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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF FORT WAYNE,)
INDIANA, FOR AUTHORITY TO ESTABLISH)
AND IMPLEMENT A SYSTEM) CAUSE NO. 45124
DEVELOPMENT CHARGE FOR WATER)
SERVICE)

PETITION OF THE CITY OF FORT WAYNE,)
INDIANA, FOR AUTHORITY TO ISSUE)
LONG-TERM DEBT TO FINANCE WATER) CAUSE NO. 45125
SYSTEM IMPROVEMENTS AND TO ADJUST)
ITS RATES AND CHARGES FOR WATER) APPROVED: APR 10 2019
SERVICE)

ORDER OF THE COMMISSION

Presiding Officers:

Stefanie N. Krevda, Commissioner

David L. Ober, Commissioner

David E. Veleta, Senior Administrative Law Judge

On July 18, 2018, the City of Fort Wayne, Indiana ("Petitioner", "Fort Wayne", or "City"), filed two separate Petitions with the Indiana Utility Regulatory Commission ("Commission"). One in Cause No. 45124 seeking authority for its municipal water utility ("Utility") to establish and implement a system development charge ("SDC") for water service. The second Petition was filed in Cause No. 45125 seeking authority for its Utility to issue long-term debt and adjust its rates and charges for water service. On the same day, Petitioner also filed its direct testimony and exhibits in both Causes. In Cause No. 45124, Fort Wayne filed the Direct Testimony and Exhibits of Eric J. Walsh, CPA. In Cause No. 45125, Fort Wayne filed the Direct Testimony and Exhibits of Mr. Walsh and Andrew G. Schipper, P.E.

On August 3, 2018, the City of New Haven, Indiana ("New Haven"), filed Petitions to Intervene in each Cause which were granted by Commission Docket Entries dated August 9, 2018. On September 25, 2018, General Motors LLC ("GM") filed a Petition to Intervene in Cause No. 45125, which was granted by a Commission Docket Entry dated October 9, 2018.

In Cause No. 45124 the Indiana Office of Utility Consumer Counselor ("OUCC") and Intervenor New Haven filed their respective cases-in-chief on October 12, 2018. Specifically, the OUCC filed the Testimony and Exhibits of Margaret A. Stull. New Haven filed the Testimony and Exhibits of Gregory T. Guerrettaz.

On October 29, 2018, Petitioner filed the Rebuttal Testimony and Exhibits of Mr. Walsh.

In Cause No. 45125, the OUCC and Intervenor filed their respective cases-in-chief on October 30, 2018. Specifically, the OUCC filed the Direct Testimony and Exhibits of Ms. Stull, Thomas W. Malan, James T. Parks, Edward R. Kaufman, CRRRA, and Consumer Comments. Intervenor GM filed the Direct Testimony and Exhibits of Michael P. Gorman. That same date, Intervenor New Haven filed the Direct Testimony and Exhibits of Gregory T. Guerrettaz, William Steven Seelye, and Keith Schlegel.

On November 27, 2018, Fort Wayne filed the Rebuttal Testimony and Exhibits of Messrs. Walsh and Schipper.

Also in Cause No. 45125, on November 21, 2018, Fort Wayne filed its *Motion to Strike New Haven's Exhibit No. 2 and its Attachments* as well as a *Brief in Support of its Motion to Strike*. New Haven filed its *Response to Fort Wayne's Motion to Strike New Haven's Exhibit No. 2* on December 6, 2018.

Also on November 21, 2018, New Haven filed its *Case in Chief Corrections*. On November 27, 2018, Fort Wayne filed its *Objection to New Haven's Case in Chief Corrections*. New Haven filed its *Response to Fort Wayne's Objection to New Haven's Case in Chief Corrections* on December 3, 2018. Fort Wayne filed its *Reply in Support of its Objection* on December 7, 2018.

On December 3, 2018, New Haven filed its Objections to and Motion to Strike Fort Wayne's Testimony and in the Alternative Motion to Dismiss. Fort Wayne filed its Objection to New Haven's Motion on December 12, 2018.

On December 14, 2018, the Parties filed a *Notice of Settlement and Joint Motion to Consolidate Cause Nos. 45124 and 45125 for Purposes of Hearing and Order, to Continue the December 19, 2018 Hearing, and Request to Establish a Settlement Procedural Schedule* ("Notice of Settlement"). In the Notice of Settlement, the Parties indicated that Petitioner, the OUCC, GM, and New Haven had reached a settlement in Cause Nos. 45124 and 45125, requested that the Commission consolidate the Causes for purposes of order and hearing, and requested that the Commission hold all motions in abeyance pending a final order in this Cause. On December 17, 2018, the Commission entered a Docket Entry granting the motion to consolidate for purposes of hearing and order, setting a procedural schedule for the filing of settlement agreement and supporting testimony, and holding all remaining filing dates and deadlines for discovery in abeyance pending a final order in this matter.

On January 8, 2018, the Parties filed a *Joint Stipulation and Settlement Agreement* ("Settlement Agreement"), Petitioner filed the Settlement Testimony and Exhibits of Messrs. Walsh and Schipper, the OUCC filed the Settlement Testimony and Exhibits of Mr. Kaufman, and New Haven filed the Settlement Testimony and Exhibits of Mr. Guerrettaz.

A settlement hearing was held in this Cause on January 23, 2019, at 3:00 p.m. in Room #224, of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Fort Wayne, the OUCC, GM, and New Haven were all present and participated.

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

1. **Statutory Notice and Commission Jurisdiction.** Notice of the hearings in this Cause was given as provided by law. Fort Wayne is a “municipally owned utility” as defined in Ind. Code § 8-1-2-1(h). Indiana Code § 8-1.5-3-8(f)(2) requires Fort Wayne to obtain this Commission’s approval of its water utility rates and charges, and Ind. Code § 8-1.5-2-19 requires approval from this Commission before Fort Wayne may issue debt to fund improvements to the water utility when water utility revenues are pledged as collateral for such debt. Thus, this Commission has jurisdiction over Fort Wayne and the subject matter of this proceeding.

2. **Petitioner’s Characteristics.** Fort Wayne serves approximately 102,904 customers in Fort Wayne and surrounding areas. Fort Wayne’s customer base is comprised of residential, commercial, industrial, governmental, wholesale, fire, and irrigation customers. The total population of the area that is served by Fort Wayne is over 300,000 people. Fort Wayne’s distribution system consists of approximately 1,400 miles of water mains ranging in size from 2 inches to 54 inches in diameter and includes water mains that have been in service since at least 1900.

Fort Wayne’s primary source of supply consists of impoundment of water from the St. Joseph River and three reservoirs providing capacity of about 473 million gallons (“MG”) in the Cedarville Reservoir, 260 MG in the St. Joseph Dam Reservoir, and nearly 1.9 billion gallons in the Hurshtown Reservoir. The raw water is treated at the Three Rivers Filtration Plant (“Filtration Plant”) which has a design capacity of 72 million gallons per day (“MGD”), on site finished water storage of 20 MG, and design high service pumping capacity of approximately 134 MGD. The Utility has 9 elevated storage tanks with a combined capacity of approximately 10.5 MG. The elevated storage tanks are located throughout the service area to ensure an adequate quantity of water and water pressure for the Utility’s customers. The Utility also has two prestressed concrete ground storage reservoirs which have a total capacity of 8 MG. Fort Wayne uses five booster pumping stations in addition to the Filtration Plant’s high service pumping to provide water service to its customers.

In addition to the facilities described above, the Utility also owns and operates a .43 MGD iron and manganese removal treatment plant for a small residential area located approximately 5 miles northeast of Fort Wayne’s main system. The source of supply for this area is two water production wells and the system plant includes .037 MG of finished water storage and approximately 1.5 miles of water mains. This system currently serves 37 residential customers. Upon build out of the area, Fort Wayne anticipates this portion of the system will serve 200 customers.

3. **Existing Rates and Fort Wayne’s Requested Relief.** Fort Wayne’s existing rates and charges were established by Orders issued by the Commission on October 17, 2012 (setting the revenue requirement) and December 18, 2013 (approving a cost of service study and rate design) in Cause No. 44162. Fort Wayne now requests approval in this Cause to establish a new schedule of rates and charges for water service and to issue revenue bonds in the principal amount of approximately \$85,570,000 to finance improvements to the Utility (“Proposed Bonds”). Fort Wayne proposes to increase its annual revenue requirement by 33% or \$15,585,000 for a total net annual revenue requirement of \$62,369,252. To avoid rate shock, Fort Wayne proposes to

phase-in its revenue requirement over five years on an across the board basis, and to issue its Bonds in separate series over those five years.

4. **Test Year.** The test year for determining Fort Wayne's actual and pro forma operating revenues, expenses, and operating income under present and proposed rates is the 12 months ended December 31, 2017, adjusted for changes that are fixed, known, and measurable for ratemaking purposes and that occur within the 12 months following the end of the test year.

5. **Outstanding Motions Determined to be Moot.** In light of the Settlement Agreement filed by the Parties and the Commission's approval herein, the Commission now determines that all outstanding motions are moot. The motions which are moot are as follows: (1) *Fort Wayne's Motion to Strike New Haven's Exhibit No.2 and its Attachments*; (2) *Fort Wayne's Objection to New Haven's Case in Chief Corrections*; (3) *New Haven's Objections to and Motion to Strike Fort Wayne's Testimony and in the Alternative Motion to Dismiss*; and (4) *Fort Wayne's Objection to New Haven's Objections to and Motion to Strike Fort Wayne's Testimony and in the Alternative Motion to Dismiss*.

6. **Evidence in Cause 45124.** The Parties filed the following evidence in Cause No. 45124 concerning Fort Wayne's Petition to establish a system development charge ("SDC").

A. **Fort Wayne's Direct Testimony and Exhibits of Eric J. Walsh, CPA.** Fort Wayne's Certified Public Accountant and Financial Consultant, Eric J. Walsh, testified regarding the decision of the Fort Wayne Common Council ("Common Council") to establish an SDC, the calculation of the SDC, and its proposed implementation.

In his prefiled direct testimony and exhibits, Mr. Walsh described that the Common Council had adopted Ordinance/Bill No. G-18-06-18-08 which, among other provisions, called for the establishment of an SDC for the Utility. The Petition filed in Cause 45124 sought approval of that SDC. Mr. Walsh indicated that his firm was retained by the Utility to assist with the development, establishment, and implementation of the SDC, and that the calculation of the SDC was based upon information obtained from Utility records.

Mr. Walsh sponsored an Accounting Report dated May 23, 2018, which summarizes the results of the SDC calculation for the Utility ("SDC Accounting Report"). Mr. Walsh explained that the SDC was calculated using the Equity (Buy-In) Method (henceforth called buy-in method) described on page 267 in the AWWA M-1 Manual –Principles of Water Rates, Fees, and Charges, 6th Edition ("AWWA M-1 Manual"). Mr. Walsh testified that the Commission had previously approved SDCs using the buy-in method.

Mr. Walsh explained that the AWWA M-1 Manual supports the buy-in method for calculating the SDC when a Utility has sufficient capacity in its water system to meet both near-term and long-term capacity needs. Mr. Walsh testified that Fort Wayne has sufficient capacity to meet near-term and long-term capacity needs, and he stated that the Utility's future improvements are largely related to repairs and replacement of aging infrastructure, not capacity expansion. According to Mr. Walsh, the buy-in method was appropriate in this instance for calculating the SDC.

Next Mr. Walsh summarized the SDC Accounting Report and the manner in which he calculated the SDC. Mr. Walsh explained each of the inputs in his calculation and the amounts subtracted therefrom. According to his direct testimony, this calculation provided a total rate base of \$82,996,930 which Mr. Walsh divided by the number of equivalent water meters (139,760) to arrive at an SDC (rounded) for a 5/8-inch meter of \$590. Mr. Walsh indicated that page 3 of the SDC Accounting Report provided the calculation of the SDC for meter sizes larger than 5/8" using the recognized equivalency factors.

Mr. Walsh stated that Fort Wayne would account for any money received from its SDC for water service as contributions-in-aid-of-construction ("CIAC"). According to Mr. Walsh, Fort Wayne's proposed SDC is just and equitable.

B. OUCC's Testimony and Exhibits of Margaret A. Stull. The OUCC's Chief Technical Advisor in the Water/Wastewater Division and Certified Public Accountant, Margaret A. Stull, testified regarding the OUCC's acceptance of Fort Wayne's proposed SDC along with various administrative and accounting issues related to implementation of an SDC, including how the charge should be recorded in Fort Wayne's general ledger, the restricted use of the funds collected, and the need for a periodic review of the SDC calculation.

Ms. Stull testified that the purpose of a SDC is for "growth to pay for growth" such that new customers (connections) to a water utility system causing the need for utility to invest in additional capacity should pay their share of the cost of that additional capacity. Ms. Stull indicated that an SDC can achieve additional objectives or goals including (1) funding major system expansion, (2) minimizing current debt or reducing future debt, and (3) achieving equity between the different generations of ratepayers. Ms. Stull also explained that a SDC is generally based on the costs for major backbone infrastructure components that are necessary to provide service to all customers, including source of supply, raw water transmission, treatment facilities, pumping facilities, storage tanks, and major treated-water transmission mains. She indicated that less commonly, the costs of water distribution mains and other facilities may also be recovered through an SDC charge.

Ms. Stull next discussed the three different accepted methodologies for calculating an SDC as the (1) buy-in method, (2) incremental cost method, and (3) combined approach. She explained that Fort Wayne used the equity buy-in method to calculate its proposed SDC.

Ms. Stull accepted Fort Wayne's proposed SDC methodology, indicating that it was reasonable considering the facts and circumstances of the case. Ms. Stull testified that Fort Wayne's total system valuation as the basis for determining the SDC in this case was acceptable. She stated that there were several difficulties in determining the net equity investment in Fort Wayne's back-bone capacity assets. She identified three specific difficulties. First, she stated that it would be necessary to eliminate the value of distribution mains from NARUC Account 331. Second, she explained it would be necessary to identify the outstanding debt principal related to back-bone capacity assets. Finally, she testified that it would be necessary to identify the CIAC related to back-bone capacity assets, if any. She concluded that she did not believe a materially

different conclusion would be reached if the calculation in this case were based on back-bone capacity.

Concerning the implementation of the SDC, Ms. Stull made the following recommendations. First, she agreed with Mr. Walsh that any money received from its SDC should be recorded as a debit to a restricted cash account and a credit to CIAC. Second, she recommended that Fort Wayne maintain the monies collected through its proposed SDC in a separate interest-bearing cash account, and that interest income earned on this separate account be dedicated to fund capacity or growth-related water facilities in the same manner as the SDC funds are dedicated. Finally, she recommended that Fort Wayne conduct a periodic review of the SDC assumptions and calculations at least every five years.

In conclusion, Ms. Stull recommended the Commission approve Fort Wayne's proposed SDC charge of \$590 per 5/8" meter and its charge for larger meters based on the meter equivalency for that meter size as calculated in Mr. Walsh's SDC Accounting Report subject to her recommendations concerning implementation.

C. New Haven's Testimony and Exhibits of Gregory T. Guerrettaz.

Intervenor New Haven's Certified Public Accountant and Financial Consultant, Gregory T. Guerrettaz, President of Financial Solutions Group, Inc. testified in response to Fort Wayne's request for an SDC and why he finds it inappropriate for Fort Wayne to charge an SDC to the City of New Haven or its water customers.

Mr. Guerrettaz described the City of New Haven's municipal water utility and its 5,200 mostly residential customers. He indicated that New Haven's water is supplied by Fort Wayne at four connection points in what he testified was close proximity to Fort Wayne's water treatment plant and is fed by Fort Wayne transmission mains of 12 to 24 inch diameter. He stated that Fort Wayne currently charges New Haven a monthly volumetric charge, a monthly water demand charge of over \$12,000, a monthly public fire protection charge, and a monthly service charge.

Mr. Guerrettaz stated he was unaware of any statute in Indiana that specifically addresses or directly contemplates an SDC and stated the only IURC Rule regarding SDCs is the 30 day filing process rule, 170 IAC 1-6, which defines SDC and indicates SDCs may not be approved in 30 day filings. In his opinion that Rule's definition of SDC has important points: the SDC is to be charged to "new customers of water or sewer utilities" (Mr. Guerrettaz opined that this means that the rule should not allow for the SDC to be charged to customers of another utility); the Rule definition is limited to "help financing costs of utility systems.... necessary to serve those customers" (Mr. Guerrettaz stated that this means that the definition does not encompass helping to pay financing costs for utility systems not used to serve that customer); and the SDC is limited to the customer's share of the water production, treatment and storage, sometimes called the "back bone system" (Mr. Guerrettaz stated that this means that the rule does not include a share of financing costs for other plant systems such as distribution system plant). To the best of his knowledge all prior Indiana SDC approvals have been the result of settlements and none had a sale for resale customer intervene to oppose being charged an SDC.

He indicated that in his opinion Fort Wayne should not charge New Haven the SDC because New Haven is not a new customer of the Utility. He also stated that all or part of the SDC may already be collected from New Haven through Fort Wayne's demand charges and other rates and charges.

Mr. Guerrettaz next discussed the AWWA M-1 Manual's guidance on SDCs and the three methodologies for calculating an SDC contained in the AWWA M-1 Manual. He indicated per the AWWA M-1 Manual SDC's are to be based on the cost of backbone system infrastructure, i.e. source of supply, raw water transmission, treatment pumping and storage facilities. He testified he AWWA M-1 Manual indicates customers should not pay for infrastructure twice, once in rates and again in the SDC. He indicated that the AWWA M-1 Manual emphasizes the need for segregation and dedication of SDC funds and the exclusion of assets funded with grants.

