STATE OF INDIANA

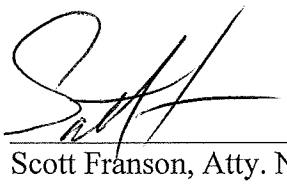
INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER COMPANY, INC. FOR APPROVAL OF (A) A NEW DISTRIBUTION SYSTEM IMPROVEMENT CHARGE ("DSIC") PURSUANT TO IND. CODE CHAP. 8-1-31; (B) A NEW RATE SCHEDULE REFLECTING THE DSIC; AND (C) INCLUSION OF THE COST OF ELIGIBLE DISTRIBUTION SYSTEM IMPROVEMENTS IN ITS DSIC	)	**CAUSE NO. 42351 DSIC-11**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S CLEAN PROPOSED ORDER

The Indiana Office of Utility Consumer Counselor ("OUCC") submits the attached Clean Proposed Order.

Respectfully submitted,



Scott Franson, Atty. No. 27839-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Indiana Office of Consumer Counselor's Proposed Order*** has been served upon the following counsel of record in the captioned proceeding by electronic service on March 5, 2018.

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ORDER OF THE COMMISSION

Presiding Officers:
David Ziegner, Commissioner
Brad Pope, Administrative Law Judge

On January 18, 2018, Indiana-American Water Company, Inc. ("Indiana-American" or "Petitioner" or "Company") filed with the Commission its Petition and Submission of Case-in-Chief for approval of a new distribution system improvement charge ("DSIC") pursuant to Indiana Code ch. 8-1-31 and 170 I.A.C. 6-1.1-1 *et seq*. On January 26, 2018, the City of Crown Point, Indiana ("Crown Point") filed its Petition to Intervene in this Cause, which was granted by the Commission's Docket Entry dated February 5, 2018. On January 29, 2018, Sullivan Vigo Rural Water Corporation ("Sullivan Vigo") filed its Petition to Intervene in this Cause, which was granted by the Commission's Docket entry dated February 12, 2018. The Indiana Office of the Utility Consumer Counselor ("OUCC") filed its case-in-chief on February 19, 2018. Petitioner filed its rebuttal testimony and attachments on February 26, 2018.

Pursuant to notice given as provided by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public evidentiary hearing was convened in this Cause on February 28, 2018 at 1:30 p.m. EST in Room 222 of the PNC Center, Indianapolis, Indiana. At the evidentiary hearing, the prefiled evidence of Petitioner and the OUCC was offered and admitted into the record of the proceedings of this Cause. No members of the general public appeared or participated at the evidentiary hearing.

Having considered the evidence and being duly advised, the Commission now finds:

1. Notice and Jurisdiction. Due, legal and timely notice of the public hearing in this Cause was given and published as required by law. Petitioner also provided notice of its filing in this Cause to its wholesale customers pursuant to 170 IAC 6-1.1-4. Petitioner is a "public utility" within the meaning of that term in Indiana Code § 8-1-2-1 and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. The Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner's Characteristics. Petitioner is an Indiana corporation engaged in the business of rendering water utility service to customers in numerous municipalities and counties throughout the State of Indiana for residential, commercial, industrial, public authority, sale for resale and public and private fire protection purposes. Petitioner also provides sewer utility service in Wabash and Delaware Counties.

3. Relief Requested. Petitioner seeks approval of a DSIC pursuant to Indiana Code ch. 8-1-31, a new rate schedule reflecting the DSIC, and approval of the costs of the eligible Distribution System Improvements ("Improvements") in Petitioner's DSIC. Petitioner's most recent rate order was issued in Cause No. 44450 on January 28, 2015 ("2015 Rate Order"). On December 30, 2015, Petitioner filed a Step Two True-Up to update rate base as set forth in the Stipulation and Settlement Agreement approved by the 2015 Rate Order, which took effect January 29, 2016. The rate base as updated by that true-up is referred to herein as the "2015 Rate Order Rate Base." Petitioner's most recent DSIC was approved in Cause No. 42351 DSIC-10 on March 22, 2017 (the "DSIC-10 Order"), approving a DSIC that when combined with the 1.95% rate directed in the DSIC-9 Order would equate to a 6.60%, calculated to produce total annual DSIC revenues of $8,292,811. This surcharge reduced to 6.40% because of the DSIC-9 reconciliation approved by the Commission with an effective date of May 17, 2017 (the "DSIC-9 Reconciliation Order"). In accordance with the Commission's rules, Petitioner's Reconciliation Report for DSIC-10 is not due for filing until the end of the 30-day period beginning March 22, 2018. The DSIC Improvements approved in DSIC-10 consisted of non-revenue producing projects placed in service between December 1, 2015 and November 30, 2016 and not included in Petitioner's 2015 Rate Order Rate Base.

Petitioner proposes to add to the DSIC approved in DSIC-9, DSIC-10 and DSIC-9 reconciliation, non-revenue producing projects placed in service between December 1, 2016 and November 30, 2017 that were not included in the 2015 Rate Order Rate Base or prior DSICs. Petitioner's proposed DSIC would produce total annual DSIC revenues of $7,404,634. The total DSIC combined revenues for DSIC-9 (including reconciliation), DSIC-10, and DSIC-11 are $17,626,142 as shown on Schedule 1 of Attachment GMV-2. The combined DSIC-9 (including reconciliation), DSIC-10 and DSIC-11 revenues represent less than 10% of the base revenue level approved in the 2015 Rate Order (as adjusted by the Step Two True-Up).

4. Petitioner's Direct Evidence. Petitioner presented the direct evidence of Gary M. VerDouw, Director of Rates and Regulatory for Indiana-American, and Stacy S. Hoffman, Director of Engineering for Indiana-American.

A. Calculation of DSIC-11. Mr. VerDouw testified regarding the filing requirements and methodology for calculating the DSIC. Mr. VerDouw provided evidence concerning the calculation of the proposed DSIC and sponsored Petitioner's proposed rate. Mr. VerDouw explained how in the previous years the surcharge was calculated as a percentage that was applied to both the consumer's volumetric and metered service charge revenues for all rate groups, but because of amendments to IC 8-1-31-8, the surcharge applicable to the total DSIC revenue requirement has been calculated as a fixed charge based upon a meter equivalency size in this proceeding. Mr. VerDouw explained that Petitioner currently has a DSIC surcharge in effect of 6.40%, which was approved by the Commission with an effective date of May 17, 2017, resulting from the DSIC-9 reconciliation. Mr. VerDouw testified that Petitioner proposes to add to the DSIC-9 reconciliation, DSIC-9 and DSIC-10 surcharge an additional surcharge to include only non-revenue producing projects placed in service between December 1, 2016 and November 30, 2017 that were not included in rate base in the 2015 Rate Order Rate Base.

