. Bell noted it is important for Anderson to develop a strategic plan because, like many mid-sized municipal water utilities, Anderson faces many challenges. Mr. Bell testified that Anderson's water system also suffers from aging infrastructure, high non-revenue water, loss of key personnel to retirement, and a lack of a formal strategic plan. Mr. Bell explained that a strategic plan will assist Anderson in achieving success by defining goals, objectives, strategies, key performance indicators, benchmarks, and capital improvement plans that will be necessary to successfully address the challenges faced by Anderson. Mr. Bell noted Anderson agreed to develop a strategic plan within 18 months of the issuance of an Order in this Cause.

Mr. Bell testified Petitioner has agreed to establish an asset management team to develop its written asset management plan, which will include: (a) an asset condition assessment for renewal/replacement planning, (b) valve database, (c) valve exercising program, (d) small diameter water main and steel water main replacement program, (e) water main and service line database, and (f) development or purchase, and implementation, of a computerized maintenance management system.

Mr. Bell stated Anderson has historically experienced water main breaks and leakage in its small diameter steel water mains. He explained that of the 303 water main breaks reported from 2011 to 2013, 226 or 75% occurred in water mains that are two inches in diameter or smaller. He noted Anderson's corrosion and leakage problems from its small diameter steel water mains are well documented in Commission cases over the last 37 years. In all its rate cases from 1977 (Cause No. 34839) to 2006 (Cause No. 42914), evidence indicated the galvanized steel water mains were the cause of many of the water leaks and that Anderson should address its water loss by replacing these older steel water mains. Mr. Bell concluded that Anderson's small diameter water mains are undersized and a known continuing major source of water loss problems within its distribution system. He testified Anderson agreed it shall develop and implement a long-term plan to replace smaller water mains. This asset management program should include a water main database to track water main types, age, and diameters so that Anderson can accurately measure its progress. Mr. Bell noted the water main database is also needed for the annual water system audits Anderson has agreed to perform to address non-revenue water. Mr. Bell noted Petitioner also agreed to include asset condition assessment as part of its asset management plan. He explained this will assist the Petitioner in addressing the replacement of its steel water mains. He added that asset condition assessment will enable Petitioner to assess the entire water distribution system to determine a priority list and develop a plan for the systematic replacement of water mains.

Mr. Bell indicated that Anderson also agreed to create a valve database and valve exercising program to document each valve's condition and operability. He explained this program will identify those valves that are broken, inoperable, frozen open or closed, damaged, corroded, leaking, covered up by paving, or otherwise lost and not accounted for so that they can be restored to operability or replaced with a new valve in a timely manner. He noted that exercising valves ensures they can be closed in emergencies, such as water main breaks, to isolate the affected water mains or closed during routine maintenance of the water distribution system. He explained that

when damaged valves cannot be closed, operators must go further away from the leak to close additional valves inconveniencing more customers than would otherwise be necessary.

Mr. Bell provided testimony regarding other studies that Petitioner has agreed to complete as part of the Settlement Agreement. He noted that Petitioner has agreed to develop a Scope of Services and Study Schedule, consultant selection criteria and solicitation process for the Qualification Based Selection of consultants for: (a) a hydraulic model, (b) a hydrogeological study, and (c) a water resources alternatives study. Mr. Bell described Anderson's bond funding request for these studies. He noted that Anderson estimated that it would cost a total of \$760,000 for the three separate engineering studies including a Hydrogeological Study for New Well Field at \$460,000; a Water Resources Alternative Study for \$100,000; and a Hydraulic Model of Distribution System at \$200,000. Mr. Bell explained the OUCC supports Anderson's efforts to institute a hydraulic model as a way to identify high-pressure and low-pressure problem areas in its water distribution system. He added that modeling will help Anderson select system improvements needed to deliver water to Anderson's southwest side to serve the Nestlé plant while reducing water system pressures. He noted that lowering system pressures is one of four key pillars in reducing non-revenue water lost through leaking mains and service lines. He suggested Anderson purchase and maintain the license for the computerized hydraulic water model and actively involve its own water department staff in the modeling to avoid dependence on outside consultants.

Mr. Bell testified that Anderson agreed it will: (a) work with a professional tank consultant to (i) develop a long-term tank maintenance prioritization plan and establish a forecasted maintenance schedule to assist in determining the financial cost to maintain its seven elevated water storage tanks, and (ii) develop the necessary documents, policies, and procedures to comply with the AWWA G200-09 Standard; and (b) comply with the AWWA G200-09 Standard for Treated Water Storage Facilities, Section 4.3.1. Mr. Bell explained that Petitioner's water storage tanks have a storage capacity of approximately 6.5 million gallons of water and are an integral part of its distribution system. He submitted that if they are not properly maintained and their condition is allowed to deteriorate, the quality of water delivered may not be safe for consumption, let alone of high quality.

Mr. Bell also noted Petitioner agreed to establish a tank and well maintenance fund, which is restricted for use only to pay the expenses associated with tank and well maintenance. However, the OUCC agreed the tank and well maintenance fund may be invaded in the event Anderson must resort to those funds to make its debt service payments on its outstanding debt subject to criteria and notice requirements. Anderson will begin funding the restricted well and tank maintenance fund starting on January 1, 2017.

Mr. Bell indicated that, as part of the Settlement Agreement, Petitioner will perform a cost of service study in its next base rate case. Mr. Bell noted Petitioner's last cost of service study was performed in 2006 and since that time, Nestlé built a production plant near Anderson and became a customer of the Petitioner. Nestlé is reported to have consumed 636.1 million gallons of water in 2012, which represents 26.3% of the total water sold by Petitioner. Nestlé's water usage of 636.1 million gallons in 2012 is five times the 125.6 million gallons used by the entire Large Industrial Class of customers in 2006.

Mr. Bell testified that Anderson uses a smart grid water metering system. He explained that the City of Anderson entered into a contract with Johnson Controls, Inc. ("Johnson Controls") to

provide new water meters and smart grid or smart metering technologies. These hardware and software technologies have enabled Anderson to more efficiently read meters. Mr. Bell suggested there may be untapped potential in these technologies that Petitioner has not fully realized that relate to water quality monitoring, leak detection, pressure management, and energy management. Anderson has agreed to assess its smart grid system and provide a report to the Commission, copying the OUC.

Mr. Bell also noted Petitioner agreed to perform a bottom-up water audit to further the goal of reducing Anderson's non-revenue water. He added that Petitioner agreed to issue Requests for Statements of Qualifications with separate sealed cost proposals to conduct the audit. Mr. Bell explained that every water utility has water losses that include apparent losses (e.g., customer metering inaccuracies, systematic data handling errors, and unauthorized consumption), real losses (e.g., water leakage on transmission and distribution mains, storage leaks, and leakage on customer service lines), and unbilled authorized consumption (e.g., water main flushing and fire fighting). Therefore, due to these apparent losses, real losses and unbilled authorized consumption, a significant portion of the water supplied to customers is never billed for and no revenues are received.

Mr. Bell testified that in 2008 and 2009, Anderson contracted with M.E. Simpson Co. Inc. ("Simpson"), which surveyed 1,724,400 lineal feet (330 miles) of water mains, all fire hydrants, all accessible mainline valves, and selected service lines in 2008. Simpson detected 67 leaks in 2008 with an estimated leakage of 215,280 gpd. In 2009, 76 more leaks producing an estimated 528,480 gpd were detected. Mr. Bell added that from 2011 to 2013 Anderson repaired 303 water main breaks and 541 service line leaks. He stated Anderson's non-revenue water has increased both in volume and as a percentage of its total production. Total non-revenue water volumes rose dramatically in 2008. He noted Anderson's non-revenue water per year averaged nearly 423,000,000 gallons over 2003-2007 but increased by 89% to nearly 800,000,000 gallons per year over 2008-2013. Mr. Bell testified it is critical that Anderson undertake a long-term Water Loss Control Plan to identify, reduce, and manage its water losses. Such a program will include active leak detection, leak elimination, and systematic replacement of problem water mains and service lines.

Mr. Bell indicated that Petitioner agreed to develop and implement a comprehensive flushing plan for its water system and hydrants. He explained that generally, water utilities in Indiana routinely flush their mains to improve water quality and routinely flush their fire hydrants for safety reasons. He noted it is typical in Indiana for well water to contain iron oxide, which discolors finished water. But while treatment plants use filters to remove iron oxide, they don't eliminate it altogether. He explained flushing can eliminate iron that settles in the mains.

Mr. Bell noted Petitioner agreed to arrange for a portable generator to support the pump at Ranney Well No. 5. He acknowledged that for the most part Anderson has adequate emergency power arrangements. He stated that only the Ranney Well Field is unequipped for back-up power. Ranney Well No. 5 is significant to Anderson's operations possessing a production capacity of 2,350 gallons per minute.

Finally, Mr. Bell recommended the Commission approve the Settlement Agreement in its entirety and find that it is in the public interest.

b. Margaret A. Stull. Ms. Stull testified as to the effect of the settlement on Anderson's revenue requirement components, including operating expenses, taxes, depreciation, working capital, payment in lieu of taxes ("PILT"), and debt service. Her testimony also addressed issues regarding accounting practices, the restriction of depreciation and maintenance funds, the guaranteed savings contract with Johnson Controls, the automatic meter reading system capital lease, and non-recurring fees. Ms. Stull also described certain reporting requirements agreed to by the Settling Parties.