He testified the AWWA M-1 Manual only slightly touches on the theory of a water supplier charging its wholesale sale for resale water customer an SDC. He indicated that page 301 of the AWWA M-1 Manual makes reference to "general cost recovery strategies" of CIAC and SDC but he emphasized the AWWA M-1 Manual language that states normal wholesale rates will already include the wholesale customer's share of capital and operating costs.

He testified that New Haven already pays its share of capital costs in the volumetric and demand charges New Haven pays to Fort Wayne, a demand charge of over \$3,000 for each of its four meter connection points. He testified an SDC would be a triple recovery of the same costs from New Haven. He testified Fort Wayne already had chosen to recover its capital costs in base rates. Mr. Guerrettaz testified that the mention in a single AWWA M-1 Manual paragraph that an SDC "may be a way" for wholesale customers to pay for capital costs of their service provider does not make an SDC fair for the customer or good regulatory policy.

Mr. Guerrettaz testified about his concerns with Fort Wayne's calculation of the SDC. He stated five concerns and non-compliance with the AWWA M-1 Manual with Fort Wayne's proposed SDC being charged to New Haven summarized as follows: (1) inclusion of distribution system; (2) need for fund segregation; (3) double recovery; (4) exclusion of grants; and (5) New Haven's payment of a current demand charge.

Mr. Guerrettaz also explained his opinion that Fort Wayne should not charge an SDC on the separate sovereign municipality of New Haven and its municipal utility. He indicated three specific concerns which are summarized as follows: (1) New Haven is a sovereign municipality that owns and operates its own municipal water utility and any SDC to be paid in New Haven should be a New Haven SDC. (2) In its monthly water bills, Fort Wayne charges a demand charge that recoups backbone system capacity costs. To also charge an SDC would be a double recovery. (3) Fort Wayne's monthly base rates to New Haven already recover capital asset costs. (4) Despite adding customers New Haven's water purchases from Fort Wayne are relatively flat which should free up Fort Wayne back bone capacity.

Mr. Guerrettaz raised four issues with the buy-in method of calculating an SDC: (1) SDC's will lead to double recovery. (2) The buy-in method calculates a hypothetical value of the back bone plant capacity for a new customer on an imaginary "buy-in" basis, specifically in systems

that already have unused available capacity. New customers make contribution to fixed costs and pay variable costs, reducing what other customers have to pay. (3) A new customer will through base rates for service pay for the capital and variable costs of backbone plant today and in the future. (4) The buy-in method is a hypothetical creation to generate revenue from new customers.

In conclusion, Mr. Guerrettaz stated that Fort Wayne should not charge an SDC to New Haven's water utility or its customers. He also stated that if approved, the SDC should be reduced to reflect the plant value reductions and avoid double recoveries.

D. Fort Wayne's Rebuttal Testimony and Exhibits of Mr. Walsh. Mr. Walsh responded to the testimony of Ms. Stull and Mr. Guerrettaz and supported Fort Wayne's request for implementation of the SDC.

In response to Ms. Stull's testimony, Mr. Walsh indicated that he agreed with Ms. Stull's recommendations with one modification. Specifically, Mr. Walsh indicated that Fort Wayne agreed to (1) account for money received from its SDC for water service as CIAC; (2) use the receipts collected through its proposed SDC to finance the development of growth-related or capacity-related water facilities; (3) maintain the monies collected through its proposed SDC in a separate interest-bearing cash account; (4) use any interest income earned on the separate account to fund capacity or growth-related water facilities; and (5) to conduct a periodic review of the SDC assumptions and calculations at least every five years. Mr. Walsh did, however, indicate that the periodic review should not require the preparation and completion of a separate compliance filing in this Cause. Mr. Walsh indicated that an additional compliance filing well into the future would be an unnecessary expense for the utility, especially if it is determined that no change to the SDC is needed. Instead, Mr. Walsh recommended that if an adjustment is needed, Fort Wayne should file a new proceeding to modify the then-existing SDC.

In response to Mr. Guerrettaz's testimony, Mr. Walsh stated his disagreement with Mr. Guerrettaz's categorization of an SDC as a hypothetical creation to generate revenue from new customers. Mr. Walsh testified that an SDC is a smart financial planning tool for utilities as SDCs provide an equitable method for recovering the costs of system capacity additions from those who will use the increased capacity. He explained that the objective of an SDC is to provide a mechanism whereby growth pays for growth. Mr. Walsh further explained that the buy-in method exists to achieve capital equity between existing and new customers.

Mr. Walsh next addressed his disagreement with each of what Mr. Guerrettaz claimed were departures from the AWWA M-1 Manual. He stated that, as acknowledged by Ms. Stull, it is appropriate to include distribution system assets in the calculation of an SDC, particularly in this cause where eliminating the value of distribution mains from NARUC Account 331, identifying the outstanding debt principal related to back-bone capacity assets, and identifying CIAC related to back-bone capacity assets is not possible with the information contained in Fort Wayne's financial system. Mr. Walsh agreed with Ms. Stull's testimony that a materially different conclusion would not have been reached if the distribution assets were removed from the assets in this case.

Mr. Walsh next testified that Fort Wayne will keep the funds it receives from the SDC in a separate account. He further explained that the SDC will not result in double recovery. He testified that Fort Wayne's current rates and charges (and those proposed in Cause No. 45125) include cost recovery to fund certain capital improvements identified in the Capital Improvement Plan in Cause No. 44162 and 45125 respectively which are, for the most part, necessary to address repair, replacement, or renewal of aging infrastructure. Mr. Walsh testified that Fort Wayne will use the funds received from the SDC for future growth-related or capacity-related water facilities. He indicated that Fort Wayne has almost \$4M of growth-related or capacity-related improvements identified in its Master Plans over the next five years, which are not included in the Capital Improvement Plan funded by the proposed rates in Cause No. 45125. Mr. Walsh stated that the AWWA M-1 Manual permits a utility to charge capacity-related costs to its current customers in addition to the SDC without the risk of double recovery.

As concerns the exclusion of grants, Mr. Walsh indicated that \$2,000,070 of Fort Wayne's \$460,591,007 in total assets was funded by grants. Subsequently, in *Petitioner's Response to IURC Docket Entry of December 6, 2018* Mr. Walsh indicated that Fort Wayne should exclude the \$2,000,070 of grants from the SDC calculation. The result of the adjustment from excluding the grants is a \$10 reduction to the 5/8" meter to \$580. As an attachment to Fort Wayne's Docket Entry response, Mr. Walsh calculated the SDC with the reduction of grants from the calculation.

Mr. Walsh next explained that Fort Wayne's SDC complies with 170 IAC 1-6-1 in that (1) Fort Wayne did not file the SDC as a 30 day filing; (2) Fort Wayne is assessing the SDC as a one-time fee to new customers to help finance development of utility systems; (3) the SDC will be assessed to new connections to the utility; (4) the SDC will be used to recover capital to finance development of the Utility's future growth; and (5) the SDC's calculation of including distribution system was appropriate in this instance.

Mr. Walsh further testified that the SDC should be applicable to New Haven. He indicated that New Haven and Fort Wayne did not need an interlocal agreement for New Haven to be subject to Fort Wayne's valid rates and charges. He testified that the demand charge to New Haven does not recover a cost to offset payment for future capacity-related growth. He next stated that the SDC will be used to offset payment for future capacity-related growth and thus will not result in double recovery from New Haven. Finally, Mr. Walsh stated that decreased residential usage on New Haven's system is not reason in and of itself to not charge an SDC for those connecting to New Haven's system.

Finally, Mr. Walsh testified that Fort Wayne proposed to charge the SDC to New Haven in the same manner as it charged the rate to its other customers. Mr. Walsh, therefore, recommended that New Haven pay the SDC.

7. **Evidence in Cause 45125.** The Parties submitted the following evidence in Cause No. 45125.

A. **Fort Wayne's Direct Testimony and Exhibits.** Fort Wayne's Manager of Water Engineering, professional engineer, and technical witness in this Cause, Andrew G. Schipper, described Fort Wayne's current system, its current needs for capital improvements, and

the improvements that would be constructed through a combination of rate-funded and Proposed Bond funded projects. Fort Wayne's Certified Public Accountant and Financial Consultant, Eric J. Walsh, testified regarding the rates and charges necessary to meet the financial needs of the utility, as well as the financial aspects associated with the issuance of the Proposed Bonds.

1. **Testimony and Exhibits of Andrew G. Schipper, P.E.** In his prefiled direct testimony and exhibits, Mr. Schipper addressed Fort Wayne's existing waterworks production, treatment, transmission, and distribution facilities. Mr. Schipper described Fort Wayne's utility, facilities, and source of water supply. He described the status of the improvements for which Fort Wayne previously received financing approval in Cause No. 44162, indicating that the vast majority of the projects had been completed, or were being completed. Mr. Schipper also described how Fort Wayne had acquired and completed integration of the water system previously owned by Utility Center, Inc., d/b/a Aqua Indiana, Inc. ("Aqua"). According to Mr. Schipper, the Aqua facilities have been completely incorporated and integrated into Fort Wayne's water system. Mr. Schipper stated that the acquisition added distribution, transmission, production, and storage facilities as well as approximately 12,600 mostly residential customers to Fort Wayne's system.

Concerning the Aqua acquisition and integration, Mr. Schipper stated that the acquisition was beneficial to Fort Wayne and to its customers. He indicated that the acquisition allowed Fort Wayne to avoid certain capital expenditures. Prior to acquisition, Fort Wayne had planned main extension and looping projects that were able to be avoided or otherwise delayed because of the improvements made to interconnect the Aqua system ("Interconnection Improvements"). Mr. Schipper testified that the Interconnection Improvements themselves also provided benefits to the Utility including looped mains, necessary main extensions, increased reliability and fire flow capability, increased pumping capacity, and interconnection of pressure zones. In short, Mr. Schipper stated that the Aqua acquisition was beneficial to Fort Wayne and its other customers. Mr. Schipper also explained that the former Aqua customers were also benefitted by the acquisition in the form of improved service at lower rates. In all, Mr. Schipper stated that the Aqua purchase has been beneficial to both the Fort Wayne and former Aqua customers.

Mr. Schipper next identified certain capital improvements that were necessary to ensure safe and efficient service to Fort Wayne's customers. Mr. Schipper stated that as is the case with many water systems in the State of Indiana and across the country, many of Fort Wayne's water mains are aged and aging and in need of repair and/or replacement. Mr. Schipper detailed the process by which Fort Wayne determines the need for, and priority of, its proposed capital improvements. According to Mr. Schipper, Fort Wayne starts the process with its master planning documents. Mr. Schipper discussed and filed two master planning documents: the 2017 Water Master Plan Distribution Projects ("Distribution Plan") and the 2017 Water Master Plan Facility Projects ("Water Facilities Master Plan"). Mr. Schipper said he also meets quarterly with various stakeholders to identify potential capital needs.

Mr. Schipper testified that he prepared a Capital Improvement Plan which he attached to his testimony and which Mr. Walsh summarized as an attachment to his Accounting and Financing Report. The Capital Improvement Plan forms the basis for the extension and replacement budget contained in Fort Wayne's proposed revenue requirement. Mr. Schipper detailed the intricacies of the Capital Improvement Plan indicating that it highlights proposed improvements for each year

from 2018 to 2023 reflecting the priorities and needs of the Utility. As Mr. Schipper states, Fort Wayne's water system has water main and treatment infrastructure that have been in service for many decades and many of these older assets are now in need of repair and replacement.

Mr. Schipper detailed the water main breaks Fort Wayne has experienced since 2008. He also detailed the age of the water assets. As concerns the Capital Improvement Plan, Mr. Schipper indicated that he has divided the proposed improvements under the general categories of Filtration Plant, Raw Water Dams and Reservoirs, Distribution Pumping and Storage, Distribution System, and Water Maintenance. Mr. Schipper discussed each of these categories and the types of projects identified in each. With respect to the Distribution System improvements, Mr. Schipper specifically identified that Fort Wayne currently has over 350 miles of water main that are in need of replacement.

Mr. Schipper next summarized the major projects to be funded with the proceeds from the Proposed Bonds. These include the: (a) filter backwash retention tank improvements, (b) sludge force main improvements, (c) batch lime slaking system and lime feed conveyance improvements, (d) variable frequency drives for high service pump, (e) north control room programmable logic controller/network rehabilitation, (f) plant 3 weir replacement, (g) substation #2 electrical switchgear replacement, (h) plant 1 west upper slab concrete replacement, (i) filter underdrain replacement, (j) plant heating, ventilation, air condition improvements, (k) St. Joe Dam pump #2 improvements, (l) raw water supply improvements at the filtration plant, (m) Hurshtown Reservoir bank reconstruction, (n) St. Joe Dam raw water main inspection and repairs, (o) St. Joe Dam intake dredging and bank stabilization, (p) St. Joe Dam concrete structural repairs, (q) tank rehabilitation and painting, (r) miscellaneous distribution improvements, (s) advance metering infrastructure, and (t) significant water main rehabilitation and replacement.

Mr. Schipper explained that in addition to the use of bond proceeds, Fort Wayne is proposing to utilize Tax Increment Financing revenues to pay for a portion of the proposed Capital Improvement Plan. He concluded that the capital projects set forth in the Capital Improvement Plan are reasonable and necessary for the Utility to provide safe and efficient service to its customers. Although all of the capital projects are reasonable and necessary, Mr. Schipper explained that the Utility proposed certain deferrals of \$2.4 million in water main projects ("Capital Improvement Plan Deferral"). The Utility suggested the Capital Improvement Plan Deferral as a means of mitigating the rate increase to its customers.

Finally, Mr. Schipper indicated that since the close of the Test Year, Fort Wayne had connected a new customer – a Walmart milk processing facility. At the time of completing his testimony, Fort Wayne did not have sufficient reliable data from which to estimate Walmart's usage. Accordingly, Walmart's usage was not accounted for in this case. Mr. Schipper indicated that when such data became available during the proceedings, the Utility would make that data available for the Parties to discuss how that revenue might impact the revenue requirement shortfall in this case.

2. Testimony and Exhibits of Mr. Walsh. Mr. Walsh testified that Fort Wayne was requesting permission to adjust its rates and charges and issue approximately \$85,570,000 of long term debt in one or more issues (i.e. the Proposed Bonds). Mr. Walsh

explained that Fort Wayne intended to use the proceeds from the Proposed Bonds to fund construction of certain capital improvements identified in the Capital Improvement Plan.

Mr. Walsh presented his firm's Accounting Report on Proposed Improvement Projects and Increase in Rates and Charges dated June 22, 2018 ("Rate Accounting Report"), which he attached as an exhibit to his testimony. Mr. Walsh explained that Fort Wayne had a total revenue requirement of \$62,369,252. To fund the total revenue requirement, Fort Wayne proposed a \$15,585,000 increase to revenue. Mr. Walsh testified that the Utility proposes the increase be phased in over a five-year period, and that over that same period the existing outside-City surcharge ("Out-of-Town Differential") be reduced from 15% to 10%. Mr. Walsh stated that the Utility was proposing a reduction to the Out-of-Town Differential and then an increase to all rates on an across-the-board basis. The overall increase for all five phases from current rates for inside City customers would be approximately 33% and the overall increase from current rates for the outside-City customers would be approximately 27%.

Mr. Walsh explained the timing of the implementation of each of the five phases and the percentage increase associated with each phase. Mr. Walsh indicated that the five-year phase-in of rates allows the Utility to generate sufficient funds that will allow the Utility to complete the proposed improvements while also minimizing the financial impact on its customers. The phase-in benefits both the customers and the utility as both have time to properly plan over the five-year period. Mr. Walsh indicated that the calculations leading to his proposal were contained in the Rate Accounting Report, and he discussed each section of the report in his testimony.

Mr. Walsh discussed the funding of the Capital Improvement Plan. He indicated that the Capital Improvement Plan would be funded with a mix of pay-as-you-go cash, Tax Increment Financing, and Proposed Bonds. He stated that the Utility intended to issue long-term debt in 2019 and 2022 respectively to achieve an aggregate long-term debt issuance of approximately \$85,570,000. He discussed that some of the Capital Improvement Plan would be funded with pay-as-you-go cash and some would be funded with the Proposed Bonds. Mr. Walsh identified how the Utility made the determination of these two categories of funding, and he discussed the structure of the Proposed Bonds. Mr. Walsh outlined the proposed structure of the Proposed 2019 and 2022 Bonds and indicated that the Utility intended to file a true-up report to the Commission adjusting water rates for the actual amortization schedules at the time of issuance.

Finally, Mr. Walsh discussed the addition of the Walmart milk processing facility. Specifically, he indicated that at the time of the preparation of the Rate Accounting report, the milk processing facility had not yet received its first bill at full operations. Accordingly, Mr. Walsh could not account for the facility's usage at this point without any historical data to rely on. Mr. Walsh indicated that the actual usage could impact the Rate Accounting Report, and that Fort Wayne would adjust such issue as part of discovery and Mr. Walsh's rebuttal testimony.

Mr. Walsh concluded that Fort Wayne should be authorized to issue tax-exempt long-term debt in the amount of approximately \$85,570,000 in separate issuances to occur in 2019 (\$41,010,000) and 2022 (\$44,560,000) ("2019 Proposed Bonds" and "2022 Proposed Bonds" respectively). He further concluded that the Commission should approve the rates proposed in his

accounting report as fair, just, non-discriminatory and reasonable and necessary to meet the projected revenue requirements of the Utility.