Mr. VerDouw then discussed how Petitioner calculated the Net Investor Supplied DSIC Additions. He stated that Petitioner started with DSIC Improvements of $70,165,650 which he reduced by the amount of related plant retirements (shown on Line 1 of Schedule 1 of Attachment GMV-2), consistent with the DSIC-8 Order. The actual amount of the cost of removal, net of salvage, of $7,648,906 was then added. Mr. VerDouw stated that there were total reimbursements from the Indiana Department of Transportation ("INDOT") and others in the amount of $179,611. These reimbursements were removed from the DSIC Improvements, resulting in Net Investor Supplied DSIC Additions of $71,859,523, as shown on Line 5 of Schedule 1 of Attachment GMV-2.

Mr. VerDouw also explained that the rate of return used in this proceeding is Petitioner's weighted average cost of capital computed from Petitioner's capital structure as of November 2014. He testified that Petitioner used the average embedded debt cost rate as of November 2014 to determine the long-term debt cost rate. The common equity cost rate of 9.75% is the rate approved by the Commission in the 2015 Rate Order. The weighted cost of capital of 6.60% and pre-tax rate of return of 8.13% were derived as shown on Schedule 4 of Attachment GMV-2. Mr. VerDouw stated the pre-tax rate of return was calculated using a gross revenue conversion factor of 137.7717%, calculated using those taxes and fees that will be in effect during the time the DSIC Revenues are billed. The IURC Fee used is the fee billed by the IURC as of July 1, 2017 of 0.1338381%, consistent with the direction provided by the IURC in the Order received in DSIC-10. The State Income Tax reflects three months of an Indiana State Income Tax rate of 6.0%, and nine months at a rate of 5.75%, for a blended State Income Tax rate of 5.8125%. The gross-up calculation also reflects the new Federal Income Tax rate of 21%, which was part of the Tax Cuts and Jobs Act of 2017 ("TCJA"). Mr. VerDouw stated that the gross revenue conversion factor was multiplied by the weighted cost of non-debt components of the capital structure to determine the pre-tax return of 8.13%.

Mr. VerDouw stated that Petitioner determined its depreciation expense of $1,562,455 by using the annual depreciation rates by primary plant account previously approved by the Commission, multiplied by the Improvements, net of related retirements.

Mr. VerDouw explained how the annual revenue requirement of $7,404,634 for DSIC-11 was calculated. He then restated the revenue requirements previously approved in DSIC-9 and DSIC-10 (which were adopted prior to the reduction in the federal income tax rate) to also reflect the Tax Cuts and Jobs Act so that the entire DSIC revenue requirement (DSIC-9, 10 and 11) reflect the lower corporate federal income tax rate. He testified and provided schedules showing that proposed DSIC Revenues of $17,626,142, resulting from combining DSIC-9 reconciliation, DSIC-9, DSIC-10 and DSIC-11 totals, do not exceed 10% of Petitioner's base revenue level.

B. Description of DSIC Improvements. Petitioner's witness Stacy S. Hoffman sponsored Attachment SSH-1, which provides a summary of costs for non-blanket and blanket project categories, and Attachments SSH-2 and SSH-3, which provide the list of projects included in this DSIC. Attachment SSH-2 lists non-blanket projects individually by project number, with project description, the date placed in service, the project purpose, the resulting benefits, the applicability of easements, the range of age of plant retired, pipe diameters, pipe length, and the total costs incurred. Attachment SSH-3 lists statewide blanket projects by project number, with project description, the project purpose, the resulting benefits, the range of age of plant retired, and the total costs incurred. That exhibit also lists quantities of blanket project assets replaced. Attachment SSH-4 lists all projects with additions cost detail by utility account. Attachment SSH-5 lists all projects with retirement cost detail by utility account. Attachment SSH-6 lists all projects with cost of removal and salvage detail

by utility account. Mr. Hoffman stated that Petitioner has invoices and other cost support for all projects listed in Attachments SSH-2 and SSH-3.

Mr. Hoffman generally described the types of projects included in Attachments SSH-2 and SSH-3. He stated that all of the improvements included in this Cause are replacement infrastructure, reinforcement projects and distribution system retirements. He explained that replacement infrastructure includes water mains, tanks, tank coating systems, valves, hydrants, service lines and meters. A portion of the replacement infrastructure, he explained, are associated with right-of-way improvements projects wherein the location of Indiana-American infrastructure directly conflicted with other public infrastructure improvement projects like road and sewer projects. Other projects included replacement of obsolete water mains, tanks, tank coating systems, hydrants, valves, meters, and service lines that are in poor condition or hydraulically deficient for providing adequate service including public fire protection. He further explained that reinforcement infrastructure consists of mains, valves and hydrants with the purpose of improving pressure, fire flow and service reliability of the existing distribution system. He testified that all of the retirements associated with the new infrastructure had been recorded on Indiana-American's books and records as of the date of Petitioner's filing. He also testified that no costs of removals were estimated. Mr. Hoffman explained that all of the projects listed individually in Attachments SSH-2 and SSH-3 represented eligible DSIC projects, including the blanket categories. He explained the presentation of the blanket projects, noting that blanket categories are used for common, similar activities like replacement meters, service lines, hydrants, and unscheduled main replacements.

Mr. Hoffman also testified about the Company's comprehensive capital improvement planning studies for each of the Indiana-American operations. He explained that the studies include a thorough evaluation of demand projections, regulatory requirements, asset service reliability and quality, replacement of poor condition infrastructure, asset impacts on safety and efficiency, public fire protection, and environmental sustainability. He testified that the Company performs an evaluation used for long term distribution system asset investment planning modeled on a multi-decade forward projection of pipeline asset replacement needs based on distribution pipe materials and the decades of installation of the pipe materials. Another evaluation is used for near term distribution system asset investment planning, which is a detailed modeling of the distribution systems, identifying service risks associated with pipeline failure risks for all pipes in the Company's distribution system. Mr. Hoffman described the key inputs to the Company's five-year capital investment plan as including a multi-decade forward projection of pipeline asset replacement needs, prioritization modeling of the Company's 4,850 miles of distribution pipe, customer rates, and service reliability and impacts. The multi-decade forward projection of pipeline asset replacement needs utilizes the American Water Works Association (AWWA) software analytics tool, "Buried No Longer Pipe Replacement Modeling Tool." Mr. Hoffman stated this modeling projects that pipe replacement needs range from a current projected need of a near 1% annual replacement rate to an annual rate of near 1.5% by the decade of 2030. He testified that the significant gap between the current projected annual pipeline replacement rate need of near 1% and the Company's current actual nine-year annual average pipe replacement rate of only 0.33% without including relocations, and 0.48% including relocations translates to a need to increase the Company's annual pipe replacements. He explained that this gap translates to an unrealistic pipe life expectancy of over 200 years, as compared to a more realistic pipe life expectancy of 50 to 100 years. He stated that many pipes in the Company's system that were installed from 50 years ago to over 100 years ago are at or nearing the end of their expected useful life. He indicated the Company is planning to increase its replacement rate in the coming years.