Ms. Stull testified that the Parties agreed to Anderson's proposed overall rate increase of 46.85%, which will be implemented in two phases, with revenues increasing by 21.18% in each phase. The Parties agreed to an overall total revenue requirement of \$11,092,308 and a revenue increase of \$3,502,848. The Parties agreed the rate increase will be implemented on an across-the-board basis. She indicated Petitioner did not prepare a cost of service study in this Cause. Ms. Stull noted that since Petitioner's last base rate case there has been a decline in its residential customer count while there has been growth in its industrial customer consumption. The Parties agreed that Petitioner will conduct a cost of service study for its next general water rate case before the Commission.

Ms. Stull explained the Parties agreed upon a *pro forma* net revenue requirement of \$9,158,502 in Phase I and \$11,072,691 in Phase II, each phase representing a 21.18% increase in revenues. She noted several offsets to Anderson's revenue requirement from income sources other than water operating revenues, such as rental income and connection or tap fee revenues.

Ms. Stull indicated Petitioner proposed several adjustments to test year operating expenses including employee benefits, unbilled wastewater charges, and non-recurring expenses. Ms. Stull explained that although the Parties agreed an adjustment is warranted for employee benefits, the adjustment included in the settlement schedules differs from Petitioner's proposed adjustment because of other adjustments to *pro forma* salaries and wages. The settlement schedules also include different adjustments for non-recurring expenses than those proposed by Petitioner as additional non-recurring and capital costs were identified. The settlement schedules do not include Petitioner's adjustment for unbilled wastewater charges. Ms. Stull testified that the Parties also included adjustments to salaries and wages, payments for services to Johnson Controls, maintenance expense, and street repair expense in the settlement schedules.

The settlement schedules also include adjustments for payroll taxes and utility receipts tax. Ms. Stull explained the settlement schedules further reflect changes to both Petitioner's PILT and depreciation expense calculation. She testified that the settlement schedules also show changes to Petitioner's working capital calculation. Ms. Stull stated that the settlement schedules reflect the OUCC's proposed changes to Petitioner's debt service calculation related to the issuance of the proposed 2015 waterworks bonds ("2015 Waterworks Bonds"). She explained that Petitioner cannot issue its proposed long-term debt until the Commission issues an order in this Cause, and that during this interim period, any funds collected for its annual debt service will be used to reduce Petitioner's interdepartmental loan with Anderson's sewer utility.

Ms. Stull explained that the Parties agreed to several recommended accounting practices, including the development and implementation of a comprehensive accounting manual by December 31, 2015. She testified that the accounting manual will set forth standards for journal vouchers, including the development of required journal voucher support, standardized journal

voucher numbering system for transactions other than accounts payable, inventory, payroll, and journal voucher approval process. Ms. Stull stated that the Parties agreed Petitioner will reconcile bank accounts on a monthly basis and develop a schedule showing each fund's balance included in the pooled cash account. The Parties further agreed Petitioner will research the possibility of recording its public fire protection surcharge in a separate account from water sales revenue and implement if it can reasonably be accomplished. Ms. Stull testified the Parties agreed that Petitioner will either adopt the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts numbering system or develop a "crosswalk" to allow ease of reference between Petitioner's accounting system and the NARUC system.

Ms. Stull also testified that the Parties agreed Petitioner will establish a depreciation fund that is restricted to pay for capital improvement projects. She explained that Petitioner will begin funding the depreciation fund starting on January 1, 2017, at a monthly level of at least one-twelfth of the annual depreciation expense included in the revenue requirements reflected in the settlement schedules. To the extent the depreciation fund is not so funded in any given month, Ms. Stull stated that Petitioner will make up the funding deficit as soon as monthly revenues are available to do so. The depreciation fund may be invaded in the event Petitioner requires money to make debt service payments on its outstanding debt subject to notice requirements.

Ms. Stull also testified that the Parties agreed Petitioner will establish a well and tank maintenance fund that is restricted to pay expenses associated with tank and well maintenance. Petitioner will also begin funding the well and tank maintenance fund starting on January 1, 2017, at a monthly level of at least one-twelfth of the annual well and tank maintenance expense included in the revenue requirements reflected in the settlement schedules. Ms. Stull stated that to the extent the well and tank maintenance fund is not so funded in any given month, Petitioner will make up the funding deficit as soon as monthly revenues are available to do so. The well and tank maintenance fund may be invaded in the event Petitioner requires money to make debt service payments on its outstanding debt subject to notice requirements.

Ms. Stull testified regarding restrictions on Petitioner's proposed debt service reserve, and stated that if Petitioner spends any funds from its debt service reserves for any reason other than to make the last payment on its proposed 2015 debt issuance, Petitioner will copy the OUCC on any notice Anderson gives to the lenders pursuant to the terms of the Bond Ordinance.

Ms. Stull stated that Petitioner seeks to include \$690,758 in its annual revenue requirement to account for its allocated portion of the 2006 capital lease the City of Anderson executed with Chase Equipment Leasing ("Chase"). She explained that Petitioner also seeks to include \$67,689 in its revenue requirement for payments to Johnson Controls for ongoing services related to the automatic meter reading system. She indicated Petitioner recognizes the automatic meter reading system as utility plant in service and seeks to recover approximately \$250,000 in additional depreciation expense.

Ms. Stull explained that the Parties reached an agreement as to how the lease payments to Chase should be treated. She stated that Petitioner's allocated portion of the capital lease with Chase represents an ongoing financial commitment for Anderson; therefore, it is long-term debt. She testified that the Parties agreed the Commission should grant Petitioner authority to recognize the allocated portion of the capital lease with Chase as long-term debt.

The Parties also agreed that Petitioner should be granted authority to recognize long-term debt of \$4,420,000 at an interest rate of 4.1342%. Ms. Stull testified that Petitioner's revenue requirement includes payments to Johnson Controls for measurement, verification, and consultation services. She explained the Parties agreed that these obligations may be offset in future rate cases by payments or credits to Anderson from Johnson Controls if such payments or credits occur and are within the parameters for accounting adjustment as set forth in those future rate cases.

Ms. Stull described the Parties' agreement as to cash flow statements, stating that prior to each of the quarterly and semi-annual meetings described in Scott Bell's testimony, Petitioner will provide the OUCC with a summary cash flow statement that reflects total cash inflows and total cash outflows for the period being reported. She explained that the cash flow statement must also show a breakdown of cash flows by category including, among other things, operating expenses, debt service, PILT paid to the City of Anderson, and funds deposited in restricted accounts.

Ms. Stull testified that the annual debt service associated with Petitioner's proposed debt issuance will not be known until Petitioner's debt is issued; therefore, if Petitioner issues a lower amount of debt than assumed by the Settlement Agreement, Petitioner's rates will be trued up to reflect the actual cost of the debt. She stated that within 30 days of closing on its long-term debt issuance Petitioner will 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 a breakdown of all issuance costs by payee or vendor. Because this is a two-phase rate increase, Petitioner's calculation in the true-up report will show the rate impact for both Phase I and Phase II.

Ms. Stull testified the Parties agreed Petitioner must provide reasonable notice to the OUCC and the Commission in the event Petitioner uses any of its restricted funds to make debt service payments. Reasonable notice means notification to the Commission and the OUCC within 30 days after any monies from either the depreciation fund or the well and tank maintenance fund are used to pay debt service. Ms. Stull noted that the Parties agreed the notice will include the amount of funds used to pay debt service and the date the funds were paid out.

Ms. Stull explained the Parties also agreed that Petitioner will provide the OUCC a transaction ledger showing payments made to "Sewage Works" from amounts collected for debt service before the issuance of the proposed 2015 Waterworks Bonds. Petitioner will provide written annual reports for each of the restricted accounts showing the balance of each fund and a schedule showing the deposits and withdrawal activity for each of the depreciation and well and tank maintenance restricted funds. Ms. Stull explained these reports will be provided to the OUCC at the same time Petitioner submits its Annual Report to the Commission. Ms. Stull stated that Petitioner will notify the OUCC within 30 days if either the capital lease with Chase or the guaranteed savings contract with Johnson Controls is terminated or otherwise amended to remove the City of Anderson's obligation to Chase or the obligation of Johnson Controls to provide measurement, verification, and consultation services. She also explained that non-recurring fees included in Petitioner's tariff should be cost-based and, as a result, Petitioner agreed to update its non-recurring fees as necessary. She stated that Petitioner will provide testimony in its next base rate case addressing its then-current costs associated with these non-recurring fees.

Ms. Stull concluded her testimony by recommending the Commission approve the Settlement Agreement in this Cause in its entirety and find that it is in the public interest.

B. Settlement Agreement.

1. Petitioner's Revenue Requirements and Rate Increase. Petitioner and the OUCC have stipulated and we find that Petitioners' revenue requirements are as follows:

	<u>Settlement Agreement</u>
Operation & Maintenance Expense	\$ 6,421,494
Well and Tank Maintenance	162,374
Taxes other than Income	342,838
Depreciation Expense (E&R)	952,615
Working Capital	755,725
Payment in Lieu of Taxes (PILT)	476,737
Debt Service - Current	1,089,435
Debt Service - Proposed	<u>940,130</u>
Total Revenue Requirement	\$ 11,141,348
Less: Other Revenues	(16,440)
Less: Connection Fees	<u>(25,353)</u>
Net Revenue Requirements	\$ 11,099,555

The parties also agree that Petitioner's *pro forma* revenues at current rates equal \$7,596,707 and revenues subject to increase are \$7,477,314. The rates and charges currently in effect for services rendered by Petitioner are inadequate to provide for Petitioner's annual revenue requirement and should be increased. Petitioner should be authorized to increase its rates in order to produce \$3,502,808 in additional annual revenues and total annual revenues of \$11,099,555, inclusive of additional Utility Receipts Tax or an overall increase of 46.85%.