B. OUCC's Direct Evidence. The OUCC's Chief Technical Advisor in the Water/Wastewater Division and Certified Public Accountant, Margaret A. Stull presented the overall results of the OUCC's analysis of Fort Wayne's proposed overall rate increase. The OUCC's Utility Analyst with the Water/Wastewater Division, Thomas W. Malan testified concerning certain adjustments to the test year operating expenses for contractual services and liability insurance expense. The OUCC's Utility Analyst II in the Water/Wastewater Division and professional engineer, James T. Parks testified concerning how Fort Wayne's planned capital improvements will improve system reliability, upgrade existing assets, replace aging infrastructure, and increase system capacity. He also testified as to why the OUCC considers the proposed capital projects to be reasonable. Finally, the OUCC's Assistant Director with the Water/Wastewater Division and certified rate of return analyst, Mr. Kaufman testified concerning the proposed financing request and adjustments thereto.

1. Testimony and Exhibits of Ms. Stull. Ms. Stull testified concerning the overall results of the OUCC's analysis of Fort Wayne's proposed overall rate increase of 33.08% to be implemented over five phases. Ms. Stull explained that the OUCC's analysis suggested a proposed overall rate increase of 31.25% to produce a total increase in water revenues of \$14,863,644 per year, which the OUCC recommended be implemented over five phases. Ms. Stull indicated that the rate adjustments recommended by the OUCC come from adjustments to operating revenues, utility receipts tax, and revenue offsets.

Ms. Stull explained certain differences between the financial statements presented in Fort Wayne's Rate Accountant Report and the IURC Annual Reports and its general ledger. Accordingly, the OUCC did not incorporate the financial statements in the Rate Accountant Report, instead using comparative financial statements based on the IURC Annual Reports and general ledger.

Ms. Stull presented a table summarizing the OUCC's recommended overall revenue requirement, as compared to Fort Wayne's proposal. She also sponsored a table summarizing the OUCC's proposed revenue and rate increase percentage for each of the five phases. Based on this analysis, Ms. Stull recommended an average inside City residential customer using 535 cubic feet of water will see an increase of 31.25%, and an average outside City residential customer using 535 cubic feet of water will see an increase of 29.90%.

Ms. Stull next discussed certain revenue adjustments. First, she accepted and recommended approval of Fort Wayne's revenue adjustment to outside City customer revenues to reflect a total decrease to the outside City surcharge from 15% to 10% at the end of the five phases. Second, Ms. Stull recommended an additional revenue adjustment to account for new revenues from the Walmart milk processing facility. Ms. Stull recommended an estimated annual revenue adjustment of \$333,120 for the Walmart milk processing facility's usage.

Ms. Stull testified that the OUCC accepted all of Fort Wayne's proposed operating expense adjustments except for its adjustment to liability insurance and its adjustment for 2019 utility

expenses. She indicated that Mr. Malan discusses the liability insurance adjustment, and that the 2019 utility expense adjustment was made because it was outside the adjustment period. Ms. Stull also indicated that the OUCC proposed additional operating expense adjustments to contractual services and utility receipts tax. Mr. Malan discusses the contractual services adjustment. Ms. Stull recommended the utility receipts tax adjustment.

Ms. Stull also discussed her adjustments to revenue requirement offsets. She indicated that she accepted Fort Wayne's proposed interest income offset but disagreed with Fort Wayne's remaining revenue requirement offsets. Accordingly, she proposed a total revenue requirement offset of \$1,704,034.

Based on her testimony, Ms. Stull recommended an overall rate increase of 31.25% to produce a total increase in water revenues of \$14,863,644 per year to be implemented over five phases.

2. Testimony and Exhibits of Thomas W. Malan. Mr. Malan testified concerning the OUCC's recommended adjustments to Fort Wayne's test year operating expenses for contractual services and liability insurance. Mr. Malan recommended accepting all of Petitioner's proposed adjustments for contractual services expense, and he also recommended an additional \$1,064 decrease to correct the water utility's share of a test year engineering charge. Mr. Malan further recommended amending Fort Wayne's adjustment to Fort Wayne's proposed insurance adjustment by a \$9,980 decrease.

3. Testimony and Exhibits of James T. Parks, P.E. Mr. Parks recommended approval of Fort Wayne's request for financing \$85,570,000 through water revenue bonds and an increase in Fort Wayne's Extensions and Replacements revenue requirement as requested to fund its proposed capital program. Mr. Parks indicated that the planned capital improvements contained in Fort Wayne's Capital Improvement Plan will improve system reliability, upgrade existing assets, replace aging infrastructure, and increase system capacity. Mr. Parks testified that the OUCC considers the capital projects to be reasonable. Mr. Parks also described Fort Wayne's water system which he testified appears to be well-managed and well-maintained, and that Fort Wayne extends the useful life of its treatment and distribution assets through proper maintenance and operation.

Mr. Parks indicated that Fort Wayne's cost estimates were reasonable, supported, and derived from Petitioner's historical database of actual water main construction costs. Mr. Parks further indicated that in discussions with Petitioner's staff concerning water main replacement that the Fort Wayne staff were knowledgeable, fully transparent, and willing to answer any OUCC questions regarding their capital improvement program, cost data, and cost estimating practices. He further indicated that he had reviewed actual bid tabs for water main projects. He found that the project had good bidding participation and showed reasonable costing estimates by Fort Wayne in this Cause. Mr. Parks agreed that Fort Wayne's water main replacement costs were reasonable for purposes of financing approval.

Mr. Parks recommended Fort Wayne report the status of its capital improvements through reports to the OUCC in a manner similar to what was done in the final order in Cause No. 44162.

Mr. Parks next testified concerning Fort Wayne's lead service line replacement program. Mr. Parks agreed that Fort Wayne should continue its lead service line replacement program phased in over time with the stated goal of replacing all lead services. He explained that Fort Wayne should strive to replace the entire lead service line including the customer owned portion.

Mr. Parks explained that Fort Wayne appeared to be taking proper care of its water storage tanks and he recommended Fort Wayne continue to properly operate and maintain its distribution system.

Mr. Parks discussed Fort Wayne's non-revenue water, indicating that Fort Wayne experienced moderately high lost water over the last three years. Mr. Parks indicated that the lost water volume and percentage has remained relatively constant. He encouraged Fort Wayne to continue its long term continuance program to identify, reduce, and manage water losses.

Mr. Parks concluded that the Commission should approve Fort Wayne's request for financing \$85,570,000 through water revenue bonds and an increase in Fort Wayne's Extensions and Replacements revenue requirement as requested to fund its proposed capital program.

4. Testimony and Exhibits of Edward R. Kaufman, CRRA. Mr. Kaufman responded to Fort Wayne's proposed financing request, which involves separate debt issuances and five proposed phased increases. Mr. Kaufman explained that the OUCC agreed that Petitioner should be authorized to issue its proposed debt issuances, but the OUCC recommended certain conditions on the authority to issue long term debt.

Mr. Kaufman explained that Fort Wayne anticipates issuing long term debt in 2019 totaling \$41,010,000. Fort Wayne proposed issuing the debt through the State Revolving Fund ("SRF"). Mr. Kaufman recommended approval of the anticipated 2019 borrowing. He indicated that the SRF had not yet agreed to Petitioner's proposed terms such that the amortization schedule may be different than the one Petitioner proposed in the Cause. Mr. Kaufman indicated that the terms of the proposed 2019 debt issuance are reasonable and a debt true-up would be sufficient to provide the Commission information concerning the terms of the financing. However, Mr. Kaufman stated that in the event Petitioner cannot secure the 2019 issuance according to the terms presented in its case, it should submit evidence and secure approval for authority to the extent the terms achieved are materially different.

Mr. Kaufman next addressed the timing of the 2019 borrowing, indicating that Petitioner should reserve any funds collected between the time of an order and the time of debt issuance and use those funds to offset the amount it needs to borrow. In the alternative, Petitioner could apply such funds to its debt service reserve. Mr. Kaufman stated that in the event the gap in timing between a Commission order in this Cause and when Petitioner closes on its 2019 debt is less than 45 days, then Petitioner need not apply the funds collected against its proposed debt.

Mr. Kaufman also explained that Fort Wayne anticipates issuing long term debt in 2022 totaling \$44,560,000. Mr. Kaufman testified that Fort Wayne proposed issuing the debt through the open market. Mr. Kaufman recommended approval of the 2022 open market debt issuance on terms similar to those described in its testimony. Mr. Kaufman indicated that given that the debt

was not proposed to be issued until 2022, Mr. Kaufman could not say whether Fort Wayne will be able to issue the 2022 long term debt on terms similar to those described in its testimony. Mr. Kaufman indicated that certain safeguards could be built into the Commission's authority on Petitioner's 2022 debt. He also indicated that Petitioner should not delay its issuance of the 2022 debt in order to avoid potentially over collecting in Phase IV and V.

Mr. Kaufman recommended the Petitioner true-up its proposed annual debt service for its proposed 2019 and 2022 debt issuances within 30 days after closing on each of the debt issuances. He further recommended that Phase IV rates not go into effect until Petitioner provides notice of its proposed 2022 debt issuance. Mr. Kaufman recommended that upon filing a true up report, the OUCC should have an opportunity to object to the true-up within 14 days of the report. Mr. Kaufman also indicated that if the increase or decrease would be immaterial as agreed to by the OUCC and Fort Wayne, no true-up should be needed. Mr. Kaufman further stated that financing authority should expire by January 1, 2020 (for the 2019 borrowing) and January 1, 2023 (or six months after the initial issuance for the 2022 borrowing).

Finally, Mr. Kaufman recommended approval of Fort Wayne's proposed debt service reserve.

C. GM's Direct Evidence – Testimony and Exhibits of Michael P. Gorman. GM's consultant and Managing Principal with the Firm of Brubaker & Associates, Inc., Michael P. Gorman testified concerning several proposed adjustments to Fort Wayne's proposed water rate increase.

Mr. Gorman first proposed two modifications to Fort Wayne's proposed revenue requirement. First, Mr. Gorman proposed modifying the Capital Improvement Plan by reducing the pace of annual main replacements during the final two years of the five step rate increase. Mr. Gorman recommended a reduction in Capital Improvement Plan costs from approximately \$160,000,000 to approximately \$142,000,000. Mr. Gorman did not object to the City's plan to replace mains as a general concept and acknowledged that main replacement served beneficial purposes. However, with retail rate impact on customers in mind, he recommended slowing and lowering the pace of main replacement from the existing goal of nine miles of main replaced per year to an average of fifteen miles of main per year during the final two years of the five-step rate increase. Mr. Gorman also testified that the slower pace was appropriate to ensure that the City can effectively manage the increased main replacement. Moreover, Mr. Gorman stated that slowing the pace to fifteen miles a year for the final two years of the five-year plan would allow any increased expenditures in main replacement to occur after the City has completed many of the near-term planned major capital investments in the filtration plant.

Second, Mr. Gorman recommended modifying the debt service cost structure of the 2019 bond issue to delay (or limit to the extent possible) principal payments until after the first 10 years of the capital program. Specifically, Mr. Gorman proposed that Fort Wayne delay principal payments under the 2019 bond issue until after 2033. Mr. Gorman explained that the City's composite debt service structure can be reduced significantly over the next 13 years by restructuring the principal payments for the 2019 and possibly the proposed 2022 bond issuance, to reduce the City's annual composite debt service cost during the period 2019-2032, and increase

it later, the remaining period of 2033-2046, to accommodate an ongoing Capital Improvement Plan program. He also recommended extending the maturity on the loan to 30 years and aggressively wrapping the debt. Mr. Gorman acknowledged that his proposal may result in higher interest rates on the debt, but explained that there are other factors that may reduce the interest expense for the CIP in this five-step increase. Mr. Gorman proposed to reduce the amount of rate revenue funding, while leaving the bond funding as proposed. He explained that his proposal would allow the City to maintain a strong debt service coverage ratio of 1.7x to 2.0x over the five-year period.

Finally, Mr. Gorman expressed concern regarding Fort Wayne's proposed revenue spend. He noted that the City has not proposed a class cost of service study ("COSS") to support its allocation of the increased revenue requirement. Mr. Gorman indicated he believed this meant that Fort Wayne had not made a reasonable effort to identify the most equitable way of adjusting rates. Mr. Gorman indicated that absent a class COSS, cost-based rates could be reasonably approximated by allocating increased costs based upon the drivers of the need for the rate increase. Mr. Gorman testified that Fort Wayne's proposed main replacement program was driven largely by smaller main replacements that do not serve large customers like GM. He testified that he did not find this equitable or based on cost of service. In order to spread the revenue deficiency on cost of service principles, Mr. Gorman proposed a below system average increase for larger customers like GM, and an above system average increase for smaller customers. He recommended a larger increase to the volumetric pricing structures for volume rate blocks 1 and 2, and a below system average increase for the third volumetric rate block. Mr. Gorman testified that his proposal produces a rate structure that is reasonably consistent with other Indiana water utilities.

D. New Haven's Direct Evidence. New Haven's financial consultant and Certified Public Accountant, Gregory Guerrettaz summarized New Haven's overall position in the proceeding and made several specific recommendations. New Haven's cost of service consultant, William Steven Seelye, expressed concerns about Fort Wayne's proposed rate increase and presented a cost of service analysis. New Haven's Director of Engineering, Keith Schlegel, testified concerning New Haven's utility, its perceived limited use of Fort Wayne's Utility facilities, and his observations concerning Fort Wayne's Capital Improvement Plan.

1. Testimony and Exhibits of Gregory T. Guerrettaz. Mr. Guerrettaz first summarized New Haven's disagreements with Fort Wayne's proposal. Mr. Guerrettaz stated his opinion that the proposed five year phase-in is contrary to regulatory accounting requirements and the historic test year and 12 month adjustment period ended December 31, 2017, approved in this Cause. If approved, Mr. Guerrettaz stated the phased increases should be reduced by reasonable modifications to the proposed bond issuances. He testified that in his opinion the operating fund and debt service reserve are overfunded and available to reduce capital costs. Mr. Guerrettaz recommended a proposed reduction to 2022 bonds for interest income and a proposed reduction to 2019 bonds from participation in SRF's 0% interest lead line replacement funding program. Mr. Guerrettaz proposed an increased use of TIF money to reduce Extensions and Replacements ("E&R"). Mr. Guerrettaz recommended New Haven's proposed rate increase be reduced based on his assertion that 97% of the capital improvement program does not apply to wholesale water service to New Haven. He testified in favor of reporting

requirements for use of grant funds and TIF funds for capital projects, and annual reports on capital projects including spend down of bond proceeds and status of project completion. He proposed a revenue true-up for Wal-Mart milk processing plant revenues, segregation of any SDC funds, and a separate fund for accumulated pay as you go capital improvement receipts, with rate reductions for amounts greater than \$500,000 annually not spent on capital improvements. Mr. Guerrettaz further proposed a seven year rate case expense amortization. Finally, Mr. Guerrettaz indicated he would discuss an adjustment to remove the Aqua acquisition debt service from sale for resale rates.

Mr. Guerrettaz testified that Fort Wayne's five year phased-in rate proposal adjustments was contrary to the Commission's test year rules as applied to Fort Wayne in this Cause. In his opinion, it required revenue adjustments outside of the 12 month adjustment period. Mr. Guerrettaz recommended that the rate increase be limited to adjustments for changes that are fixed, known, and measurable and occurring within 12 months of the test year end.

Mr. Guerrettaz testified that Fort Wayne's five year rate proposal violates the rate accounting matching principle which holds that expenses and revenues for a period should be aligned from a timing perspective. He stated it is not reasonable or appropriate to include costs related to over \$152 million in capital expenditures for the period 2019 through 2023 without considering changes in revenues and operation and maintenance expenses for the same period. He testified Fort Wayne's proposal did not match increased 2019-2024 revenue requirements with the increased revenue impact of future customer additions and increased efficiencies from plant capital improvements.

He testified that Fort Wayne's proposal to rely heavily on pay-as-you-go capital for capital in its proposed capital expenditures also may create matching principle issues because it fails to match the capital cost with customers over the life of the new capital additions. He indicated his proposed financing restructuring addresses that problem.

Mr. Guerrettaz recommended a revised financing structure that would extend the maturity on the 2019 bonds to 35 years for the pipe portion of the issuance. He stated that SRF now allows 35 years for pipe portion of financing and it better matches modern pipe useful lives with debt term. He also recommended adjustments to account for available zero interest SRF funds for lead line replacements. He testified that taking advantage of that SRF lead line replacement program and his proposed bond restructuring would yield estimated savings of \$8.3 million. As concerns the proposed 2022 debt service schedule, Mr. Guerrettaz assumed that the 2022 bond issuance would wrap around existing debt, and not be eligible for SRF financing. Mr. Guerrettaz testified that Fort Wayne should be required to true-up its bonds, if the Commission approves the bond issuances, and any resulting savings should be expeditiously used to lower rates.

Mr. Guerrettaz also proposed an adjustment to the allocation of the 2012 and 2014 debt service schedules relating to the Aqua acquisition. He testified the Aqua acquisitions have no relationship to the provision of sale for resale water to New Haven, and the acquired Aqua utility capital and operating costs should not be allocated to New Haven. He suggested the Aqua area customers received the benefits of improved service and they, rather than New Haven, should pay the costs.

Mr. Guerrettaz suggested that the 2022 bonds could be “wrapped around” existing bonds. As those old bonds are paid off, the freed up debt service payment is used to pay for the new bonds. He testified this would allow the 2022 Bonds to be repaid over a 20-year period and reduces the maximum combined annual debt service cost and amount needed to be borrowed for debt service reserve. He testified this wrap around strategy is commonly used and based on his review would be consistent with Fort Wayne’s current outstanding bonds’ terms and conditions and with Fort Wayne’s new bond ordinance.

