

STATE OF INDIANA

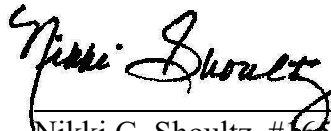
INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
NORTH DEARBORN WATER AUTHORITY)
FOR EXPEDITED APPROVAL TO ISSUE) CAUSE NO. 45618
LONG-TERM DEBT AND ADJUST ITS)
RATES AND CHARGES.)

SUBMISSION OF AGREED PROPOSED ORDER

North Dearborn Water Authority, by counsel, respectfully submits the attached Agreed Proposed Order. Undersigned counsel has conferred with counsel for the Indiana Office of Utility Consumer Counselor, and the parties have agreed to the submission of the attached Agreed Proposed Order.

Respectfully submitted,

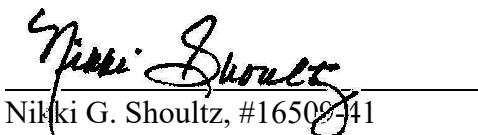


Nikki G. Shoultz, #16509-41
Counsel for North Dearborn Water Authority

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served upon the following counsel of record via electronic mail this 2nd day of February, 2022 to:

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Nikki G. Shoultz, #16509-41

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

| | | |
|----------------------------------|---|-----------------|
| IN THE MATTER OF THE PETITION OF |) | |
| NORTH DEARBORN WATER AUTHORITY |) | |
| FOR EXPEDITED APPROVAL TO ISSUE |) | CAUSE NO. 45618 |
| LONG-TERM DEBT AND ADJUST ITS |) | |
| RATES AND CHARGES. |) | APPROVED: |

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Lorraine Seyfried, Chief Administrative Law Judge

On September 24, 2021, North Dearborn Water Authority ("North Dearborn" or "Petitioner") filed its Petition in this Cause with the Indiana Utility Regulatory Commission ("Commission"), requesting approval to issue long-term debt and adjust its rates and charges. Also on September 21, 2021, Petitioner filed the testimony and exhibits of Lori A. Young, Registered Professional Engineer and President of Curry & Associates, and Douglas L. Baldessari, a Certified Public Accountant in the firm of Baker Tilly Municipal Advisors, LLC.

On December 10, 2021, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony and exhibits of Carl N. Seals, Assistant Director in the Water/Wastewater Division, and Water/Wastewater Division Utility Analysts Thomas Malan and Shawn Dellinger.

On December 17, 2021, Petitioner filed the Rebuttal Testimonies of Ms. Young and Mr. Baldessari.

On January 19, 2022, the Presiding Officers issued docket entry questions to Petitioner and on January 24, 2022, Petitioner filed its responses.

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on January 25, 2022, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared at and participated in the hearing. The testimony and exhibits of Petitioner and the OUCC were admitted into the record without objection. No members of the general public attended or sought to participate in the hearing.

Based on the applicable law and the evidence presented, the Commission now finds:

- 1. Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner owns, operates, manages, or controls wells, treatment facilities, transmission facilities, distribution facilities, land, land rights, equipment, materials, supplies, working capital, and other property that are used and useful for the rendering of water service to its customers. Accordingly, Petitioner is a public utility as defined

by Ind. Code § 8-1-2-1(a) and subject to the jurisdiction of the Commission with respect authority to issue long-term debt.

2. Petitioner's Characteristics. Petitioner is a water authority constituted under Ind. Code § 13-18-16-16, organized and existing under and through the laws of the State of Indiana. Petitioner's office is located at 28208 State Road 1, Suite 105, West Harrison, IN 47060. Petitioner provides water to primarily residential, commercial, and agricultural customers in Dearborn, Ripley, and Franklin Counties in Indiana.

3. Relief Requested. Petitioner proposes to incur long-term debt in the amount not to exceed \$4,250,000 through a subsidized loan from the Drinking Water State Revolving Fund Loan Program ("DWSRF"). The proceeds from the debt will be used to pay for a new water treatment plant and other necessary extensions, replacements, and improvements to its waterworks system. To qualify for the subsidized DWSRF loan, Petitioner must close on the debt on or before June 30, 2022.

