ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF INDIANA-AMERICAN WATER COMPANY, INC. ("INDIANA-AMERICAN") AND THE TOWN OF GEORGETOWN, INDIANA ("GEORGETOWN") FOR APPROVAL AND AUTHORIZATION OF: (A) THE ACQUISITION BY INDIANA AMERICAN OF GEORGETOWN'S WATER UTILITY PROPERTIES (THE "GEORGETOWN WATER SYSTEM") IN FLOYD COUNTY, INDIANA IN ACCORDANCE WITH A PURCHASE AGREEMENT THEREFORE; (B) APPROVAL OF ACCOUNTING AND RATE BASE TREATMENT; (C) APPLICATION OF INDIANA-AMERICAN'S AREA ONE RATES AND CHARGES TO WATER SERVICE RENDERED BY INDIANA-AMERICAN IN THE AREA SERVED BY THE GEORGETOWN WATER SYSTEM ("THE GEORGETOWN AREA"); (D) APPLICATION OF INDIANA-AMERICAN'S DEPRECIATION ACCRUAL RATES TO SUCH ACQUIRED PROPERTIES; (E) THE SUBJECTION OF THE ACQUIRED PROPERTIES TO THE LIEN OF INDIANA-AMERICAN'S MORTGAGE INDENTURE; AND (F) THE PLAN FOR REASONABLE AND PRUDENT IMPROVEMENTS TO PROVIDE ADEQUATE, EFFICIENT, SAFE AND REASONABLE SERVICE TO CUSTOMERS OF THE GEORGETOWN WATER SYSTEM.	)	CAUSE NO. 44915
	)	APPROVED: OCT 11 2017

ORDER OF THE COMMISSION

Presiding Officers:
James F. Huston, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On March 16, 2017, Joint Petitioners Indiana-American Water Company, Inc. ("Indiana-American") and Town of Georgetown, Indiana ("Georgetown" or the "Town") filed their joint petition and prepared testimony and exhibits constituting their case-in-chief with the Indiana Utility Regulatory Commission ("Commission"). On June 1, 2017, Indiana-American submitted its late-filed Attachment MP-7.

On June 2, 2017, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its case-in-chief.

On June 9, 2017, Indiana-American filed a revision to the direct testimony of one of its witnesses. And, on June 21, 2017, Indiana-American submitted its rebuttal testimony and exhibits.

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on July 12, 2017, in Room 222, PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Joint Petitioners and the OUCC appeared and participated in the hearing. The parties' prefiled evidence was offered and admitted into the record. No members of the general public appeared.

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

1. **Notice and Jurisdiction.** Due, legal, and timely notice of the public hearing conducted herein was given by the Commission as required by law. Indiana-American is a public utility as defined in Ind. Code § 8-1-2-1. The Georgetown water system is a municipally owned utility as defined in Ind. Code § 8-1-2-1. Pursuant to Ind. Code ch. 8-1-30.3 and Ind. Code § 8-1.5-2-6.1, the Commission has jurisdiction over the proposed sale of a municipally owned utility. Therefore, the Commission has jurisdiction over Joint Petitioners and the subject matter of this proceeding.

2. **Joint Petitioners' Characteristics.** Indiana-American is an Indiana corporation engaged in the provision of water utility service to the public in and around numerous communities throughout the State of Indiana for residential, commercial, industrial, public authority, sale for resale, and public and private fire protection purposes.

Georgetown is a municipality located in Floyd County, Indiana. Georgetown owns and operates a water distribution system serving 1,309 individually metered customers. Georgetown withdrew from the jurisdiction of the Commission for purposes of rates and charges and financing on August 21, 1995. The water distribution system owned by Georgetown ("Georgetown Water System") is near and interconnected with Indiana-American's existing Southern Indiana Operation. Georgetown receives water on a sale-for-resale basis from the Ramsey Water Corporation, which in turn receives its water on a sale-for-resale basis from Indiana-American.

3. **Relief Requested.** Joint Petitioners request that the Commission: (1) authorize Indiana-American to record for ratemaking purposes as the net original cost rate base of the assets being acquired an amount equal to the full purchase price, incidental expenses, and other costs of acquisition, allocated among utility plant in service accounts as proposed in Joint Petitioners' evidence and without regard to amounts that may be recorded on Georgetown's books and records or any grants or contributions that Georgetown may have received; (2) grant such approvals as may be necessary to consummate the acquisition of the assets comprising the Georgetown Water System by Indiana-American on the terms described in the Joint Petition and the Asset Purchase Agreement between Indiana-American and Georgetown; (3) approve Indiana-American's plan for reasonable and prudent improvements to provide adequate, safe, and reasonable service to customers of the Georgetown Water System; (4) authorize Indiana-American to apply the rules and regulations and rates and charges generally applicable to Indiana-American's Area One rate group, as the same may be changed from time to time, for service to be provided by Indiana-American in the areas currently served by the Georgetown Water System; (5) authorize Indiana-American to apply its existing depreciation accrual rates to

the Georgetown Water System; and (6) approve the encumbering of the properties comprising the Georgetown Water System with the lien of Indiana-American's mortgage indenture.

4. **Joint Petitioners' Direct Evidence.** Joint Petitioners presented the direct evidence of Matthew Prine, Community and Government Affairs Director for Indiana-American; Gary M. VerDouw, Director of Rates and Regulatory for Indiana-American; and Everett Pullen, President of the Georgetown Town Council.

A. **Indiana Code §§ 8-1.5-2-6.1 and 8-1-30.3-5.** Mr. Prine testified regarding Ind. Code § 8-1.5-2-6.1 ("Section 6.1"), which governs the relief sought in this Cause. He explained that, prior to the passage of Section 6.1, Ind. Code 8-1-30.3 ("Chapter 30.3") was established as a new chapter during the 2015 legislative session governing the process and standards to be applied in the sale of distressed utility property. Mr. Prine further explained that during the 2016 legislative session, Section 6.1 was passed as a new section in the Code and Chapter 30.3 was amended; together these changes redefined the Commission's role and the standards to be applied in approving the sale or disposition of nonsurplus municipal utility property.

Mr. Prine stated that one of the results is to encourage consideration of regionalization as a strategy in addressing the State's ongoing infrastructure needs. He noted that Chapter 30.3 allows a public water or wastewater utility that acquires the utility property of a municipally owned distressed utility to petition the Commission to include the cost differential associated with the acquisition as part of its rate base. Mr. Prine also noted that an Indiana Finance Authority report ("2016 IFA Report") on water utility infrastructure needs throughout the State of Indiana also encouraged system regionalization and emphasized the need for: (1) prioritization of replacement of aging or failing water mains, and (2) development of a schedule of asset management that organizes the construction needed to maintain and extend the life of a utility system. Mr. Prine testified that the Georgetown Water System faces challenges in all of these areas highlighted in the 2016 IFA Report.