Mr. Guerrettaz also addressed Fort Wayne’s proposed E&R and his adjustments to the same. Mr. Guerrettaz indicated that the testimony of Mr. Schlegel and Mr. Seelye recommended that New Haven only be allocated 5.04% of the costs of the Capital Improvement Plan on the basis that service to New Haven would, in his opinion, only use a small portion of the Capital Improvement Plan. He also recommended a reduction to E&R based on his belief that Fort Wayne should use an additional \$1.5 million in TIF funds to pay for the Utility’s extensions and replacements. Mr. Guerrettaz further stated that the proposed Capital Improvement Plan and new advanced water meters would reduce Petitioner’s workforce and an adjustment should be made to account for such cost reduction.

Mr. Guerrettaz described his adjustment for interest income. Mr. Guerrettaz recommended several adjustments to interest income based on his review of various Fort Wayne sources of interest income, cash and investments, debt service reserve, his reduction to revenue requirements, and the 2022 Bond proceeds while they remain unspent.

In conclusion, Mr. Guerrettaz recommended that Fort Wayne seek TIF and grant funds to offset its Capital Improvement Plan projects. He further recommended that Fort Wayne’s five-year phase-in be denied, that revenues from the Walmart milk processing facility be used to offset revenue requirement needs, and that the debt issuances be modified in accordance with his recommendations.

2. Testimony and Exhibits of William Steven Seelye. Mr. Seelye, Managing Partner of The Prime Group, LLC, described concerns about Fort Wayne’s proposed five year phased in rate increases in 2019-2023 under the test year and accounting methodology approved in this Cause. He also presented a cost of service analysis in which he took into account the proximity of New Haven and its connection points to Fort Wayne’s water treatment plant and proposed a prospective rate reduction for New Haven.

Mr. Seelye testified that Fort Wayne is proposing rates based on five years of projected costs of replacements and improvements from 2019 through 2023 based on a test year of the 12 months ending December 31, 2017. In his opinion, Fort Wayne’s proposed five year phase-in for capital improvements was contrary to the 12-month requirement for fixed, known, and measurable changes for the test year. He stated that the forward looking approach to developing rates is not consistent with the determination of test-year revenue requirements pursuant to Section 5 of the IURC’s regulation 170 IAC 1-5-5. As such, he testified like Mr. Guerrettaz that the only increase that should be approved in this Cause is for fixed, known, and measurable changes through December 31, 2018, not five years of future phasein periods, i.e. \$89,289 annually.

Mr. Seelye presented a cost of service analysis in which he took into account the proximity of New Haven and its connection points to Fort Wayne's water treatment plant. He testified because Fort Wayne did not perform a new COSS, Mr. Seelye took Fort Wayne's most recent COSS and revised its allocation factors to reflect the proximity of New Haven and New Haven's connection points to Fort Wayne's water treatment plant and the limited amount of transmission lines that serve New Haven. He recited the AWWA M-1 Manual as support for his consideration of proximity saying the page 168 of AWWA M-1 Manual states that "circumstances may occur in which the location of customer[s] relative to the source of supply or treatment plant (i.e. nearby) may suggest a limited amount of infrastructure to deliver water to the customers." He testified that while Fort Wayne has added many miles of transmission mains to serve its growing customer base that increase in transmission mains was not to serve New Haven's water utility bulk wholesale water. He testified Fort Wayne has increased its customer base by over 25%. Based on his cost of service revision for proximity he testified that New Haven rates are over stated by \$119,209 annually.

Mr. Seelye testified that Fort Wayne should not charge New Haven public fire protection service fees. He testified New Haven purchases all of its water needs from four metering stations connected to Fort Wayne's transmission lines, including water used for fire protection that New Haven provides for its own customers. He testified that unlike the fire protection service that Fort Wayne provides on other parts of its system, Fort Wayne does not directly serve fire hydrants and other fire protection systems for customers served by New Haven. He said that Fort Wayne provides fire protection assets such as hydrants to its customers. New Haven provides its own fire protection assets and water service to its customers and consequently should not be charged Fort Wayne's fees for public fire protection.

3. Testimony and Exhibits of Keith Schlegel. New Haven's Director of Engineering, Mr. Schlegel, provided testimony concerning the character of New Haven's sale for resale status, the limited portion of Fort Wayne assets and transmission lines that serve New Haven's water utility, his observations on Fort Wayne's Capital Improvement Plan, and why New Haven should not pay a public fire protection charge. Mr. Schlegel did not render an opinion on how his testimony would impact Fort Wayne's revenue requirement.

Mr. Schlegel explained that New Haven is a municipality with 15,700 residents located mostly within the I-469 loop, just to the east/southeast of Fort Wayne. He stated that New Haven is largely older blue collar neighborhoods. The New Haven water utility has operated for approximately 120 years and has approximately 5,200 customers that depend on it for potable water, the bulk of which are residential customers. Mr. Schlegel explained that New Haven is Fort Wayne's only sale for resale water customer, receiving water from Fort Wayne through four connection points fed by Fort Wayne transmission mains of 12 to 54-inch diameter. He stated that in 2016 New Haven had purchased water from Fort Wayne at a total cost of \$979,074. He testified New Haven's water utility is dedicated to public service, and the price it pays for bulk water is important to its operations and the citizens of New Haven. Money saved on purchased water help the 15,700 people that live in New Haven and can be used to best operate and maintain New Haven's municipal water utility service.

Mr. Schlegel testified that there is a limited portion of Fort Wayne water plant used to meet New Haven's sale for resale needs. He referred to the limited amount of transmission lines that connect New Haven's metering points to the Fort Wayne water treatment plant and that New Haven purchased water amounts of about 3% of the finished water from the Fort Wayne water treatment plant.

Mr. Schlegel testified that he is concerned that Fort Wayne seeks to charge New Haven in part for expansion of its distribution system to serve new customers on the western outskirts of Fort Wayne and the acquisition of a distant utility, Aqua. He was concerned that Fort Wayne would charge New Haven for plant replacements and additions that have no relationship to serving New Haven.

Mr. Schlegel testified that in his opinion many of the projects in Fort Wayne's Capital Improvement Plan have no relationship to providing service to New Haven, while some seemed to him to have costs higher than he would anticipate for similar work. Mr. Schlegel then identified specific capital projects that he believed would not benefit New Haven or had high costs.

Finally, Mr. Schlegel addressed the fire protection charge. He testified Fort Wayne does not pay for New Haven's fire hydrants, fire use water, and other fire protection items. New Haven already pays for the water it purchases and uses to fight fire. He proposed that New Haven should not pay a fire protection charge.

E. Fort Wayne's Rebuttal Evidence. Fort Wayne filed the rebuttal evidence and exhibits of Messrs. Walsh and Schipper. Mr. Walsh responded to the financial aspects of the OUCC and Intervenor's testimonies while Mr. Schipper responded to the engineering and technical aspects.

1. Rebuttal Testimony and Exhibits of Mr. Walsh. With respect to the testimony of the OUCC, Mr. Walsh indicated that Fort Wayne accepts the OUCC's adjustments to the revenue requirement. Mr. Walsh offered additional adjustments to increase test year revenue, utility receipts tax, and extensions and replacements. The adjustment to extensions and replacements would allow Fort Wayne to complete those portions of the Capital Improvement Plan that Fort Wayne originally proposed to defer. Mr. Walsh's additional adjustment would allow Fort Wayne to complete an additional \$1,960,000 of its Capital Improvement Plan without increasing the originally proposed rate increase. Mr. Walsh also agreed with the OUCC's recommendation to authorize financing of \$85,570,000. Mr. Walsh explained that Fort Wayne should be granted authority to issue \$85,570,000 of long-term debt in one or more series with an interest rate not to exceed 7% per annum. Fort Wayne intends to issue a total of \$41,010,000 of this debt in 2019 and \$44,560,000 of the debt in 2022. Mr. Walsh stated that to the extent the actual financing terms materially differ from those estimates, a true-up calculation will be used to adjust rates. He also explained that there could be financial reasons (e. g. Davis-Bacon wage requirements for certain projects) where Fort Wayne would carve out a portion of the SRF bond issue for open market issuance, resulting in more than two separate bond issues over the five-year period. In light of these clarifications, Mr. Walsh recommended that the Commission accept some of Mr. Kaufman's recommended conditions on the issuance of debt with the following modifications: (i) the Commission should not lock Fort Wayne out of the market until 2022; (ii) Fort Wayne should

not be required to use its approved SDC to offset debt issuance in this rate cause; and (iii) the Commission should not require Fort Wayne to reopen the record concerning the bond issuance terms. Mr. Walsh also proposed that the rate increase be phased-in over five years in order to avoid rate shock. The adjustments offered by the OUCC as modified by Mr. Walsh resulted in Mr. Walsh's overall recommendation in this Cause which is that Fort Wayne receive an overall increase of 31.4% (32.3% for inside-City rates and 26.1% for outside-City rates) to result in a revenue increase of \$14,939,351. Mr. Walsh submitted a schedule outlining this revenue requirement as an exhibit to his rebuttal testimony.

In response to GM's witness, Mr. Walsh indicated he did not accept Mr. Gorman's adjustments to the Capital Improvement Plan, his recommendations to modify the proposed bond's debt service cost structure, or his proposed cost spreading reductions. Mr. Walsh testified that Mr. Gorman's adjustments to the Capital Improvement Plan were made only to reduce GM's short-term rate impact, but were not based on operational issues. According to Mr. Walsh, if GM's adjustments to the Capital Improvement Plan were adopted, Fort Wayne and its customers would experience long-term negative impacts. Mr. Walsh indicated that Mr. Gorman's proposals on the Capital Improvement Plan would "kick the can down the road" on the necessary capital improvements. Accordingly, Mr. Walsh recommended that the Commission reject Mr. Gorman's adjustments to the Capital Improvement Plan. Mr. Walsh also recommended that the Commission reject Mr. Gorman's proposals to restructure the 2019 Bond debt service by delaying principal payments for fifteen years. Mr. Walsh explained that Mr. Gorman's adjustments result in an increased interest cost of approximately \$11,250,000 over the life of the bond. Mr. Walsh indicated that the Fort Wayne Common Council would not likely agree to approve such a bond structure, and that the Commission should reject this recommendation. Mr. Walsh did agree with Mr. Gorman's statements that Fort Wayne can seek certain opportunities to lower the interest rates on the Proposed Bonds. Mr. Walsh stated that Fort Wayne would seek each of the three opportunities Mr. Gorman mentioned, and proposed to pass along the benefits of the lower cost financing to the customers. Mr. Walsh also disagreed with Mr. Gorman's reductions to the pay-as-you go rate funded portion of the Capital Improvement Plan. Mr. Walsh indicated that those reductions should be rejected for the same reason the Commission should not accept Mr. Gorman's arbitrary reductions to the Capital Improvement Plan.

Mr. Walsh next disagreed with Mr. Gorman's recommendations for adjustments to the rate structure. Mr. Walsh explained that Mr. Gorman had incorrectly alleged that approximately 74% of the proposed total main replacement program is for smaller mains. Mr. Walsh indicated that Mr. Gorman had incorrectly overstated the amount of the Capital Improvement Plan that is related to main replacement by approximately \$38,000,000. He further stated that Mr. Gorman had misunderstood the main replacement program. Mr. Walsh also indicated that an across-the-board increase was appropriate in this case where Fort Wayne had recently conducted a COSS to which the Parties in Cause No. 44162 agreed. Accordingly, Mr. Walsh recommended the Commission reject Mr. Gorman's proposed revenue spreading methodology absent a COSS. Mr. Walsh did recommend that Fort Wayne complete a COSS in support of its next rate case.

In response to New Haven's witnesses, Mr. Walsh recommended rejecting Mr. Guerrettaz's various adjustments and Mr. Seelye's cost of service analysis. Mr. Walsh argued that absent a long-term contract, New Haven poses a greater risk to Fort Wayne and its Utility system.

Mr. Walsh, in general, did not agree with Mr. Guerrettaz's proposed adjustments to the revenue requirement. He did agree that Fort Wayne could experience savings by seeking a SRF 0% interest loan for replacement of lead service lines. Mr. Walsh indicated that Fort Wayne would seek favorable borrowing terms and, in the event Fort Wayne experiences savings, it will pass those savings on to its customers through a true-up. Other than agreeing that Fort Wayne should seek lower interest financing where possible, Mr. Walsh disagreed with all of Mr. Guerrettaz's other recommendations. Mr. Walsh also addressed what he perceived as certain errors in Mr. Guerrettaz's Exhibit GTG-1 and proposed Revised Exhibit GTG-1.

Mr. Walsh next addressed Mr. Guerrettaz's and Mr. Seelye's claims that the five-year phase-in of the proposed rate increase be rejected. Mr. Walsh stated that Mr. Guerrettaz and Mr. Seelye had, in his opinion, misstated the Commission's rules with respect to adjustments to test year revenue requirements. Mr. Walsh explained that Fort Wayne had presented evidence that its proposed five-year Capital Improvement Plan contains projects which are fixed, known, and measurable at this time. Accordingly Fort Wayne could implement its entire 31.4% overall rate increase immediately upon the Commission's order in this Cause. Mr. Walsh also indicated that the Commission had a history of allowing implementation of capital improvement plans and corresponding rate increases over a prolonged period of time to avoid rate shock to customers. Accordingly, Mr. Walsh indicated that Fort Wayne's five-year phase-in is consistent with the AWWA M1 Manual and should be allowed as smooth, phased-in rate increases are preferable to large one-time rate adjustments. Mr. Walsh also indicated that the Fort Wayne Capital Improvement Plan was consistent with other Commission orders where the Commission permitted authorized long-term debt issuances to support a five year capital plan.

Mr. Walsh testified that Mr. Guerrettaz's testimony regarding the "matching principle" was unfounded. Mr. Walsh indicated that future customer growth is unknown and average residential consumption has decreased over time such that even new customers may not mean additional consumption based revenue.

Mr. Walsh next indicated that Mr. Guerrettaz's bond restructuring had three flaws: (1) extending the financing out to 35 years as proposed by Mr. Guerrettaz would cause an increased interest rate on the borrowing, (2) it exceeds the current SRF traditional drinking water cap, and (3) Mr. Guerrettaz miscalculated the savings from the 0% lead service program. On Mr. Guerrettaz's adjustments to the 2022 Bond, Mr. Walsh indicated that the proposal would result in \$7,704,000 additional interest cost to Fort Wayne. In addition, because Fort Wayne plans to cash fund the debt service reserve, Mr. Guerrettaz's adjustments would not reduce the borrowing amount. Mr. Walsh also indicated that the more aggressive wrap proposed by Mr. Guerrettaz would cause Fort Wayne to lose flexibility to prospectively issue debt. Mr. Walsh also claimed that Mr. Guerrettaz's reduction to the interest income would require Fort Wayne to borrow less money than needed for a project on the assumption it might earn more interest over the construction period. Mr. Walsh indicated that if interest rates went down during the project, Fort Wayne would, under such a structure, be underfunded for the project.

As concerns Mr. Guerrettaz's estimates concerning lead service line savings, Mr. Walsh testified that New Haven's estimates were overstated by \$8,000,000.

Mr. Walsh then discussed Mr. Guerrettaz's recommendations for use of additional TIF revenues. Mr. Walsh disagreed with Mr. Guerrettaz's recommendations on grounds that the Utility did not control the TIF funds, New Haven did not support its calculation of TIF funds, and Fort Wayne should not use tax monies from its citizens to benefit New Haven. Mr. Walsh also disagreed with Mr. Guerrettaz's reporting recommendations for receipt of grant funds or use of TIF funds. Mr. Walsh indicated that the reporting recommendation added additional burdens that offset the benefits of the grant funds. Moreover, the State's Gateway system already provides the information concerning receipt of grant funds.

Mr. Walsh further testified that the Aqua acquisition was not a detriment to New Haven. He provided analysis and testimony stating that the former Aqua customers were paying for all of the acquisition costs and providing additional revenue to the Fort Wayne system. Mr. Walsh concluded his response to Mr. Guerrettaz's testimony by indicating his specific disagreement with the other seven adjustments or recommendations in Mr. Guerrettaz's testimony and stated that Mr. Guerrettaz failed to support the same.

Mr. Walsh also disagreed with the recommendations in Mr. Seelye's testimony. As concerns Mr. Seelye's comments regarding Fort Wayne's alleged violation of the used and useful principle, Mr. Walsh indicated that Fort Wayne's proposal was in compliance with the principle, and that Fort Wayne's five-year phase-in would provide a match of rate implementation with the timing of the asset construction and rehabilitation. Mr. Walsh also addressed Mr. Seelye's cost of service analysis. Mr. Walsh explained that the analysis was not a class COSS, and should not be used to shift rate impact away from New Haven and onto Fort Wayne's other customers. Mr. Walsh also believed that New Haven should not be challenging the Settled Cost of Service Study from Cause 44162 ("Settled Cost of Service Study") especially since New Haven agreed to it. Mr. Walsh addressed nine specific disagreements with Mr. Seelye's cost of service analysis and indicated that the proximity factors Mr. Seelye calculated were incorrect and understated New Haven's rates. Mr. Walsh also believed that proximity should not be taken into account with respect to service of New Haven. Mr. Walsh did agree, however, that Fort Wayne would conduct a COSS in the next rate case.

Mr. Walsh concluded his response to Mr. Seelye's testimony with a disagreement with Mr. Seelye's assessment of the fire protection charge. Mr. Walsh explained that the AWWA M-1 Manual states that fire flow capacity charges can be properly charged to wholesale customers. Mr. Walsh relied on Mr. Schipper's testimony to indicate that New Haven did not have sufficient storage for fire protection, and it relies on Fort Wayne's storage to meet fire flow needs. Accordingly, Mr. Walsh indicated that New Haven should pay a fire protection charge to Fort Wayne for access to Fort Wayne's fire flow capacity.

In conclusion, Mr. Walsh recommended accepting the OUCC's adjustments to the revenue requirement, adding additional adjustments as discussed in his testimony including, but not limited to, recovering an additional amount of extensions and replacements, approving Fort Wayne's request for authority to borrow \$85,570,000 at an interest rate not to exceed 7%, and rejecting GM and New Haven's proposed adjustments in the case.

