

**STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE PETITION OF THE)
CITY OF AUBURN, INDIANA BY ITS)
MUNICIPALLY-OWNED WATER UTILITY)
FOR APPROVAL OF A NEW SCHEDULE OF)
RATES AND CHARGES FOR WATER)
SERVICE AND AUTHORITY TO ISSUE)
WATERWORKS REVENUE BONDS)**

CAUSE NO. 44985

**SUBMISSION OF JOINT STIPULATION AND SETTLEMENT AGREEMENT, AND
SUPPORTING SUPPLEMENTAL TESTIMONY OF PETITIONER CITY OF AUBURN,
INDIANA**

Petitioner, the City of Auburn, Indiana (“Petitioner”), by counsel, hereby submits the Joint Stipulation and Settlement Agreement between Petitioner and the Indiana Office of Utility Consumer Counselor, attached hereto as Joint Settlement Exhibit A, and the supporting Supplemental Testimony of Gregory T. Guerrettaz, attached hereto as Petitioner’s Exhibit No. 4.

Respectfully submitted,



Michael B. Cracraft (Atty. No. 3416-49)

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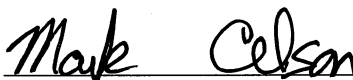
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Attorneys for Petitioner

CERTIFICATE OF SERVICE

I hereby certify that on this 13th day of February, 2018, a copy of the foregoing has been served by electronic mail to:

Daniel M. LeVay
Jesse James
Indiana Office of the Utility Consumer
Counselor
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Attorneys for Petitioner

Joint Settlement Exhibit A

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JOINT STIPULATION AND SETTLEMENT AGREEMENT

On September 14, 2017, the City of Auburn, Indiana, by its municipally-owned water utility (“Petitioner”) filed a Verified Petition with the Indiana Utility Regulatory Commission (“Commission”) requesting its approval of a new schedule of rates and charges for water service and authority to issue waterworks revenue bonds. In its case-in-chief filed on September 15, 2017, Petitioner proposed a 50.00% across-the-board increase in the recurring monthly rates and charges of its municipal water utility along with other relief.

The Indiana Office of Utility Consumer Counselor (“OUCC”) reviewed Petitioner’s testimony and exhibits, conducted a field audit in Auburn, Indiana, met with Petitioner’s representatives and requested additional information from Petitioner through both formal and informal discovery. The OUCC then filed its case-in-chief recommending a 41.64% across-the-board increase in Petitioner’s rates and charges, acceptance of Petitioner’s Capital Improvement Plan for purposes of justifying Petitioner’s extensions and replacements revenue requirement and its financing request, approval of Petitioner’s proposed Water Service Attachment Fees, imposition of certain reporting requirements related to Petitioner’s issuance of debt, and rejection of Petitioner’s proposal to impose a 15% surcharge on customers located outside the City of Auburn.

Subsequent to the OUCC's filing of its case-in-chief on January 17, 2018, Petitioner and the OUCC (individually, a "Settling Party" and collectively, the "Settling Parties") engaged in settlement negotiations. As a result of those negotiations, the Settling Parties reached an agreement with respect to all of the issues before the Commission in this proceeding, including without limitation, as follows:

1. **Test Year.** The period used for determining Petitioner's actual and pro forma operating revenues, expenses and operating income under present and proposed rates was the twelve months ended December 31, 2016. With revenue and expense adjustments for changes that were fixed, known, and measurable for ratemaking purposes and occurring through December 31, 2017, this test year is sufficiently representative of the normal operations of Petitioner's municipal water utility to provide reliable information for ratemaking purposes.

2. **Petitioner's Annual Revenue Requirements.** The Settling Parties have reached an agreement concerning the revenue requirements for Petitioner, which agreement is reflected in the accounting schedule attached hereto as Joint Settlement Exhibit 1. Petitioner's annual revenue requirements determined pursuant to Ind. Code § 8-1.5-3-8 on the evidence of record and agreed to by the Settling Parties, are as follows:

a. **Operating Expenses.** Petitioner's annual revenue requirement for operating expenses is \$1,917,362.

b. **Payment in Lieu of Taxes.** Petitioner's annual revenue requirement for payment in lieu of taxes is \$186,425.

c. **Taxes other than Income Taxes.** Petitioner's annual revenue requirement for taxes other than income taxes is \$28,295.

d. Extensions and Replacements ("E&R"). Petitioner's annual revenue requirement for E&R is \$580,503.

e. Debt Service. Petitioner's annual revenue requirement for debt service is \$322,494.