Mr. Prine further testified that after these legislative changes, the process for the sale of a municipally owned water or sewer utility has changed. He explained that a municipality must now obtain the approval of the Commission to sell its water or sewer utility.

Mr. Prine sponsored Attachment MP-5 of Joint Petitioners' Exhibit 1, a flow chart describing the process for sales by municipally owned utilities of nonsurplus property. Mr. Prine explained that under the new process, the Mayor/Council President or Council of a city or town considering an acquisition must appoint three appraisers to appraise the system's value. Upon return of the appraisal, the municipality must hold a public hearing on the proposed acquisition. If the municipality decides to sell, it must adopt an ordinance approving the proposed acquisition. For an ordinance adopted pursuant to this process after March 28, 2016, Commission approval is required under Section 6.1. The standard for approval is whether the sale according to the proposed terms and conditions is in the public interest. If a petition is filed pursuant to Ind. Code § 8-1-30.3-5(d) ("Section 30.3-5(d)") and the Commission makes the required findings set forth in Ind. Code § 8-l-30.3-5(c) ("Section 30.3-5(c)"), then Section 6.1 directs that the proposed sale is in the public interest. Mr. Prine noted that under Section 6.1, the purchase price

is deemed to be reasonable if it does not exceed the statutory appraised value. Mr. Prine described how the proposed acquisition of the Georgetown Water System followed this process.

Mr. Prine testified that the proposed purchase price for the system is $6,426,000, which consists of the appraised value of the water utility assets ($6,402,500) and the appraised value of the real property on which the elevated tank and booster station are located ($23,500). Therefore, the purchase price does not exceed the appraised value of the system. After describing how he believes that Indiana-American has satisfied each of the requirements listed under Sections 30.3-5(c) and 30.3-5(d), Mr. Prine summarized how Section 6.1 interacts with Chapter 30.3. He explained that if the purchase price of the proposed acquisition does not exceed the appraised value and the elements of Sections 30.3-5(c) and 30.3-5(d) are met, Section 6.1 directs the issuance of a final order. The order is to be issued not later than 210 days after the filing of the case in chief and authorize the acquiring utility company to record as the net original cost of the utility plant in service assets being acquired: (1) the full purchase price; (2) incidental expenses; and (3) other costs of acquisition; allocated in a reasonable manner among appropriate utility plant in service accounts.

B. Proposed Acquisition and Asset Purchase Agreement. Mr. Pullen explained that operation of the Georgetown Water System is controlled by the Town Council. He testified that, historically and in the present day, members of the Town Council have lacked the time, technical expertise, and resources to manage a water utility in today's age of increasing drinking water regulation. He expressed concern that customers of the Georgetown Water System deserve a level of service that the Town Council is ill-equipped to provide. He further stated that the costs to customers associated with the Town owning and managing the utility is far greater than it will be with Indiana-American operating the utility.

Mr. Pullen testified that the Town followed the statutory process necessary to sell its water assets and voted on March 21, 2016, to appoint Tracy L. Williams of Donahue & Associates, Inc., Judith M. Cleland, P.E. of Cleland Environmental Engineering, Inc., and Terry Watson of Associated Appraisal Group as the official appraisers of the Georgetown Water System. Mr. Pullen stated that a public hearing on the sale of the system was held on October 19, 2016, following notice published on September 7 and September 16, 2016. He testified that on December 8, 2016, the Town adopted an ordinance approving the proposed acquisition.

Mr. Pullen testified that a proposed purchase agreement from Indiana-American was received by the Town in August 2016. He stated that negotiations over several months resulted in the purchase agreement being finalized and signed on February 16, 2017. Mr. Pullen testified that the negotiations leading up to the execution of the Asset Purchase Agreement were conducted at arm's length.

The Asset Purchase Agreement, which sets forth the complete terms and conditions of the purchase and sale of the Georgetown Water System, was sponsored by Mr. Prine as Attachment MP-3 of Joint Petitioners' Exhibit 1. Mr. Prine testified that Indiana-American proposes to acquire all of the property that is subject to the Town's appraisal, sponsored by Mr. Pullen as Joint Petitioners' Exhibit 3, Attachment EP-1, at a purchase price of $6,426,000. He testified that the purchase price was determined based upon the appraised value of the Georgetown Water

System as determined by the statutorily appointed appraisers. Mr. Prine stated that consummation of the transaction is conditioned on, among other things, obtaining certain approvals from the Commission, including the proposed accounting and rate base treatment.

Mr. Prine testified that the customers of the Georgetown Water System and Indiana-American's existing customers will benefit from the acquisition. Georgetown customers will benefit from full-time management of their water system, including, but not limited to, a full-time operations staff, 24/7 customer service and emergency response, enhanced security measures, along with full-time functional specialists in the areas of engineering and water quality. He further testified that customers will benefit from the acquisition because the system will be included in Indiana-American's prioritization model, allowing planning and asset management needs like those identified by the 2016 IFA Report to be met. He described Indiana-American's 5-year capital improvements plan for the Georgetown Water System, which includes SCADA/radio system installations and distribution infrastructure replacement. Mr. Prine stated that Georgetown customers will also benefit from lower rates after the closing of the transaction. Indiana-American's customers will benefit from the expanded economies of scale as well as the extended service area over which fixed costs may be spread. Mr. Prine testified that Georgetown customers were notified of the proposed transaction and that no customer has contacted Indiana-American to object to the acquisition.

C. **Accounting and Ratemaking Treatment.** Mr. VerDouw testified that Indiana-American is proposing to record the net original cost of the Georgetown Water System in the manner reflected in the proposed journal entry shown on Attachment GMV-1 of Joint Petitioners' Exhibit 2. Mr. VerDouw noted that the purchase price for the acquisition includes a cost differential as that term is defined in Chapter 30.3. He said that based on the proposed journal entry, the investor-supplied original cost rate base for the Georgetown Water System would be equal to the full purchase price plus the transaction costs. Assuming $103,000 of transaction costs, the original cost rate base for the Georgetown Water System would be $6,529,000. He testified that with the proposed journal entry, Indiana-American is allocating the full purchase price plus transaction costs (including the cost differential) in a reasonable manner among appropriate utility plant in service accounts.

Mr. VerDouw testified that the accounting and ratemaking treatment reflected in the proposed journal entry conforms with the treatment to be granted under Section 30.3-5(c), where all of the factors set forth in that section are met. He testified that if the Commission makes the required findings, Ind. Code § 8-1-30.3-5(e) specifies the accounting entries for recording the acquisition that the Commission shall authorize, which is similar to the directive set forth in Section 6.1(f).

Mr. VerDouw further testified that the depreciation accrual rates to be applied to the Georgetown Water System assets would be the rates approved by the Commission in Cause No. 43081 on November 21, 2006, as included in the calculation of rates with the approval of Indiana-American's rate case in Cause No. 43187 on October 10, 2007.