2. Rebuttal Testimony and Exhibits of Mr. Schipper. Mr. Schipper responded to the engineering and technical testimony from the OUCC, GM, and New Haven. In response to the OUCC, Mr. Schipper indicated he agreed with Mr. Parks' testimony recommendations concerning approval of funding for the projects in the Capital Improvement Plan. Mr. Schipper also indicated that Mr. Parks was the only witness who toured the facilities and met with Mr. Schipper. Mr. Schipper further indicated that Mr. Parks had not taken issue with any of the projects in the Capital Improvement Plan, and that based on the OUCC's recommended adjustments to other items in the revenue requirement, Fort Wayne could recoup an additional \$1,960,000 to complete additional extensions and replacements. Mr. Schipper indicated that the additional funds were reasonable and necessary for Fort Wayne to get closer to achieve the needed replacement of an average of approximately 15 miles of main per year.

Mr. Schipper also indicated that he agreed with the OUCC's recommendations that Fort Wayne should be authorized to incur \$85,570,000 in long-term debt. However, Mr. Schipper indicated some concerns with the flexibility of that lending. First, he indicated that Fort Wayne should be authorized to borrow the funds at the 7% interest approved by the Fort Wayne Common Council. Second, he indicated that, as explained in discovery response which he attached to his testimony, Fort Wayne should have flexibility in issuing some of the SRF proposed debt on the open market so that it can avoid certain bidding costs (e.g. Davis-Bacon wages).

Mr. Schipper next responded to GM's proposed adjustments to the Capital Improvement Plan. Mr. Schipper stated that he had three major disagreements with GM's adjustments. He concluded that GM misunderstood the Capital Improvement Plan, GM's adjustments would have long-term negative effects on the utility's needed main replacements and extensions, and that GM's revisions were based solely on rate impact to customers. Ultimately, Mr. Schipper recommended rejecting GM's adjustments on the Capital Improvement Plan. Mr. Schipper also indicated that he disagreed with GM's proposed revenue spread. Mr. Schipper indicated that GM's revenue spread proposal was based on GM's misunderstanding of the Capital Improvement Plan and that the revenue spread should not be adopted for the reasons stated in Mr. Walsh's testimony.

Finally, Mr. Schipper responded to New Haven's testimony. Mr. Schipper indicated that, absent a long term contract with New Haven, Fort Wayne experiences several risks to its system including having sufficient capacity to serve New Haven and potential stranded costs if New Haven disconnects. Mr. Schipper explained why he believed it was appropriate to charge New Haven a fire protection charge. Mr. Schipper provided evidence demonstrating that Fort Wayne provides actual increased fire flows during fire events in New Haven such that New Haven relies on Fort Wayne's storage to provide adequate fire flows. Mr. Schipper further testified that New Haven's proximity calculations were incorrect; New Haven's witnesses alleged that New Haven was only using 13 miles of Fort Wayne's main. Mr. Schipper presented hydraulic modeling concerning the miles of main engaged in providing service to New Haven. Based on that modeling, Mr. Schipper contended that at least 161 miles of Fort Wayne's transmission mains are or could be engaged in providing water service to New Haven. Based on that calculation, Mr. Schipper testified that no proximity adjustment should be made, and to the extent one should be made, New Haven had understated the proximity factors. Mr. Schipper stated that he disagreed with, and recommended rejection of, Mr. Seelye's proposed reductions in the Settled Cost of Service Study on grounds that New Haven, Fort Wayne, the OUCC, and GM had all previously agreed to the

Settled Cost of Service Study (in Cause No. 44162). According to witness Schipper, Mr. Seelye's testimony assumes that the Settled Cost of Service Study was wrong, and New Haven should not be permitted to make that kind of collateral attack.

Finally, Mr. Schipper testified that New Haven had greatly understated the portions of the Capital Improvement Plan which would benefit New Haven. Mr. Schipper addressed each of New Haven's allegations about what Fort Wayne improvements would benefit New Haven. Mr. Schipper indicated that the amount of pipe benefiting New Haven was significantly higher than estimated by New Haven. Mr. Schipper indicated that Mr. Schlegel's testimony concerning which of the proposed capital projects benefited New Haven was not correct. Mr. Schipper testified how each of the projects questioned by Mr. Schlegel provided benefit to New Haven. Mr. Schipper also identified certain projects that Mr. Schlegel referenced which were not actually in the Capital Improvement Plan. Mr. Schipper also addressed the benefits he believes that New Haven received as a result of the Aqua acquisition. Mr. Schipper indicated that Fort Wayne did not anticipate any workforce reductions as a result of its proposed meter replacement program. Finally, Mr. Schipper indicated that Mr. Guerrettaz's proposed savings from 0% financing for lead services lines was overstated.

In conclusion, Mr. Schipper recommended that the Commission approve Fort Wayne's Capital Improvement Plan and approve an increased adjustment of \$392,000 per year to the proposed Capital Improvement Plan to permit Fort Wayne to complete more of the proposed projects in exchange for other adjustments to the Revenue Requirement.

8. Settlement Agreement. On January 8, 2019, the Parties filed the Settlement Agreement which settled all issues between the Parties in these Causes. The Settlement Agreement provides, Fort Wayne is authorized to increase its rates and charges for water service to reflect a total net revenue requirement in the amount of \$62,360,281 resulting in a total increase of \$14,792,793 or 31.1% over Fort Wayne's current revenues at existing rates. The Settlement Agreement also assumes a 1% per year reduction to the Out-of-Town Differential. The Parties have agreed that Fort Wayne should implement its 31.1% (32.0% for inside City and 25.9% for outside City) rate increase over five years with the first phase ("Phase I") in the amount of 4.87% (3.73% for outside City) to be effective upon the issuance of the final order in this Cause. The Parties further agreed that the second phase ("Phase II") in the amount of 5.93% (5.18% for outside City) will be effective 12 months after Phase I. The Parties stipulated that the third phase ("Phase III") in the amount of 5.90% (4.99% for outside City) will be effective 12 months after Phase II. The Parties agreed that the fourth phase ("Phase IV") in the amount of 5.86% (4.79% for outside City) will be implemented 12 months after Phase III, and agreed that the fifth phase ("Phase V") in the amount of 5.90% (4.89% for outside City) will be implemented 12 months after Phase IV.

In the Settlement Agreement, Fort Wayne agreed that, as part of filing the next future rate case with the Commission, Fort Wayne will prepare and file a COSS which will include the usage data, costs, and revenues of all customers. New Haven and GM agreed to provide relevant information to facilitate preparation of the COSS. The Settlement Agreement provides Fort Wayne will provide its COSS to the Settling Parties (subject to non-disclosure agreements as appropriate) for their evaluation at least 60 days prior to filing any such COSS with the Commission. The Parties will work collaboratively to try and arrive at acceptable cost allocation principles. During

the 60-day period, the Settling Parties will engage in verbal and written input with each other and have scheduled meetings and discussions regarding the COSS, including specifically its inputs, methodologies, and rate design.

In the Settlement Agreement, Fort Wayne and GM agreed to certain terms of service. From the date the Settlement Agreement is first approved by the Commission until 12 months after Phase V rates are first implemented (“Termination Date”) Fort Wayne will be GM’s sole water provider for GM’s Fort Wayne Plant. The Settling Parties agreed that prior to the Termination Date, GM will only pay the Phase I, II, III, IV, and V rates set forth in Exhibit B to the Settlement Agreement unless otherwise agreed to in writing by Fort Wayne and GM, or otherwise ordered by the Commission in a future rate case or as a result of a true-up described in Section 11 of the Settlement Agreement.¹ The Settlement Agreement provides the terms and conditions of service after the Termination Date and provides the manner in which GM can seek an alternate supply of water prior to the Termination Date by providing at least two years notice.

New Haven and Fort Wayne also agreed in the Settlement Agreement to certain terms of service. From the date the Settlement Agreement is first approved by the Commission until 12 months after the Phase V rates are first implemented (“Termination Date”) Fort Wayne will be New Haven’s sole water provider. New Haven has agreed to purchase all water it requires from Fort Wayne until the Termination Date. New Haven has agreed to certain volume and peak flow limits during this period as provided in Section 8a, b, c, and d of the Settlement Agreement. In exchange, the Settlement Agreement provides that New Haven will only pay the Phase I, II, III, IV, and V rates as set forth in Exhibit C to the Settlement Agreement, unless otherwise agreed in writing by Fort Wayne and New Haven, or otherwise ordered by the Commission in a future rate case, or as a result of a true-up described in Section 11 of the Settlement Agreement. The Settlement Agreement also provides that New Haven will be charged Fort Wayne’s Private Fire Protection Rate based on New Haven’s meter sizes. The Settlement Agreement further sets forth the terms and conditions of service after the Termination Date and establishes the manner in which New Haven can develop its own source of supply by providing Fort Wayne at least two years notice of the proposed date on which New Haven will disconnect from Fort Wayne’s water system.

Pursuant to the Settlement Agreement, the Parties agree Fort Wayne should be authorized to issue the Proposed Bonds in an amount not to exceed \$85,570,000 and at an interest rate not to exceed 7%. The proceeds of the Proposed Bonds will be used to pay certain costs of issuance and pay to complete certain capital improvements that were identified in the Capital Improvement Plan sponsored by Fort Wayne in Cause 45125.

The Parties agreed to the terms of financing and true-up in Section 11 of the Settlement Agreement. Pursuant to those terms, Fort Wayne will seek to market and issue the Proposed Bonds in separate series, will seek low interest debt from SRF where cost advantageous (including applying for 0% financing for replacing lead lines), and will wrap the amortization schedules around its existing debt in the manner proposed by Mr. Walsh in his direct and rebuttal testimonies in Cause 45125. Fort Wayne will seek to market and issue an aggregate amount of \$41,010,000 of Revenue Bonds in 2019. Fort Wayne will later seek to market and issue an aggregate amount of \$44,560,000 of Revenue Bonds. If Fort Wayne receives grant funds for capital improvements that

¹ Nothing in the Agreement prevents GM or its employees from purchasing bottled water for human consumption.

are contained in its Capital Improvement Plan in this Cause, Fort Wayne shall reduce its debt issuance(s) by the amount of grant funds used in the Capital Improvement Plan projects. Fort Wayne shall issue the \$44,560,000 of Revenue Bonds on or before 2022. The Phase IV rates shall not go into effect until 45 days before the issuance of the 2022 Revenue Bonds. In the event Fort Wayne does not or cannot issue the Revenue Bonds within 45 days of the Phase IV rate increase, Petitioner will use funds collected to pay debt service on the to-be-issued debt to offset the amount it needs to borrow. Within 21 days after completing the final issuance of each series of the Revenue Bonds, Fort Wayne shall file a true-up report with the Commission identifying the amount of bonds that were issued, the amortization schedule, and the interest rate on such bonds. To the extent the costs of issuance or interest rate(s) materially impact revenue requirements, Fort Wayne will adjust or "true-up" its rates to reflect the same.

The Parties agreed to certain terms concerning expenditures from the debt service reserve, which terms are contained in Section 12 of the Settlement Agreement.

The Parties further agreed to resolve Cause No. 45124. The Parties agreed that Fort Wayne's SDC as provided in Exhibit D to the Settlement Agreement should be implemented. The Fort Wayne SDC approved in the Settlement Agreement will not be applicable or charged to New Haven. Fort Wayne and New Haven reserved the right to bring and challenge (respectively) a future SDC case in Fort Wayne's next post Phase V water base rate case. The Parties also agreed that if New Haven has by then approved its own SDC, Fort Wayne will not try to also charge a Fort Wayne SDC to New Haven.

In the Settlement Agreement, Fort Wayne agreed to make an annual report on capital improvements consistent with Section 14 of the Settlement Agreement.

Finally, in the Settlement Agreement, the Parties recognized that certain confidential information was shared through discovery. Such information included (but is not limited to) the confidential usage data of General Motors and the confidential electronic COSS performed by Kerry Heid for Fort Wayne in Cause No. 44162. Each of the Parties to the Settlement Agreement has entered into a separate confidentiality agreement with Fort Wayne and the Parties agreed to treat all such information as confidential in accordance with such agreement(s).

9. Settlement Testimony of Parties. Fort Wayne, New Haven, and the OUCC filed supplemental testimony for the purposes of supporting the Joint Stipulation and Settlement Agreement entered by the Parties.

A. Fort Wayne's Settlement Testimony and Exhibits of Mr. Walsh. Mr. Walsh testified on behalf of Fort Wayne regarding the financial aspects associated with the Settlement Agreement. Mr. Walsh explained that the Parties had agreed that Fort Wayne should increase its rates and charges for water service to reflect a total net revenue requirement in the amount of \$62,360,281, resulting in a total increase of \$14,792,793 or 31.1% over Fort Wayne's current revenues at existing rates. Mr. Walsh stated that the Parties further agreed that the rate increase would be implemented in five phases. According to Mr. Walsh, Phase I would increase rates by 4.87% for inside City customers (3.73% for outside City customers) and be effective upon issuance of a Final Order in this consolidated Cause. Phase II in the amount of 5.93% for inside

City customers (5.18% for outside City customers) will be effective 12 months after Phase II. Mr. Walsh indicated that Phase III in the amount of 5.90% for inside City customers (4.99% for outside City) will be effective 12 months after Phase II. Phase IV in the amount of 5.86% for inside City customers (4.79% for outside City customers) will be implemented 12 months after Phase III, and Phase V in the amount of 5.90% for inside City customers (4.89% for outside City customers) will be implemented 12 months after Phase IV. Mr. Walsh testified that Exhibit A attached to the Settlement Agreement summarizes the agreed upon revenue requirement (including the adjustments agreed to by the Parties) and resulting increase.

Mr. Walsh explained that the Settlement Agreement provides a contract rate adjustment for GM and New Haven. Mr. Walsh explained the manner in which he calculated the contract adjustment for each customer. Mr. Walsh also indicated that GM and New Haven agreed to certain terms of service in exchange for the contract rate. Mr. Walsh explained that absent a COSS, the calculation of a rate adjustment for GM and New Haven via a contract rate was reasonable and would not provide any negative impacts to other customers. Mr. Walsh testified that the terms of the contract rate for GM and New Haven were reasonable.

Mr. Walsh noted that the Settlement Agreement authorizes Fort Wayne to issue the Proposed Bonds in an amount of \$85,570,000 and at an interest rate not to exceed 7%. Mr. Walsh indicated that the Settlement Agreement provided that Fort Wayne agreed to seek 0% financing from the SRF for replacement of lead lines, wrap the amortization of the Proposed Bonds in the manner Mr. Walsh recommended in his direct and rebuttal testimonies, and use good faith efforts to market the Proposed Bonds to SRF and/or to the open market. Mr. Walsh indicated that if the market reacts unfavorably to the delay in principal payments, the Parties agreed that Petitioner will attempt to pursue other cost saving financing alternatives and communicate with the Settling Parties. The Parties further agreed that if Fort Wayne receives grant funds for capital improvements that are contained in its Capital Improvement Plan in this Cause, Fort Wayne will reduce its debt issuance(s) by the amount of grant funds used in the Capital Improvement Plan projects.

Mr. Walsh explained that the Settling Parties agreed that the Utility will issue the Proposed Bonds in separate series, an aggregate amount of \$41,010,000 in 2019 and an aggregate amount of \$44,560,000 in 2022. Fort Wayne will make a true-up filing with the Commission within 21 days after completing the sale of each series of the Revenue Bonds.

Mr. Walsh next explained that Fort Wayne agreed to reporting requirements concerning expenditures from the Debt Service Reserve Fund and concerning its annual capital expenditures. Mr. Walsh indicated that these reporting requirements were reasonable.

As concerns the SDC proposed in Cause 45124, Mr. Walsh indicated that attached to the Settlement Agreement as Exhibit D is a schedule of SDCs agreed to by the Parties. He testified that the schedule of SDCs includes a reduction of approximately \$10 for the 5/8" meter regarding the \$2,000,070 in grant funding that Mr. Walsh recommended removing in his response to the Commission's December 6, 2018 Docket Entry as such amount is considered CIAC and should be excluded from any calculation of an SDC. Mr. Walsh also stated that, as a compromise, Fort Wayne agreed to not charge New Haven an SDC as part of this Cause. Mr. Walsh concluded his

Settlement Testimony stating that the Settlement Agreement as a whole is reasonable, just, and in the public interest. Accordingly, he recommended approval of the Settlement Agreement.

B. Fort Wayne's Settlement Testimony of Mr. Schipper. Mr. Schipper testified that the Utility found the rates calculated in the Settlement Agreement to be reasonable. Mr. Schipper explained that the GM and New Haven Contract Rates were calculated by the Parties agreeing that as a compromise GM and New Haven should each fund 70% of the costs of the Capital Improvement Plan. Mr. Schipper explained that in exchange for an agreement that GM will purchase all of the water it needs from Fort Wayne for the next five years, Fort Wayne agreed to a reduction in GM's rates for the next five years as calculated by Mr. Walsh. Mr. Schipper further explained that in exchange for an agreement that New Haven will purchase all of the water it needs from Fort Wayne under certain terms for the next five years, Fort Wayne agreed to a reduction in New Haven's rates as calculated by Mr. Walsh. Mr. Schipper explained that New Haven also agreed to certain volumetric and peak flow limits that gives the Utility some protection against current risks. Moreover, Mr. Schipper indicated that New Haven agreed to a private fire protection charge. Mr. Schipper indicated that the contract rates were a fair, reasonable, and appropriate settlement of the issues with GM and New Haven in this Cause.