The Parties further agree that Petitioner should implement the required rate increase in two phases. Phase I revenue will be utilized to cover the costs of debt retirement costs, and operation and maintenance costs. A portion of the Phase II increase would be used to fund the balance of operation and maintenance costs and a portion would be used to fund waterworks improvements. Phase I rates would increase annual revenues by \$1,583,971 or 21.18% and the Phase II rates would increase annual revenues by \$1,918,877 or 21.18%. Petitioner may implement the Phase II rates no sooner than 12 months before its first principal payment will be due on its exercise of the additional financing authority we approve below.

2. Financing.

a. Borrowing Authority. The Parties agree that Petitioner should be authorized to engage in long-term borrowing, not to exceed \$14,270,000 in principal amount, at an interest rate not to exceed 6.0%.¹ The issuance of debt will go into effect no sooner than 12 months before Petitioner's first principal payment on the obligations.

¹ The annual amount of debt service in the settlement schedules is based on a borrowing of \$14,225,000 at updated interest rates as of October 10, 2014.

b. True-Up. The actual cost of debt service will not be exactly known until after Petitioner issues the bonds. The Parties agreed that if Petitioner borrows materially less than \$14,270,000 it will file a true-up report with the Commission. The true-up report should include: a calculation of the rate impact on the Phase I and Phase II rates, on account of the decrease amount of principal borrowed; and unless the OUCC agrees that the decrease in rates would be immaterial, Petitioner will adjust its rates to account for the decreased amount of principal owed.

6. Commission Discussion and Findings.

A. Settlement Agreement. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana 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 Coalition v. PSI Energy*, 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 Coalition*, 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. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d330, 331 (Ind. 1991)). The Commission’s own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this cause sufficiently supports the conclusions that the Settlement Agreement is reasonable, just, and consistent with the purpose of Ind. Code § 8-1-2-1 *et seq.*, and that such agreement serves the public interest.

Upon review of the substantial and uncontroverted evidence of record, we find that the Settlement Agreement is the product of arms-length negotiations between the Parties and that the terms of the Settlement Agreement are supported by the evidence and represent a reasonable resolution of the issues presented to the Commission. The Commission further finds that the terms of the Settlement Agreement are reasonable, and the approval of the Settlement Agreement to be in the public interest. Therefore, the Commission finds the Settlement Agreement should be approved in its entirety.

Consistent with the evidence of record and the terms of the Settlement Agreement approved herein, the Commission specifically finds:

1. Petitioner’s Authorized Rates. Based upon the evidence, the Commission finds that Petitioner’s current rates and charges, which provide annual adjusted rate revenues of \$7,477,314, are insufficient to satisfy Petitioner’s annual *pro forma* net revenue requirement of \$11,099,555, inclusive of additional Utility Receipts Tax. The Commission further finds that Petitioner shall be authorized to increase its rates and charges for water service, across-the-board, to produce annual revenues of \$11,099,555, an increase of \$3,502,848 in annual revenues, representing a 46.85% increase in current rates. The Commission further finds that Petitioner shall be authorized to implement said rate increase in two phases. Petitioner may implement the Phase I increase of its current rates by 21.18% upon issuance of this Order and

approval of Petitioner's revised tariff. Petitioner may implement the Phase II increase of 21.18% on or about January 1, 2016, but no sooner than 12 months before its first principal payment is due on its exercise of the additional borrowing authority approved in this order.

2. Petitioner's Financing

a. Borrowing Authority. The Commission finds Petitioner's request to issue long-term debt to fund capital improvements and pay for certain operation and maintenance expenses is reasonable and necessary in order for Petitioner to provide adequate and efficient water service. Therefore, Petitioner is authorized to issue long-term debt not to exceed \$14,270,000 in principal amount at an interest rate not to exceed 6.0%. Such issuance will go into effect no sooner than 12 months before Petitioner's first principal payment on the obligations.

b. True-Up. Consistent with the Parties' Settlement Agreement, we find that Petitioner shall file a true-up report with the Commission under this Cause Number and serve a copy thereof on the parties of record within 30 days of closing on its issuance of long-term debt. The true-up report shall provide the following: the actual principal amount borrowed, the interest rate, the terms of the indebtedness, the actual average annual debt service requirements, the rate impact for both Phase I and Phase II, and if necessary, Petitioner should file an amended tariff. If Petitioner does not file an amended schedule of rates and charges, it shall advise the Commission as part of its true-up report or through a subsequent filing.

B. Use of Settlement Agreement. The Parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding 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, which is attached to this Order as Joint Exhibit No. 1, is approved.

2. Petitioner is authorized to increase its rates and charges for water service, across-the-board, in two Phases of 21.18% each in order to increase annual operating revenues by \$1,583,971 in Phase I and \$1,918,877 in Phase II to produce annual operating revenues of \$11,099,555.

3. Petitioner is hereby granted a Certificate of Authority to issue additional long-term debt not to exceed \$14,270,000 as approved herein. This Order shall be the sole evidence of Petitioner's certificate.

4. For Phase I, Petitioner shall file new schedules of rates and charges with the Water/Wastewater Division of the Commission on the basis set forth above. Petitioner's new schedules of rates and charges shall be effective upon filing and after approval by the Water/Wastewater Division and shall apply to water usage from and after the date of filing.

5. Prior to placing into effect the Phase II rates and charges approved herein, Petitioner shall file new schedules of rates and charges with the Water/Wastewater Division of the Commission. Petitioner's Phase II schedules of rates and charges shall be effective upon filing and after approval by the Water/Wastewater Division. Said Phase II rates and charges may not be approved by this Commission sooner than January 1, 2016, and upon such approval, Petitioner's Phase II tariff schedules shall replace Petitioner's Phase I schedules of rates and charges.

6. Petitioner shall file a true-up report as provided in Finding Paragraph 6.

7. In accordance with Ind. Code § 8-1-2-70, Petitioner shall pay the following itemized charges within 20 days from the date of the Order into the Commission public utility fund account described in Ind. Code § 8-1-6-2, through the Secretary of the Commission, as well as any additional costs that were incurred in connection with this Cause:

Commission Charges:	\$ 4,019.94
OUCG Charges:	\$ 73,110.03
Legal Advertising Charges:	\$ <u>238.40</u>
Total:	\$ 77,368.37

8. In accordance with Ind. Code § 8-1-2-85, Petitioner shall pay a fee equal to \$0.25 for each \$100 of water utility revenue bonds issued, to the Secretary of the Commission, within 30 days of the receipt of the financing proceeds authorized herein. The fees collected by the Secretary shall be deposited into the Commission public utility fund account established under Ind. Code ch. 8-1-6.

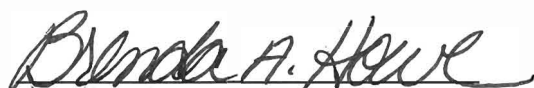
9. This Order shall be effective on and after the date of its approval.

STEPHAN, MAYS-MEDLEY, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED:

MAR 04 2015

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



Brenda A. Howe
Secretary to the Commission

Cause No. 44510
Joint Exhibit No. 1
SETTLEMENT AGREEMENT

FILED
November 25, 2014
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF THE CITY OF ANDERSON, INDIANA (1) FOR)
AUTHORITY AND APPROVAL TO INCREASE RATES AND)
CHARGES FOR WATER SERVICE, INCLUDING APPROVAL)
OF NEW SCHEDULE(S) OF RATES AND CHARGES FOR) CAUSE NO. 44510
WATER SERVICE, AND (2) FOR AUTHORITY AND)
APPROVAL TO ISSUE BONDS, NOTES, OR OTHER)
OBLIGATIONS OF INDEBTEDNESS)**

JOINT SETTLEMENT STIPULATION AND AGREEMENT

The Petitioner, City of Anderson, Indiana for its Municipal Water Utility (“Anderson”) and the Indiana Office of Utility Consumer Counselor (“OUCC”) tender this Joint Settlement Agreement (“Agreement”) and jointly request that the Commission approve and adopt its terms in its final order in this cause granting Anderson the rate and financing relief it requested in its Petition initiating this cause filed July 2, 2014. The parties will tender to the Commission additional pre-filed testimony and exhibits in support of this settlement. The Commission has set a Settlement Hearing for December 10, 2014, at which time the parties intend to present their pre-filed testimony and exhibits in support of this settlement. The parties will tender to the Commission at or before the Settlement Hearing an agreed form of final order.

The terms of the parties’ settlement agreement follows.

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SETTLEMENT AGREEMENT

I. Revenue Requirement

Attached as Exhibit A are financial schedules showing the OUCC's adjustments, which both parties agree to for settlement purposes. The parties agree on these financial schedules as the basis to determine Anderson's revenue requirement on which new rates should be based. Anderson neither admits nor agrees that its future revenues and expenses will match the adjusted pro forma revenues and expenses either individually or in the aggregate.

II. Financing

A. Authorization

Anderson should be authorized to issue up to \$14,270,000 in long-term debt at a maximum interest rate not to exceed 6.0%.

B. True-up

If Anderson borrows materially less than \$14,270,000, then:

1. Anderson will be required to file a true-up report that will include a calculation of the rate impact on the Phase I and Phase II rates, on account of the decreased amount of principle borrowed, in a manner similar to that used by Petitioner in its last rate case (which included a draft set of revised tariffs); and
2. unless the OUCC agrees the decrease in rates would be immaterial, Petitioner will adjust its rates to account for the decreased amount of principle borrowed.