Mr. VerDouw testified that Indiana-American has access to all of the necessary funds to support the acquisition, with those funds coming initially from internally generated funds. He

stated that the projected investment to acquire the Georgetown Water System is less than 0.71% of Indiana-American's total capitalization as of December 2016, and, thus, Indiana-American does not believe the acquisition would impair its ability to raise necessary capital on reasonable terms while maintaining a reasonable capital structure. Mr. VerDouw also described the encumbrance that would be placed on the Georgetown Water System assets as a result of the acquisition under Indiana-American's general mortgage, which secures most of Indiana-American's utility property for the benefit of Indiana-American's bond holders.

Mr. VerDouw further testified regarding Indiana-American's intention to apply Indiana-American's Area One tariff rates for water service and private and public fire service, which are on file with and approved from time to time by the Commission, to the customers of the Georgetown Water System. He said that application of the Area One rates is supported by the fact that Georgetown is already interconnected with Indiana-American's Southern Indiana Operation and receives water on a sale-for-resale basis from Ramsey Water Corporation, which in turn is a sale-for-resale customer of Indiana-American and subject to Area One rates. The monthly bill for a residential customer using 5,000 gallons would decrease from $78.09 to $42.52 for customers with fire protection, based on the current tariff in effect for both utilities. Mr. VerDouw testified that Indiana-American's rates will not change as a result of this proceeding and, given the small size of the Georgetown Water System, the rates charged by Indiana-American in future general rate cases will not increase unreasonably as a result of acquiring the system.

5. **OUCC's Direct Evidence.** Ms. Margaret Stull, Senior Utility Analyst in the Water/Wastewater Division, described the proposed acquisition and provided the OUCC's recommendations with regard thereto. She stated the OUCC does not oppose Indiana-American's acquisition of Georgetown's assets but questioned the absence of a statement on the value of the cost differential and the lack of testimony by an appraiser. Ms. Stull also expressed the OUCC's disagreement with the inclusion of the appraisal costs as part of the transaction costs in this case and recommendation that transaction costs be limited to the qualified amounts actually incurred by Indiana-American.

Ms. Stull explained a cost differential is defined under Ind. Code § 8-1-30.3-1 as the difference between the purchase price plus incidental expenses and other costs of acquisition and the original cost minus depreciation and contributions in aid of construction ("CIAC"). She noted that a purchaser may petition the Commission to include the cost differential as part of its rate base, and there is a rebuttable presumption that the cost differential is reasonable under Ind. Code § 8-1-30.3-5(b). Ms. Stull testified Indiana-American did not calculate the cost differential and include it in its case. Ms. Stull questioned whether in the absence of such information Indiana-American could establish the rebuttable presumption that the cost differential is reasonable or show that the purchase price is reasonable.

Ms. Stull testified that Indiana-American seeks to include in rate base the fair value for the assets acquired in this transaction as established by a committee of three professionals. She stated that without the appraisers appearing before the Commission in this proceeding, the Commission and the OUCC are denied the opportunity to examine the appraisers to determine the methodologies employed, the assumptions made, the accuracy and completeness of the data

relied upon, the level of scrutiny exercised by them, and whether their review included any bias. The Commission, which is authorized and required by law to establish the rate base of utilities, is asked to make a decision based on evidence prepared by individuals who do not stand before them in this proceeding. She said the issue is not simply what the appraisal determined, but to what extent the appraisals should be used to determine the fair value of the utility's assets.

Ms. Stull also recommended that the Commission not allow Indiana-American to include in rate base the $15,233 it paid for Georgetown's appraisal. Ms. Stull testified that Georgetown was the party that incurred the expense of the appraisals and therefore Georgetown was the party required to pay the expense under the Asset Purchase Agreement. Thus, Ms. Stull reasoned, the $15,233 cost is not a cost of Indiana-American under the Asset Purchase Agreement and should not have been included in net original rate base. Ms. Stull further recommended that the amount of transaction costs to be included in rate base should be limited to amounts actually incurred at a "not-to-exceed" amount of $87,777.

6. **Joint Petitioners' Rebuttal Testimony.** In response to the issues raised by the OUCC, Mr. VerDouw provided historical background regarding the genesis of the standard applied to Indiana-American's acquisition of municipal utility property in order to explain why the issues raised by Ms. Stull do not apply to this case filed under Section 6.1.

Mr. VerDouw explained that the standard formerly applied by the Commission to Indiana-American's acquisition of municipal property developed over the following four Orders: (1) *Indiana-American Water Co. Inc.*, Cause No. 41655 (IURC April 4, 2001) ("*Freeman Field*"); (2) *Indiana American Water Co. Inc. & Town of New Whiteland*, Cause No. 43883 (March 2, 2011) ("*New Whiteland*"); (3) *Indiana-American Water Co. Inc. & Town of Riley*, Cause No. 43855 (IURC April 5, 2011) ("*Riley*"); and (4) *Indiana-American Water Co. Inc. & Town of Russiaville*, Cause No. 44584 (July 22, 2015) ("*Russiaville*"). In the *Freeman Field* case, Indiana-American was permitted to reflect the full appraised value purchase price plus transaction costs as original cost of such properties for accounting, depreciation, and rate base valuation purposes. He said this case recognized the general shortcomings of municipal recordkeeping and resulting difficulty of recreating books and records as well as the fact that in municipal sales, any benefits of appreciation in value or from CIAC will accrue to the municipal residents, which are also generally customers. Further, in the *Freeman Field* case, there was a government-funded grant for a storage tower, and Indiana-American was not required to record CIAC corresponding to it.

Mr. VerDouw testified that the Commission, however, effectively reversed the *Freeman Field* decision nearly ten years later in *New Whiteland* and *Riley*, where the Commission found that decisions of the Indiana Court of Appeals required the Commission to make an offset for customer contributions, including both developer contributions (*New Whiteland*) and government grants (*Riley*). The reversal in *Freeman Field* was complete with the Commission's decision in *Russiaville*, where the Commission found that the Uniform System of Accounts ("USOA") required Indiana-American to record a journal entry that reflects, by account, the original cost (as estimated and recreated) on the seller's books, and reaffirmed the decision in *Riley* that even government grant contributions must be excluded from rate base.

Mr. VerDouw testified that despite coming against a backdrop where consolidation in the water industry was being recognized as a tool for addressing growing needs, *New Whiteland, Riley*, and *Russiaville* imposed obstacles to consolidation that had not existed under the *Freeman Field* Order. Mr. VerDouw described the three obstacles that he perceived resulted from these Orders, including: (1) the requirement that the purchaser attempt to "recreate" books by forcing public utility accounting onto transactions long ago recorded using municipality accounting; (2) the misconception that original cost is relevant to municipal sales; and (3) artificial constraints imposed on what statutory appraisers would otherwise determine to be the value due to the required recreation of the books to determine a theoretical original cost or deduction for CIAC.