4. Petitioner's Evidence. In support of its request, Petitioner presented the testimony of Lori A. Young and Douglas L. Baldessari.

A. Lori A. Young. Ms. Young described Petitioner's history and current system, explaining that Petitioner currently serves 2,176 water customers and has experienced steady growth since it began in 1957. Ms. Young explained that Petitioner began as a simple distribution system that purchased water from suppliers, but Petitioner now has its own wells which has reduced the amount Petitioner must purchase from other suppliers. Ms. Young described Petitioner's current facilities and confirmed that Petitioner has completed the financing and improvements previously approved by the Commission in Cause No. 44248.

Ms. Young provided a Preliminary Engineering Report ("PER") dated June 15, 2020, and revised April and July, 2021, that included her recommendations for system improvements that need to be made to ensure Petitioner can continue to provide safe, reliable, water utility service to its current and future customers. Ms. Young testified that when evaluating potential system improvements, the PER considered: (1) replacement of water mains where rate of water usage exceeds the carrying capacity of old water mains where customers periodically experience low water pressure; (2) replacement of mains that break on a frequent basis causing customer inconvenience, high cost repairs, and lost water; (3) installation of larger diameter water mains at bottle necks in the distribution system; (4) installation of new water mains in locations that will reinforce the distribution system by improving water pressure, increasing reliability, and improving water quality by eliminating dead-end water mains; (5) installation of new water mains in locations where residents desire water service that does not currently exist; and (6) replacement of water treatment system and water supply infrastructure components critical to the reliable production of drinking water before the end of their useful lives, with an emphasis on parts of the system that do not have redundant components.

Ms. Young testified the proposed improvements to be funded by the DWSRF debt would fall into three categories: water distribution; water supply; and water treatment. For water distribution, Ms. Young recommended the construction of three new water mains to improve

system reliability, water pressure, looping, and volume of flow. For water supply, Ms. Young recommended Petitioner upgrade its well capacity to increase the pumping capacity of each of the two existing wells to 1,000 gallons per minute ("gpm") each. She testified this will create additional supply to meet demand, create redundancy of supply, and improve drought resilience and reliability. For water treatment, Ms. Young recommended Petitioner construct a new water treatment plant ("WTP") to replace its existing plant, which has exceeded its originally anticipated useful life and is nearing its maximum design flow to meet current peak demand. Ms. Young testified the existing steel package WTP is critical to the production of drinking water, and it is necessary to move forward now with the replacement before the existing plant begins to fail. Ms. Young provided specific engineering details of each of the proposed projects.

Ms. Young testified that she considered a smaller size WTP, but the 1,000 gpm unit will provide greater flexibility in the next 25 years than a 600 gpm unit for an affordable incremental cost increase that does not have higher operating costs and that can be operated at a lower pumping rate with no negative impacts. Ms. Young also considered alternatives for each proposed improvement project, which were summarized in the PER. Ms. Young concluded that each of the proposed improvements is necessary and, based on her firm's experience with similar projects in the past, she testified that her estimates are reasonable projections of the actual costs that will be incurred for the proposed improvements. However, Ms. Young noted that she expects some variation in the cost given the current construction market, constrictions in labor and materials supply, and a recent increase in projects due to the availability of additional infrastructure funding through various state and federal programs.

B. Douglas L. Baldessari. Mr. Baldessari provided his Accounting Report dated September 20, 2021, showing Petitioner's pro forma financial information for the 12 months ended December 31, 2020, and Petitioner's unaudited financial information, including a comparative statement of Petitioner's financial position as of December 31, 2018, 2019, and 2020 and a comparative statement of activities for those years. Mr. Baldessari also provided Petitioner's statement of cash flows, a comparison of Petitioner's cash and investment account balances, and amortization schedules of Petitioner's outstanding 2009 Notes and 2016 RD Loan. Mr. Baldessari testified that the adjustments to test year expenses and revenues in his Accounting Report are fixed, known, and measurable.