C. Use of Rates Collected before Borrowing

The portion of monthly revenues collected under the new rates before the issuance of Anderson's 2015 debt which represents amounts collected for debt

service (calculated based on Exhibit A) shall be paid to the Anderson Municipal Sewage Works (“Sewage Works”) to reduce the outstanding balance on Anderson’s interdepartmental loan. Anderson will provide the OUCC a transaction ledger showing all such payments to the Sewage Works as part of its reporting requirements in VII.C below.

D. Phase II Rates

Anderson’s Phase II rates approved in this cause will go into effect no sooner than twelve (12) months before its first principal payment is due on its 2015 Bonds.

E. Reporting to OUCC and IURC in Connection with Financing

See VII.C below.

F. Expiration of Authority

If Anderson elects to issue its proposed 2015 Bonds in phases, Anderson shall notify the IURC and the OUCC in writing of its intention to do so. Otherwise, any unused authority to issue debt for Anderson’s 2015 bonds will expire 360 days after the issuance of the final order in this Cause.

III. Accounting Practices

A. Accounting Manual

Anderson agrees to develop and implement by December 31, 2015, a comprehensive accounting manual. Anderson’s accounting manual will set forth standards for required journal voucher support and file vouchers with support in a readily available location; develop a standardized journal voucher numbering system

for transactions that are not AP, Inventory, or Payroll, and require approval of all water utility journal vouchers before transactions are entered into accounting system.

B. Specific Regulatory Accounting Practices

Anderson agrees to:

1. reconcile bank account(s) monthly and develop a schedule showing each fund balance included in the pooled cash account;
2. research the possibility in its MUNIS accounting system to record public fire protection surcharge separately from water sales revenues and implement such an accounting system if it can be reasonably accomplished; and
3. either adopt the NARUC system of accounts numbering system or develop a crosswalk to allow ease of reference between the MUNIS account numbers and the account numbers prescribed by NARUC, provided that Anderson may retain its current capitalization policy.

IV. Operations and Planning

A. Strategic Planning and other Planning

Anderson will develop Requests for Qualifications (RFQs) for a qualification-based selection of consultants for strategic planning activities as required in this Agreement. Within eighteen (18) months of the issuance of the final order in this Cause, Anderson will develop a Strategic Plan. (See VII.D.3 below regarding reporting.) Within six (6) months of the final order in this Cause, Anderson will contract with a professional consultant(s) to begin working on the Strategic Plan and assist, as appropriate, in the development of the Capital Improvement Plan, the Tank

Maintenance Prioritization Plan, the Scope of Services and Study Schedule, the Asset Management Plan, and the Flushing Plan. (See sub-sections B, C, D, E, and F below.)

B. Capital Improvement Plan

As part of, or in connection with, its strategic planning activities, within eighteen (18) months of the final order in this Cause, Anderson will, develop and implement a rolling short-term three-year capital improvement plan for its depreciation funds.

C. Wells and Tanks

1. Tanks

As part of, or in connection with, its strategic planning activities, Anderson will, within eighteen (18) months of the final order in this Cause: (a) work with a professional tank consultant to develop (i) a long-term tank maintenance prioritization plan and establish a forecasted maintenance schedule to assist in determining the financial cost to performing future tank maintenance, and (ii) the necessary documents, policies, and procedures to comply with the AWWA G200-09 Standard; and (b) comply with AWWA G200-09 Standard for Treated Water Storage Facilities, Section 4.3.1 (see VII.D.1 below regarding reporting).

2. Wells

Anderson will work with a professional well consultant to determine the annual cost of performing well maintenance on an ongoing basis.

D. Other Studies

As part of, or in connection with, its strategic planning activities, Anderson will, within eighteen (18) months of the final order in this Cause, also:

1. Develop a Scope of Services and Study Schedule, consultant selection criteria and a solicitation process for the Qualification Based Selection of consultants for (a) hydraulic model, (b) hydrogeological study, (c) water resources alternatives study, and (d) bottom-up water audit to further the goal of reducing Anderson's non-revenue water. Anderson will issue Requests for Statements of Qualifications (SOQ) with separate sealed cost proposals to conduct the studies. .
2. Assess its smart grid system (see VII.D.2 below for reporting).

E. Asset Management

As part of, or in connection with, its strategic planning activities, Anderson will, within eighteen (18) months of the final order in this Cause, establish an asset management team to develop a written asset management plan, including: (a) an asset condition assessment for renewal/replacement planning, (b) valve database, (c) valve exercising program, (d) small diameter water main and steel water main replacement program, (e) water main and service line database, and (f) development or purchase, and implementation, of computer maintenance management system software to help the Anderson schedule, track, and monitor O&M activities and resources.

F. Flushing

As part of, or in connection with, its strategic planning activities, Anderson will, within eighteen (18) months of the final order in this Cause, develop and implement a comprehensive flushing plan for its water system and its hydrants.

G. Portable Generator

Within ninety (90) days following the final order in this Cause, Anderson will procure or arrange for access to a portable generator to support the pump at Ranney Well No. 5.

V. Restricted Funding

A. Depreciation Fund

Anderson will establish a depreciation fund, which is restricted for use only to pay for capital improvement projects. However, the depreciation fund may be invaded in the event Anderson requires the money to make debt service payments on its outstanding debt subject to criteria and notice requirements. Anderson will begin funding the restricted depreciation fund starting on January 1, 2017. Anderson will fund the restricted depreciation fund at a monthly level of at least one-twelfth (1/12) of the annual amount calculated for annual depreciation expense within this Cause as shown in Schedule 1 and 1A. To the extent that the depreciation fund is not so funded in any given month, Anderson will make up the funding deficit as soon as monthly revenues are available to do so.

B. Tank and Well Maintenance Fund

Anderson will establish a tank and well maintenance fund, which is restricted for use only to pay the expenses associated with tank and well maintenance. However,

the tank and well maintenance fund may be invaded in the event Anderson requires the money to make debt service payments on its outstanding debt subject to criteria and notice requirements. Anderson will begin funding the restricted well and tank maintenance fund starting on January 1, 2017.

Anderson will fund the restricted well and tank maintenance account at a monthly level of at least one-twelfth (1/12) of the annual amount for well and tank maintenance expense within this Cause as shown in Schedule 1 and 1A. To the extent that the well and tank maintenance fund is not so funded in any given month, Anderson will make up the funding deficit as soon as monthly revenues are available to do so.

C. Criteria and Notice Requirements

Reasonable notice requirements means notification (within 30 days) to the IURC and the OUCC after any monies from either the depreciation fund or the well and tank maintenance fund are used to pay debt service. The notice will include the amount of funds used to pay debt service and the date the funds were paid out for that purpose.

D. Annual Reporting Regarding Restricted Funds

See VII.D.4 below.

VI. Meter Leases and Contracts

Anderson's revenue requirement includes its lease payment obligation for meters, which Anderson should be authorized to have incurred and to recognize in a principal amount of no more than \$4,420,000 at an interest rate of 4.1342%. Anderson's revenue

requirement further includes obligation to pay to Johnson Controls for Measurement & Verification and Consultation services, which obligations may be offset in future rate cases by payments or credits to Anderson from Johnson Controls if such payments or credits occur and are within the parameters for accounting adjustments as set forth in those future rate cases (see VII.D.5 below for reporting).

VII. Reporting and Meeting

A. Quarterly and Annual Meetings with OUCC

During the first 12 months in which Anderson's Phase I rates are in effect, Anderson will meet with the OUCC on a quarterly basis to discuss its progress in developing such RFQs and its selection of consultant(s). Anderson will meet with the OUCC on a semi-annual basis for the following two years to discuss ongoing progress of its strategic planning activities.

B. Reports in Connection with Meetings

Prior to each quarterly and semi-annual meeting, Anderson will provide the OUCC a summary cash flow statement reflecting total cash inflows and total cash outflows for the period being reported. The summary of cash flows must show a breakdown of cash outflows by category – i.e., operating expenses, debt service, PILT paid to City, funds deposited in depreciation fund, funds deposited in well and tank maintenance fund, etc.

C. Reports in Connection with Financing

Within thirty (30) days of closing on its proposed long-term debt issuance, Anderson will file a report with the Commission and serve a copy on the OUCC,

disclosing the terms of the new financing, including an amortization schedule, the amount of debt service reserve and a breakdown of all issuance costs by payee or vendor. Anderson will copy the OUCC on any notice Anderson gives to the lenders pursuant to the terms of the Bond Ordinances pertaining to the use of monies in the Reserve Account within the Sinking Fund.

D. Other Reporting Requirements

Within eighteen (18) months of the final order in this Cause, Anderson will:

1. Provide a report to the OUCC and the Commission describing its plan to comply with AWWA G200-09 Standard for Treated Water Storage Facilities, Section 4.3.1 (see IV.C above).
2. Provide a report to the Commission, copying the OUCC, on its assessment of its smart grid system (see IV.D.2 above).
3. Provide a copy of its Strategic Plan, including a copy of the written asset management plan, to the Commission, copying the OUCC (see IV.A above).
4. Report, in writing, the balances, including a schedule showing the deposit and withdrawal activity, within depreciation fund and the well and tank maintenance fund to the OUCC at the same time Anderson submits its Annual Report to the Indiana Utility Regulatory Commission (see IV.D aboveIV.D above).

5. If either the Lease with Chase or the Guaranteed Savings Contract is terminated or otherwise amended to remove the City's obligation to Chase or the obligation of Johnson Controls to provide Measure & Verification and Consultation services, Anderson agrees to notify the OUCC of such termination or amendment within thirty (30) days of such termination or amendment. (See VI above.)