Mr. VerDouw then explained that Section 6.1 addresses the concerns raised by Ms. Stull by removing the reasons on which the Commission relied when it reached its decisions reversing *Freeman Field.* Mr. VerDouw explained that with the passage of Section 6.1, the Legislature largely returned the law to what it was at the time of *Freeman Field*, with Section 6.1(f) eliminating the requirement from *Russiaville* to follow Accounting Instruction 21 from the USOA; eliminating the requirement to deduct CIAC from rate base; and commanding that the value determined by the appraisers is conclusive. He further noted that, as applied to this transaction, Section 6.1 provides only one option for recording net original cost rate base, does not allow one to second guess the work of appraisers, and commands that the only issue for the Commission to decide is whether the sale or disposition is in the public interest. With respect to this public interest determination, Mr. VerDouw reiterated that as long as the Joint Petitioners satisfy the elements of Section 30.3-5(d) and the Commission makes the findings set forth in Section 30.3-5(c), the transaction pursuant to its terms and conditions is deemed to be in the public interest and approval under Section 6.1 follows necessarily.

Mr. VerDouw addressed each of the specific concerns raised by Ms. Stull. With respect to the lack of testimony from the appraisers about the net original cost of the assets being acquired, including the value of CIAC, Mr. VerDouw reiterated that Section 6.1(d) provides that, "the purchase price of the municipality's nonsurplus property shall be considered reasonable if it does not exceed the appraised value set forth in the appraisal required under section 5 of this chapter." He noted that Ms. Stull did not dispute that the appraisers meet the statutory qualifications and did not contend that the purchase price exceeds the appraised value; therefore the purchase price is reasonable. Further, with respect to Ms. Stull's concern that there has been no opportunity to review the appraisers' work and question their conclusions, Mr. VerDouw testified that Section 6.1 eliminates these concerns as potential issues, and noted that the cost of calling one or more appraisers as a witness, which would have been added to rate base under Section 6.1, would not have been a useful expenditure given that the appraisers' testimony would have had no bearing on any of the statutory considerations.

With respect to Ms. Stull's concern that Indiana-American did not provide a calculation of the cost differential as part of its testimony, Mr. VerDouw testified that Indiana-American was not required to provide a calculation of the cost differential in this proceeding. He said the key determination under Section 6.1 is whether the requirements in Sections 30.3-5(c) and (d) are satisfied. Mr. VerDouw noted that only one of these requirements mentions cost differential and explained how Indiana-American had satisfied that requirement with its proposed journal entry. He further disagreed with Ms. Stull's suggestion that a person must first calculate the cost

differential in order to address the elements in Section 30.3-5 and opined that if the precise calculation were an element, it would have been listed with the 12 other specifically delineated requirements.

Mr. VerDouw testified that he believes the real issue is whether the transaction includes a cost differential. He identified three reasons for why he knows the proposed transaction includes a cost differential. First, since Section 30.3-5 only requires that there be "a" cost differential, one will exist necessarily in any transaction where the purchase price is based on something other than original cost figures. Second, the appraisers assigned a value to assets that had been contributed. Finally, he noted Georgetown's most recent State Board of Accounts ("SBOA") audit, which reported an original cost as of December 31, 2011, of $7,569,810 that included CIAC and was prior to any provision for depreciation. He testified that the appraisal report estimated the system is nearly 40% depreciated. Accordingly, if any reasonable assumption of depreciation is made, it is clear that there is a cost differential.

Mr. VerDouw explained that to take Ms. Stull's position, and require a precise calculation of the cost differential, would force Joint Petitioners to recreate books to arrive at a hypothetical and incomplete cost figure; such position would thus reinstate one of the impediments the General Assembly sought to address with the passage of Chapter 30.3 and Section 6.1. Mr. VerDouw also disagreed with Ms. Stull's opinion that without knowledge of the cost differential the OUCC is unable to agree that the proposed purchase should be considered reasonable because the statute provides the purchase price is deemed reasonable as long as it does not exceed the appraised value.

Finally, Mr. VerDouw disagreed with Ms. Stull's recommendation to not allow $15,223 for Georgetown's appraisal costs in Indiana-American's rate base. He testified that Section 6.1(f) dictates that rate base include incidental expenses. He opined that if reimbursing statutorily mandated appraisal costs is not an incidental expense, he does not know what it would be or how to record it. He stated the appraisal cost is a valid transaction cost in completing an acquisition and it should not make a difference as to who paid for it. Mr. VerDouw further testified that he did not have any objection to limiting the incidental expenses and costs of the acquisition to the actual amounts incurred, but stated that he did not accept Ms. Stull's "not-to-exceed" figure.

7. **Commission Discussion and Findings.** Indiana-American and Georgetown seek approval of Indiana-American's proposed acquisition of the Georgetown Water System pursuant to Section 6.1 and Chapter 30.3. More specifically, Indiana-American and Georgetown filed their Petition under Ind. Code § 8-1-30.3-5(d) and assert that the proposed transaction satisfies the requirements of Ind. Code § 8-1-30.3-5(c). As such, they request the Commission approve the transaction under the terms and conditions of the Asset Purchase Agreement, finding such transaction is in the public interest in accordance with Ind. Code § 8-1.5-2-6.1(e)(1). This is a case of first impression under these statutes.

When interpreting a statute, the express language of the statute controls and the rules of statutory construction apply. *Bushong v. Williamson*, 790 N.E.2d 467, 471 (Ind. 2003). In statutory construction, the primary goal is to ascertain and give effect to the intent of the legislature. *U.S. Steel Corp. v. N. Ind. Pub. Serv. Co.*, 951 N.E.2d 542, 552 (Ind. Ct. App. 2011).

The language of the statute itself is the best evidence of legislative intent, and we must give all words their plain and ordinary meaning unless otherwise indicated. *Id.* If a statute is ambiguous such that it is susceptible to more than one interpretation, we seek to ascertain and execute the legislative intent. Where two statutes address the same subject matter, courts attempt to construe them in harmony. *Lake Co. Bd. of Elections and Registration v. Millender,* 727 N.E.2d 483, 486 (Ind. Ct. App. 2000). However, where statutes conflict, a more recent expression of the legislature generally prevails over an older one. *Id.* at 486-487.

Section 6.1 applies to a municipality that adopts an ordinance under Ind. Code § 8-1.5-2-5(d) after March 28, 2016, addressing the sale or disposition of nonsurplus utility property. Section 6.1(b) requires a municipality adopting such an ordinance to obtain Commission approval prior to the transaction occurring. Mr. Pullen testified that Georgetown adopted an ordinance approving the proposed acquisition of the Georgetown Water System by Indiana-American on December 8, 2016. Thereafter, Georgetown and Indiana-American entered into the Asset Purchase Agreement, for which they now seek Commission approval.