Mr. Baldessari testified that Petitioner's proposed financing through the SRF is a reasonable means of funding Petitioner's proposed project because SRF offers relatively low interest rates with a 35-year amortization for main improvement projects on principal balance, which results in lower rates to Petitioner's customers. Mr. Baldessari testified that the anticipated cost of Petitioner's projects is \$3,950,000; however, due to the uncertainties associated with the cost of materials, Petitioner requests authority to complete the project and issue bonds or notes in an amount not to exceed \$4.25 million. Mr. Baldessari noted that Petitioner seeks authority to issue evidences of indebtedness in excess of the anticipated \$3.95 million project cost so that it can avoid the risk and expense of higher prices that could result from having to obtain additional Commission approval in the event the cost of the project exceeds \$3.95 million. Mr. Baldessari testified that there is no risk that Petitioner will unnecessarily borrow additional sums, as SRF will only allow Petitioner to borrow funds sufficient to complete the project. Mr. Baldessari stated that

if the actual cost of the project is materially different than the costs reflected in his Accounting Report, Petitioner will file a true-up report.

Mr. Baldessari testified that Petitioner is seeking a change to its rate and charges as a result of the proposed financing. He testified that Petitioner last sought a rate change in 2009 in Cause No. 43736, where the Commission authorized an across-the-board rate increase of 14.97%. Mr. Baldessari testified that for a bi-monthly water bill assuming 8,000 gallons, Petitioner seeks authority to change its rates in this proceeding by a total aggregate of \$12.01 for Phase 1 and \$11.11 for Phase 2. Mr. Baldessari testified that the rates proposed in the Accounting Report are fair, just, non-discriminatory, reasonable, and necessary to meet Petitioner's projected revenue requirements, including its debt service requirements.

5. OUCC's Evidence. Mr. Carl Seals, Mr. Thomas Malan, and Mr. Shawn Dellinger provided testimony on behalf of the OUCC.

A. Carl Seals. Mr. Seals described his review and analysis of Petitioner's system, including a site visit and review of several of Petitioner's records, external resources and customer comments. Mr. Seals testified that Petitioner proposes five (5) capital improvements to its distribution system: (1) well capacity pumping upgrade to 1,000 gpm; (2) replacement of existing 600 gpm Aeralater with a new, 1,000 gpm Aeralater; (3) construction of a 12-inch water main along County Line Road; (4) construction of a 12-inch water main along Central Drive; and (5) construction of an 8-inch water main along Post 464 Road.

Mr. Seals testified that Petitioner does not need additional production capacity because its current finished water storage is equivalent to more than three days' average usage of 342,000 gpd. He testified that reliance on peak days for plant and well sizing decision making may yield ineffective results given the amount of Petitioner's finished water storage. He testified that each of Petitioner's wells can supply 864,000 gpd if operated for 24 hours, which would have met Petitioner's peak plant production over the last two years. Mr. Seals further testified that Petitioner already meets the Ten States Standards recommendation that the total developed groundwater source capacity shall equal or exceed the design maximum day demand with the largest producing well out of service, and he noted that Petitioner will likely meet this requirement for some time. Mr. Seals testified that it is unclear how a well upgrade intended to significantly increase groundwater withdrawal will improve Petitioner's drought resiliency, noting the Environmental Protection Agency suggests that increased withdrawals from the local aquifer may negatively impact watershed sustainability as greater volumes are withdrawn. He stated that Petitioner's second available well already provides redundancy to the system. Mr. Seals acknowledged Ms. Young's testimony that both wells are in good condition and should be fully productive for the 20-year planning horizon, and observed there is no evidence that the existing well pumps are at the end of their service lives. For these reasons, Mr. Seals recommended the Commission deny \$254,000 of Petitioner's borrowing authority request, which he testified represents the cost of the well capacity upgrade.