Mr. Schipper also indicated that the annual capital expenditure reporting requirement in the Settlement Agreement was reasonable. Mr. Schipper explained that Fort Wayne has been providing annual reporting concerning capital expenditures in the past, and was, therefore, a reasonable requirement.

C. OUCC's Settlement Testimony of Mr. Kaufman. The OUCC's Assistant Director with the Water/Wastewater Division and certified rate of return analyst, Mr. Kaufman, testified in support of the Settlement Agreement. Mr. Kaufman explained the specific terms of the Settlement Agreement concerning the agreed-to revenue requirement. Mr. Kaufman also explained the Parties' agreement to authorize Fort Wayne to issue \$85,570,000 in Revenue Bonds at an interest rate not to exceed 7%. Mr. Kaufman described the specific provisions of Sections 11, 12, and 14 of the Settlement Agreement concerning the agreed-to borrowing. Mr. Kaufman stated that the Settlement Agreement provided a reasonable compromise of the Parties' positions as set forth in their respective cases. Mr. Kaufman testified that the OUCC's specific concerns with respect to implementation of the Phase IV rate increase were addressed in the Settlement Agreement. Specifically, the Settlement Agreement provides that Petitioner's Phase IV rates will not go into effect until 45 days before the issuance of its 2022 debt issuance. Mr. Kaufman explained that if Phase IV does go into effect and Fort Wayne does not or cannot issue the debt within 45 days of the Phase IV rate increase, Petitioner will use the funds collected to pay debt service on to-be-issued debt to offset the amount it needs to borrow.

As concerns the SDC, Mr. Kaufman testified that Fort Wayne's SDC calculation as provided in attached Exhibit D to the Settlement Agreement should be implemented pursuant to the terms of the Settlement Agreement. Mr. Kaufman further stated that the Settlement Agreement was fair, just, reasonable, and in the public interest.

Accordingly, Mr. Kaufman recommended approving the Settlement Agreement. He also indicated that the Settlement Agreement was in the public interest because Petitioner will have

sufficient funds to pay necessary operating expenses and complete its proposed capital improvements. Mr. Kaufman further indicated that the public interest is served because ratepayers will receive the benefit of lower than requested rates and increased service due to the new and improved facilities.

D. New Haven's Settlement Testimony of Mr. Guerrettaz. Mr. Guerrettaz testified in support of approval of the Settlement Agreement. He indicated that the Settlement Agreement was reached through negotiation and compromise to reach a result acceptable to all Parties. Mr. Guerrettaz stated that the Settlement Agreement provides a high degree of certainty to all participants without the need for lengthy and costly litigation. He further stated that on the whole based on the facts of these two unique cases the results of the compromises reflected in the Settlement Agreement were reasonable and should be approved.

Mr. Guerrettaz stated that the Settlement Agreement represents many disputed issue compromises that, compared to Fort Wayne's proposed rates increases, provide New Haven material savings. Mr. Guerrettaz testified that the Settlement Agreement on many issues was an agreement to strike acceptable financial result compromise, end litigation and move on with the business of operating the respective municipal water utilities. He testified that if New Haven had prevailed on all of its issues raised in its case, it would have seen \$250,000 annual savings, compared to Fort Wayne's proposed increases to New Haven. The Settlement Agreement over five years provides New Haven with annualized savings of \$125,000. He testified that because this is an omnibus settlement there is a high degree of certainty those savings will be received, and the uncertainty of further litigation is avoided. He stated material benefits and a high degree of certainty while maintaining the COSS and other issues for later were key settlement drivers for New Haven. Mr. Guerrettaz indicated the cost of purchased water is one of New Haven's largest expenses and the \$125,000 of avoided increase will be a major benefit to New Haven's water utility and its residents.

Mr. Guerrettaz explained that the Settlement Agreement puts the COSS methodology issues to the side, and provides an opportunity for review, study, suggested revisions, and collaboration on the COSS Fort Wayne agreed it will present in its next base rate case. Mr. Guerrettaz said this agreement would provide New Haven and Fort Wayne with an opportunity for collaborative consideration of possibly reflecting contiguous proximity of New Haven and other COSS issues. Mr. Guerrettaz indicated that collaboration will hopefully maximize the opportunity for COSS resolution, but absent that, give the Commission an opportunity to fairly judge positions on cost of service and rate design in Fort Wayne's next rate case.

Mr. Guerrettaz indicated that New Haven strongly opposed being billed a fire protection charge. However, the Settlement agreement compromise to move New Haven to the private fire protection rate substantially lowers the annual cost to New Haven by approximately \$10,000. He stated that \$10,000 savings is part of the annualized \$125,000 avoided rate increase and is a critical component of the settlement.

Mr. Guerrettaz further indicated that sections 8b, c, and d of the Settlement Agreement concern certain revisions to New Haven's water take from Fort Wayne. He testified New Haven finds those revisions are acceptable and believes it will be able to continue the safe and adequate

provision of water service to its constituents. Section 9 provided Fort Wayne and New Haven the opportunity to discuss future Service Agreement terms and allows New Haven to present two-year notice to Fort Wayne should New Haven develop its own source of supply.

Mr. Guerrettaz testified Section 11 provides terms that will serve to lower the cost of Fort Wayne's proposed financing. He said Fort Wayne will seek to market and issue the Revenue Bonds in separate series, will seek low interest debt from SRF where cost advantageous (including applying for 0% financing for replacing lead lines), and will wrap the amortization schedules around its existing debt in the manner proposed by Mr. Walsh in his direct and rebuttal testimonies in Cause 45125. Thus, as existing indebtedness is paid off, the principal and interest payments on the new revenue bonds will increase by the amount of the paid off debt's principal and interest payments. This wrap device can result in materially lower debt service revenue requirement.

He testified Section 11 also provides that if Fort Wayne receives grant funds for capital improvements that are contained in its Capital Improvement Plan in this Cause, Fort Wayne shall reduce its debt issuance(s) by the amount of grant funds used in the Capital Improvement Plan projects.

Lastly, he said the proposed debt service true up is beneficial in that it will capture any lower than expected interest rates or reduced amount of debt issued and pass the resulting decrease in revenue requirements back to Fort Wayne's customers.

Mr. Guerrettaz indicated that the Settlement Agreement resolves the SDC issues between New Haven and Fort Wayne. Specifically, Section 13b of the Settlement Agreement provides that the Fort Wayne SDC will not be applicable to nor will it be charged to New Haven. Fort Wayne retains its rights to seek approval of an SDC applicable to New Haven in its next post Phase V water base rate case and New Haven retains its rights to oppose it. However, if New Haven has by then approved its own SDC, Fort Wayne agreed not to try to also charge a Fort Wayne SDC to New Haven. Mr. Guerrettaz indicated that this agreement provides New Haven the ability to effectively end the possibility of being subject to a Fort Wayne SDC. He stated that this concession was one of the critical necessary elements to settlement.

In conclusion, Mr. Guerrettaz indicated that the Settlement Agreement should be approved in its entirety.

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

Further, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *U.S. Gypsum*, 735 N.E.2d

at 795 (citing *Citizens Action Coal. of Ind., Inc. v. Pub. Serv. Co. of Ind., Inc.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the Settlement Agreement is reasonable, just, and consistent with the purpose of Ind. Code ch. 8-1-2, and that such agreement serves the public interest.

The evidence of record indicates that the Parties have provided the Commission with sufficient information to determine that the public interest can best be served by approving Fort Wayne's Petition, as modified by the Settlement Agreement between the Parties. Specifically, pursuant to the Settlement Agreement, Fort Wayne should be authorized to increase its rates by 31.1% over five phases. Phase I in the amount of 4.87% for inside City customers (3.73% for outside City customers) should be effective upon issuance of this Final Order. Phase II in the amount of 5.93% for inside City customers (5.18% for outside City customers) should be effective twelve months after Phase I. Phase III in the amount of 5.90% for inside City customers (4.99% for outside City) will be effective twelve months after Phase II. Phase IV in the amount of 5.86% for inside City customers (4.79% for outside City customers) will be implemented twelve months after Phase III, and Phase V in the amount of 5.90% for inside City customers (4.89% for outside City customers) will be implemented twelve months after Phase IV. This phased-in increase includes an annual decrease to the Out-of-Town Differential of 1% per phase. Based on the policy of gradualism, and the evidentiary record in this Cause, the Commission finds this 1% per phase reduction to the outside-City rate differential reasonable and in the public interest. The evidence of record reflects that the proposed capital improvements to Fort Wayne's system are necessary to maintain Fort Wayne's system in good working order. Therefore, based on the evidence of record, the Commission finds that Fort Wayne should be authorized to increase its rates and charges and to issue waterworks revenue bonds in an amount not to exceed \$85,570,000. The \$85,570,000 shall be issued in separate series with an aggregate amount not to exceed \$41,010,000 in 2019 and an aggregate amount not to exceed \$44,560,000 at a later date.

Pursuant to Ind. Code § 8-1.5-2-19(b), when a municipality issues debt, it must show that the rates and charges will provide sufficient funds for the operation, maintenance, and depreciation of the utility, and to pay the principal and interest of the proposed bond issue, together with a surplus or margin of at least 10% in excess. Using the rates authorized herein as set forth further below, the Commission finds that Fort Wayne will meet the standard under Ind. Code § 8-1.5-2-19(b) and, therefore, certifies that Petitioner's authorized rates and charges provide sufficient funds for the utility's operation, maintenance, and depreciation, and to pay the principal and interest of the proposed bond issue, together with a surplus or margin of at least 10% in excess.

Accordingly, we find Fort Wayne should be authorized to increase its rates and issue the Proposed Bonds as set forth in the Settlement Agreement.

The following tables summarize the proposed increase as set forth in the Settlement Agreement.

	Phase I	Phase II	Phase III
Revenue Requirements			
Operating Expenses	\$24,231,062	\$24,231,062	\$24,231,062
Taxes Other Than Income	1,250,736	1,285,110	1,324,315
Extensions and Replacements	9,437,000	11,544,500	15,016,000
Payment in Lieu of Taxes	3,169,188	3,359,339	3,560,899
Working Capital	-	-	-
Debt Service			
Current Bonds	12,184,263	10,730,623	10,747,980
Proposed Bonds	508,683	2,513,169	2,515,240
Lease Payment	66,788	66,788	66,788
Debt Service Reserve	<u>703,086</u>	<u>703,086</u>	=
Total Revenue Requirements	\$51,550,806	\$54,433,677	\$57,462,284
Less: Revenue Requirement Offsets			
Interest Income	(171,684)	(171,684)	(171,684)
Miscellaneous Service Revenues	(270,192)	(270,192)	(270,192)
Other Water Revenues	(986,664)	(986,664)	(986,664)
Additional Non-Recurring Charges	<u>(275,494)</u>	<u>(275,494)</u>	<u>(275,494)</u>
Total Net Revenue Requirements	\$49,846,772	\$52,729,643	\$55,758,250
Less: Revenues at Current Rates subject to increase	<u>(47,567,488)</u>	<u>(49,815,961)</u>	<u>(52,692,811)</u>
Net Revenue Increased Required	\$2,279,284	\$2,913,682	\$3,065,439
Add: Utility Receipts Tax	<u>35,299</u>	<u>40,285</u>	<u>42,394</u>
Increase	<u>\$2,314,583</u>	<u>\$2,953,967</u>	<u>\$3,107,833</u>
Percentage Increase	<u>4.87%</u>	<u>5.93%</u>	<u>5.90%</u>

	Phase IV	Phase V
Revenue Requirements		
Operating Expenses	\$24,231,062	\$24,231,062
Taxes Other Than Income	1,365,519	1,408,692
Extensions and Replacements	16,952,500	17,647,000
Payment in Lieu of Taxes	3,774,553	4,001,026
Working Capital	-	-
Debt Service		
Current Bonds	10,749,619	10,775,995
Proposed Bonds	3,244,028	5,375,479
Lease Payment	66,788	66,788
Debt Service Reserve	<u>255,450</u>	<u>510,900</u>

Total Revenue Requirements	\$60,639,519	\$64,016,942
Less: Revenue Requirement Offsets		
Interest Income	(171,684)	(171,684)
Miscellaneous Service Revenues	(270,192)	(270,192)
Other Water Revenues	(986,664)	(986,664)
Additional Non-Recurring Charges	<u>(275,494)</u>	<u>(275,494)</u>
Total Net Revenue Requirements	\$58,935,485	\$62,312,908
Less: Revenues at Current Rates subject to increase	<u>(55,715,599)</u>	<u>(58,883,729)</u>
Net Revenue Increased Required	\$3,219,886	\$3,429,179
Add: Utility Receipts Tax	<u>44,521</u>	<u>47,373</u>
Approved Increase	<u>\$3,264,407</u>	<u>\$3,476,552</u>
Approved Percentage Increase	<u>5.86%</u>	<u>5.90%</u>

The evidence of record further supports the terms of service and contract rates set forth in Sections 6, 7, 8 and 9 of the Settlement Agreement concerning GM and New Haven respectfully. Fort Wayne has agreed to complete a COSS as part of filing any future rate case with the Commission. The Parties have established, in Section 5 of the Settlement Agreement, a collaborative process concerning that COSS. The Commission approves the terms of service and contract rates set forth in Sections 6, 7, 8, and 9 of the Settlement Agreement and the COSS provision set forth in Section 5 of the Settlement Agreement.

The evidence of record supports Fort Wayne implementing an SDC to be effective upon issuance of this Final Order. Fort Wayne shall implement the SDC in the manner provided in the Settlement Agreement. The Commission agrees that the buy-in methodology used by the Petitioner is acceptable in this instance and further agrees that, as a matter of law, any and all grants should be excluded from the calculation of an SDC as grants are not expenses or costs to Fort Wayne and are instead CIAC. Fort Wayne shall keep the proceeds of the SDC in a separate interest bearing account, use the funds to offset capital project costs, and shall record the receipt of funds from the SDC as CIAC consistent with its agreement as provided in its direct and rebuttal testimonies. We find the Settlement Agreement Section 13 (b) resolution of the SDC issues between Fort Wayne and New Haven is supported by ample evidence, reasonable and should be approved. The following table summarizes the SDC charges in Settlement Agreement Exhibit D to be applicable in this Cause.

<u>Meter Size</u> (inches)	<u>Meter Ratio</u>	<u>Approved SDC</u>
5/8	1.0	\$580
3/4	1.5	870
1	2.5	1,450
1 1/2	5.0	2,900
2	8.0	4,640
3	15.0	8,700
4	25.0	14,500
6	50.0	29,000
8	80.0	46,400
10	115.0	66,700

We have reviewed the Settlement Agreement and approve it in its entirety. A copy of the Settlement Agreement is attached and made a part of this Order. The Parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, (IURC, March 19, 1997).

11. Confidentiality. On July 24, 2018, Fort Wayne filed its *Submission of Workpapers and Motion for Confidential Treatment* (“Fort Wayne’s Motion”). In Fort Wayne’s Motion, Fort Wayne indicated that certain usage data related to water consumption of GM was trade secret information, and therefore should not be disclosed to the public. Fort Wayne indicated that such information was contained in a confidential electronic workpaper. Fort Wayne did not file that electronic workpaper in this Cause as there had not yet been a ruling on Fort Wayne’s Motion. Subsequently, on November 2, 2018, GM filed its *Motion for Confidential Treatment of Workpapers Supporting the Testimony of Michael P. Gorman* (“GM’s Motion”). In GM’s Motion, it also indicated that certain usage data related to water consumption of GM was trade secret information, and therefore should not be disclosed to the public.

In a Docket Entry issued on November 15, 2018, the Presiding Officers made preliminary findings that the information to be submitted (“Confidential Information”) should be subject to confidential treatment. Pursuant to Ind. Code § 5-14-3-4(a)(4), we find that the Confidential Information submitted in this Cause is a “trade secret” and should continue to be held as confidential by the Commission.

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

1. The Settlement Agreement is approved in its entirety.

2. The City of Fort Wayne, Indiana, is authorized to increase its rates by 31.1% to reflect a total net revenue requirement in the amount of \$62,360,281 resulting in a total increase of \$14,792,793. Fort Wayne should implement its 31.1% rate increase as follows:

- a. Phase I (upon issuance of this order) 4.87% (3.73% for outside City);
- b. Phase II (12 months after Phase I) 5.93% (5.18% for outside City);
- c. Phase III (12 months after Phase II) 5.90% (4.99% for outside City);
- d. Phase IV (12 months after Phase III) 5.86% (4.79% for outside City); and
- e. Phase V (12 months after Phase IV) 5.90% (4.89% for outside City).

3. Fort Wayne shall implement the Phase I, II, III, IV, and V rate increases as set out in the Settlement Agreement.

4. Fort Wayne is granted a Certificate of Authority to issue waterworks revenue bonds (i.e. the Proposed Bonds) at an interest rate not to exceed 7% and in an aggregate principal amount not to exceed \$85,570,000 in accordance with the provisions and for the purposes described in the Settlement Agreement. This Order shall be the sole evidence of Fort Wayne's certificate.

5. Within 21 days after completing the final issuance of each series of the Revenue Bonds, Fort Wayne shall file a true-up report with the Commission identifying the exact amount of bonds that were issued, the exact amortization schedule, and the interest rate on such bonds. To the extent the cost of issuance (including the increase in the combined debt service reserve requirements) or interest rate(s) materially impact revenue requirements, Fort Wayne will adjust or true-up its rates to reflect the same.

6. Fort Wayne is authorized to implement a System Development Charge in accordance with the provisions set forth in the Settlement Agreement. Fort Wayne shall maintain the SDC in a separate interest bearing account, use the funds to offset capital improvement projects and shall record the funds received through the SDC as CIAC.