The Commission is required to approve the sale if we find that "the sale or disposition according to the terms and conditions proposed is in the public interest." Section 6.1(d). In evaluating whether the proposed transaction is in the public interest, Section 6.1(e) provides two avenues. First, under Section 6.1(e)(1), if a municipally owned utility files a petition under Section 30.3-5(d) and the Commission approves such petition under Section 30.3-5(c), then "the proposed sale or disposition is considered to be in the public interest." Alternatively, if Section 30.3-5 does not apply, Section 6.1(e)(2) requires the Commission to consider the degree to which the terms of the acquisition would require one utility's customers to subsidize service to the other and whether that subsidy would cause the transaction not to be in the public interest. In reviewing the proposed transaction under either Section 6.1(e)(1) or (e)(2), the Commission is also required to "consider the financial, managerial, and technical ability of the prospective purchaser to provide the utility service required after the proposed sale." Section 6.1(e)(3).

A. Ind. Code § 8-1.5-2-6.1(e)(1). Joint Petitioners filed their petition under Section 30.3-5(d) seeking Commission approval of such petition under Section 30.3-5(c). Therefore, we must consider whether the requirements of Sections 30.3-5(d) and (c) have been satisfied. As an initial matter, we note that Chapter 30.3 applies if: (1) a utility company[1] is acquiring property from another utility company in a transaction involving a willing buyer and willing seller at a cost differential; and (2) one of the two utility companies is subject to our regulation. There is no dispute that Indiana-American is subject to our regulation, and there is no dispute that this transaction involves a willing buyer and a willing seller. In addition, although there is a dispute concerning the precise amount of the cost differential, which we discuss further below, there is no dispute that the acquisition includes a cost differential. Accordingly, we find that Joint Petitioners may seek Commission approval of the proposed transaction under Chapter 30.3.

[1] A utility company is defined as a public utility, municipally owned utility, or not-for-profit utility that provides water or wastewater service. Ind. Code § 8-1-30.3-3(1).

1. **Ind. Code § 8-1-30.3-5(d).** This statutory provision provides that a utility filing a petition under this section must provide:

a. Notice of the proposed acquisition and any changes in rates or charges to customers of the distressed utility. Mr. Prine sponsored Joint Petitioners' Exhibit 1, Attachment MP-7, which we find to be notice of the proposed acquisition and the change in rates and charges to customers of the Georgetown Water System.

b. Notice to customers of the utility company if the proposed acquisition will increase the utility company's rates by an amount that is greater than 1% of the utility company's base annual revenue. Mr. VerDouw testified that there will be no increase to the rates charged to existing Indiana-American customers as a result of this acquisition. Accordingly, Indiana-American did not notify its existing customers of the proposed acquisition of the Georgetown Water System. On cross-examination at the hearing, Mr. VerDouw explained that Indiana-American did not provide any rate calculation in its case-in-chief for purposes of determining whether notice was required because it was not seeking to increase its existing rates in this proceeding. The OUCC, in its proposed order, took issue with Indiana-American's position that notice under this provision is only required if it was simultaneously seeking approval of a rate increase. The OUCC argued that this provision requires a utility, regardless of whether it is seeking approval for a rate increase, to undertake a reasonable analysis to determine whether the proposed acquisition will increase the utility's rates.

We agree with the OUCC for several reasons. Section 6.1(d) provides that a utility may petition the Commission in an "independent proceeding" to approve a proposed acquisition. The word "independent" is generally defined as "not dependent," "not subject to control by others," and "not requiring or relying on something else."[2] Consequently, it is clear the legislature contemplated that a petition seeking approval of a proposed acquisition could, and would, be filed independent of any other request for relief. Under such circumstances, Indiana-American's interpretation would nullify this provision because notice would never be required. When interpreting a statute, we should read the statute as a whole, attempting to give effect to all provisions so that no section is held meaningless if it can be reconciled with the rest of the statute. *In re Estate of Inlow,* 735 N.E.2d 240, 251 (Ind. Ct. App. 2000).

Further, nothing in the statute indicates that this notice provision applies only if the utility also includes in its petition a request for a rate increase. Nor does it specify a time period for evaluating whether the proposed acquisition "will" increase the utility's rates. The word "will" is generally "used to express futurity" or "used to express probability."[3] While Indiana-American argues in its post-hearing filings that it cannot know the affect the proposed acquisition will have on rates in the future because there are too many unknown variables, most of which are dependent upon the Commission's findings in a rate case, we find such an argument lacks merit. If a utility cannot evaluate what effect an acquisition will have on its rates without the Commission's determination on certain factors in a rate case, then even if the utility filed a request for a rate increase with its request for approval of a proposed acquisition it would not

[2] www.merriam-webster.com/dictionary/independent.

[3] www.merriam-webster.com/dictionary/will.

know whether the proposed acquisition will increase rates until after the Commission issues its order. Indiana-American's argument once again renders this notice provision meaningless.

Utilities can, and do, make assumptions about the ratemaking effects of their actions. In addition, other provisions of this statute also require a utility to evaluate the ratemaking effect of the acquisition for which it seeks approval. Specifically, Section 30.3-5(c)(7) requires the Commission to make a finding that the rates charged by the utility before the acquisition will not unreasonably increase as a result of the acquisition. [4] Thus, what Indiana-American asserts that it cannot do for purposes of determining whether notice to its customers is required, it had to do for purposes of allowing the Commission to evaluate and determine whether Indiana-American's rates will unreasonably increase as a result of the acquisition.

We also note that the purpose of the inquiry required by Section 30.3-5(d)(2) is not to set rates, but to determine merely whether the utility should provide notice to its customers of a proposed acquisition that will affect the rates they pay in the future. If a utility company over-estimates the ratemaking effect of its acquisition, the only harm will be that its customers will have received information they would not otherwise have received. In addition, informing customers of an acquisition that impacts their rates at the time of the acquisition affords customers the intended due process to contest the acquisition. Without notice of a proposed acquisition that will or is expected to increase rates in the future, a customer's ability to contest that acquisition is severely hampered if notice is not provided until the utility actually files for a rate increase.

For the foregoing reasons, we reject the argument that the notice required by Section 30.3-5(d)(2) only applies where the utility company has combined its request for approval of a proposed acquisition with a rate case. We find that the notice requirements of Section 30.3-5(d)(2) should be implemented in any case where a reasonable analysis indicates an effect on the utility's rates will be greater than 1% of the utility's current base annual revenues. In establishing the inputs for any such analysis, we would expect the utility company to rely on reasonable projections and assumptions. The analysis should also be included in its case-in-chief.