As to Petitioner's other proposed projects, Mr. Seals testified that he accepts Petitioner's proposed increase in the Aeralater size given that Petitioner could not have met its recent peak flow of 800,000 gallons per day with its largest filtration unit out of service. Mr. Seals described

the three remaining projects involving the installation of new water mains. Mr. Seals concluded these projects appear to be reasonable for the continued provision of reliable service, and he recommended the Commission approve \$3,641,000 for Petitioner's Capital Improvement Plan. Mr. Seals testified that he accepts Petitioner's pro forma expense amounts for each periodic maintenance item. Finally, Mr. Seals recommended that Petitioner should include in its Annual Reports to the Commission its monthly main break data since Petitioner does track and report this information to its Board.

B. Shawn Dellinger. Mr. Dellinger described Petitioner's proposed debt issuance and agreed the structure of the borrowing is appropriate and in the ratepayers' interest. Based on Mr. Seals' recommendation, Mr. Dellinger testified Petitioner's requested debt authority should be reduced by \$254,000 for costs related to the well expansion. Mr. Dellinger also recommended reductions in certain contingency amounts and close examination of fees embedded in the proposed borrowing. Mr. Dellinger disagreed with the 15% construction contingency because SRF limits contingencies to 10%. He also noted that Mr. Seals' recommendation to eliminate the well pump upgrade includes \$27,000 of contingency as well as soft costs. With regard to the \$625,000 of contingency that Mr. Dellinger characterized as an "inflation allowance," Mr. Dellinger testified this amount should be reduced to \$280,000 only applicable to the new water treatment plant as described in the PER, not be used for cost overruns on other components, and be subject to his recommended true-up reporting. Mr. Dellinger's recommended total debt authorization was \$3,525,070, consisting of \$1,608,070 for Series A and \$1,917,000 for Series B.

Mr. Dellinger testified that debt service revenue requirement be structured as \$110,136 for Phase 1 and \$147,690 for Phase 2, based on \$3,245,070 of borrowings at an interest rate of 2.65% for Series A and 2.75% for Series B debt, which reflects Mr. Dellinger's recommendation to lower Petitioner's proposed interest rate by 50 basis points to reflect a timing allowance of 50 basis points instead of Petitioner's 100 basis point, based on Petitioner's anticipated closing in the near term. Mr. Dellinger disagreed with the calculation of Petitioner's debt service revenue requirements in Phase 1 and recommended that Phase 1 rates be based upon total anticipated payment from April 20, 2022 to June 1, 2023 with a proposed Series A debt service revenue requirement of \$53,760 in Phase 1 and \$72,053 in Phase 2, and a proposed Series B debt service revenue requirement of \$56,375 in Phase 1 and \$75,638 in Phase 2.

Mr. Dellinger disagreed with Petitioner's proposed debt service reserve and testified that \$120,774 from Petitioner's presently funded debt service reserve needs to be deducted from the \$252,540 debt service that needs to be funded. Mr. Dellinger testified that Petitioner's debt service reserve should be placed in a restricted account, and Petitioner should notify the Commission and OUCC within five business days of any transaction where it spends any funds from its debt service reserves for any reason other than to make the last payment on its current or proposed debt issuances.

Mr. Dellinger recommended Petitioner be required to true-up its proposed annual debt service once the interest rates on its proposed debt are known by filing a report with within thirty (30) days of closing on each of its long-term issuances. He recommended that Petitioner's borrowings should be reduced by any reduction in estimated issuance costs at this time, and that Petitioner submit a revised tariff, amortization schedule and calculate the rate impact. Mr.