Mr. Hoffman went on to describe the "tidal wave" effect on the future cost to customers caused by deferral of pipe replacements year by year. He explained that to the extent pipe replacement needs are deferred further into the future, service quality will suffer from increasing numbers of pipe breaks, service disruptions, health risks from potential drinking water contamination exposure during pipe breaks, property damages, and related community opportunity costs related to community health and economic development. He referred to recent AWWA and Water Research Foundation reports highlighting the challenge of aging infrastructure for utilities, customers and regulators, as well as a report prepared by the Economic Development Research Group, Inc. for the American Society of Civil Engineers (ASCE) that calculated estimates of economic impacts of failing to invest in water infrastructure across the country. Both Mr. Hoffman and Mr. VerDouw referenced the 2016 report published by the Indiana Finance Authority which estimated current utility infrastructure needs to be $2.3 billion, with an additional projected $815 million annual spend to maintain the utilities into the future. Mr. Hoffman discussed the various challenges to closing the current gap in main replacement rates, including the challenge of effectively educating all stakeholders about (1) buried pipe infrastructure and its function in providing reliable water service, (2) the cost of replacing poor condition pipes and the link to the cost of providing water service, and (3) the consequences of delaying replacement of poor condition pipes. He also noted the challenge of attracting reasonable cost capital.

Mr. Hoffman testified about the Company's prioritization model for identifying pipeline replacement investment needs. He stated that in July 2015, Indiana-American met with IURC staff as well as representatives of the OUCC, the City of Crown Point, and the Town of Schererville, to review details of the Company's pipeline prioritization model and process. He testified about the long term benefits that can result from using these models to develop a more systematic approach to replacing poor condition pipes. He stated prioritization models are excellent tools for a prudent asset management approach.

Mr. Hoffman testified regarding what types of projects are eligible for inclusion in Petitioner's DSIC filings. Mr. Hoffman explained that Petitioner has been involved in eleven DSIC filings and, over the years, the Commission's Orders have clarified and provided guidance on the types of projects it considers to satisfy the DSIC statute's requirements.

Mr. Hoffman described three categories of meter replacements included in this DSIC-11: (1) meters replaced as part of the Company's length of service (LOS) plan; (2) meters replaced under the Company's accelerated automated meter reading (AAMR) plan that were or would have been 10 years old or older as of November 30, 2017; and (3) meters replaced or moved out while moving the meter location from inside the customer building to a meter pit outside the customer building, otherwise referred to as meter move-outs. He stated that meter move-outs also include replacement of failed curb stops with new meter pit installations where the meter location was previously inside the customer building. He described the LOS plan, which consists of replacing meters at the LOS age approved by the Commission in Petitioner's 30-Day Filing No. 2610 approved on January 20, 2010 and of replacing broken meters regardless of age. He then described the AAMR category of meters, citing the Commission's Order dated December 27, 2012 in Cause No. 42351 DSIC-7 (the "DSIC-7 Order") as support for inclusion of meters that were or would have been 10 years old or older as of November 30, 2017. He stated additions and cost of removals for the AAMR meters 10 years old and older were calculated from the actual material and installation costs for these meters. He stated retirement values for the 10 years old and older meters were calculated at gross original cost and computed using the Handy-Whitman index to trend back current day costs to original costs

because the Company's financial system for these mass assets does not show original cost for this specific subset of 10 years old and older meters.

Mr. Hoffman also testified about the inclusion of tank-related projects in Petitioner's proposed DSIC, referring to the DSIC-7 Order in which the Commission authorized DSIC recovery on tank-related projects consisting of foundation rehabilitations, a paint rehabilitation, a tank roof replacement and some distribution pump work to enable Indiana-American to take the tanks offline. He testified that the tank-related projects included in this DSIC-11 are similar to those included in DSIC-7 insofar as they consist of capital rehabilitation work on existing tanks and not construction of new tanks. He described the tank-related projects in this DSIC-11 as consisting of replacement of tank coating systems, structural steel, and tank appurtenances. He noted the projects are recorded in NARUC Uniform System of Accounts distribution accounts, do not increase water storage capacity, and otherwise meet the statutory criteria to qualify as eligible distribution system improvements.

Mr. Hoffman testified that all Improvements listed in Attachment SSH-2 and Attachment SSH-3 meet the DSIC statutory requirements. He testified the following about the projects included for recovery in this Cause: none of the projects increase revenues by connecting the distribution system to new customers; all of the projects are in service; none of the projects were previously included in rate base; all necessary local, state and federal permits, approvals and authorizations have been obtained; and there was no affiliate involvement in any of the transactions. Mr. Hoffman explained that as Director of Engineering he has familiarity with these projects through regular communication with Indiana-American Engineering staff during the planning, design and construction phases of these projects. Indiana-American project managers also confirm projects are in service through a physical inspection and then enter in-service dates for completed projects in the Indiana-American accounting software system. He testified that he verified that none of the project costs identified in this Cause were included in rate base in any prior Causes. Mr. Hoffman also explained that some of the project costs included in this DSIC-11 are for projects that were placed in service prior to December 1, 2016, but were not included in DSIC-10 and were not previously included in rate base in any prior case, because the costs were incurred subsequent to the most recent rate base cutoff or because the Company had not completed all accounting for these costs by the most recent rate base cutoff.

Mr. Hoffman testified regarding the funding of the Improvements. He stated that projects included in this DSIC-11 were funded by Petitioner or were reimbursed by INDOT or others, as noted by Mr. VerDouw.

Mr. Hoffman stated Petitioner has a five-year Strategic Capital Expenditure Plan that provides for budgeted amounts of approximately $355,000,000 for replacement mains, reinforcement mains, DSIC tank related work, hydrants, services and meters for the period 2018-2022. He testified that included in this amount is approximately $32,500,000 budgeted over the same period for water main replacements required by state and local governments as a result of road improvements and other projects.

5. OUCC's Case-in-Chief. The OUCC presented testimony of Richard J. Corey and James T. Parks. Mr. Parks described his review of Petitioner's application for DSIC-11 and recommended that the Commission only allow Petitioner to include $1,578,137.57 of the $2,031,492.57 Petitioner seeks to include for the project shown in Attachment SSH-2 as I10-650007-01 SHL McKay Rd EST Rehab Shelbyville Tank Painting/Rehab (the "McKay Project"). The McKay

Project included, among other improvements, interior and exterior sandblasting to remove the old tank coating followed by recoating with a primer, an intermediate coat, and a final coat.

Mr. Parks testified that total cost of the McKay Project is comparable to the cost for a new 1.0 MG elevated storage tank. Mr. Parks noted that the painting and rehabilitation cost Petitioner incurred for the McKay Project exceeded the $1,253,000 TIC's Engineer estimated for the total base cost, which included additional work allowances, and $1,318,000 for project cost.

Mr. Parks testified that Petitioner did not competitively bid the McKay Project, but received bids from preselected painting contractors and did not openly advertise the project to allow other tank painting contractors to bid. Mr. Parks testified that in his experience, high painting prices may have occurred because Petitioner limited bidders to only preselected contractors in a rushed process that was started late in the year when many painting contractors already have contracts for other tank jobs. He further testified that the preselected contractors only had twenty days to prepare their bids and potential bidders attending the pre-bid meeting would have known that few other potential bidders attended.