Notwithstanding the discussion above, we find that the evidence presented as well as information contained in statutorily required filings and Commission Orders indicates the proposed acquisition will not result in an increase in rates to existing customers in excess of 1% of Indiana-American's base annual revenue of approximately $208 million. Further, while the OUCC advocated that Indiana-American undertake a rate impact analysis, it agreed in its post-hearing filings that the evidence indicates that notice to Indiana-American's existing customers is not required.

We note that there are multiple methodologies one could employ to estimate the potential impact to Indiana-American's rates as a result of the Georgetown acquisition.[5] One method may

[4] See also Ind. Code § 8-1-30.3-6(4) requiring an evaluation of the rates required to furnish and maintain adequate service of both the distressed utility and the acquiring utility.

[5] To the extent necessary, we take administrative notice pursuant to 170 IAC 1-1.1-21(h) of Indiana-American's most recent annual report and the Commission's Orders in Cause Nos. 43081 and 42351 DSIC 10.

be to calculate the rate base per customer for both parties in the transaction. To do this, we would divide Indiana American's rate base as of December 31, 2016, as set forth in its most recent annual report filed with the Commission, by its number of customers to obtain Indiana American's rate base per customer. We would also take the proposed total acquisition cost (including transaction costs) and divide it by the number of Georgetown customers to determine Georgetown's rate base per customer. The difference between Indiana-American's rate base per customer and Georgetown's rate base per customer would be multiplied by the number of Georgetown's customers to determine the gross rate base difference. The gross rate base difference is then multiplied by Indiana-American's cost of capital and gross revenue conversion factor as determined in its most recent distribution system improvement charge proceeding (i.e., Cause No. 42351 DSIC10) to determine the additional return required for the increased rate base. Depreciation expense and an estimated property tax expense are then added to determine the additional revenue that is required for Indiana-American to reach its acquisition-related revenue requirement. This revenue requirement is then divided by Indiana-American's authorized revenue to determine the percent increase to the base annual revenue that would be required. If we were to use this method, the estimated increase to Indiana-American's base annual revenue would be 0.26%, which is below the 1% threshold required for existing customer notification.

Another more conservative approach would assume that Georgetown charges a cost-based rate, and thus, Georgetown's revenues equal its operating costs. Since the acquired customers will be paying Indiana-American's lower rate, the difference between Georgetown's revenue and the revenue the customers will generate as Indiana-American customers is part of the calculation. This difference is added to the acquisition-related revenue requirement, which is calculated by applying Indiana-American's cost of capital to the purchase price and applying the revenue conversion factor to the equity portion of the net operating income. Depreciation expense is also added. The revenue shortfall and revenue requirement are added together and divided by Indiana-American's authorized revenue to determine the percent increase to base annual revenue. Using this methodology, the estimated increase is 0.63%, which is also below the 1% threshold required for existing customer notification.

Accordingly, we find that the proposed transaction will not increase Indiana-American's rates by an amount greater than 1% of its base annual revenue and notice to its existing customers was not required.

c. Notice to the Office of the Utility Consumer Counselor. We find that notice was provided to the OUCC through the service of the petition and the Joint Petitioners' case-in-chief.

d. A plan for reasonable and prudent improvements to provide adequate, efficient, safe, and reasonable service to customers of the distressed utility. Mr. Prine testified that Indiana-American has developed a 5-year capital improvements plan to include $550,000 in Year 1 for SCADA/radio system installations so as to be compatible with Indiana-American's system as well as ongoing annual capital improvements consisting mainly of distribution infrastructure replacement. Capital improvements projected for Years 2 through 5 are estimated at $150,000 annually, again predominantly for distribution infrastructure replacement. Indiana-American will continue to operate the Georgetown Water System through

its current facilities. The staff at Indiana-American's Southern Indiana Operation will provide ongoing operation and maintenance. In addition, Mr. Prine explained that Indiana-American will institute reasonable and prudent asset management for the Georgetown Water System by adding it to Indiana-American's ongoing prioritization model to track, plan, and implement necessary improvements to the distribution system. This is in keeping with the recommendations of the 2016 IFA Report that replacement of aging or failing water mains be prioritized and that a schedule of asset management be developed. No evidence was introduced to contradict the necessity and reasonableness of these changes. We find that Indiana-American will make reasonable and prudent improvements to ensure that customers of the Georgetown Water System will receive adequate, efficient, safe, and reasonable service.

2. **Ind. Code § 8-1-30.3-5(c).** Having determined that Joint Petitioners have satisfied the requirements for the filing of a petition under Section 30.3-5(d), we now address the factors identified in Section 30.3-5(c) on which the Commission is required to make findings to approve the petition as follows:

a. The utility property is used and useful in providing water service, wastewater service, or both water and wastewater service. Mr. Prine described the Georgetown Water System that provides water service to residential, commercial, and industrial customers. He testified that the Georgetown Water System is used and useful in providing water service. No evidence was offered to contradict his testimony. Therefore, we find that the Georgetown Water System is used and useful in providing water service.

b. The distressed utility failed to furnish or maintain adequate, efficient, safe, and reasonable service and facilities. What constitutes inadequate, inefficient, unsafe, or unreasonable service and facilities is defined by the enumerated circumstances set forth in Ind. Code § 8-1-30.3-6, any one of which would satisfy this element. Mr. Prine testified that Georgetown is a municipally owned system that serves fewer than 5,000 customers and therefore qualifies as a distressed utility under Ind. Code § 8-1-30.3-6(5). He also explained that while it is not necessary to satisfy a second condition, the Georgetown Water System would also satisfy Ind. Code § 8-1-30.3-6(4) because it is unable to furnish and maintain adequate service to its customers at rates equal to or less than those of Indiana-American. Mr. VerDouw testified that a residential customer using 5,000 gallons of water per month would see a monthly rate decrease from $78.09 to $42.52 based on the current tariff for both utilities. Mr. Prine's testimony is unrefuted, and we find the conditions set forth in Ind. Code § 8-1-30.3-6(4) and (5) are satisfied. Accordingly, we find that the Georgetown Water System has failed to furnish or maintain adequate, efficient, safe, and reasonable service and facilities.

c. The utility company will make reasonable and prudent improvements to ensure that customers of the distressed utility will receive adequate, efficient, safe, and reasonable service. As discussed above, Indiana-American described its plan for improvements to the Georgetown Water System and operations. Based on that discussion, we found that Indiana-American will make reasonable and prudent improvements to ensure that customers of the Georgetown Water System will receive adequate, efficient, safe, and reasonable service. Accordingly, we find this requirement has been satisfied.

d. The acquisition of the utility property is the result of a mutual agreement made at arm's length. Mr. Pullen described the process undertaken by Georgetown prior to entering the transaction. He explained that negotiations began in December 2015. A proposed purchase agreement was provided in August 2016. Negotiations then proceeded over the course of several months while Georgetown was undertaking the statutory requirements for the sale. He testified that negotiations leading to the Asset Purchase Agreement, which was signed on February 16, 2017, were at arm's length. Therefore, based on the evidence presented, we find the acquisition is the result of a mutual agreement made at arm's length.