VIII. Other Obligations of Anderson

A. Retention of Internal Water System Reports

After 2014, Anderson will retain all final engineering reports, designs, studies, planning studies, cost estimates, evaluation reports, inspections, cost quotes, and bids prepared by, or on behalf of, Anderson in electronic format.

B. Cost of Service Study

Anderson will conduct a Cost of Service Study for its next general water rate case before the Commission.

C. Non-Recurring Fees

In its next rate case before the Commission, Anderson will provide testimony to address the current costs associated with the non-recurring fees included in its tariff. Anderson agrees these fees should be cost-based, and as a result, it agrees to update its non-recurring fees as necessary.

IX. Miscellaneous Provisions

- A. This Agreement shall remain binding upon Anderson until the earlier of: (i) the date the parties terminate it by mutual agreement, (ii) the date a withdrawal from the regulatory jurisdiction of the Commission by Anderson becomes effective, or (iii) the

entry of another final order by the Commission replacing the final order entered in this cause.

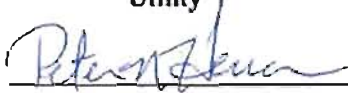
- B. The Stipulation is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without any change or condition that is unacceptable to any Settling Party. Each term of the Stipulation is in consideration and support of each and every other term. If the Commission does not approve the Stipulation in its entirety or if the Commission makes modifications that are unacceptable to any Settling Party, the Stipulation shall be null and void and shall be deemed withdrawn upon notice in writing by any party within 15 days after the date of the final order stating that a modification made by the Commission is unacceptable to the Settling Party.
- C. The parties will either support or not oppose on rehearing, reconsideration and/or appeal, an IURC Order accepting and approving this Stipulation in accordance with its terms.
- D. The Stipulation is the result of compromise in the settlement process and neither the making of the Stipulation nor any of its provisions shall constitute an admission or waiver by any Settling Party in any other proceeding, now or in the future. The Stipulation shall not be used as precedent in any other current or future proceeding or for any other purpose except to the extent provided for herein or to the extent necessary to implement or enforce its terms.
- E. The evidence to be submitted in support of the Stipulation constitutes substantial evidence sufficient to support the Stipulation and provides an adequate evidentiary

basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of the Stipulation.

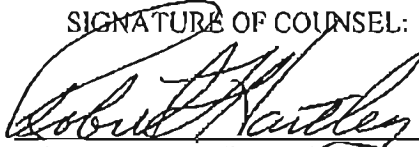
- F. The communications and discussions and materials produced and exchanged during the negotiation of the Stipulation relate to offers of settlement and shall be privileged and confidential.
- G. The undersigned represent and agreed that they are fully authorized to execute the Stipulation on behalf of the designated party who will be bound thereby.

[SIGNATURE PAGE FOLLOWS]

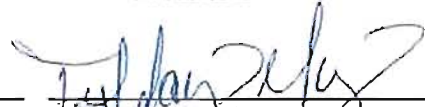
City of Anderson Municipal Water
Utility

By: 
Name: Pete Heuer
Title: Chairman of the Board of Public Works
Date: November 21, 2014

SIGNATURE OF COUNSEL:


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Exhibit A

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

**Comparison of Petitioner's and Settlement's
Revenue Requirements**

	<u>Per Petitioner</u>	<u>Per Settlement</u>	<u>Sch Ref</u>	<u>Settlement More (Less)</u>
Operating Expenses	\$ 6,685,524	\$ 6,421,494	4	\$ (264,030)
Well and Tank Maintenance	-	162,374	4	162,374
Taxes other than Income	289,722	293,798	4	4,076
Depreciation Expense	1,022,448	952,615	4	(69,833)
Working Capital	1,128,183	755,725	7	(372,458)
PILT	510,406	476,737	4	(33,669)
Debt Service - Current	1,089,435	1,089,435	8	-
Debt Service - Proposed	1,107,980	940,130	8	(167,850)
Total Revenue Requirements	<u>11,833,698</u>	<u>11,092,308</u>		<u>(741,390)</u>
Less: Interest Income	-	-		-
Rental Income	-	(16,440)	3	(16,440)
Tap Fees	-	(25,353)	3	(25,353)
Add: Other Expenses	-	-		-
Net Revenue Requirements	<u>11,833,698</u>	<u>11,050,515</u>		<u>(783,183)</u>
Less: Revenues at Current Rates Subject To Increase	(7,356,084)	(7,477,314)	4	(121,230)
Forfeited Discounts	(46,625)	-	4	46,625
Other Revenues at Current Rates	<u>(119,393)</u>	<u>(119,393)</u>	4	<u>-</u>
Unadjusted Revenue Increase Required	4,311,596	3,453,808		(857,788)
Divide by Revenue Conversion Factor (100% - 1.4%)	0.986	0.986		-
Increase as calculated	<u>\$ 4,372,815</u>	<u>\$ 3,502,848</u>		<u>\$ (869,967)</u>
Percentage increase as calculated	<u>59.45%</u>	<u>46.85%</u>		<u>-12.60%</u>
Recommended Percentage Increase (as requested by Petitioner)	<u>46.85%</u>	<u>46.85%</u>		<u>0.00%</u>

The Anderson Common Council authorized a 46.85% rate increase. Anderson's direct evidence in this Cause presented a larger revenue requirement, which, if approved, would result in a rate increase of 59.45%. However, Anderson only requested the 46.85% rate increase approved by the Anderson Common Council.

In these Settlement Schedules, the revenue requirement shown in the "Per Petitioner" columns is the *pro forma* revenue requirement presented in Anderson's direct evidence, and not the 46.85% rate increase Anderson requested.

Exhibit A

Settlement
Schedule 1
Page 2 of 2

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Reconciliation of Net Operating Income Statement Adjustments
Pro-forma Present Rates

	<u>Per Petitioner</u>	<u>Per Settlement</u>	<u>Settlement More (Less)</u>
Operating Revenues			
Residential	\$ -	\$ (43,728)	\$ (43,728)
Industrial	-	118,333	118,333
Other Miscellaneous Revenues	-	-	-
Total Operating Revenues	<u>-</u>	<u>74,605</u>	<u>74,605</u>
O&M Expense			
Salaries and Wages	-	59,505	59,505
PERF Contribution -- 2014	12,226	18,890	6,664
Waste Treatment - WTPs	224,748	-	(224,748)
Capital and Non-recurring Costs	(30,875)	(108,034)	(77,159)
Johnson Controls Payment	-	(5,688)	(5,688)
Maintenance Expense	-	162,374	162,374
Street Repair Expenses	-	(22,605)	(22,605)
Depreciation Expense	202,206	132,373	(69,833)
Amortization Expense	(7,044)	(7,044)	-
Taxes Other than Income			
FICA Tax	2,780	7,332	4,552
Utility Receipts	4,587	4,111	(476)
PILT	294,852	261,183	(33,669)
Total Operating Expenses	<u>703,480</u>	<u>502,397</u>	<u>(201,083)</u>
Net Operating Income	<u>\$ (703,480)</u>	<u>\$ (427,792)</u>	<u>\$ 275,688</u>

Exhibit A

**CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510**

**Comparison of Petitioner's and Settlement's
Revenue Requirements**

	Per Petitioner			Per Settlement			Sch Ref	Settlement More (Less)		
	Phase I	Phase II	Overall	Phase I	Phase II	Overall		Phase I	Phase II	Overall
Operating Expenses	\$ 6,685,524	\$ 6,685,524	\$ 6,685,524	\$ 6,329,974	\$ 6,421,494	\$ 6,421,494	4	\$ (355,550)	\$ (264,030)	\$ (264,030)
Well and Tank Maintenance	-	-	-	96,724	162,374	162,374		96,724	162,374	162,374
Taxes other than Income	289,722	342,258	289,722	287,502	315,974	293,798	4	(2,220)	(26,284)	4,076
Depreciation Expense	1,022,448	1,022,448	1,022,448	-	952,615	952,615	4	(1,022,448)	(69,833)	(69,833)
Working Capital	1,123,805	1,128,183	1,128,183	981,438	755,725	755,725	7	(142,367)	(372,458)	(372,458)
PILT	510,406	510,406	510,406	-	476,737	476,737	4	(510,406)	(33,669)	(33,669)
Debt Service - Current	1,088,736	1,089,435	1,089,435	1,088,736	1,089,435	1,089,435	8	-	-	-
Debt Service - Proposed	501,500	1,107,980	1,107,980	415,921	940,130	940,130	8	(85,579)	(167,850)	(167,850)
Total Revenue Requirements	11,222,141	11,886,234	11,833,698	9,200,295	11,114,484	11,092,308		(2,021,846)	(771,750)	(741,390)
Less: Interest Income	-	-	-	-	-	-		-	-	-
Rental Income	-	-	-	(16,440)	(16,440)	(16,440)	3	(16,440)	(16,440)	(16,440)
Tap Fees	-	-	-	(25,353)	(25,353)	(25,353)	3	(25,353)	(25,353)	(25,353)
Add: Other Expenses	-	-	-	-	-	-		-	-	-
Net Revenue Requirements	11,222,141	11,886,234	11,833,698	9,158,502	11,072,691	11,050,515		(2,063,639)	(813,543)	(783,183)
Less: Revenues Subject To Increase	(7,356,084)	(11,108,659)	(7,356,084)	(7,477,314)	(9,061,285)	(7,477,314)	4	(121,230)	2,047,374	(121,230)
Forfeited Discounts	(46,625)	(46,625)	(46,625)	-	-	-		46,625	46,625	46,625
Other Revenues at Current Rates	(119,393)	(119,393)	(119,393)	(119,393)	(119,393)	(119,393)	4	-	-	-
Unadjusted Revenue Increase Required	3,700,039	611,557	4,311,596	1,561,795	1,892,013	3,453,808		(2,138,244)	1,280,456	(857,788)
Divide by Revenue Conversion Factor (100% - 1.4%)	0.986	0.986	0.986	0.986	0.986	0.986		0.986	0.986	0.986
Increase as calculated	\$ 3,752,575	\$ 620,240	\$ 4,372,815	\$ 1,583,971	\$ 1,918,877	\$ 3,502,848		\$ (2,168,604)	\$ 1,298,637	\$ (869,968)
Percentage increase as calculated	51.01%	5.58%	59.45%	21.18%	21.18%	46.85%		-29.83%	15.59%	-12.60%
Recommended Percentage Increase	21.18%	21.18%	46.85%	21.18%	21.18%	46.85%		0.00%	0.00%	0.00%