Dellinger testified that if the additional debt from the inflation allowance is needed, Petitioner should provide bid tabulations for the treatment plant at least two (2) weeks prior to closing and the OUCC should be entitled to comment or object. He further recommended that bid tabulations and final soft costs should be reported when the projects are completed and an interim report should be filed two (2) years after the closing of the debt if the projects are still ongoing and costs are still being incurred. Since Petitioner's debt service reserve is anticipated to be fully funded in April, 2027, Mr. Dellinger testified that Petitioner should either be required to file an updated tariff removing the annual debt service reserve amount in 2027 or be allowed to continue funding a debt service reserve restricted account in anticipation of future projects. Mr. Dellinger testified that for challenges to the true-up, the OUCC and Petitioner should have fourteen (14) days respectively to object and respond. He stated that no true-up should be implemented if the parties agree in writing an adjustment would be immaterial. Finally, Mr. Dellinger testified that financing authority not used by Petitioner should expire 365 days following the Commission's order, and for any timing differences of more than two (2) months between implementation of rates and closing, the revenue requirement for current debt should be placed in a restricted account and used to reduce the balance that must be borrowed with refunds issued if borrowing is delayed for more than one (1) year.

C. Thomas Malan. Mr. Malan recommended that Petitioner implement an overall rate increase of 40.43% to be implemented across-the-board in two phases, with a Phase 1 increase of 19.29% and a Phase 2 increase of 17.72%. Mr. Malan provided his calculations in supporting schedules. He testified that although he does not entirely agree with Petitioner's calculation of its revenue normalization, the difference is immaterial, and he accepted Petitioner's proposed adjustments to operating revenues and late fees. Mr. Malan agreed with Petitioner's operating expense adjustments, except that he recommended additional adjustments to salaries and wages, payroll taxes, the IURC fee and certain non-recurring and disallowed test year expenses. Mr. Malan recommended pro forma operating expense and taxes of \$710,791. Ultimately, Mr. Malan recommended a \$61,759 increase to salaries and wages expense; a \$4,539 increase to payroll taxes; a \$2,934 decrease to remove non-recurring expenses; a \$9,998 decrease to amortize non-recurring legal expense; and a \$1,022 decrease to remove IURC fee expense.

6. Petitioner's Rebuttal Evidence. Petitioner filed rebuttal testimony on behalf of Lori Young and Douglas Baldessari.

A. Lori Young. Ms. Young's rebuttal testimony provides five (5) reasons why Petitioner's request for upgraded well capacity should be granted over the OUCC's objections. First, Petitioner has a number of proposed projects that will need water, including an 84 lot subdivision currently under construction. Petitioner's service territory is immediately adjacent to the I-74 corridor between Indianapolis and Cincinnati, which is prime for commercial and other types of economic development that will require Petitioner's water. Second, Petitioner's proposed 1,000 gpm well pumping rate is designed to match the WTP facility design rating so that the well production rate matches all of the high service pumps and control systems installed with the 1,000 WTP. She testified that without the upgraded well capacity, Petitioner's plant capacity will be limited. Third, Petitioner's proposal maximizes cost efficiencies because there will be no additional mobilization or demobilization costs since the bidder will already be on-site to perform all of the projects at once. Fourth, Ms. Young testified that Petitioner plans to reduce the amount of purchased water in the future by self-producing more water, which will allow Petitioner to

maintain more stable rates and have greater control over its operations. Fifth, Ms. Young stated that the additional capacity will enable Petitioner to better meet peak day demands in the future. She testified that, based on Petitioner's intent to self-produce a higher percentage of its water needs, Petitioner would need to produce 88.6% of its peak day demand, equal to 1,063,200 gpd, which could not be met with Petitioner's existing 600 gpm wells. Ms. Young further testified that, to the extent the OUCC is proposing a project different than what was rated and scored by the SRF Program, the OUCC's approach is inconsistent with the SRF Program's finding that the overall project is needed and should be completed.

Ms. Young testified that once the Petitioner receives its bids, it will adjust its contingency amount to the 10% level required by the SRF. She clarified that Petitioner's 15% contingency is both common and proper at the PER stage, especially in light of the volatile prices for public works projects. Ms. Young disagreed with Mr. Dellinger's proposal to reduce the \$625,000 contingency (which he calls an "inflation allowance") to \$280,000. She testified that, as a result of supply chain and labor shortage issues caused by the global pandemic, actual costs are commonly higher than budgetary estimates. Ms. Young testified that, instead of jeopardizing the SRF funding, the more prudent and conservative approach given the economic climate is for Petitioner to preserve all of the proposed contingencies and then true-up the actual costs of construction following receipt of bids.