e. The actual purchase price of the utility property is reasonable. Section 6.1(d) provides that the purchase price shall be considered reasonable if it does not exceed the appraised value set forth in the appraisal required by Ind. Code § 8-1.5-2-5. The evidence presented demonstrates that the purchase price is equal to the appraisal of the property as determined by the statutorily appointed appraisers. While the OUCC questioned Joint Petitioners' decision not to include one of the appraisers as a witness to support the appraisal, the OUCC had the opportunity to address any concerns about the appraisal through discovery. As no evidence was offered to dispute that the purchase price is equal to the value set forth in the appraisal or that the appraisal was not conducted appropriately, we find that the purchase price is equal to the valuation determined by the appraisers. Therefore, pursuant to Section 6.1(d), the actual purchase price is reasonable.

f. The utility company and the distressed utility are not affiliated and share no ownership interests. Mr. Prine's testimony that Georgetown and Indiana-American are not affiliated and share no common ownership interests was uncontroverted. Therefore, we find this requirement is satisfied.

g. The rates charged by the utility company before acquiring the utility property of the distressed utility will not increase unreasonably as a result of acquiring the utility property. Mr. VerDouw testified that rates for customers served by the Georgetown Water System would decrease as a result of this acquisition and that rates for Indiana-American customers will remain the same after this acquisition. He further testified that given the small size of the Georgetown Water System, the rates approved for Indiana-American in future general rate cases will not increase unreasonably as a result of acquiring the system. On cross-examination at the hearing, he confirmed that this conclusion was based on the fact that the total investment to acquire the Georgetown Water System constituted less than 1% of Indiana-American's total capitalization. The OUCC did not offer any evidence to contest Indiana-American's testimony. In addition, as discussed above, it appears reasonable to expect that rates will not increase by an amount greater than 1% of Indiana-American's base annual revenue as a result of the proposed transaction. Accordingly, we find the rates charged by Indiana-American before this acquisition will not increase unreasonably as a result of acquiring the Georgetown Water System.

h. The cost differential will be added to the utility company's rate base to be amortized as an addition to expense over a reasonable time with corresponding reductions in the rate base. Mr. VerDouw testified that the purchase price for the acquisition includes a "cost differential" as that term is defined in Chapter 30.3. However, he explained that

the precise amount of the cost differential is unknown because of the lack of books and records maintained by Georgetown. The OUCC did not dispute these statements and Ms. Stull recognized that no actual original cost data exists for nearly all of the distribution system components. OUCC Ex. 1 at 5. We can infer from the SBOA audit report that the existence of a cost differential is indisputable had the OUCC or anyone else attempted to recreate or estimate original cost data. Our inference is further confirmed by the inclusion in the appraisal of assets that would explicitly be deducted for purposes of computing the net original cost rate base as reflected on Georgetown's books, if they existed. Joint Petitioners' Ex. 3, Attachment EP-1 at 4. Accordingly, we find there is a cost differential.

Mr. VerDouw testified regarding the accounting and ratemaking treatment proposed by Indiana-American. Joint Petitioners' Exhibit 1, Attachment GMV-1 sets forth the proposed journal entry, which shows a recorded initial original cost of the Georgetown Water System assets as the full purchase price plus other costs and expenses incident to the transaction, including a cost differential. He stated that with Indiana-American's proposed journal entry, the cost differential will be amortized and charged to expense over a reasonable period of time with corresponding reductions to rate base through depreciation expense calculated pursuant to Indiana-American's approved depreciation accrual rates.

The OUCC took issue with Indiana-American's failure to quantity the cost differential included in the purchase price. Noting that Section 30.3-5(b) provides a rebuttable presumption that a cost differential is reasonable, the OUCC argued that it is impossible to rebut the presumption when the cost differential is not first quantified. In its proposed order, the OUCC also argued that quantification of the cost differential is necessary for purposes of recording it as a regulatory asset.

It is undisputed that no one knows the precise amount of the cost differential – that amount is unknowable given the lack of books and records maintained by Georgetown. If this case had been filed prior to the enactment of Section 6.1, we would agree with the OUCC. However, because Section 6.1 specifically addresses the reasonableness of the purchase price, which is inclusive of the cost differential, (i.e., if it is less than the appraised value it is reasonable) and how the purchase price is to be recorded, then evaluating the reasonableness of the cost differential would be an exercise in futility unless the purchase price exceeded the appraised value.[6] Section 6.1(d) and (f). Moreover, Section 30.3-5(c)(8) does not require us to find that the cost differential is reasonable; rather, we are required to find that a cost differential will be added to the utility's rate base to be amortized as an addition to expense over a reasonable time with corresponding reductions in rate base. Section 6.1(f) provides that the accounting for the transaction is to be recorded by allocating the purchase price (which includes the cost differential), incidental expenses, and other costs of acquisition in a reasonable manner among utility plant in service accounts. Indiana-American's proposed journal entry allocates the purchase price based on the appraised value of the assets, which necessarily allocates the cost differential to the specific assets producing that differential. The differential is then depreciated

[6] Our conclusion here does not render Section 30.3-5(b) meaningless in all instances – such as when Section 6.1 does not apply or to non-municipal sales. Further, when enacting Section 6.1, the Legislature was well aware of Chapter 30.3 because it also amended portions of that chapter that had been enacted the prior year. Therefore, to the extent the two provisions conflict, the later enacted will control.

or amortized over the life of the specific assets by using Commission-approved depreciation accrual rates. We find this approach to be reasonable because the cost differential will be allocated over the useful life of the acquired assets, which matches the time period the ratepayers will benefit from the assets.

As described in Mr. Prine's direct testimony, the Asset Purchase Agreement between Indiana-American and Georgetown provides for the acquisition by Indiana-American of the utility assets of Georgetown for a purchase price of $6,426,000. Assuming $103,000 of other costs and expenses incident to the transaction, Mr. VerDouw testified that the original cost rate base for the Georgetown Water System would be $6,529,000. We find that the cost differential will be added to Indiana-American's rate base and amortized as an addition to expense over a reasonable time with corresponding reductions to rate base. We further find that the proposed journal entry allocates the purchase price plus incidental expenses and other costs of the acquisition among utility plant in service accounts in a reasonable fashion.