3. **Petitioner's Aggregate Annual Revenue Requirement**. As detailed below, Petitioner's total annual revenue requirement is \$3,035,079, and its net annual revenue requirement is \$3,034,405.

Operating Expenses	\$1,917,362
Payment in Lieu of Taxes	\$186,425
Taxes other than Income	\$28,295
Total Operating Expenses	\$2,132,082
Extensions and Replacements	\$580,503
Debt Service	\$322,494
Total Revenue Requirements	\$3,035,079
Less: Interest Income	(\$674)
Net Revenue Requirements	\$3,034,405

4. **Petitioner's Operating Revenues**. As set forth on Joint Settlement Exhibit 1, the Settling Parties agree that the amount of Petitioner's total test year pro forma operating revenues at present rates is \$2,136,150, which is the sum of revenues at current rates subject to increase of \$2,081,674 and other revenues not subject to increase of \$54,476. Petitioner's current rates and charges for water service do not produce sufficient revenue to pay all the legal and other necessary expenses incident to the operation of its municipal water utility; to provide a sinking fund for the liquidation of bonds or other obligations; to provide a debt service reserve for bonds or other obligations; to provide adequate money for working capital; to provide adequate money for making extensions and replacements to the extent not

provided for through depreciation; and to provide money for the payment of any taxes that may be assessed against the utility. The existing rates and charges collected by Petitioner's municipal water utility are unjust, unreasonable, and unlawful and should be increased.

5. **Amount of Stipulated Rate Increase.** The Settling Parties agree that Petitioner's current rates and charges for water service should be increased so as to produce additional pro forma operating revenues of \$911,009, representing a 43.75% increase in rates and charges to be applied on an across-the-board basis, as shown on Joint Settlement Exhibit 1.

6. **Debt Issuance; Debt Cost True-Up.** The Settling Parties agree that, subject to the Commission's approval, Auburn should be authorized to issue waterworks revenue bonds in a principal amount not to exceed \$3,330,000. The Settling Parties also agree that the annual debt service amount of \$322,494 should be used to establish Auburn's annual pro forma revenue requirement, as reflected on Joint Settlement Exhibit 1. The Settling Parties further agree that the precise interest rate and annual debt service will not be known until Auburn's debt is issued, and therefore Auburn's rates should be true-up to reflect the actual cost of the debt if the debt service amount is materially different from \$322,494. Therefore, within thirty (30) days of closing on its debt issuance, Auburn shall file a report in this Cause explaining the terms of its debt issuance, including an amortization schedule, stating the amount of debt service reserve and providing an itemized account for all issuance costs. Such report shall also include a revised tariff. The Settling Parties agree that the revised rates should go into effect, unless both Settling Parties agree in writing that the true-up is unnecessary and the Commission does not reject such agreement. The Settling Parties agree

that unless directed by the Commission, no Commission order approving such waiver of true-up shall be required.

7. **Absence of Surcharge for Customers Located Outside Auburn.** The Settling Parties have agreed that there shall be no surcharge added to the rates and charges for water customers located outside the municipal boundaries of Auburn.

8. **Scope and Approval**

A. **No Admission/No Waiver.** Neither the making of this Settlement Agreement nor any of its provisions, including without limitation any provisions contained in exhibits to this Settlement Agreement, shall constitute in any respect an admission by any Settling Party in this or any other litigation or proceeding. This Settlement Agreement is solely the result of compromise in the settlement process and, except as provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Settling Parties may take with respect to any or all of the issues resolved herein in any future regulatory or other proceedings.

B. **Non-Precedential Effect.** Neither the making of this Settlement Agreement, nor the provisions thereof, nor the entry by the Commission of a Final Order approving this Settlement Agreement, shall establish any principles or legal precedent applicable to Commission proceedings other than those resolved herein. This Settlement Agreement shall not constitute nor be cited as precedent by any person or deemed an admission by any Settling Party in any other proceeding except as necessary to enforce its terms before the Commission, or any tribunal of competent jurisdiction.