Mr. Parks testified that because the painting prices were higher than the engineer's estimated cost, the Petitioner should have: (1) evaluated with its engineer the reasons for the high bids and why so few bidders participated; (2) rejected the bids because they were much higher than the engineer's estimate; and (3) rebid the project later in 2017 with the goal of attracting more bidders and more favorable pricing. Mr. Parks said Petitioner could have obtained a bid price more in line with TIC Engineer's estimate. Therefore, Mr. Parks recommended the Commission exclude $453,355 from the calculation of DSIC-11 for the McKay Project.

Mr. Corey also testified regarding the McKay Project. Mr. Corey explained that the difference between his calculation of the DSIC and Petitioner's calculation is due to his exclusion of the $453,355 of DSIC-11 additions relating to the McKay Project as discussed in Mr. Parks' testimony. Mr. Corey ultimately recommended that the Commission exclude from the calculation of the DSIC $453,355 for the reasons explained in Mr. Parks' testimony and that the Commission approve a monthly DSIC rate per equivalent 5/8 inch meter of $3.90.

6. **Petitioner's Rebuttal.** Petitioner presented rebuttal testimony of Stacy S. Hoffman to respond to statements in the direct testimony of Mr. Parks. Mr. Hoffman testified that the McKay Project was not delayed and the bidding process was not rushed as suggested by Mr. Parks. Mr. Hoffman testified that Mr. Parks cited a number of things that led him to conclude that the project was delayed and rushed, including communications between Petitioner and Shelbyville, the time of the year the project was started, the length of the bidding process, and the bid amounts that were actually received, all of which he rebutted.

Mr. Hoffman testified that the communications between the Petitioner and Shelbyville to which Mr. Parks cited do not indicate the McKay Project was delayed or that the bidding process was rushed. Mr. Hoffman testified that he presumed Mr. Parks' used the phrase "may have been rushed" because he acknowledged these communications do not demonstrate anything about a project delay or about "rushing" the process. Mr. Hoffman testified that Mr. Parks interpreted these communications through the lens of a delay and rushing theme, despite these being normal communications that take place in managing a construction schedule for a project. Mr. Hoffman testified that these communications indicate that Petitioner developed a specific project schedule for the McKay Project work in 2017. Mr. Hoffman also explained these communications indicate that

Petitioner's team member assisting with the management of the schedule was attempting to ensure the work was performed on schedule. Mr. Hoffman testified that Mr. Parks' suggestion that these communications are anything otherwise is reading something into these communications that is simply not there, and adding a meaning to the communication that only Mr. Parks chose to add.

Mr. Hoffman rebutted Mr. Parks' conclusion that the time of year in which Petitioner started the project was an indication the bidding process was rushed. Mr. Hoffman reiterated that the process was not rushed and Mr. Parks' assertion that it was started late in the year is simply wrong. Because tanks provide important storage for peak hourly flows during the day, Mr. Hoffman explained it is common for many communities and utilities to perform tank rehabilitation work either in a window of time in the spring or in the fall. He stated that, depending on the type and magnitude of the tank rehabilitation work, it is often feasible that tank contractors perform desired work in the spring or fall, barring an unusual number of rain days, high humidity days, or low temperature days that would prevent blast and paintwork. He indicated that Indiana-American usually prefers to start work towards the end of summer and complete work through the fall season because days of precipitation and high humidity occur less often during that time as compared with the spring.

Mr. Hoffman testified that it is common for communities and utilities to strive for a construction schedule that avoids extending work through multiple seasons. He stated that the goal is not to suspend fall tank work through the winter resulting in needing to recommence work again in the spring. Mr. Hoffman explained that utilities do this to avoid the tank being out of service for an extended period of time, which would result in the community lacking a critical component of community fire protection.

Mr. Hoffman testified that the McKay Project and bidding process was not started late in the year as Mr. Parks asserted in his testimony, but rather the project actually started earlier in the year and was performed on a longer project schedule as compared with a typical fall season tank rehabilitation project for the Petitioner. Mr. Hoffman testified that a number of factors contributed to Petitioner planning for a longer project schedule, e.g., the fact that the McKay tank is a relatively large elevated tank at 1 million gallons volume, the tank had a legacy lead-based paint system, and is situated in the midst of a developed community. Mr. Hoffman testified that these factors encouraged Petitioner to plan for a longer work duration than the typical fall season work, which is why Petitioner bid the work and awarded the project in the spring so that mobilization and construction could start by early summer versus late summer (when most fall tank rehabilitation projects start). Mr. Hoffman testified that Petitioner started the project in early summer (June 1), thereby providing a longer work window through to the end of fall, which is typically November. Mr. Hoffman testified that despite Mr. Parks' assertions, the project was actually started earlier in the year and was scheduled for a longer timeline than the majority of Petitioner's rehabilitation projects.

Mr. Hoffman testified that he does not agree with Mr. Parks' assertion that the bidding process for the McKay Project was cut short due to delay in the project and was not shorter than other bid processes for this type of work. Mr. Hoffman testified that the contractors were given nearly three weeks to bid the project, which is typical bid time for this type of work. He stated that bidders who participated in this bid process were very familiar with the scope of work and what the project entailed. Mr. Hoffman testified that the contractors had more than enough time to prepare bids and the process was not rushed. He also testified that none of the invited bidders requested more time to bid on the project.

Mr. Hoffman testified that Petitioner planned and scheduled time for a pre-bid meeting at the project site to allow contractors to inspect the site and learn more details about the work involved. Mr. Hoffman testified that the pre-bidding meeting was probably not necessary because based on his considerable direct experience with tank rehabilitation projects and knowledge of how the process works, he understands that due to the tank rehabilitation contractors' vast experience with this type of work over many years, it is very rare that a contractor wants to visit the tank site and inspect it before bidding. Mr. Hoffman testified that contractors go online to view an aerial view of the site to observe properties around the site and to plan equipment and materials staging for bidding. Mr. Hoffman testified that given his experience, he knew a pre-bid meeting likely was not necessary, but Petitioner still planned and scheduled time in this project to require a mandatory pre-bid meeting on the project site.

Mr. Hoffman testified that Mr. Parks provided no factual or engineering basis for his assertions that the successful bid price was high. Mr. Hoffman rebutted the various assumptions or inferences upon which Mr. Parks based his assertions, including: (1) the bid price was too high because the project was started late in the year and contractors already had contracts for other tank projects; or (2) that the project bidding was rushed; or (3) because Petitioner prequalifies contractors; or (4) because there were not more than three bidders; or (5) because the bid was higher than the engineer's estimate.

Mr. Hoffman reiterated his testimony that Mr. Parks' assertion that the project bidding process was rushed is false and that the project was actually started earlier in the year compared with other more typical tank work scheduled that are started in the fall of the year. He stated that Mr. Parks provides no evidence for his assertion that tank contractors already had contracts for other tank projects. In response to Mr. Parks' assumption that the successful bid must be high because only three bidders submitted bids in the process, Mr. Hoffman explained that in his experience, it is not at all uncommon to receive three bids in a competitive bidding process. He further testified that, in fact, Petitioner received the same number of bids for similar work on the Norplex tank project, which is contained in this DSIC and the costs for which Mr. Parks has accepted.