7. The other reporting requirements stated in the Settlement Agreement are approved.

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

IURC Charges:	\$ 930.87
OUCG Charges:	\$ 25,935.85
Legal Advertising Charges	<u>\$ 141.06</u>
Total:	\$ 27,007.78

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

9. The confidential information presented in this proceeding is found to be confidential and trade secret, excepted from public access, and will continue to be held as confidential by the Commission.

10. Within 30 days of this Order, Fort Wayne shall file new schedules of rates and charges, consistent with this Order, with the commission's Water/Wastewater division. The Phase I rates and charges shall be effective on and after the filing and approval of the schedules.

11. In accordance with Ind. Code § 8-1-2-85, Petitioner shall pay a fee equal to \$0.25 for each \$100 of water utility revenue bonds issued, to the Secretary of the Commission, within 30 days of the receipt of the financing proceeds authorized in this Order.

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

HUSTON, FREEMAN, KREVDA, AND OBER CONCUR; ZIEGNER ABSENT:

APPROVED: APR 10 2019

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



Mary M. Becerra
Secretary of the Commission

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF FORT WAYNE,)
INDIANA, FOR AUTHORITY TO ESTABLISH)
AND IMPLEMENT A SYSTEM)
DEVELOPMENT CHARGE FOR WATER) CAUSE NO. 45124
SERVICE)

PETITION OF THE CITY OF FORT WAYNE,)
INDIANA, FOR AUTHORITY TO ISSUE)
LONG-TERM DEBT TO FINANCE WATER)
SYSTEM IMPROVEMENTS AND TO ADJUST) CAUSE NO. 45125
ITS RATES AND CHARGES FOR WATER)
SERVICE)

JOINT STIPULATION AND SETTLEMENT AGREEMENT

This Joint Stipulation and Settlement Agreement ("Settlement Agreement") is entered into this 4th day of January, 2018, by and between the City of Fort Wayne, Indiana ("Fort Wayne"), General Motors, LLC ("GM"), the City of New Haven, Indiana ("New Haven"), and the Office of the Utility Consumer Counselor ("OUCC") (collectively, the "Settling Parties"), who stipulate and agree for purposes of settling all matters in these Causes between them that the terms and conditions set forth below represent a fair, reasonable, and negotiated compromise resolution of all issues in this Cause, subject to their incorporation in a final order of the Indiana Utility Regulatory Commission ("Commission").

Terms and Conditions of Settlement Agreement

1. **Requested Relief.** On July 18, 2018, Fort Wayne initiated these Causes by filing separate Petitions with the Commission requesting authority in Cause 45124 to establish and implement a system development charge for Water Utility Service and in Cause No. 45125 to adjust its rates and charges and issue bonds to provide funds to finance improvements to its waterworks.

2. **Prefiled Evidence of Parties.** In support of its Petition in Cause No. 45124, Fort Wayne filed the prefiled testimony and exhibits of Eric J. Walsh on July 18, 2018. On October 12, 2018, the OUCC filed the prefiled testimony and exhibits of Margaret A. Stull, and New Haven filed the prefiled testimony and exhibits of Gregory T. Guerrettaz. On October 29, 2018, Fort Wayne filed the prefiled rebuttal testimony and exhibits of Mr. Walsh.

In support of its Petition in Cause No. 45125, Fort Wayne filed the prefiled testimony and exhibits of Andrew G. Schipper and Eric J. Walsh, on July 18, 2018. On October 30, 2018, the OUCC filed the prefiled testimony and exhibits of Margaret A. Stull, Thomas W. Malan, James T. Parks, and Edward R. Kaufman. The OUCC also filed Consumer Comments. Also on October 30, 2018, GM filed the prefiled testimony and exhibits of Michael P. Gorman. The City of New Haven ("New Haven"), filed the prefiled testimony and exhibits of Gregory T. Guerrettaz, William Steven Seelye, and Keith Schlegel. Subsequently, on November 27, 2018, Fort Wayne filed the prefiled rebuttal testimony and exhibits of Messrs. Schipper and Walsh.

3. **Settlement.** Through analysis, discussion, and extensive negotiation, as aided by their respective technical staff and experts, Fort Wayne, GM, New Haven, and the OUCC have now agreed on the terms and conditions as described herein that resolve all issues between them in Causes 45124 and 45125.

4. **Revenue Requirement, Rates, and Charges.** The Settling Parties agree that Fort Wayne should be authorized to increase its rates and charges for water service to reflect a total net revenue requirement in the amount of \$62,360,281 resulting in a total increase of \$14,792,793 or 31.1% over Fort Wayne's current revenues at existing rates. The Settling Parties further agree that Fort Wayne shall implement its 31.1% (32.0% for inside City and 25.9% for outside City) rate increase over five (5) phases with the first phase ("Phase I") in the amount of 4.87% (3.73% for outside City) to be effective upon the issuance of the Commission's final order

in this Cause. The second phase ("Phase II") in the amount 5.93% (5.18% for outside City) will be effective twelve months after Phase I. The third phase ("Phase III"), in the amount of 5.90% (4.99% for outside City), will be effective twelve months after Phase II. The fourth phase ("Phase IV") in the amount of 5.86% (4.79% for outside City) will be implemented twelve months after Phase III. The fifth phase ("Phase V") in the amount of 5.90% (4.89% for outside City) will be implemented twelve months after Phase IV. Attached to the Settlement Agreement as Exhibit A is a schedule that summarizes the agreed upon revenue requirement and resulting increase. Exhibit A also identifies the different adjustments agreed to by the Settling Parties.

5. **Cost of Service Study.** As part of filing any future rate case with the Commission, Fort Wayne will prepare and file a cost of service study ("COSS"), which will include the usage data, costs, and revenues of all customers. GM and New Haven agree to provide all available consumption, usage, peak flow requirements, fire flow requirements and other information necessary to facilitate preparation of the COSS. GM will provide information pertaining to GM's Fort Wayne plant ("GM Facility") only. The Settling Parties will work collaboratively to try to arrive at acceptable industry cost allocation principles to be used in the COSS. Fort Wayne shall provide a draft proposed COSS with formulas intact and all background data and flow information to the Settling Parties (subject to non-disclosure agreements as appropriate) for their evaluation at least sixty (60) days prior to filing any such COSS. Fort Wayne shall provide other requested data necessary for the other Settling Parties to conduct their analysis of the draft COSS and rate design. During the sixty (60) day period, the Parties shall engage in verbal and written input with each other, and have scheduled meetings and discussions regarding the COSS, its inputs and methodologies and rate design.

6. **GM Water Service Agreement.** GM and Fort Wayne have agreed to the following terms of service. From the date the Settlement Agreement is first approved by the

Commission until twelve (12) months after the Phase V rates are first implemented (“Termination Date”) Fort Wayne will be GM’s sole water provider for the GM Facility. GM agrees to purchase all water it requires for the GM Facility from Fort Wayne until the Termination Date, unless Fort Wayne files a new rate case and the Commission approves new rates before the expiration of the Termination Date. In consideration thereof, prior to the Termination Date, GM will only pay the Phase I, II, III, IV, and V rates as set forth in Exhibit B unless otherwise agreed in writing by Fort Wayne and GM, or otherwise ordered by the Commission in a future rate case or as a result of a true-up described in Section 11 of this Agreement. Nothing in this Agreement shall prevent GM or its employees from purchasing bottled water for human consumption.

7. **Continuation of Service to GM after Termination Date.** Immediately after the Termination Date, GM shall continue to pay the Phase V rate as provided in the attached Exhibit B unless and until Fort Wayne adjusts its rates and charges as provided by law. Alternatively, Fort Wayne and GM may, in their sole discretions, mutually agree to extend the water Agreement on similar or modified terms. If GM decides prior to the Termination Date to develop its own source of supply, GM shall provide to Fort Wayne at least two (2) years notice of the proposed date on which the GM Facility will disconnect from Fort Wayne’s water system.

8. **New Haven Water Service Agreement.** New Haven and Fort Wayne have agreed to the following terms of service. From the date the Settlement Agreement is first approved by the Commission until twelve (12) months after the Phase V rates are first implemented (“Termination Date”) Fort Wayne will be New Haven’s sole water provider. New Haven agrees to purchase all water it requires from Fort Wayne until the Termination Date. During the term of this Water Service Agreement, the following terms apply:

- a. **Volume Limit All Connections Combined:** New Haven shall have a volume limit of 2.5 million gallons a day (“MGD”) measured on a thirty (30) day average for all of its connections combined. If New Haven exceeds its then-applicable volume limit in the average of any three consecutive billing periods, a Capital Surcharge Rate will be assessed to the flows billed during the exceedance period. The Capital Surcharge Rate shall be \$0.20/ccf. No Capital Surcharge would be applied to additional volumes obtained pursuant to subsection 8(b) of this Agreement.
- b. **Additional Volume:** New Haven may elect to increase its Volume Limit to 3.0 MGD by providing Fort Wayne with a minimum of two (2) years’ advance notice of the date of its requested implementation of the 3.0 MGD volume limit. In the event New Haven needs to provide capacity to a new large water use customer that would require higher volume limits from Fort Wayne in order for New Haven to serve them, and Fort Wayne has the necessary water capacity, New Haven would receive a waiver of the two (2) year notice requirement. If Fort Wayne asserts it does not have the necessary water capacity, Fort Wayne will provide documentation and quantification demonstrating why it lacks the necessary water capacity and the cost it would incur to create the additional water capacity.
- c. **Peak Flow Limit All Connections Combined:** New Haven shall have a peak flow limit of 2,100 gallons per minute (“gpm”) measured on a fifteen (15) minute average for all of its connections combined. If New Haven exceeds the peak flow limit for more than fifteen (15) minutes, a Peak Flow charge shall be assessed per day of exceedance. The Peak Flow Charge shall

be equal to 10% of the current monthly demand charge for exceedances up to 2,400gpm, and the current full monthly demand charge for exceedances over 2,400gpm.

- d. **Exclusions to Peak Flow Exceedances:** New Haven shall not be charged a Peak Flow Charge for peak flow exceedances related to a main break and/or fire flow needs. New Haven shall, upon request from Fort Wayne, provide any information supporting that the alleged exceedance was a result of an exception.
- e. **Contract Rate:** In consideration thereof, prior to the Termination Date, New Haven will only pay the Phase I, II, III, IV, and V rates as set forth in Exhibit C, unless otherwise agreed in writing by Fort Wayne and New Haven, or otherwise ordered by the Commission in a future rate case or as a result of a true-up described in Section 11 of this Agreement.
- f. **New Haven Fire Protection Rate:** As is described in Exhibit C, New Haven will be charged Fort Wayne's Private Fire Protection Rate based on New Haven's meter sizes.

9. **Continuation of Service to New Haven after Termination Date.** Immediately after the Termination Date, New Haven shall continue to pay the Phase V rate as provided in the attached Exhibit C unless and until thereafter Fort Wayne files a new rate case and the Commission approves higher rates. Alternatively, Fort Wayne and New Haven may, in their sole discretions, mutually agree to extend the water Agreement on similar or modified terms. Fort Wayne and New Haven agree to meet to discuss a long-term contract. New Haven and Fort Wayne will negotiate in good faith in an attempt to reach a long-term contract prior to the implementation of the Phase V rates. If New Haven decides at any point prior to or after the

Termination Date to develop its own source of supply, New Haven shall provide to Fort Wayne at least two (2) years notice of the proposed date on which New Haven will disconnect from Fort Wayne's water system.

10. **Authority to Issue Long Term Debt.** The Settling Parties stipulate and agree that Fort Wayne should be authorized to issue revenue bonds ("Revenue Bonds") in an amount not to exceed Eighty Five Million Five Hundred Seventy Thousand Dollars (\$85,570,000) and at an interest rate not to exceed 7%. The proceeds from the Revenue Bonds will be used to pay certain costs of issuance and pay to complete certain capital improvements that are identified in Petitioner's Exhibit 6 in Cause 45125 and in Mr. Walsh's June 22, 2018, Accounting Report on Proposed Improvement Projects and Increase in Rates and Charges (i.e. Petitioner's Exhibit 12 in Cause 45125, at page 14).

11. **Terms of Financing and True-Up Report.** Consistent with Exhibit A, Fort Wayne will seek to market and issue the Revenue Bonds in separate series, will seek low interest debt from SRF where cost advantageous (including applying for 0% financing for replacing lead lines), and will wrap the amortization schedules around its existing debt in the manner proposed by Mr. Walsh in his Direct and Rebuttal Testimonies in Cause 45125. Fort Wayne will seek to market and issue an aggregate amount of \$41,010,000 of Revenue Bonds in 2019. Fort Wayne will later seek to market and issue an aggregate amount of \$44,560,000 of Revenue Bonds. If Fort Wayne receives grant funds for capital improvements that are contained in its Capital Improvement Plan in this Cause, Fort Wayne shall reduce its debt issuance(s) by the amount of grant funds used in the Capital Improvement Plan projects. Fort Wayne shall issue the \$44,560,000 of revenue bonds in or before 2022. The Phase IV rates shall not go into effect until 45 days before the issuance of the 2022 Revenue Bonds. In the event Fort Wayne does not or cannot issue the Revenue Bonds within 45 days of the Phase IV rate increase, Petitioner should

use funds collected to pay debt service on the yet, unissued debt to offset the amount it needs to borrow. Within twenty-one (21) days after completing the final issuance of each series of the Revenue Bonds, Fort Wayne shall file a true-up report with the Commission identifying the exact amount of bonds that were issued, the exact amortization schedule, and the interest rate on such bonds. To the extent the costs of issuance or interest rate(s) materially impact revenue requirements, Fort Wayne will adjust or “true-up” its rates to reflect the same.

12. **Expenditures from Debt Service Reserve.** If Fort Wayne spends any of the funds from its Debt Service Reserve for any reason other than to make the last payment on the underlying debt, Fort Wayne agrees to spend such funds for only the prepayment of principal and interest on any outstanding bond indebtedness on capital projects and/or on capital expenditures for the water utility (excluding tank maintenance and painting). Upon expenditure of any funds from its Debt Service Reserve, Fort Wayne will provide a report to the Commission and the Settling Parties within ten (10) business days after such expenditure that states: (i) how much Fort Wayne spent from its Debt Service Reserve; (ii) why and on what it spent the funds from its Debt Service Reserve; (iii) a cite to and quote from any applicable loan documents that allow Fort Wayne to spend funds from its Debt Service Reserves; (iv) how Fort Wayne plans to replenish its Debt Service Reserve; and (v) any cost cutting activities Fort Wayne has implemented to forestall spending funds from its Debt Service Reserve.

13. **System Development Charge.** Fort Wayne, the OUCC and New Haven, as parties to Cause No. 45124 have agreed to the following resolution of Cause No. 45124:

- a. **Calculation of SDC.** Fort Wayne’s system development charge (“SDC”) calculation as provided in attached Exhibit D should be implemented pursuant to the terms of this Settlement Agreement.

b. **New Haven Not Subject to SDC.** The Fort Wayne SDC will not be applicable to nor will it be charged to New Haven. However, Fort Wayne retains its rights to seek approval of an SDC applicable to New Haven in its next post Phase V water base rate case and New Haven retains its rights to oppose it. However, if New Haven has by then approved its own SDC, Fort Wayne will not try to also charge a Fort Wayne SDC to New Haven.

14. **Fort Wayne's Report of Capital Improvements.** On an annual basis, Fort Wayne will provide a report to the Settling Parties (Fort Wayne will send New Haven's copy to the Clerk Treasurer of New Haven) concerning the amounts spent on the Capital Improvement Plan projects and the projects commenced and/or completed in the prior twelve (12) months.

15. **Admissibility and Sufficiency of Evidence.** The Settling Parties agree that the prefiled evidence constitutes substantial evidence sufficient to support this Settlement Agreement and provides an adequate evidentiary basis upon which the Commission can make all findings of fact and conclusions of law necessary for the approval of this Settlement Agreement as filed.

16. **Non-Precedential Effect of Settlement.** The Settling Parties agree that the facts in this Cause are unique and all issues presented are fact specific. Therefore, the 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 court of competent jurisdiction. This Settlement Agreement is solely the result of compromise in the settlement process, and is without prejudice to and shall not constitute a waiver of any position that either Settling Party may take with respect to any issue in any future regulatory or non-regulatory proceeding. The Settlement Agreement provides the Settling Parties with certain agreed upon benefits without the uncertainty, risk, and expense of further protracted litigation.

17. **Authority to Execute.** The undersigned hereby represent and agree that they are fully authorized to execute the Settlement Agreement on behalf of their designated clients who will hereafter be bound thereby.

18. **Proposed Order.** The Settling Parties hereby agree to submit a single proposed final order resolving both Causes for the issuance by the Commission which the Settling Parties will file after the evidentiary hearing in this matter.

19. **Evidentiary Support for Agreement.** The Settling Parties stipulate to the admissibility of the testimony and exhibits presented by the Settling Parties in these Causes. The Settling Parties further agree that the testimony and exhibits presented by the Settling Parties' cases-in-chief in both Causes, Petitioner's rebuttal in both Causes, and the settlement testimony of Petitioner, the OUCC, and New Haven constitute evidence sufficient to support this Settlement Agreement and provides an adequate evidentiary basis upon which the Commission can make the findings of fact and conclusions of law that are necessary for approval of this Agreement.

20. **Approval of Settlement Agreement in its Entirety.** As a condition of this settlement, the Settling Parties specifically agree that if the Commission does not approve this Joint Stipulation and Settlement Agreement in its entirety, the entire Settlement Agreement shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Settling Parties. The Settling Parties further agree, unless otherwise separately agreed to in writing by the Settling Parties, that in the event the Commission does not issue a Final Order in the form that reflects the Agreement described herein, the matter should promptly proceed to litigation hearing, and the Commission should thereafter rule based on the litigation evidence of record in this proceeding. The Settling Parties agree that, in such event, the evidence of record and any post-hearing filings should be considered by the Commission as if no settlement had been

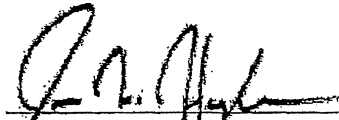
reached, unless otherwise agreed by all Settling Parties in a writing that is filed with the Commission. All settlement discussion shall be treated as privileged and confidential.