B. Douglas Baldessari. Mr. Baldessari agreed with Mr. Malan's recommendation for increased salaries and wages expense and payroll tax adjustments, as well as his proposed nonrecurring, legal and IURC fee expense adjustments. He agreed with the OUCC's operating expense adjustment and total pro forma operating expenses of \$710,792 and the inclusion of \$2,700 of other income as a revenue requirement offset along with penalty revenues as revenues at current rates subject to increase.

Mr. Baldessari agreed to remove the miscellaneous amount of \$20,813 that was inadvertently included in non-construction costs, but he disagreed with the OUCC's proposed adjustment to the debt service requirement related to the removal of the well capacity upgrades and reduction of contingencies from 15% to 10%. With regard to cost estimates for legal, bond counsel and financial advisory services, Mr. Baldessari agreed to Mr. Dellinger's true-up recommendation but noted his estimates were based on individual conversations with Petitioner's professionals, which he used to develop estimated soft costs that he believes are reasonable at this stage of the process for this type of project. Mr. Baldessari provided details on the scope of work for Petitioner's professionals related to the project. He disagreed with Mr. Dellinger's recommended reduction of the \$625,000 contingency to \$280,000 because bid prices have come in high lately due to increases in material and other costs. Mr. Baldessari clarified that Petitioner will only borrow the amount needed based on the construction bids received and the bond sizing, debt service requirements, and resulting rates will be trued up after the notes are issued.

Mr. Baldessari agreed with Mr. Dellinger's recommendation to add 50 basis points to the current SRF subsidized interest rate since the proposed loan closing date is near. Mr. Baldessari also agreed with the OUCC's proposed calculation of the debt service requirement for Phase 1. Mr. Baldessari testified that within approximately two (2) weeks of closing, the SRF will hold a pre-closing where Petitioner will provide a detailed list of all expenses and actual bids, and the

final sizing of the loan will be adjusted to reflect the actual costs of the project, including soft costs. He agreed that Petitioner will file a true-up report with the Commission reflecting the final amount of the loan, all soft costs, the final interest rate, and any proposed adjustments to the rates resulting from the actual borrowed amount and interest rate.

Finally, Mr. Baldessari disagreed with the OUCC's proposed calculation of the debt service reserve revenue requirements. He testified that, based on conversations with bond counsel and SRF, the outstanding documents and RD will not permit inclusion of the debt service reserve on the 2016 RD Loan with the notes issued through the SRF Program. However, the SRF Program will permit a combined debt service reserve for the 2009 Notes and the Proposed 2022 Notes. Mr. Baldessari testified that he calculated the debt service reserve requirement to equal the combined maximum annual debt service on the 2009 Notes and the Proposed 2022 Notes, less the fully funded debt service reserve on the 2009 Notes to be funded over a five (5) year period. Mr. Baldessari proposed that Petitioner be authorized to keep the debt service requirement included in the rates and use the monies generated for replacements, improvements, and other expenses of operating and maintaining the utility after the debt service reserve is fully funded. Mr. Baldessari provided a revised calculation for Petitioner's revenue requirement and proposed across-the-board rate increase, which was increased for Phase 1 from 23% to 23.74% and decreased for Phase 2 from 17.26% to 16.53%.

7. Commission Discussion and Findings. Based on our review of the evidence, we authorize Petitioner to issue long-term debt in an amount not to exceed \$4,040,000 and to increase its rates in Phase 1 by 22.41% to produce additional revenues of \$183,097 and in Phase 2 by 16.28%, to produce additional revenues of \$162,811. This authorization shall expire in 365 days for any portion of the authorized debt not issued within 365 days of this Order. Our authorization is limited as discussed below to a specific project scope and our findings on Petitioner's revenue requirement and rates; debt issuance; debt service reserve; the use of contingency funds; and required true-up reports.