Mr. Hoffman testified that it does not matter that one of the bids received was technically not responsive because the contractor could not complete the work in 2017. Mr. Hoffman testified that this does not change the analysis, because the bidder who stated they could do the work in 2017, submitted their bid for doing the work in 2018 and their price for completing the work in 2018 was actually higher than the successful bid for completing work in 2017. Mr. Hoffman testified that because Petitioner already received two responsive bids, and because the third bid for 2018 was higher than those received for 2017, it chose not to consider rebidding the work for 2018.

Mr. Hoffman testified that Mr. Parks presented no factual basis for his assertion that Petitioner prequalifying bidders led to a higher bid price. Mr. Hoffman stated that it is common for a competitive bid process like the one here to solicit bids from many contractors and receive three bids. He testified that prequalified contractors have demonstrated safe working practices, quality work, and performance of schedule. Mr. Hoffman testified that safety is extremely important on all types of projects, but this is especially true for projects where work is being performed on 160-foot tall tanks. Mr. Hoffman testified that a contractor's ability to perform quality work is also very important. Poor quality work can result in even higher asset life cycle costs, because shoddy work quality can lead to shorter life assets, opportunity costs of rework, and potential litigation costs associated with poor quality work. Mr. Hoffman also testified that a contractor's proven performance of schedule is also

very important so that tanks and other assets can be returned to service on schedule and recommence providing their intended service to the community including public fire protection.

Mr. Hoffman testified that that while opening the bidding process to all potential bidders as Mr. Parks suggests could potentially produce a greater number of bids, it would not produce a greater number of quality bids. Mr. Hoffman testified that Petitioner is not interested in spending its time or resources evaluating low quality bids that ultimately produce low quality work. Mr. Hoffman testified that Petitioner invited 11 contractors to bid on the McKay Project and that Petitioner reviewed the three bids received and determined that they were market price for the bid work and commensurate with the specific scope of work for this particular tank at this particular site. Mr. Hoffman testified that Petitioner's bid process was in line with standard industry practice and that Mr. Parks has presented no evidence to prove the successful bid was somehow high.

Mr. Hoffman testified that the fact that the successful bid was higher than the engineer's estimate is in no way proof that the successful bid is higher than the actual market price. He stated that an engineer's estimate is exactly that -- an estimate -- and it is an estimate by someone who is not a tank rehabilitation contractor. Mr. Hoffman testified that soliciting and receiving bids for work for which the bidders are prepared to sign a contract and deliver on is the precise practice typically used to determine market prices. He stated that Mr. Parks' assertion that the cost estimate provided by TIC was reasonable simply because TIC is a nationally recognized water tank consultant does not make their estimate any better than the actual market price derived from competitive bidding amongst actual tank rehabilitation contractors. Mr. Hoffman further explained that Petitioner did not engage TIC to establish market price for the McKay Project, but contracted with TIC on the McKay Project for their inspection services expertise. Mr. Hoffman pointed out that the market prices for the McKay Project and the Norplex rehabilitation (which project Mr. Parks accepted for inclusion in this DSIC), on a cost per gallon basis, were virtually identical with the cost per gallon for each of the two tanks being within 2% of each other.

Mr. Hoffman responded to Mr. Parks' testimony that Petitioner plans to build a new tank in Shelbyville at some point in the future. Mr. Hoffman explained that there is no relation between the planned ground tank and pump station recommended in Petitioner's 2007 Demand and Distribution Study and the McKay Road Tank. He testified that despite Petitioner having provided Mr. Parks with the Study, Mr. Parks inferred a relationship between the two tanks, as if the planned new tank could be built and the McKay Road Tank could be retired. Mr. Hoffman testified that this is completely opposite of what Petitioner stated in reply to the OUCC data requests. Mr. Hoffman also rebutted Mr. Parks' estimate of the cost to build the new tank. He noted that Mr. Parks' budgetary estimates do not include land, site work, and engineering costs, yet these excluded parts of a tank project can be significant costs. Mr. Hoffman testified that Mr. Parks also does not account for other necessary costs like inspection, electrical work, and SCADA work, and Mr. Parks neglected to mention pipelines costs, which can be very significant. Mr. Hoffman provided evidence of project costs for eight prior Indiana-American new elevated tank projects that were significantly higher than the tank-only-budgetary estimates Mr. Parks presented.

Mr. Hoffman testified that Petitioner delivered the McKay Project responsibly and prudently, and received market price for the work from the successful bidder. Mr. Hoffman testified that Mr. Parks' recommendation should be rejected and Petitioner should be allowed to include the full cost of the work for rehabilitation of the Shelbyville McKay Road Tank in this DSIC.

7. Commission Discussion and Findings.

A. DSIC Requirements and Calculation. Indiana Code § 8-1-31-1 *et seq.* requires the Commission to approve a DSIC in order to allow a water utility to adjust its basic rates and charges to recover a pre-tax return and depreciation expense on eligible infrastructure improvements. Indiana Code § 8-1-31-5 defines eligible infrastructure improvements for water distribution infrastructure of a public utility as new used and useful water utility plant projects that:

(a) do not increase revenues by connecting to new customers;

(b) are in service; and

(c) were not included in the public utility's rate base in its most recent general rate case.

Under Indiana Code § 8-1-31-6, the rate of return allowed on eligible infrastructure improvements is equal to the public utility's weighted cost of capital. Unless the Commission finds that such determination is no longer representative of current conditions, Indiana Code § 8-1-31-12 provides that the cost of common equity to be used in determining the weighted cost of capital shall be the most recent determination by the Commission in a general rate proceeding of the public utility.

Furthermore, in 2017, the Indiana Legislature passed House Enrolled Act 1519, which changed how the DSIC surcharge is to be calculated. In the past, the surcharge was to be calculated as a percentage that was applied to both the consumer's volumetric and metered service charge revenues for all rate groups. Now, Indiana Code § 8-1-31-8, as amended by P.L. 91-2017 (effective July 1, 2017), states as follows:

> Sec. 8. (a) Except as provided in subsection (d), an eligible utility may file with the commission a petition setting forth rate schedules establishing an amount that will allow the adjustment of the eligible utility's basic rates and charges to provide for recovery of infrastructure improvement costs. **The adjustment shall be calculated as a monthly fixed charge based upon meter size**. (Emphasis added.)

As a result, Petitioner is now required to calculate the surcharge applicable to the total DSIC revenue requirement as a fixed charge based upon a meter equivalency size.

B. Approval of Proposed DSIC.

(i) McKay Road Tank. The only issue in dispute is how much to include in this DSIC for the McKay Tank rehabilitation project. Petitioner is seeking to include over 2 million dollars. Mr. Parks' recommendation is to include the estimate from Petitioner's engineering firm Tank Industry Consultants (TIC) plus Indiana-American's overhead additions or $1,578,137.57. In this case, Indiana-American requested bids from only eleven (11) contractors.[1] Indiana-American gave these eleven contractors less than three weeks to complete their bids. Further, bidding was limited by a mandatory pre-bid meeting of which only four potential bidders attended. Of the eleven potential bids Indiana-American only received two (2) responsive bids.[2] Both the bids received by Indiana-American were well over the estimated cost provided by TIC.