3. Conclusion. For the reasons discussed above, we find that Joint Petitioners have satisfied the requirements of Section 30.3-5(c) and (d) for purposes of Section 6.1(e)(1) and that the proposed transaction is in the public interest.[7]

B. Ind. Code § 8-1.5-2-6.1(e)(3). In reviewing the Asset Purchase Agreement, we are required to consider the financial, managerial, and technical ability of the Indiana-American to provide the required water utility service. Mr. Prine testified that Indiana-American currently provides residential, commercial, industrial, and municipal water service, including sale for resale and public and private fire protection service, to approximately 300,000 customers. He stated that the staff of Indiana-American's Southern Indiana Operation will provide ongoing operation and maintenance of the Georgetown Water System. Indiana-American will also institute reasonable and prudent asset management by adding the Georgetown Water System to Indiana-American's ongoing prioritization model. Mr. VerDouw testified that Indiana-American has access to all necessary funds to support its purchase of the Georgetown Water System and is capable of financing the proposed asset purchase without significant financial consequences. The OUCC did not contest Indiana-American's financial, managerial, or technical ability to provide water utility service. Therefore, we find that Indiana-American possesses the financial, managerial, or technical ability to provide the required utility service after the sale.

C. Sale Approval and Accounting Treatment. Having determined that the proposed sale pursuant to the terms and conditions set forth in Asset Purchase Agreement is in the public interest and approved in accordance with the requirements of Section 6.1(e), we approve the sale. Section 6.1(f) directs the Commission as follows:

[7] Because we approve Joint Petitioners request under Section 6.1(e)(1), we need not address the alternative avenue provided in Section 6.1(e)(2). However, we note that had Joint Petitioners filed under that section, our approval of the proposed transaction could not be conditioned on whether the factors in Section 30.3-5(c) are satisfied or on any other factor, except for those provided in Section 6.1(e)(2) concerning subsidies and Section 6.1(e)(3) concerning the financial, technical, and managerial ability of the prospective purchaser. Section 6.1(h).

> As part of an order approving a sale or disposition of property under this section, the commission shall, without regard to amounts that may be recorded on the books and records of the municipality and without regard to any grants or contributions previously received by the municipality, provide that for ratemaking purposes, the prospective purchaser shall record as the net original cost rate base an amount equal to:
>
> (1) the full purchase price;
> (2) incidental expenses; and
> (3) other costs of acquisition;
>
> allocated in a reasonable manner among appropriate utility plant in service accounts.

As directed by the statute, we therefore find that without regard to amounts that may be recorded on Georgetown's books and records and without regard to any grants or contributions that Georgetown may have received, Indiana-American may record for ratemaking purposes as the net original cost rate base of the assets being acquired an amount equal to the full purchase price, plus incidental expenses, and other costs of acquisition, allocated among utility plant in service accounts in the fashion recommended by Mr. VerDouw. We further find that these "incidental expenses" should include the $15,223 Indiana-American paid for Georgetown's appraisal. Despite the OUCC's contention that Indiana-American did not actually incur this cost because the appraisals were procured by Georgetown, Mr. VerDouw explained on rebuttal that Indiana-American agreed to pay these costs of the appraisal and provided the agreement whereby Indiana-American agreed to pay those costs in return for being provided access for due diligence purposes and an exclusive negotiating period. Joint Petitioners' Ex. 2-R, Attachment GMV-R2. He further testified on cross-examination that this agreement to pay the appraisal costs was part of the "Transaction Documents" as defined in the Asset Purchase Agreement and therefore is part of Indiana-American's closing obligations. We agree with Mr. VerDouw that the $15,223 appraisal cost is an incidental expense or cost of the acquisition because it is related to the facilitation of the transaction and we find the amount is reasonable. We therefore find that it should be included in rate base. We also find that total incidental expenses and other costs of the acquisition should be limited to such actual expenses and costs reasonably incurred, as recommended by Ms. Stull and to which Mr. VerDouw agreed.

We further find that Indiana-American's proposed accounting and journal entries as described in Mr. VerDouw's direct testimony and Attachment GMV-1 of Joint Petitioners' Exhibit 1, should be approved and that the costs so reflected on the books and records of Indiana-American be used as the original cost of such properties for accounting, depreciation, and rate base valuation purposes. The journal entry should be adjusted to reflect actual (rather than estimated) incidental expenses and other costs of acquisition. We find that Indiana-American's existing depreciation accrual rates approved by the Commission in Cause No. 43081 on November 21, 2006, and as included in the calculation of rates with the approval of Indiana-American's rate case in Cause No. 43187 on October 10, 2007, should be applied on and after the closing date of the acquisition to depreciable property purchased from Georgetown pursuant to the Asset Purchase Agreement.

D. Rates and Rules. Indiana-American currently has on file with the Commission a schedule of rates and charges and rules and regulations applicable to water utility service provided by Indiana-American in its Area One rate group. Consistent with the Asset Purchase Agreement, we find that, on and after the closing, Indiana-American's generally applicable rates and charges and rules and regulations for water service and private and public fire service applicable in Indiana-American's Area One rate group on file with and approved by the Commission should apply to services provided by Indiana-American through the Georgetown Water System, as the same are in effect from time to time.

E. Encumbrances. We find that the encumbering of the properties comprising the Georgetown Water System by subjecting such properties to the lien of Indiana-American's general mortgage as of the closing should be approved.

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

1. Joint Petitioners are authorized to consummate the acquisition of the Georgetown Water System by Indiana-American on the terms described in the Asset Purchase Agreement as discussed herein.

2. The acquisition of the Georgetown Water System by Indiana-American on the terms and conditions described in the Asset Purchase Agreement is in the public interest as defined in Ind. Code § 8-1.5-2-6.1(d) and (e) and the same is approved.

3. Indiana-American is authorized to record for ratemaking purposes as net original cost rate base of the assets being acquired an amount equal to the full purchase price, actual incidental expenses, and other actual costs of the acquisition reasonably incurred, allocated among utility plant in service accounts as proposed by Joint Petitioners.

4. Indiana-American is authorized to charge customers currently served by the Georgetown Water System the current rates and charges and apply the same rules and regulations for water service and private and public fire service applicable in Indiana-American's Area One rate group on file with and approved by the Commission, as the same are in effect from time to time.

5. Indiana-American is authorized to reflect the acquisition of the Georgetown Water System on its books and records as of the closing by making the accounting and journal entries described in Joint Petitioners' Exhibit 1, Attachment GMV-1, as adjusted to actual incidental expenses and other actual costs of the acquisition.

6. The net original cost, as defined herein, of the acquired property shall be used for accounting, depreciation, and rate base valuation purposes after closing.

7. Indiana-American is authorized to apply its depreciation accrual rates on and after the closing date of the acquisition to depreciable property purchased from Georgetown pursuant to the Asset Purchase Agreement.

8. Indiana-American is authorized to encumber the properties comprising the Georgetown's Water System with the lien of Indiana-American's mortgage indenture.

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

ATTERHOLT, FREEMAN, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: OCT 11 2017

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

Mary M. Becerra

Mary M. Becerra
Secretary of the Commission