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

COMPARATIVE BALANCE SHEET
As of December 31,

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Utility Plant:			
Utility Plant in Service	\$ 48,085,230	\$ 47,806,342	\$ 47,745,823
Construction Work in Progress	243,459	43,705	46,238
Less: Accumulated Depreciation	<u>(24,767,486)</u>	<u>(23,907,238)</u>	<u>(23,169,104)</u>
Net Utility Plant in Service	<u>23,561,203</u>	<u>23,942,809</u>	<u>24,622,957</u>
Restricted Assets:			
Water Customer Deposit Fund	386,568	225,064	149,800
Contribution in Lieu of Taxes Fund	215,565	323,345	323,342
Well and Tank Maintenance Fund	-	-	-
Depreciation Reserve Fund	49,806	173,039	-
SRF Retainage Fund	-	-	151,150
Construction Fund	638,532	1,068,231	1,078,840
Automatic Meter Reading Fund	-	-	216,547
Mail Permit Deposits	3,000	3,000	3,000
Total Restricted Assets	<u>1,293,471</u>	<u>1,792,679</u>	<u>1,922,679</u>
Current Assets:			
Cash and Cash Equivalents	230,928	227,752	663,635
Accounts Receivable	630,038	656,611	663,382
Accounts Receivable - Associated	54,902	275	-
Accrued Interest	-	-	-
Prepaid Insurance	-	-	-
Materials and Supplies	<u>278,581</u>	<u>317,297</u>	<u>267,226</u>
Total Current Assets	<u>1,194,449</u>	<u>1,201,935</u>	<u>1,594,243</u>
Deferred Debits:			
Unrecovered Study Costs	64,889	9,250	-
Unamortized Debt Discount	<u>97,427</u>	<u>98,590</u>	<u>105,635</u>
Total Deferred Debits	<u>162,316</u>	<u>107,840</u>	<u>105,635</u>
Total Assets	<u>\$ 26,211,439</u>	<u>\$ 27,045,263</u>	<u>\$ 28,245,514</u>

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

COMPARATIVE BALANCE SHEET
As of December 31,

<u>LIABILITIES</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Equity			
Retained Earnings	\$ 8,668,227	\$ 8,839,931	\$ 8,496,242
Current Year Earnings	(281,307)	(104,135)	280,683
Proprietary Account	464,384	464,384	464,384
Donated Surplus	896,501	896,501	896,501
Total Equity	9,747,805	10,096,681	10,137,810
Contributions in Aid of Construction	2,212,157	2,212,157	2,212,157
Long-term Debt			
2007 Revenue Bond Issue	3,700,000	4,150,000	4,360,000
Capital Lease Payable - Long Term	8,480,079	9,357,950	10,200,624
Capital Lease Payable - Timekeeping Kronos	10,799	-	-
Total Long-term Debt	12,190,878	13,507,950	14,560,624
Current Liabilities			
Accounts Payable	63,545	28,218	17,541
Customer Meter Deposits	386,510	225,064	149,784
Capital Lease Payable - Current	883,271	842,674	808,887
2007 Revenue Bonds - Current	230,000		
SRF Retainage Payable	-	-	151,085
Temporary Loan Payable - Associated	300,000	-	-
Payroll Payable	157,869	93,591	168,802
Accrued expenses	39,404	38,928	38,824
Other Current Liabilities	2,060,599	1,228,475	1,334,923
Total Liabilities	\$ 26,211,439	\$ 27,045,263	\$ 28,245,514

Exhibit A

Settlement
Schedule 3
Page 1 of 1

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

COMPARATIVE INCOME STATEMENT
For the Twelve Months Ended December 31

	2013	2012	2011
Operating Revenues			
Residential	\$ 4,376,933	\$ 4,499,702	\$ 4,526,625
Commercial	1,839,252	1,874,234	1,853,431
Industrial	954,275	931,203	798,107
Institutional	33,669	34,000	41,874
Private Fire Protection	151,955	151,984	147,234
Forfeited Discounts	46,625	48,971	50,898
Other	119,393	104,310	59,666
Total Operating Revenues	<u>7,522,102</u>	<u>7,644,404</u>	<u>7,477,835</u>
Operating Expenses			
Salaries and Wages	2,383,112	2,277,079	2,468,693
Employee Medical	1,079,162	956,909	840,123
PERF	254,683	262,902	236,836
Purchased Power	665,857	739,113	643,234
Chemicals	74,105	59,145	104,424
Materials and Supplies	754,778	662,135	812,688
Contractual Services	629,501	777,294	587,522
Transportation Expense	126,962	162,151	156,276
Rental	67,000	67,000	65,125
Insurance	299,145	322,425	217,122
Bad Debt Expense	109,335	8,488	67,671
Miscellaneous Expense	35,786	3,992	7,652
Total O&M Expense	<u>6,479,426</u>	<u>6,298,633</u>	<u>6,207,366</u>
Depreciation Expense	820,242	813,780	623,862
Amortization Expense	7,044	7,044	(73,355)
Taxes Other than Income			
FICA Tax	179,528	174,529	190,484
Unemployment Taxes	2,119	16,053	8,508
Utility Receipts Tax	100,708	106,645	127,815
PILT	215,554	215,554	215,554
Total Operating Expenses	<u>7,804,621</u>	<u>7,632,238</u>	<u>7,300,234</u>
Net Operating Income	(282,519)	12,166	177,601
Other Income (Expense)			
Interest Income	613	1,414	583
Rental Income	16,620	14,280	16,660
AMR Lease - Sewer Portion	565,095	565,095	565,095
Other Income	626	-	160
Servicing Customer Installations	18,856	22,320	8,034
Jobbing and Contracting Revenue	(10,402)	2,724	(8,137)
Interest Expense - LT Debt	(590,196)	(632,909)	(479,313)
Extraordinary Losses	-	(89,225)	-
Total Other Income (Expense)	<u>1,212</u>	<u>(116,301)</u>	<u>103,082</u>
Net Income	<u>\$ (281,307)</u>	<u>\$ (104,135)</u>	<u>\$ 280,683</u>

Exhibit A

**CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510**

Pro-forma Net Operating Income Statement

	<u>Year Ended 12/30/2014</u>	<u>Adjustments</u>	<u>Sch Ref</u>	<u>Phase I Pro-forma Present Rates</u>	<u>Adjustments</u>	<u>Sch Ref</u>	<u>Phase I Pro-Forma Proposed Rates</u>	<u>Adjustments</u>	<u>Phase II Pro-forma Present Rates</u>	<u>Adjustments</u>	<u>Sch Ref</u>	<u>Phase II Pro-Forma Proposed Rates</u>
Operating Revenues												
Residential	\$ 4,376,933	\$ (43,728)	5-1	\$ 4,333,205	\$ 917,933	1A	\$ 5,251,138		\$ 5,251,138	\$ 1,112,015	1A	\$ 6,363,153
Commercial	1,839,252			1,839,252	389,621	1A	2,228,873		2,228,873	472,001	1A	2,700,874
Industrial	954,275	118,333	5-2	1,072,608	227,218	1A	1,299,826		1,299,826	275,260	1A	1,575,086
Institutional	33,669			33,669	7,132	1A	40,801		40,801	8,640	1A	49,441
Private Fire Protection	151,955			151,955	32,190	1A	184,145		184,145	38,996	1A	223,141
Forfeited Discounts	46,625			46,625	9,877	1A	56,502		56,502	11,965	1A	68,467
Other Miscellaneous	119,393			119,393			119,393		119,393			119,393
Total Operating Revenues	<u>7,522,102</u>	<u>74,605</u>		<u>7,596,707</u>	<u>1,583,971</u>		<u>9,180,678</u>	<u>-</u>	<u>9,180,678</u>	<u>1,918,877</u>		<u>11,099,555</u>
O&M Expense	6,479,426			6,426,698			6,426,698		6,583,868			6,583,868
Salaries and Wages		(22,797)	6-1					82,302	6-1a			
PERF Contribution -- 2014		9,672	6-2					9,218	6-2a			
Capital and Non-recurring Costs		(108,034)	6-3									
Johnson Controls Payment		(5,688)	6-4									
Maintenance Expense		96,724	6-5					65,650	6-5			
Street Repair Expenses		(22,605)	6-6									
O&M Expense												
Depreciation Expense	820,242	(820,242)		-			-	952,615	6-7	952,615		952,615
Amortization Expense	7,044	(7,044)	Pet	-			-					-
Taxes Other than Income												
FICA Tax	179,528	1,036	6-8	180,564			180,564	6,296	6-8a	186,860		186,860
Unemployment Tax	2,119			2,119			2,119			2,119		2,119
Utility Receipts	100,708	4,111	6-9	104,819	22,176	1A	126,995			126,995	26,864	1A
PILT	215,554	(215,554)		-			-	476,737	6-10	476,737		476,737
Total Operating Expenses	<u>7,804,621</u>	<u>(1,090,421)</u>		<u>6,714,200</u>	<u>22,176</u>		<u>6,736,376</u>	<u>1,592,818</u>	<u>8,329,194</u>	<u>26,864</u>		<u>8,356,058</u>
Net Operating Income	<u>\$ (282,519)</u>	<u>\$ 1,165,026</u>		<u>\$ 882,507</u>	<u>\$ 1,561,795</u>		<u>\$ 2,444,302</u>	<u>\$ (1,592,818)</u>	<u>\$ 851,484</u>	<u>\$ 1,892,013</u>		<u>\$ 2,743,497</u>

Exhibit A

**CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510**

Revenue Adjustments

(1)

Residential Customer Growth

To adjust "Metered Residential Sales" for actual residential customers as of June 2014.