[1] OUCC CX-1 is a listing of the eleven contractors.

[2] The third bid indicated it was for work to be completed in 2018. Completing the work in 2017 was a requirement of the bid.

We find it concerning that Indiana-American did not reevaluate the project when only two responsive bids were received and both of these were well over the engineer's estimate. Tank Industry Consultants is a nationally recognized water tank consulting company with experience working on all facets of water storage tank projects. Its estimate should have been used as a benchmark of reasonableness. But Indiana-American ignored that benchmark and, without hesitation, awarded a contract well over that price after only receiving two responsive bids.

Faced with few bids, which greatly exceeded the estimate provided by its consulting engineering company, Indiana-American could have and should have considered rebidding the project. That only two of the potential bidders were able to comply with the bid requirement that the project be completed in 2017 suggests that requirement may have been a factor. Presumably, the other eight companies, all of whom are in the business of painting water tanks, were discouraged from even bidding because they were booked in 2017. While it may be speculation at this juncture to assume that lower bids (i.e. bids more in line with the TIC estimate) would have been procured if Indiana-American had rebid the project and adjusted the requirements, it would also be speculation to assume lower bids would not have been produced.

What is apparent from the hearing and the cross-examination of Mr. Hoffman is that when Indiana-American received its bids, it had not been equipped with any threshold dollar amount that would indicate the project should be rebid. Mr. Hoffman insisted at the hearing that Indiana-American's engineering division has a good sense of how much these projects should cost. But nothing elicited from Mr. Hoffman suggested what that amount should be. In accepting the lower of the two qualified bid amounts, Indiana-American's Engineering Division ignored, and has subsequently disparaged, the estimate of its own engineering firm Tank Industry Consultants.

In his rebuttal testimony, Mr. Hoffman justified the higher cost Indiana-American paid for its McKay tank by comparing the cost per gallon paid to paint Indiana-American's Norplex tank – another DSIC 11 project. Mr. Hoffman testified that the costs per gallon for painting the McKay tank and the Norplex tank are nearly identical. The use of a cost per gallon comparison is not persuasive. Tank painting projects should be evaluated on a surface area basis to have any meaningful comparison. Given the short timeframe of a DSIC the OUCC did not raise any issue with the Norplex tank, this does not mean that they or this Commission finds those cost to be reasonable, it only indicates they did not specifically object to inclusion in this DSIC. And to the extent, comparison of the cost of painting the Norplex tank with the cost of painting the McKay tank is appropriate, this could suggest that Indiana-American may also have paid too much to paint the Norplex tank as well. The OUCC may conduct a more thorough prudence review during Indiana-American's next rate case.[3]

Mr. Hoffman insisted that Indiana-American's bidding process establishes a market price for its DSIC projects such as the McKay tank. Mr. Hoffman suggested that because the project cost was the result of a lower bid, the project cost is insulated from any criticism that the project cost should be considered imprudent or excessive. As such, on an expedited basis, Indiana-American will be able to earn a return on and of all of that project cost together with state and federal income taxes. There does not appear to be anything that incents or encourages Indiana-American to reject all bids and start again when the bids received significantly exceed its consulting engineer's estimates. If Indiana-

[3] Testimony of Richard J. Corey, p. 6, lines 6-14.

American is entitled to place into rate base any project cost so long as it is the lower of two qualified bids, there is no reason for Indiana-American to start over when faced with bids that are unexpectedly high. Any unregulated business that must compete for customers must exercise more circumspection than Indiana-American has shown in awarding the contract for the McKay tank.

Accordingly, we would find $1,578,137.57, which is based on TIC's engineering estimate, is the appropriate amount and should be included as an eligible distribution system improvement.

However, during the hearing Mr. Hoffman testified he did not believe the McKay tank has been or will be included in rate base as it is being leased by Indiana-American. This revelation causes us to question whether the tank painting project may even be included in rate base and this DSIC, where the underlying tank is not itself included in rate base. Moreover, Indiana-American entered into the long-term lease with the city in 2017, and that previously there was some sort of lease agreement but without any documentation. Under the prior lease, to the extent it existed, it was the City that painted the McKay water tank (2003) and not Indiana-American. We must question why Indiana-American agreed to paint a tank, including the town's insignia, and why such a change should be considered reasonable and prudent. Given the many issues associated with the McKay tank, we find it should be excluded in its entirety from this DSIC. Indiana-American may seek to include such project in rate base in its next rate case provided it addresses the issues raised herein.

(ii) Projects and Amounts to Be Included as Distribution System Improvement Charges. Because we have found the entire cost of the McKay Project is an eligible infrastructure improvement, we find the total cost for the additional net investor supplied DSIC Additions is $69,828,130. We find the pre-tax return associated with those additions, as calculated in accordance with Indiana Code § 8-1-31-1 *et seq*., is $5,677,027. The revenue requirement for depreciation on the Improvements is $1,520,019, for a total DSIC-11 revenue requirement of $7,197,046. The total revenue requirement associated with the DSIC-9 (including reconciliation), -10 and -11 Improvements (after reflecting the Tax Cuts and Jobs Act) is $17,418,554, which is below 10%, of the revenues authorized in Petitioner's last rate case, which therefore is not subject to reduction under Indiana Code § 8-1-31-13.

Furthermore, the evidence shows that all of the projects reflected in the proposed DSIC are in service, do not result in the addition of new customers to Petitioner's system, and fall into NARUC Uniform System of Accounts for Water Utilities Accounts 304, 311, 320, 330, 331, 333, 334, or 335. As such, they are eligible for inclusion in DSIC.

The evidence further shows that Petitioner calculated the DSIC surcharge in this proceeding as a monthly fixed charge based upon meter size, as required by amended Indiana Code § 8-1-31-8.

Based on the evidence presented, the Commission finds that the Petitioner's request for a DSIC complies with the requirements of Indiana Code § 8-1-31-1 *et seq*. and 170 IAC 6-1.1-1 *et seq*. Further, Petitioner's proposed DSIC is non-discriminatory, reasonable and just. Petitioner is therefore authorized to collect from each of its present and future water customers a DSIC as set forth in OUCC Proposed Order, Schedule 2.

C. **Reconciliation of Petitioner's DSIC.** Petitioner should be prepared to reconcile the DSIC approved by this Order in the manner prescribed by Indiana Code § 8-1-31-14 and 170 I.A.C. 6-1.1-8. Under Indiana Code § 8-1-31-14, at the end of each 12-month period a DSIC is in effect the difference between the revenues produced by the DSIC and the expenses and the pre-

tax reflected in it should be reconciled and the difference refunded or recovered as the case may be through adjustment of the DSIC.

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

1. A Distribution System Improvement Charge ("DSIC") calculated as a fixed charge by meter size and designed to generate total annual DSIC revenues of $17,418,554 shall be and hereby is approved for Petitioner Indiana-American Water Company, Inc.

2. Prior to placing into effect the above-authorized DSIC, Petitioner shall file with the Water/Wastewater Division of the Commission Attachment GMV-1, updated by the calculations shown in OUCC Proposed Order Schedule 2, as an appendix to its schedule of rates and charges for water service.