A. Project Scope. We authorize Petitioner to use the debt proceeds for the projects described by Petitioner's PER, except that we decline to authorize using the debt for Petitioner's proposed well expansion project, which amounts to \$212,800 (comprised of \$185,000 in well expansion project costs plus \$27,800 in well expansion related pre-bid contingency costs). Although Petitioner provided evidence of the benefits of adding the proposed well capacity, including the ability to serve expected growth, its goal of increasing the amount of more cost-effective, self-supplied water, and its preference to align the well pump capacity with the WTP, Petitioner remains contractually bound to purchase a minimum quantity of purchased water from Hoosier Hills until 2028. We agree with the OUCC that Petitioner does not appear to have an imminent need for the expanded well capacity and Petitioner's existing capacity appears to be sufficient to serve Petitioner's needs for some time, assuming Petitioner continues growth at historical levels. If and when Petitioner's need for additional water supply becomes more imminent, Petitioner may renew its request for authority to issue long-term indebtedness to fund an expansion to its well capacity. At this time, we authorize funding for the remainder of the projects described by Petitioner's PER and find that the three new water main projects are necessary and prudent because they will improve system reliability, water pressure, and volume of flow. We also authorize Petitioner to use the debt proceeds to construct a new WTP to replace

its existing plant, which has exceeded its originally anticipated useful life and is nearing its maximum design flow to meet current peak demand. We find this project is reasonable and necessary given that the existing steel package WTP is critical to the production of drinking water, and it is prudent to replace the WTP before the existing plant begins to fail.

B. Rates and Revenue Requirement. Based on the evidence presented, we find that Petitioner's current rates and charges, which will provide annual adjusted revenues of \$817,024 in Phase 1 and \$1,000,121 in Phase 2, are insufficient to satisfy Petitioner's annual pro forma net revenue requirement of \$1,000,121 in Phase 1 and \$1,162,932 in Phase 2. Therefore, we find that Petitioner should be authorized to increase its rate and charges by \$183,097 in Phase 1, which is a 22.41% increase, and to increase its rates and charges by \$162,811 in Phase 2, which is a 16.28% increase over Phase 1 rates.

Petitioner's net revenue requirements are itemized below:

| | Phase 1 | Phase 2 |
|-----------------------------------|-------------|-------------|
| Operating Expenses | \$710,792 | \$710,792 |
| Depreciation Expense | \$40,550 | \$175,658 |
| Debt Service | \$234,740 | \$ 262,443 |
| Debt Service Reserve | \$ 31,641 | \$ 31,641 |
| | | |
| Total Revenue Requirements | \$1,017,723 | \$1,180,534 |
| Less Revenue Requirement Offsets: | | |
| Interest Income | (\$14,887) | (\$14,887) |
| Other Income | (\$2,715) | (\$2,715) |
| | | |
| Net Revenue Requirement | \$1,000,121 | \$1,162,932 |
| | | |
| Increase | \$183,097 | \$162,811 |
| | | |
| Recommended Percentage Increase | 22.41% | 16.28% |

C. Debt Issuance. Based on the evidence presented, we authorize Petitioner to issue an amount not to exceed \$4,040,000 in debt, which is comprised of the current Proposed SRF Notes par amount of \$3,415,000 plus the authorization of \$625,000 for additional contingency. We find that Petitioner's debt service shall seek to structure the debt as a \$1,655,000 principal Series A DWSRF 34-year loan with level amortization at an assumed subsidized interest rate of 2.65% and a \$1,760,000 principal Series B DWSRF 20-year loan with wrapped amortization at an assumed subsidized interest rate of 2.75%, which we find is appropriate given Petitioner's anticipated closing in the near term. However, the final debt service structure and interest rates shall be reflected in Petitioner's true-up.

D. Debt Service Reserve. We agree in this case with Petitioner's approach for calculating the debt service reserve. Mr. Baldessari testified that based on conversations with bond counsel and SRF, the outstanding documents and RD will not permit inclusion of the debt service

reserve on the 2016 RD Loan with the notes issued through the SRF Program. However, the SRF Program will permit a combined debt service reserve for the 2009 Notes and the Proposed 2022 Notes. Mr. Baldessari testified that he calculated the debt service reserve requirement to equal the combined maximum annual debt service on the 2009 Notes and the Proposed 2022 Notes, less the fully funded debt service reserve on the 2009 Notes to be funded over a five (5) year period. Further, we authorize Petitioner to keep the debt service requirement included in rates and use the monies generated for replacements, improvements, and other expenses of operating and maintaining the utility after the debt service reserve is fully funded.