Residential Customer Count at June 30, 2014	19,979	
Times: 12 months		12
<i>Pro forma</i> Annual Residential Billings	239,748	
Times: Average Test Year Residential Bill	\$ 18.074	
<i>Pro forma</i> Residential Revenues		4,333,205
Less: Test Year Residential Revenues		<u>(4,376,933)</u>
Adjustment Increase (Decrease)		<u>\$ (43,728)</u>

<i>Total Test Year Residential Revenues</i>	4,376,933
<i>Total Test Year Residential Billings</i>	242,168
<i>Average Test Year Residential Bill</i>	<u>\$ 18.074</u>

(2)

Industrial Post-Test Year Customer Growth

To adjust Industrial sales revenues to reflect increased usage by industrial customers after the end of the test year.

<i>Pro forma</i> increase to Annual Industrial Consumption (100s of cubic feet)	111,320
Times: Water Consumption Rate (Fifth Rate Block)	<u>\$ 1.063</u>
Adjustment Increase (Decrease)	<u>\$ 118,333</u>

Exhibit A

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Expense Adjustments

(1)

Salaries and Wages

To adjust "Operation and Maintenance Expenses" for *pro forma* salaries and wages as of June 2014.

Test Year Salaries and Wages Expense	\$ 2,383,112	
Add: Salary increase approved for water superintendent (February 2014)	46,030	
Less: Reduced allocation of city personnel	<u>(68,827)</u>	
Net <i>Pro forma</i> Salaries and Wages Expense	2,360,315	
Less: Test Year Salaries and Wages	<u>2,383,112</u>	
Adjustment Increase (Decrease)		\$ <u>(22,797)</u>

(1a)

Salaries and Wages - Phase II

To adjust *pro forma* salaries and wages in Phase II to reflect wage increase in 2014.

Net <i>Pro forma</i> Salaries and Wages Expense - Phase I	\$ 2,360,315	
Times: Estimated 2014 Pay Increase	3.4869%	
<i>Pro forma</i> Increase in Salaries and Wages Expense - Phase II	<u>\$ 82,302</u>	
Adjustment Increase (Decrease)		\$ <u>82,302</u>

(2)

PERF

To adjust operating expenses for the calculated annual PERF expense based on Net *Pro forma* salaries and wages expense.

Net <i>Pro forma</i> Salaries and Wages	\$ 2,360,315	
Times: 2014 PERF Contribution Rate	11.20%	
<i>Pro forma</i> PERF Expense	<u>264,355</u>	
Less: Test Year PERF Expense	<u>(254,683)</u>	
Adjustment Increase (Decrease)		\$ <u>9,672</u>

(2a)

PERF - Phase II

To adjust operating expenses for the calculated annual PERF expense based on Net *Pro forma* salaries and wages expense in Phase II.

<i>Pro forma</i> Increase in Salaries and Wages Expense - Phase II	\$ 82,302	
Times: 2014 PERF Contribution Rate	<u>11.20%</u>	
Adjustment Increase (Decrease)		\$ <u>9,218</u>

Exhibit A

**CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510**

Expense Adjustments

(5)

Maintenance Expense

To adjust "Operation and Maintenance Expenses" for recurring *pro forma* annual maintenance expenses.

Well Cleaning Expenses

	<u>Date</u>	<u>Vendor</u>	<u>Voucher</u>		
Wellborn	1/24/2013	Bastin Logan	80545	\$	10,443.07
Hall	6/11/2013	Bastin Logan	82831		18,915.00
Srackengast	6/18/2013	Bastin Logan	82923		14,575.00
Tucker	7/5/2013	Bastin Logan	83162		7,157.50
Elder St. #1	7/25/2013	Bastin Logan	83488		8,932.50
Elder St. #2	11/21/2013	Bastin Logan	85525		20,985.00
Test Year Well Cleaning Expense					81,008.07
Divide by Six (6)					6
Average cost of well cleaning during test year					13,501.35
Times: Number of wells					11
<i>Pro forma</i> Well Cleaning Expense					148,515
Divide by Three (3) Years					3
<i>Pro forma</i> Annual Well Cleaning Expense					49,505
Less: Test Year Well Cleaning Expense					(81,008)
Well Cleaning Adjustment				\$	(31,503)

Total Wells - Current (including new Rock Well)	18
Less: Ranney Wells to be abandoned	(4)
Less: Wells to be abandoned (Jarrett, Norton 1, and Norton 2)	(3)
Total Wells to be Cleaned	11

Tank Painting Expenses

	<u>Capacity</u>	<u>Maintenance</u>	<u>Painting</u>	<u>Total</u>
8th Street Tank	500,000	\$ 51,700	\$ 432,180	\$ 483,880
E. 10th St. Tanks	500,000	76,400	275,748	352,148
Fairview St. Tank	1,000,000	70,950	473,840	544,790
Columbus Ave. Tank	1,000,000	100,450	491,624	592,074
Range6ine Rd Tank	1,000,000	95,550	477,571	573,121
Cross St. Tank	500,000	76,400	314,174	390,574
<i>Pro forma</i> Tank Painting Costs		471,450	2,465,137	2,936,587
Divided by 15 Years				15
<i>Pro forma</i> Annual Tank Painting Costs				195,772
Less: Test Year Tank Painting Costs				(1,895)
Tank Painting Adjustment				193,877

- Costs per Cause No. 42914, Petitioner's Schedule E-1 (most recent information available)
- "Maintenance" includes costs for evaluation, specifications, bid assist, contract administration, inspection, lab, and first anniversary.

Adjustment Increase (Decrease) **\$ 162,374**

Phase I Maintenance Expense Adjustment	\$ 96,724
Phase II Maintenance Expense Adjustment	\$ 65,650

Exhibit A

**CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510**

Expense Adjustments

(6)

Street Repairs

To adjust "Operation and Maintenance Expenses" to reflect annual street repair expenses.

<u>P.O. #</u>	<u>Invoice Date</u>	<u>Voucher #</u>	<u>Invoice Total</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
461	01.08.13	80319	\$ 36,283.01	\$ 36,283.01	\$ -	\$ -
2169	07.19.13	83372	36,240.85	2,110.60	34,130.25	-
2169	07.19.13	83372	9,627.20	9,627.20	-	-
3444	12.03.13	85598	45,214.57	-	45,214.57	-
Sub-total - Test Year Invoices			127,365.63	48,020.81	79,344.82	-
1680	05.19.14	88922	18,970.10	-	2,906.00	16,064.10
1680	05.19.14	88922	24,990.97	-	24,990.97	-
2728	09.05.14	90149	3,058.00	-	3,058.00	-
2728	09.05.14	90149	31,320.40	-	-	31,320.40
Total Street Repair Services Invoices Provided			\$ 205,705.10	\$ 48,020.81	\$ 110,299.79	\$ 47,384.50

Pro forma Street Cut Expense - Street Department	\$ 110,299.79
Less: Test Year Street Cut Expense - Street Department	<u>(127,365.63)</u>
	\$ (17,065.84)
Less: 2012 Adjustment recorded during the test year	<u>(5,539.27)</u>
	<u>\$ (22,605.11)</u>

Adjustment Increase (Decrease)

<i>Anderson Street Department</i>	\$ 127,365.63
<i>Irving Materials (paving stone)</i>	3,923.10
<i>E&B Paving</i>	13,642.27
<i>Vendor 6914</i>	288.00
<i>2012 Adjustment (13592)</i>	5,539.27
<i>Other Miscellaneous</i>	(455.43)
<i>Test Year Street Repair Services</i>	<u>\$ 150,302.84</u>

(7)

Depreciation Expense

To adjust Depreciation Expense to reflect a 2% composite depreciation rate.

	<u>Petitioner</u>	<u>Settlement</u>
Utility Plant in Service	\$ 48,085,230	\$ 48,085,230
Add: Capital costs expensed during the test year	-	45,931
Construction Work in Progress	243,459	-
Less: Transportation Equipment	(823,518)	-
Land and Land rights	<u>(500,390)</u>	<u>(500,390)</u>
Depreciable Utility Plant in Service	47,004,781	47,630,771
Times: Depreciation Rate	2%	2%
Pro Forma Depreciation Expense	940,096	952,615
Add: Depreciation on Transportation Equipment	82,352	-
Pro Forma Depreciation Expense	<u>\$ 1,022,448</u>	<u>952,615</u>
Less: Test Year Depreciation Expense		<u>820,242</u>

Adjustment Increase (Decrease) \$ 132,373

Exhibit A

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Expense Adjustments

(8)

FICA

To adjust Taxes Other Than Income Taxes to recalculate FICA for *pro forma* salaries.