3. The above-authorized DSIC shall be subject to reconciliation as described in Finding No. 7(C) above.

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

HUSTON, FREEMAN, WEBER AND ZIEGNER CONCUR:

APPROVED:

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

_____
Mary M. Becerra

Indiana Office of Utility Consumer Counselor
Cause No. 42351 DSIC-11
Distribution System Improvement Charge
Calculation of DSIC-11 Water Revenue Requirement

Line Number	Description	Company Totals
1	Water Plant Additions Subject to DSIC (From Exhibit SSH-1):	$ 68,809,854
2	Less: Water Retirements (From Exhibit SSH-1):	5,775,422
3	Plus: Cost of Removal *(Cost of Removal less Salvage)* (From Exhibit SSH-1):	6,973,309
4	Less: Reimbursement by INDOT, Others (From Exhibit SSH-1):	179,611
5	Net Investor Supplied Water DSIC Additions (Line 1 - Line 2 + Line 3 - Line 4):	$ 69,828,130
6		
7	Pre-Tax Rate of Return (From Exhibit GMV-2 Schedule 5):	8.13%
8	Pre-Tax Return on Additions (Line 5 X Line7):	$ 5,677,027
9		
10	Depreciation on Water DSIC Additions (From Exhibit GMV-2 Schedule 3):	1,520,019
11		
12	**Total DSIC-11 Water Revenues (Line 8 + Line 10):**	$ 7,197,046
13		
14	**Total DSIC-9 and DSIC-10 Revenues, Calculated at Current 2018 Pre-Tax Rate of Return:**	
15	Reconciliation of Variance from Cause No. 43251 DSIC-9:	$ 127,720
16	Total Water DSIC Revenues for Cause No. 42351 DSIC-9 at 2018 Pre-Tax Rate of Return:	2,668,064
17	Total Water DSIC Revenues for Cause No. 42351 DSIC-10, at 2018 Pre-Tax Rate of Return:	7,425,724
18	Total Water DSIC-9, DSIC-10 and Reconciliation Revenues (Line 15 + Line 16 + Line 17):	$ 10,221,508
19		
20	Total DSIC Water Revenues to Determine DSIC Per Meter Rate (Line 18 + Line 12):	$ 17,418,554
21		
22	Total Base Revenue Approved in Cause No. 44450 After Rate Base True-Up 1/29/2016:	$ 207,529,092
23		
24	Total DSIC-9, DSIC-10 and DSIC-11 Revenues (Line 12 + Line 16 + Line 17):	$ 17,290,834
25		
26	% Increase - for DSIC 10% Maximum Comparison (Line 24 divided by Line 22):	8.33%
27		

Indiana Office of Utility Consumer Counselor
Cause No. 42351 DSIC-11
Distribution System Improvement Charge
Calculation of DSIC-9, DSIC-10, and DSIC-11 Water Revenue Requirement
All Calculated at the 2018 Pre-Tax Rate of Return from Attachment GMV-2 Schedule 5

Line Number	Description	DSIC-9 Totals	DSIC-10 Totals	DSIC-11 Totals	Grand Totals
1	Water Plant Additions Subject to DSIC (From Exhibit SSH-1):	$ 24,822,870	$ 68,213,628	$ 68,809,854	$ 161,846,351
2	Less: Water Retirements (From Exhibit SSH-1):	2,760,223	5,338,829	5,775,422	13,874,474
3	Plus: Cost of Removal *(Cost of Removal less Salvage)* (From Exhibit SSH-1):	3,785,627	8,345,399	6,973,309	19,104,335
4	Less: Reimbursement by INDOT, Others (From Exhibit SSH-1):	165,593	147,491	179,611	492,695
5	Net Investor Supplied Water DSIC Additions (Line 1 - Line 2 + Line 3 - Line 4):	$ 25,682,681	$ 71,072,706	$ 69,828,130	$ 166,583,518
6					
7	Current Pre-Tax Rate of Return (From Exhibit GMV-2 Schedule 4):	8.13%	8.13%	8.13%	8.13%
8	Pre-Tax Return on Additions (Line 5 X Line7):	$ 2,088,002	$ 5,778,211	$ 5,677,027	$ 13,543,240
9					
10	Depreciation on Water DSIC Additions (From Exhibit GMV-2 Schedule 3):	580,062	1,647,513	1,520,019	3,747,594
11					
12	**Total DSIC-9, DSIC-10, and DSIC-11 Water Revenues (Line 8 + Line 10):**	$ 2,668,064	$ 7,425,724	$ 7,197,046	$ 17,290,834
13					
14	**DSIC-9 Reconciliation:**				
15	Reconciliation of Variance from Cause No. 43251 DSIC-9:	$ 127,720	$ -	$ -	$ 127,720
19					
20	Total DSIC Water Revenues to Determine DSIC Per Meter Rate (Line 18 + Line 12):	$ 2,795,784	$ 7,425,724	$ 7,197,046	$ 17,418,554
21					
22	Total Base Revenue Approved in Cause No. 44450 After Rate Base True-Up 1/29/2016:	$ 207,529,092	$ 207,529,092	$ 207,529,092	$ 207,529,092
23					
24	Total DSIC-9, DSIC-10 and DSIC-11 Revenues (Line 12):	$ 2,668,064	$ 7,425,724	$ 7,197,046	$ 17,290,834
25					
26	% Increase - for DSIC 10% Maximum Comparison (Line 24 divided by Line 22):	1.29%	3.58%	3.47%	8.33%
27					

Indiana Office of Utility Consumer Counselor
Calculation of DSIC Charge
Calculation of DSIC Fixed Charge Rate Based on Meter Size
Using Meter Billing Units for the Twelve Months Ended November 30, 2017

Meter Size	Meter Billing Units by Meter Size For the 12 Months Ended 11/30/2017	AWWA Equivalent Meter Flow-Based Ratio	Meter Equivalents	Annualized DSIC Revenue	DSIC Charge by Meter Size
5/8"	3,333,775	1.0	3,333,775	$ 12,885,022.94	$ 3.86
3/4"	5,035	1.5	7,553	29,190.76	5.80
1"	126,487	2.5	316,218	1,222,181.41	9.66
1 1/2"	15,014	5.0	75,068	290,135.91	19.32
2"	64,525	8.0	516,201	1,995,112.41	30.92
3"	4,680	15.0	70,208	271,351.64	57.97
4"	3,153	25.0	78,832	304,683.75	96.62
6"	1,523	50.0	76,141	294,284.59	193.25
8"	311	80.0	24,880	96,161.08	309.20
10"	61	130.0	7,873	30,429.49	502.45
12"	0	215.0	0	-	830.97
Total	3,554,564		4,506,747	$ 17,418,554.00	

DSIC-9, DSIC-10, and DSIC-11 Revenue (Per Line 20 of Attachment GMV-2, Schedule 1): $ 17,418,554.00

Monthly DSIC Rate per Equivalent 5/8" Meter (Total Revenue / Total Meter Equivalents): $ 3.86