C. **Authority to Stipulate.** The undersigned have represented and agreed that they are fully authorized to execute this Settlement Agreement on behalf of their designated

clients, and their successors and assigns, who will be bound thereby, subject to the agreement of the Settling Parties on the provisions contained herein and in the attached exhibits.

D. **Privileged Communications.** The communications and discussions during the negotiations and conferences have been conducted based on the explicit understanding that said communications and discussions are or relate to offers of settlement and therefore are privileged. All prior drafts of this Settlement Agreement and any settlement proposals and counterproposals also are or relate to offers of settlement and are privileged.

E. **Supporting Testimony.** The Settling Parties shall each offer supplemental testimony supporting the Commission's approval of this Settlement Agreement and will request that the Commission issue a Final Order incorporating the agreed proposed language of the Settling Parties and accepting and approving the same in accordance with its terms without modification. Such supportive testimony will be agreed-upon by the Settling Parties and offered into evidence without objection by any Settling Party and the Settling Parties hereby waive cross-examination of each other's witnesses.

F. **Acceptance in Entirety.** This Settlement Agreement is conditioned upon and subject to Commission acceptance and approval of its terms in their entirety, without any change or condition that is unacceptable to any Settling Party. The Settling Parties will support this Settlement Agreement before the Commission and request that the Commission accept and approve the Settlement Agreement. This Settlement Agreement is a complete, interrelated package and is not severable, and shall be accepted or rejected in its entirety without modification or further condition(s) that may be unacceptable to any Settling Party. The Settling Parties propose to submit this Settlement Agreement and evidence conditionally, and if the Commission fails to approve this Settlement Agreement in its entirety without any

change or imposes any condition unacceptable to any adversely affected Settling Party, the Settlement Agreement and supporting evidence may be withdrawn and the Commission will continue to proceed to a decision in the affected proceeding, without regard to the filing of this Settlement Agreement.

G. **Proposed Order.** The Settling Parties will work together to prepare an agreed upon proposed order to be submitted in this Cause. The Settling Parties will request Commission acceptance and approval of this Settlement Agreement in its entirety, without any change or condition that is unacceptable to any party to this Settlement Agreement. The Settling Parties will request that the Commission issue a Final Order promptly accepting and approving this Settlement Agreement in accordance with its terms.

H. **Reconsideration/Appeal.** The Settling Parties shall not appeal or seek rehearing, reconsideration or a stay of any Final Order entered by the Commission approving the Settlement Agreement in its entirety without changes or condition(s) unacceptable to any Settling Party (or related orders to the extent such orders are specifically and exclusively implementing the provisions hereof) and shall not oppose this Settlement Agreement in the event of any appeal or a request for rehearing, reconsideration or a stay by any person not a party hereto.

Respectfully submitted,

Dated: February 13, 2018

CITY OF AUBURN, INDIANA

A handwritten signature in black ink, appearing to read "Michael B. Cracraft", written over a horizontal line.

By: Michael B. Cracraft

Mark R. Alson

An Attorney for the City of Auburn

Dated: February 13, 2018

INDIANA OFFICE OF UTILITY CONSUMER
COUNSELOR

A handwritten signature in black ink, appearing to read "Daniel M. Le Vay", written over a horizontal line.

By: Daniel M. Le Vay

Jesse James

Its Attorney

Joint Settlement Exhibit 1

AUBURN MUNICIPAL WATER UTILITY
CAUSE NO. 44985

Petitioner's, OUCC's and Settlement – Revenue Requirements

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>Settlement</u>
Operating Expenses	\$1,945,411	\$1,899,753	\$1,917,362
Payment in Lieu of Taxes	186,425	186,425	186,425
Taxes other than Income	28,295	28,295	28,295
Total Operating Expenses	2,160,131	2,114,473	2,132,082
Extensions and Replacements	580,503	580,503	580,503
Debt Service	383,190	322,494	322,494
Total Revenue Requirements	3,123,824	3,017,470	3,035,079
Less: Interest Income	(674)	(674)	(674)
Metered Hydrant Usage	(6,691)	-	
Net Revenue Requirements	3,116,459	3,016,796	3,034,405
Less: Revenues at current rates subject to increase	(2,063,858)	(2,081,674)	(2,081,674)
Other revenues not subject to increase	-	(80,361)	(54,476)
Net Revenue Increase Required	1,052,601	854,761	898,255
Divide by Revenue Conversion Factor (100% - 1.4%)	0.986	0.986	0.986
Recommended Increase	\$1,067,547	\$866,898	911,009
Calculated Percentage Increase	51.73%	41.64%	43.76%
Recommended Percentage Increase	50.00%	41.64%	43.75%