Net <i>Pro forma</i> Salaries and Wages (see adjustment (1) above)	\$ 2,360,315
Times: FICA Rate	7.65%
<i>Pro Forma</i> FICA Expense	<u>180,564</u>
Less: Test Year FICA Expense	<u>(179,528)</u>
Adjustment Increase (Decrease)	\$ <u>1,036</u>

(8a)

FICA - Phase II

To adjust Taxes Other Than Income Taxes to recalculate FICA for *pro forma* salaries in Phase II.

<i>Pro forma</i> Increase in Salaries and Wages Expense - Phase II (See adjustment (1a) above)	\$ 82,302
Times: FICA Rate	7.65%
Adjustment Increase (Decrease)	\$ <u>6,296</u>

(9)

Utility Receipts Tax

To adjust Taxes Other Than Income Taxes to recalculate the utility receipts tax.

<i>Pro forma</i> Present Rate Revenues	\$ 7,596,707
Less: Sales for Resale	-
Exemption	(333)
Bad Debt Expense	<u>(109,335)</u>
Taxable Revenues	\$ 7,487,039
Times: Utility Receipts Tax Rate	1.40%
<i>Pro forma</i> Utility Receipts Tax expense	<u>104,819</u>
Less: Test year Utility Receipts Tax Expense	<u>(100,708)</u>
Adjustment Increase (Decrease)	\$ <u>4,111</u>

Exhibit A

**CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510**

Expense Adjustments

**(10)
PILT**

To adjust Taxes Other Than Income Taxes for the payment in lieu of property taxes.

	<u>Petitioner</u>		<u>Settlement</u>
Utility Plant in Service	\$ 48,085,230		\$ 48,085,230
Plus: Capital costs expensed during the test year <i>(Note A)</i>	-		18,000
Less: Lafayette Treatment Plant located outside the municipal boundaries	-		(1,717,795)
Less: Lafayette well field located outside the municipal boundaries	-		(1,049,086)
Construction Work in Progress (allowed in the calculation of Property Tax at 10% of value)	243,459		-
Total Utility Plant in Service	<u>48,328,689</u>		<u>45,336,349</u>
Accumulated Depreciation	(24,767,486)		(24,767,486)
Less: Lafayette Treatment Plant located outside the municipal limits	-		984,158
Less: Lafayette well field located outside the municipal limits	-		453,939
Total Accumulated Depreciation	<u>(24,767,486)</u>		<u>(23,329,389)</u>
Net Taxable Utility Plant in Service	23,561,203		22,006,960
Times: Net Property Tax Rate (per \$100 assessed value)	2.1663	0.02	<u>2.1663</u>
<i>Pro forma</i> Contribution in Lieu of Property Taxes	<u>\$ 510,406</u>		<u>476,737</u>
Less: Test Year PILT			<u>(215,554)</u>
			<u>\$ 261,183</u>
		Adjustment Increase (Decrease)	

Note A: Did not include costs related to the Lafayette well field or treatment plant since these assets are located outside the municipal boundaries and, therefore, are not subject to PILT.

Exhibit A

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Calculation of Working Capital

	Petitioner	Settlement	
	Proposed	Phase I	Phase II
Operation & Maintenance Expense	\$ 6,685,525	\$ 6,426,698	\$ 6,583,868
Taxes other than Income Taxes	289,722	-	-
Payments in Lieu of Property Taxes	510,406	-	-
Less: Purchased Power	-	(686,564)	(686,564)
Adjusted Operation & Maintenance Expense	<u>7,485,653</u>	<u>5,740,134</u>	<u>5,897,304</u>
Times: 60 Day Factor	16.67% ^(A)		
45 Day Factor		<u>12.50%</u>	<u>12.50%</u>
Working Capital Revenue Requirement	1,247,608	717,517	737,163
Add: Interdepartmental Loan	1,000,000	1,000,000	1,000,000
Less: Cash on Hand	<u>-</u>	<u>-</u>	<u>(981,438)</u>
Net Working Capital Revenue Requirement	2,247,608	1,717,517	755,725
Divide by Amortization Period (Years)	<u>2</u>	<u>1.75</u>	<u>1</u>
Annual Working Capital Revenue Requirement	<u>\$ 1,123,804</u>	<u>\$ 981,438</u>	<u>\$ 755,725</u>

^(A) 60 Day Factor (360/60) = 16.67%

Exhibit A

Settlement
Schedule 8
Page 1 of 1

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Debt Service Requirement

Year	Current			Proposed		Total	
	2007 Bonds	2006 Capital Lease	Sub-total	2015 Bond			
2014	\$ 397,752	\$ 690,758	\$ 1,088,510	\$ -	\$ 1,088,510		
2015	397,978	690,758	1,088,736	415,921	1,504,657		Phase I
2016	397,778	690,758	1,088,536	935,643	2,024,179		
2017	397,152	690,758	1,087,910	940,593	2,028,503		
2018	401,102	690,758	1,091,860	944,155	2,036,015		
Average 2016-2018	398,677	690,758	1,089,435	940,130	2,029,565		Phase II

Exhibit A

Settlement
Schedule 8A
Page 1 of 1

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Amortization Schedule of Proposed 2015 Waterworks Revenue Bonds

<u>Date</u>	<u>Principal</u>	<u>Interest Rate (1)</u>	<u>Interest</u>	<u>Period Total</u>	<u>Fiscal Total</u>
7/1/2015			\$ 200,600	\$ 200,600	
1/1/2016			215,321	215,321	\$ 415,921
7/1/2016			215,321	215,321	
1/1/2017	\$ 505,000	1.00%	215,321	720,321	935,643
7/1/2017			212,796	212,796	
1/1/2018	515,000	1.25%	212,796	727,796	940,593
7/1/2018			209,578	209,578	
1/1/2019	525,000	1.60%	209,578	734,578	944,155
7/1/2019			205,378	205,378	
1/1/2020	535,000	1.90%	205,378	740,378	945,755
7/1/2020			200,295	200,295	
1/1/2021	550,000	2.20%	200,295	750,295	950,590
7/1/2021			194,245	194,245	
1/1/2022	570,000	2.50%	194,245	764,245	958,490
7/1/2022			187,120	187,120	
1/1/2023	590,000	2.80%	187,120	777,120	964,240
7/1/2023			178,860	178,860	
1/1/2024	610,000	2.95%	178,860	788,860	967,720
7/1/2024			169,863	169,863	
1/1/2025	635,000	3.05%	169,863	804,863	974,725
7/1/2025			160,179	160,179	
1/1/2026	665,000	3.15%	160,179	825,179	985,358
7/1/2026			149,705	149,705	
1/1/2027	690,000	3.20%	149,705	839,705	989,410
7/1/2027			138,665	138,665	
1/1/2028	720,000	3.30%	138,665	858,665	997,330
7/1/2028			126,785	126,785	
1/1/2029	755,000	3.35%	126,785	881,785	1,008,570
7/1/2029			114,139	114,139	
1/1/2030	790,000	3.40%	114,139	904,139	1,018,278
7/1/2030			100,709	100,709	
1/1/2031	825,000	3.45%	100,709	925,709	1,026,418
7/1/2031			86,478	86,478	
1/1/2032	865,000	3.50%	86,478	951,478	1,037,955
7/1/2032			71,340	71,340	
1/1/2033	915,000	3.60%	71,340	986,340	1,057,680
7/1/2033			54,870	54,870	
1/1/2034	955,000	3.65%	54,870	1,009,870	1,064,740
7/1/2034			37,441	37,441	
1/1/2035	985,000	3.70%	37,441	1,022,441	1,059,883
7/1/2035			19,219	19,219	
1/1/2036	1,025,000	3.75%	19,219	1,044,219	1,063,438
	<u>\$ 14,225,000</u>		<u>\$ 6,081,889</u>	<u>\$ 20,306,889</u>	

3 Year Average debt service (2016 - 2018) \$ 940,130

Maximum debt service \$ 1,064,740

(1) Estimated interest rates based upon October 10, 2014, Municipal Market Data Data-Line using "A" rates plus 50 basis points. Interest rates subject to change.

Exhibit A

Settlement
Schedule 8B
Page 1 of 1

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Proposed Waterworks 2015 Revenue Bonds
Estimated Sources and Uses of Funds

	<u>Petitioner</u>	<u>Settlement ⁽¹⁾</u>	<u>Settlement More (Less)</u>
<u>Sources of Funds:</u>			
Par Amount of Bonds	\$ 14,270,000	\$ 14,225,000	\$ (45,000)
<u>Uses of Funds:</u>			
Lafayette Well Field	\$ 9,843,500	\$ 9,843,500	\$ -
Wheeler Bypass	594,000	594,000	-
Homewood Distribution System	1,544,622	1,544,622	-
Hydrological Studies	810,000	810,000	-
Debt Service Reserve	1,110,648	1,064,740	(45,908)
IURC Fee	35,675	35,563	(112)
Underwriter's Discount	142,700	142,250	(450)
Other Costs	188,000	188,000	-
Rounding	855	2,325	1,470
Total	<u>\$ 14,270,000</u>	<u>\$ 14,225,000</u>	<u>\$ (45,000)</u>

(1) Revised for reduced interest rates, debt service reserve, and other variable non-construction costs

Highlighted lines indicate variable components that change as the amount of debt changes.