Indiana Office of Utility Consumer Counselor
Cause No. 42351 DSIC-11
Distribution System Improvement Charge
Calculation of Depreciation for DSIC Projects

Line Number	Account Number	Account Description	DSIC Additions	Less: Retirements	Net DSIC Additions	Depreciation Rate	Total Annual Depreciation Expense
1	303200	Land and Land Rights - Supply	$ 94,244	$ -	$ 94,244	0.00%	$ -
2	304200	Struct & Imp-Pumping	-	-	-	2.58%	-
3	304400	Struct & Imp-T&D	115,835	-	115,835	4.09%	4,738
4	304500	Struct & Imp-General	11,009	-	11,009	3.54%	390
5	311200	Pump Equipment Electric	73,932	1,476	72,456	3.24%	2,348
6	311540	Pumping Equipment TD	65,727	-	65,727	3.24%	2,130
7	320100	WT Equipment Non-Media	29,622	-	29,622	4.15%	1,229
8	320191	WT Equipment-Filter Plt Piping	24,401	-	24,401	4.15%	1,013
9	330000	Dist Reservoirs & Standpipes	22,299	38,408	(16,109)	3.13%	(504)
10	330002	Tank Original Painting	-	-	-	3.13%	-
11	330003	Tank Repainting	530,189	-	530,189	3.13%	16,595
12	330100	Elevated Tanks and Standpipes	-	-	-	3.13%	-
13	331001	TD Mains Not Classified	45,378,424	3,562,815	41,815,609	1.64%	685,776
14	331200	TD Mains 6in to 8in	-	44,383	(44,383)	1.64%	(728)
15	333000	Services	8,517,374	651,415	7,865,959	4.09%	321,718
16	334100	Meters	130,912	107,834	23,078	6.15%	1,419
17	334110	Meters Bronze Case	1,970,032	433,367	1,536,665	7.44%	114,328
18	334120	Meters Plastic Case	95,480	28,155	67,325	5.25%	3,535
19	334130	Meters Other	204,184	64,778	139,406	6.15%	8,573
20	334131	Meter Reading Units	700,346	4,821	695,525	6.15%	42,775
21	334200	Meter Installations	3,776,456	359,845	3,416,611	2.84%	97,032
22	334201	Meter Installations-Other	335,420	-	335,420	2.84%	9,526
23	334300	Meter Vaults	3,307,181	191,566	3,115,615	2.84%	88,483
24	335000	Hydrants	3,426,787	286,559	3,140,228	3.81%	119,643
25							
26		**Grand Totals:**	**$ 68,809,854**	**$ 5,775,422**	**$ 63,034,432**		**$ 1,520,019**

Indiana Office of Utility Consumer Counselor
Cause No. 42351 DSIC-11
Distribution System Improvement Charge
Revenue to Use for Determination if 10% Cap is Exceeded
Using Final Revenue Requirement Approved on January 29, 2016 as Part of Cause No. 44450 Rate Base True Up

Line Number	Description of Revenue	Total Company Revenue
1	Residential Revenue	$ 103,285,051
2	Commercial and Other Public Authority Revenue	49,884,464
3	Industrial Revenue	14,893,662
4	Sale for Resale Revenue	10,178,435
5	Private Fire Service Revenue	4,238,533
6	Public Fire Service Revenue	20,097,337
7	Sewer Revenue	437,224
8	Other Revenue	4,514,386
9	Grand Total - Revenue	$ 207,529,092
10	Total DSIC-9, DSIC-10, and DSIC-11 Revenue Requirement (excludes reconciliation):	$ 17,290,834
11	Percentage of DSIC Revenue to Total Revenue (must be less than 10%) (Line 10 / Line 9):	8.33%

Indiana Office of Utility Consumer Counselor
Cause No. 42351 DSIC-11
Distribution System Improvement Charge
Rate of Return Calculation
Based on Capital Structure as Approved in Cause No. 44450

Line Number	Class of Capital	Amount as of 11/30/2014	Percent of Total	(%) Cost	Weighted Cost	Pre-Tax Weighted Cost
1.	Long Term Debt	$ 354,987,636	41.80%	6.08%	2.54%	2.54%
2.						
3.	Short Term Debt	-	0.00%	0.00%	0.00%	0.00%
4.						
5.	Deferred Income Taxes	143,650,219	16.91%	0.00%	0.00%	0.00%
6.						
7.	Accumulated Depreciation on Contributed Utility Plant for Muncie Sewer	72,694	0.01%	0.00%	0.00%	0.00%
8.						
9.	Prepaid Pension Asset	(5,541,209)	-0.65%	0.00%	0.00%	0.00%
10.						
11.	Post Retirement Benefits, Net	2,579,644	0.30%	0.00%	0.00%	0.00%
12.						
13.	Accumulated Deferred Investment Tax Credits - Pre 1971	12,033	0.00%	0.00%	0.00%	0.00%
14.						
15.	Job Development Investment Tax Credits (JDITC) - Post 1970	618,706	0.07%	7.34%	0.01%	0.01%
16.						
17.	Preferred Stock	-	0.00%	0.00%	0.00%	0.00%
18.						
19.	Common Equity	352,922,680	41.55%	9.75%	4.05%	5.58%
20.						
21.	Total Capitalization	$ 849,302,403	100.00%		6.60%	8.13%
22.						
23.	**Tax Gross-Up Calculation:**					
24.	Gross Revenue Change		100.0000%			
25.	Less: Uncollectible Expense		0.8459%			
26.	Total Before Gross Income and IURC Fees (Line 24 - Line 25)		99.1541%			
27.						
28.	Less: 2017 IURC Fee (from INAWC IURC Billing Statement as of 7/1/2017)		0.1338381%			
29.	Total Before Gross Income Taxes (Line 26 - Line 28)		99.0203%			
30.						
31.	Less: State Income Tax @ 5.8125% (See calculation below) (5.8125 X Line 29)		5.7556%			
32.	Less: Gross Income Taxes @ 1.40% (1.4 % X Line 29)		1.3863%			
33.	Total before Federal Income Taxes (Line 29 - Line 31 - Line 32)		91.8784%			
34.						
35.	Less: Federal Income Taxes @ 21% (21% X Line 33)		19.2945%			
36.						
37.	Total after Income Taxes (Line 33 - Line 35)		72.5839%			
38.						
39.	Gross Revenue Conversion Factor (1 / Line 37)		137.7717%			

Calculation of Blended Indiana State Income Tax Rate:

Description	Rate Year	Income Tax Rate	Number of Months at Rate	Percentage of Months at Rate	Weighted Rate
6.0% Tax Rate Effective 7/1/2017 - 6/30/2018 (assumes three months at this rate)	2017	6.00%	3	25.0%	1.5000%
5.75% Tax Rate Effective 7/1/2018 - 6/30/2019 (assumes nine months at this rate)	2018	5.75%	9	75.0%	4.3125%
					5.8125%

Gross Up From Settlement Appendix B1, Line 17, Cause No. 44450, adjusted for current Federal and Blended State Income Tax Rate. ROE From Final Order Cause No. 44450.