E. Use of Contingency Funds. Petitioner shall issue debt to align with the final sizing for the loan from the SRF Program, which will be adjusted to reflect the actual costs of the project following the receipt of bids, plus a contingency not to exceed 5%, as well as all soft costs. In light of Petitioner's commitment that it will reduce the contingency to five percent (5%) following the submission of bids, the amount of borrowing authority we authorize includes the fifteen percent (15%) pre-bid contingency reflected in the PER as well as the \$625,000 additional contingency Petitioner has requested. By including these contingencies in the authorized borrowing, Petitioner is more likely to have sufficient borrowing authority to cover final costs that are higher than expected. However, our authorization is conditioned on Petitioner using the funds for the authorized projects as described in the PER and related contingencies and soft costs, and only in the amounts needed based on the construction bids.

F. True-Up Reporting. Our approval is conditioned on Petitioner filing in this Cause, and serving on the OUCC, the following true-up reports:

(1) Prior to closing, a report with an updated estimate of all non-construction costs indicating what non-construction costs have been incurred and eliminated, and if Petitioner determines it needs to resort to any borrowing including the \$625,000 additional contingency based on the bids received for the authorized projects, it shall provide the bid tabulations to the Commission and the OUCC within two weeks of that determination; and

(2) Within thirty (30) days after each closing, a true-up report describing the final terms of the debt, the amount of debt service reserve, and the amortization schedule for the debt. Petitioner's report shall include bid issuance costs, bid tabulations and engineering costs to the extent known. The true-up report shall note that the OUCC shall have 14 days from the date of service to object to the true-up report. If there is no objection to the true-up report and the annual debt service on the Proposed SRF Notes materially differs from the originally estimated total of \$130,300 for Phase 1 and \$158,003 for Phase 2 and a debt service reserve of \$31,641, then Petitioner shall file with the Commission a revised tariff adjusting its rates to include the final amount of annual principal and interest on the debt and the annual debt service reserve. However, if the actual terms of the financing are such that the annual debt payment on the Proposed SRF Notes is less than \$130,300 for Phase 1 and \$158,003 for Phase 2 per year, Petitioner need not file a revised tariff if the parties agree the difference is immaterial for purposes of determining whether Petitioner's rates should be revised. In lieu of a revised tariff, Petitioner shall file a notice of that consensus. If the Petitioner's total debt service payment per year on the outstanding and proposed notes is more than \$262,443 per year, Petitioner may, in its sole discretion, elect not to file a revised tariff reflecting a higher principal and interest payment for the debt.

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

1. Petitioner is authorized to incur long-term debt in an amount not to exceed \$4,040,000, which is comprised of the current Proposed SRF Notes par amount of \$3,415,000 plus the authorization of \$625,000 for additional contingency. The proceeds from the debt will be used to pay for Petitioner's three water main projects and its water treatment plant project described in Petitioner's PER.

2. Petitioner's issuance of the approved long-term debt is subject to all the reporting and other conditions set forth herein.

3. Petitioner is authorized to increase its rates and charges for water service as provided herein.

4. Prior to implementing the rates approved in this Order, Petitioner shall file an updated tariff and applicable rate schedules under this Cause for approval by the Commission's Water/Wastewater Division. Such rates and charges shall be effective on or after the Order date subject to the Division's review and agreement with the amounts reflected.

5. This approval shall expire in 365 days for any portion of the authorized debt not issued within 365 days of this Order.

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

HUSTON, FREEMAN, KREVDA, OBER AND ZIEGNER CONCUR:

APPROVED:

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

APPROVED:

Dana Kosco
Secretary of the Commission

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