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CAUSE NO. 44985

SUPPLEMENTAL TESTIMONY

OF

GREGORY T. GUERRETTAZ

**On Behalf of Petitioner
Auburn Municipal Water Utility**

Petitioner's Exhibit No. 4

1. Q: PLEASE STATE YOUR NAME, PROFESSION AND BUSINESS ADDRESS.

A: My name is Gregory T. Guerrettaz. I am a CPA. My business address is 2680 East Main Street, Suite 223, Plainfield, Indiana 46168.

2. Q: ARE YOU THE SAME GREGORY T. GUERRETTAZ WHO PREVIOUSLY TESTIFIED IN THIS PROCEEDING ON BEHALF OF PETITIONER AUBURN MUNICIPAL WATER UTILITY (“PETITIONER” OR “AUBURN”)?

A: Yes.

3. Q: WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A: The purpose of my supplemental testimony is to explain the main substantive terms of and support the Stipulation and Settlement Agreement (“Settlement Agreement”) that was entered into by and between Auburn and the Indiana Office of Utility Consumer Counselor (the “OUCC”, and collectively, the “Settling Parties”) and filed with the Commission in this Cause on February 13, 2018.

4. Q: PLEASE BRIEFLY DESCRIBE THE HISTORY LEADING UP TO THE EXECUTION OF THE SETTLEMENT AGREEMENT.

A: The Settlement Agreement is the product of negotiations that began after the OUCC filed its case-in-chief on January 17, 2018. The OUCC had had an opportunity to familiarize itself with Auburn's case-in-chief and conduct formal and informal discovery on it since it was filed with the Commission on September 15, 2017. In addition, the OUCC conducted a field audit of Auburn's books and records. With the filing of the OUCC's case-in-chief, and following the review of the testimony of its witnesses, I noted the OUCC recommended an across-the-board rate increase of 41.64%, which was lower than

the 50.00% rate increase Auburn has proposed in its case-in-chief. I discussed various aspects of the OUCC's testimony with Auburn Mayor Norman E. Yoder, and we determined that if certain modifications were made to some of the calculations underlying the OUCC's recommendations, a settlement could potentially be reached. Thereafter, we authorized our counsel to reach out to counsel for the OUCC to discuss proposals for a potential settlement of this Cause. Following the agreement on several items that I will address herein, the Settling Parties subsequently finalized the documentation of the settlement in the Settlement Agreement that is now before the Commission for its consideration.

5. Q: UNDER THE SETTLEMENT AGREEMENT, WHAT IS THE AMOUNT OF THE AGREED-UPON RATE INCREASE?

A: As shown in Paragraph 5, the Settlement Agreement provides that Auburn's annual pro forma operating revenues from its recurring monthly rates and charges should be increased by \$911,009 in order to provide Auburn with reasonable and just rates and charges for services. This increase represents a 43.75% increase in rates and charges to be applied on an across-the-board basis. Information describing how the agreed-upon increase was determined is contained in Paragraphs 1 through 4 of the Settlement Agreement.

6. Q: HOW DOES THE AGREED-UPON RATE INCREASE COMPARE TO THE INCREASE DESCRIBED IN THE DIRECT TESTIMONY AUBURN FILED IN THIS CAUSE?

A: It reflects a significant decrease in the amount of the increase originally proposed by Auburn. As shown in Auburn's testimony and exhibits filed on September 15, 2017, Auburn believed it could support an increase in the water utility's overall annual operating revenue of \$1,067,547, or 51.73%, but it only requested an overall percentage increase of 50.0%.

7. Q: WHAT WERE SOME OF THE AREAS OF COMPROMISE THAT RESULTED IN THE SETTLING PARTIES AGREEING TO A 43.75% INCREASE IN AUBURN WATER UTILITY'S RATES AND CHARGES?

A: As reflected on Joint Settlement Exhibit 1, there were several compromises made by Auburn and the OUCC to reach the agreed-upon rate increase. The OUCC had agreed with some important aspects of Auburn's case-in-chief, including the necessity of its Capital Improvement Plan, and its need to fund some of these projects with bond proceeds. Auburn accepted many of the positions set forth in the OUCC's case-in-chief, including the removal of the Metered Hydrant Usage line item and an acceptance of a lower debt service amount in its revenue requirement. However, there were a few items that required specific negotiation and compromise in order to reach a settlement.