21. **Agreement is Binding on Successors and Assigns.** The Settling Parties stipulate and agree that Fort Wayne's service touches and concerns each of the properties served by Fort Wayne's utility, and this Settlement Agreement shall inure to the benefit of, and be binding upon, each Settling Party's successors, heirs, and assigns.

22. **Resolution of Pending Matters.** With approval of the Settlement Agreement, all pending motions and disputes between the Settling Parties are rendered moot and withdrawn.

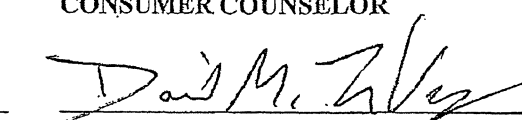
23. **Confidentiality.** The parties recognize that certain confidential information has been shared through discovery in this matter. Among such information includes (but is not limited to) the confidential usage data of General Motors and the confidential electronic Cost of Service Study performed by Kerry Heid for Fort Wayne in Cause No. 44162. Each of the parties to the Settlement Agreement has entered into a confidentiality agreement with Fort Wayne and the parties shall treat all such confidential information as confidential information in accordance with such agreement(s).

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Settlement Exhibit A

FORT WAYNE MUNICIPAL WATER UTILITY

SETTLEMENT REVENUE REQUIREMENTS AND ATB TARIFF
NON-CONTRACT CUSTOMERS

	Phase I				Phase II				Per OUCC
	Per OUCC	Per Settlement Revised	Ref	Variance	Per OUCC	Per Settlement Revised	Ref	Variance	
Operating Expenses*	\$24,231,062	\$24,231,062		\$ -	\$24,231,062	\$24,231,062		\$ -	\$24,231,062
Taxes Other Than Income*	1,249,723	1,250,736	1	1,013	1,277,419	1,285,110	1	7,691	1,317,165
Extensions and Replacements	9,187,000	9,437,000	2	250,000	11,294,500	11,544,500	2	250,000	14,766,000
Payment in Lieu of Taxes	3,169,188	3,169,188		-	3,359,339	3,359,339		-	3,560,899
Debt Service									
Current Bonds	12,184,263	12,184,263		-	10,730,623	10,730,623		-	10,747,980
Proposed Bonds	508,683	508,683		-	2,513,169	2,513,169		-	2,515,240
Lease Payment	66,788	66,788		-	66,788	66,788		-	66,788
Debt Service Reserve	703,086	703,086		-	703,086	703,086		-	-
Total Revenue Requirements	51,299,793	51,550,806		251,013	54,175,986	54,433,677		257,691	57,205,134
Less Revenue Requirements Offsets:									
Interest Income	(171,684)	(171,684)		-	(171,684)	(171,684)		-	(171,684)
Miscellaneous Service Revenues	(270,192)	(270,192)		-	(270,192)	(270,192)		-	(270,192)
Other Water Revenues	(986,664)	(986,664)		-	(986,664)	(986,664)		-	(986,664)
Additional Non-Recurring Charges	(275,494)	(275,494)		-	(275,494)	(275,494)		-	(275,494)
Net Revenue Requirements	49,595,759	49,846,772		251,013	52,471,952	52,729,643		257,691	55,501,100
Less: Rev at current rates subj to increase	(47,564,812)	(47,567,488)	3	(2,676)	(49,557,345)	(49,815,961)		(258,616)	(52,434,581)
Net Revenue Increase Required	2,030,947	2,279,284		248,337	2,914,607	2,913,682		(925)	3,066,519
Additional Utility Receipts Tax	27,696	35,299	1	7,603	39,746	40,285	1	539	41,818
Recommended Increase	\$2,058,643	\$2,314,583		\$255,940	\$2,954,353	2,953,967		(\$386)	\$3,108,337
Recommended Percentage Increase	4.33%	4.87%		0.54%	5.96%	5.93%		-0.03%	5.93%

Current Rate for 535 cubic feet
(including public fire protection surcharge)

Inside Current Rate = \$22.78
Outside Current Rate = \$26.26

	Proposed		Settlement More (Less)	Proposed		Settlement More (Less)	Proposed
	OUCC	Settlement		OUCC	Settlement		OUCC
Inside Current Rate = \$22.78	\$23.78	\$23.90	\$0.12	\$25.20	\$25.33	\$0.13	\$26.72
Outside Current Rate = \$26.26	27.08	27.24	0.16	28.49	28.65	0.16	29.98

* Payroll taxes moved from operating expense to taxes other than income for comparison purposes.

FORT WAYNE MUNICIPAL WATER UTILITY

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SETTLEMENT REVENUE REQUIREMENTS AND ATB TARIFF
NON-CONTRACT CUSTOMERS

	Phase IV				Phase V			
	Per OUCC	Per Settlement Revised	Ref	Variance	Per OUCC	Per Settlement Revised	Ref	
Operating Expenses*	\$24,231,062	\$24,231,062		\$ -	\$24,231,062	\$24,231,062		\$
Taxes Other Than Income*	1,358,983	1,365,519	1	6,536	1,402,909	1,408,692	1	
Extensions and Replacements	16,702,500	16,952,500	2	250,000	17,397,000	17,647,000	2	
Payment in Lieu of Taxes	3,774,553	3,774,553		-	4,001,026	4,001,026		
Debt Service								
Current Bonds	10,749,619	10,749,619		-	10,775,995	10,775,995		
Proposed Bonds	3,244,028	3,244,028		-	5,375,479	5,375,479		
Lease Payment	66,788	66,788		-	66,788	66,788		
Debt Service Reserve	255,450	255,450		-	510,900	510,900		
Total Revenue Requirements	60,382,983	60,639,519		256,536	63,761,159	64,016,942		
Less Revenue Requirements Offsets:								
Interest Income	(171,684)	(171,684)		-	(171,684)	(171,684)		
Miscellaneous Service Revenues	(270,192)	(270,192)		-	(270,192)	(270,192)		
Other Water Revenues	(986,664)	(986,664)		-	(986,664)	(986,664)		
Additional Non-Recurring Charges	(275,494)	(275,494)		-	(275,494)	(275,494)		
Net Revenue Requirements	58,678,949	58,935,485		256,536	62,057,125	62,312,908		
Less: Rev at current rates subj to increase	(55,457,873)	(55,715,599)		(257,726)	(58,626,598)	(58,883,729)		
Net Revenue Increase Required	3,221,076	3,219,886		(1,190)	3,430,527	3,429,179		
Additional Utility Receipts Tax	43,926	44,521	1	595	46,782	47,373	1	
Recommended Increase	\$3,265,002	\$3,264,407		(\$595)	\$3,477,309	\$3,476,552		
Recommended Percentage Increase	5.89%	5.86%		-0.03%	5.93%	5.90%		

Current Rate for 535 cubic feet

(including public fire protection surcharge)

Inside Current Rate = \$22.78

Outside Current Rate = \$26.26

Proposed		Settlement	Proposed		S
OUCC	Petitioner	More (Less)	OUCC	Petitioner	Me
\$28.27	\$28.39	\$0.12	\$29.93	\$30.06	
31.37	31.52	0.15	32.97	33.06	

* Payroll taxes moved from operating expense to taxes other than income for comparison purposes.

FORT WAYNE MUNICIPAL WATER UTILITY

Settlement Exhibit A

SETTLEMENT REVENUE REQUIREMENTS AND ATB TARIFF
NON-CONTRACT CUSTOMERS
(Inside City)

<u>Metered Rates - Monthly (Per 100 Cubic Feet)</u>		<u>Present (I)</u>	<u>Proposed Rates</u>				
			<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>V</u>
			(4.87%)	(5.93%)	(5.90%)	(5.86%)	(5.90%)
First	2,500 cubic feet	\$2.07	\$2.17	\$2.30	\$2.44	\$2.58	\$2.73
Next	9,500 cubic feet	1.93	2.02	2.14	2.27	2.40	2.54
Over	12,000 cubic feet	1.88	1.97	2.09	2.21	2.34	2.48
<u>Service Charge - Monthly</u>							
5/8 inch meter		\$9.18	\$9.64	\$10.21	\$10.81	\$11.44	\$12.11
3/4 inch meter		9.18	9.64	10.21	10.81	11.44	12.11
1 inch meter		23.40	24.55	26.01	27.54	29.15	30.87
1 1/2 inch meter		52.42	54.98	58.24	61.68	65.29	69.14
2 inch meter		92.99	97.53	103.31	109.40	115.81	122.64
2 1/2 inch meter		92.99	97.53	103.31	109.40	115.81	122.64
3 inch meter		209.38	219.59	232.61	246.33	260.76	276.14
4 inch meter		372.21	390.35	413.50	437.90	463.56	490.91
6 inch meter		837.06	877.83	929.88	984.74	1,042.45	1,103.95
8 inch meter		1,488.49	1,560.99	1,653.56	1,751.12	1,853.74	1,963.11
10 inch meter		2,325.55	2,438.81	2,583.43	2,735.85	2,896.17	3,067.04
12 inch meter		2,325.55	2,438.81	2,583.43	2,735.85	2,896.17	3,067.04
<u>Fire Protection Services</u>							
<u>Public Fire Protection Surcharge - Monthly</u>							
5/8 inch meter		\$2.53	\$2.65	\$2.81	\$2.98	\$3.15	\$3.34
3/4 inch meter		2.53	2.65	2.81	2.98	3.15	3.34
1 inch meter		6.47	6.79	7.19	7.61	8.06	8.54
1 1/2 inch meter		14.55	15.26	16.16	17.11	18.11	19.18
2 inch meter		25.87	27.13	28.74	30.44	32.22	34.12
2 1/2 inch meter		40.43	42.40	44.91	47.56	50.35	53.32
3 inch meter		58.22	61.06	64.68	68.50	72.51	76.79
4 inch meter		103.50	108.54	114.98	121.76	128.90	136.51
6 inch meter		232.87	244.21	258.69	273.95	290.00	307.11
8 inch meter		414.00	434.16	459.91	487.04	515.58	546.00
10 inch meter		646.87	678.37	718.60	761.00	805.59	853.12
12 inch meter		931.49	976.85	1,034.78	1,095.83	1,160.05	1,228.49
<u>Private Fire Protection Charge - Monthly</u>							
1 inch connection		\$0.29	\$0.30	\$0.32	\$0.34	\$0.36	\$0.38
1 1/2 inch connection		0.84	0.88	0.93	0.98	1.04	1.10
2 inch connection		1.79	1.88	1.99	2.11	2.23	2.36
2 1/2 inch connection		3.23	3.39	3.59	3.80	4.02	4.26
3 inch connection		5.20	5.45	5.77	6.11	6.47	6.85
4 inch connection		11.09	11.63	12.32	13.05	13.81	14.62
6 inch connection		32.23	33.80	35.80	37.91	40.13	42.50
8 inch connection		68.67	72.01	76.28	80.78	85.51	90.56
10 inch connection		123.50	129.51	137.19	145.28	153.79	162.86
12 inch connection		199.49	209.21	221.62	234.70	248.45	263.11
16 inch connection		425.12	445.82	472.26	500.12	529.43	560.67
Private Hydrant Rental - Monthly		\$32.23	\$33.80	\$35.80	\$37.91	\$40.13	\$42.50

(Continued on next page)

FORT WAYNE MUNICIPAL WATER UTILITY

Settlement Exhibit A
(Cont'd)

SETTLEMENT REVENUE REQUIREMENTS AND ATB TARIFF
NON-CONTRACT CUSTOMERS
(Outside City)

<u>Metered Rates - Monthly (Per 100 Cubic Feet)</u>		<u>Present (I)</u> (15%)	<u>Proposed Rates</u>				
			<u>I</u> (14%)	<u>II</u> (13%)	<u>III</u> (12%)	<u>IV</u> (11%)	<u>V</u> (10%)
First	2,500 cubic feet	\$2.39	\$2.47	\$2.60	\$2.73	\$2.86	\$3.00
Next	9,500 cubic feet	2.23	2.30	2.42	2.54	2.66	2.79
Over	12,000 cubic feet	2.17	2.25	2.36	2.48	2.60	2.73

Service Charge - Monthly

5/8 inch meter	\$10.56	\$11.01	\$11.56	\$12.13	\$12.72	\$13.34
3/4 inch meter	10.56	11.01	11.56	12.13	12.72	13.34
1 inch meter	26.91	28.01	29.41	30.86	32.38	33.98
1 1/2 inch meter	60.29	62.70	65.83	69.10	72.49	76.07
2 inch meter	106.93	111.20	116.76	122.55	128.57	134.92
2 1/2 inch meter	106.93	111.20	116.76	122.55	128.57	134.92
3 inch meter	240.78	250.35	262.87	275.91	289.46	303.77
4 inch meter	428.04	445.02	467.27	490.47	514.57	540.02
6 inch meter	962.61	1,000.74	1,050.78	1,102.93	1,157.14	1,214.36
8 inch meter	1,711.77	1,779.55	1,868.54	1,961.27	2,057.67	2,159.44
10 inch meter	2,674.37	2,780.26	2,919.29	3,064.17	3,214.77	3,373.76
12 inch meter	2,674.37	2,780.26	2,919.29	3,064.17	3,214.77	3,373.76

Fire Protection Services

Public Fire Protection Surcharge - Monthly Charge:

5/8 inch meter	\$2.91	\$3.02	\$3.18	\$3.34	\$3.50	\$3.67
3/4 inch meter	2.91	3.02	3.18	3.34	3.50	3.67
1 inch meter	7.44	7.74	8.12	8.52	8.95	9.39
1 1/2 inch meter	16.74	17.40	18.26	19.16	20.10	21.10
2 inch meter	29.76	30.93	32.48	34.09	35.76	37.53
2 1/2 inch meter	46.49	48.34	50.75	53.27	55.89	58.65
3 inch meter	66.95	69.61	73.09	76.72	80.49	84.47
4 inch meter	119.02	123.74	129.93	136.37	143.08	150.16
6 inch meter	267.80	278.40	292.32	306.82	321.90	337.82
8 inch meter	476.09	494.94	519.70	545.48	572.29	600.60
10 inch meter	743.90	773.34	812.02	852.32	894.20	938.43
12 inch meter	1,071.21	1,113.61	1,169.30	1,227.33	1,287.66	1,351.34

Private Fire Protection Charge - Monthly

1 inch connection	\$0.34	\$0.34	\$0.36	\$0.38	\$0.40	\$0.42
1 1/2 inch connection	0.97	1.00	1.05	1.10	1.15	1.21
2 inch connection	2.06	2.14	2.25	2.36	2.48	2.60
2 1/2 inch connection	3.71	3.86	4.06	4.26	4.46	4.69
3 inch connection	5.99	6.21	6.52	6.84	7.18	7.54
4 inch connection	12.76	13.26	13.92	14.62	15.33	16.08
6 inch connection	37.06	38.53	40.45	42.46	44.54	46.75
8 inch connection	78.98	82.09	86.20	90.47	94.92	99.62
10 inch connection	142.03	147.64	155.02	162.71	170.71	179.15
12 inch connection	229.41	238.50	250.43	262.86	275.78	289.42
16 inch connection	488.89	508.23	533.65	560.13	587.67	616.74

Private Hydrant Rental - Monthly	\$37.06	\$38.53	\$40.45	\$42.46	\$44.54	\$46.75
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Settlement Exhibit B

FORT WAYNE MUNICIPAL WATER UTILITY

Settlement Exhibit B

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

		<u>Present (1)</u>	<u>Proposed Rates</u>				
			<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>V</u>
<u>Large Industrial Contract Customer</u>							
<u>Commodity Charge (per 100 cubic feet)</u>							
First	2,500 cubic feet	\$2.10	\$2.20	\$2.33	\$2.47	\$2.61	\$2.76
Next	9,500 cubic feet	1.94	2.03	2.15	2.28	2.41	2.55
Over	12,000 cubic feet	1.84	1.84	1.87	1.96	2.05	2.15
-Monthly Service Charge for each Meter			(Based on Meter Size - Same as Outside-City Rates)				
-Fire Protection Service - 10" line			(Based on Meter Size - Same as Outside-City Rates)				

(1) Rates effective January 1, 2017 per IURC Order 44162.

Settlement Exhibit C

FORT WAYNE MUNICIPAL WATER UTILITY

Settlement Exhibit C

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

	Present (1)	Proposed Rates				
		I	II	III	IV	V
<u>City of New Haven Contract Rate:</u>						
Monthly Demand Charge	\$12,110.10	\$11,383.19	\$12,136.30	\$12,930.01	\$13,764.87	\$14,654.68
Commodity Charge:						
- Rate per Hundred Cubic Feet	\$1.6849	\$1.6849	\$1.7126	\$1.7932	\$1.8778	\$1.9684
-Monthly Service Charge for each Meter		(Based on Meter Size - Same as In-City Rates)				
-Fire Protection Services for each Meter		(Based on Meter Size - Same as In-City Rates for Private Fire Protection)				

(1) Rates effective January 1, 2017 per IURC Order 44162.

Settlement Exhibit D

<u>Meter Size</u> (inches)	<u>Meter Ratio</u>	<u>Proposed SDC</u>
5/8	1.0	\$580
3/4	1.5	870
1	2.5	1,450
1 1/2	5.0	2,900
2	8.0	4,640
3	15.0	8,700
4	25.0	14,500
6	50.0	29,000
8	80.0	46,400
10	115.0	66,700