8. Q: PLEASE DESCRIBE THOSE ITEMS.

A: Auburn had proposed operating expenses in the amount of \$1,945,411. The OUCC had reduced such amount by \$45,658, due to its determination that ten transactions were capital in nature or already included in Auburn's extensions and replacements revenue requirement. Auburn contended that transactions totaling \$17,609.33 of this reduction were improperly removed, as they actually consisted of software-related operating costs

that Auburn has been required to annually update. Additionally, the OUCC had recommended removing \$80,361 in fees from non-recurring charges from Auburn's operating revenues, characterizing that amount as "other revenues not subject to increase." During settlement negotiations, Auburn explained that \$24,884.81 of this amount was actually not recurring revenue and should not be included as a reduction in the revenue requirement. The Settling Parties compromised and agreed to both modified amounts, as reflected on Joint Settlement Exhibit 1.

9. Q: DID AUBURN MAKE A CONCESSION ON THE OUCC'S POSITION RELATED TO BOND FINANCING?

A: Yes. Auburn had proposed authority to issue waterworks revenue bonds in an amount up to \$3,360,000. Mr. Kaufman testified that, due to timing and other issues, Auburn's average debt service of \$322,494 should be used to calculate its annual revenue requirement, and its maximum debt service reserve should be approximately \$30,000 less than Auburn's proposed maximum debt service payment. Therefore, the OUCC recommended that Auburn's maximum borrowing authority for the proposed bond financing be reduced to \$3,330,000, and that that Auburn's average debt service of \$322,494 be used to calculate its annual revenue requirement. The OUCC also requested Auburn's rates should be trued-up to reflect the actual cost of the authorized debt issuance, and further proposed that Auburn report specifics to the Commission after the issuance of bonds. Auburn agreed to each of these proposals, as set forth in Paragraph 6 of the Settlement Agreement.

10. Q: DID THE SETTLEMENT AGREEMENT REFERENCE AUBURN'S REQUEST TO INCLUDE A SURCHARGE ON WATER CUSTOMERS LOCATED OUTSIDE ITS CITY LIMITS?

A: Yes. Auburn had proposed a 15% surcharge on water customers located outside the municipal boundaries of Auburn, based on the increased cost to serve them. The OUCC, through the testimony of Ms. Stull, objected to this proposal. In the settlement, Auburn agreed to not seek authority to impose any surcharge on outside city customers, as documented in Paragraph 7 of the Settlement Agreement.

11. Q. IN YOUR OPINION, WILL THE INCREASE IN OPERATING REVENUES AND RATES AND CHARGES AGREED TO IN THE SETTLEMENT AGREEMENT PRODUCE AN INCOME SUFFICIENT TO MAINTAIN THE UTILITY PROPERTY IN A SOUND PHYSICAL AND FINANCIAL CONDITION SO AS TO RENDER ADEQUATE AND EFFICIENT SERVICE?

A: Yes, I believe Commission approval and implementation of the rates and charges resulting from the Settlement Agreement will result in reasonable and just rates and charges for service and produce income for Auburn's water utility sufficient to satisfy its service requirements.

12. Q. IN YOUR OPINION, DOES THE SETTLEMENT AGREEMENT REPRESENT A REASONABLE RESOLUTION OF THE ISSUES RAISED BY THE PARTIES IN THIS PROCEEDING?

A: Yes. As with any settlement, the Settling Parties will receive certain benefits from the bargain in exchange for concessions in the give and take of settlement negotiations. In

light of the compromises that each of the Settling Parties made in reaching this negotiated settlement, I believe the Settlement Agreement contains reasonable positions that are fair, just, and in the public interest.

13. Q. IN CONCLUSION, WHAT DO YOU RECOMMEND TO THE COMMISSION?

A: I recommend that the Commission approve the Settlement Agreement in its entirety as consistent with the public interest.

14. Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY IN THIS PROCEEDING?

A: Yes.

VERIFICATION

The undersigned affirms under the penalties for perjury that the foregoing testimony is true to the best of his knowledge, information and belief.



Gregory T. Guerrettaz