

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE TOWN OF ELLETTSVILLE,)
INDIANA, BY ITS TOWN COUNCIL, FOR AUTHORITY)
TO INCREASE ITS RATES AND CHARGES FOR)
WATER SERVICE, FOR APPROVAL OF A NEW)
SCHEDULE OF RATES AND CHARGES FOR WATER)
SERVICE AND FOR AUTHORITY TO ISSUE BONDS,)
NOTES OR OTHER OBLIGATIONS)

CAUSE NO. 44670

APPROVED: APR 13 2016

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Jeffery A. Earl, Administrative Law Judge.

On August 27, 2015, the Town of Ellettsville ("Ellettsville") filed its Verified Petition in this Cause.

On September 11, Ellettsville filed the direct testimony and exhibits of Michael Farmer, water division director for Bynum Fanyo Utilities ("Bynum Fanyo")¹, and Rick Coppock, senior project engineer for Bynum Fanyo. On September 14, 2015, Ellettsville filed the direct testimony and exhibits of Brian Scott Oldham, President of the Ellettsville Town Council, and Douglas L. Baldessari, Certified Public Accountant with Umbaugh & Associates.

On December 7, 2015, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its Notice of Intent Not to File Testimony. On December 21, 2015, Ellettsville filed a Stipulation and Settlement Agreement ("Settlement Agreement"), entered into by Ellettsville and the OUCC (collectively, the "Settling Parties"), and settlement testimony from Mr. Baldessari. On December 22, 2015, the OUCC filed the Settlement Testimony of Richard J. Corey, Utility Analyst in the OUCC's Water and Wastewater Division. The OUCC also filed written comments from the public. On January 7, 2016, Ellettsville filed its proof of notice.

The Commission held an evidentiary hearing at 9:30 a.m. on January 11, 2016, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. Ellettsville and the OUCC appeared and participated in the hearing. No members of the general public appeared or sought to testify at the hearing.

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

1. **Notice and Jurisdiction.** Notice of the evidentiary hearing was given and published as required by law. Ellettsville is a *municipally owned utility* as defined in Ind. Code § 8-1-2-1(h). Under Ind. Code § 8-1.5-3-8(f)(2), the Commission has authority to approve Ellettsville's rates and charges for utility service. Under Ind. Code § 8-1.5-2-19(a), the Commission has authority to

¹ Bynum Fanyo manages Ellettsville's water and wastewater utilities.

approve Ellettsville's request to issue long-term debt. Therefore, the Commission has jurisdiction over Ellettsville and the subject matter of this Cause.

2. **Ellettsville's Characteristics.** Ellettsville is an Indiana municipality that owns, operates, and controls plant and equipment within the State of Indiana for the transmission, delivery, and furnishing of water service to the public in and around the Town of Ellettsville, Indiana. Ellettsville's offices are located at 3619 W. State Road 46, Smith Pike Crossing, Bloomington, Indiana. Ellettsville provides water utility service to approximately 4,900 customers, including 4,605 residential customers and 153 commercial and institutional customers in, and around, the Town of Ellettsville in Monroe County, Indiana. Ellettsville's current water service territory covers approximately 15 square miles in Monroe County. Ellettsville purchases all of its water from City of Bloomington Utilities ("CBU"). Ellettsville's current rates and charges were approved by the Commission in Cause No. 43582 U on June 3, 2009 ("Rate Order").

3. **Relief Requested.** Ellettsville initially requested approval of a 24.65% increase across-the-board to its current rates and charges for water utility service. Ellettsville also requests authority to issue long-term debt and bonds in the amount of \$1,715,000. In the Settlement Agreement the parties agreed to a 21.72% increase across-the-board to Ellettsville's current rates and charges for water utility service. The parties also agreed that Ellettsville should be authorized to issue \$1,710,000 in long-term debt and bonds.

4. **Test Year.** The test year for determining Ellettsville's actual and pro-forma operating revenue, expenses, and operating income under present and proposed rates is the 12 months ended August 31, 2014, adjusted for fixed, known, and measurable changes that will occur within 12 months after the end of the test year. We find that the August 31, 2014 test year, as adjusted for fixed, known, and measureable changes, is sufficiently representative of Ellettsville's normal utility operations to provide reliable data for ratemaking purposes.

5. **Ellettsville's Direct Evidence.**

A. **Mr. Oldham's Testimony.** Mr. Oldham testified that Ellettsville's current rates and charges are insufficient to satisfy its revenue requirements. Mr. Oldham also testified that Ellettsville cannot meet its current water service demands without a secondary water line. Ellettsville requires a secondary water line in the event that the current line is damaged or otherwise put out of service because Ellettsville only has 12 to 15 hours of water in reserve. Ellettsville has needed a secondary water supply line for several years, but Ellettsville does not have the funds to construct the secondary supply line and must borrow the money.

Mr. Oldham testified that Ellettsville currently has a different rate for inside- and outside-town customers. The Town Council determined that the reasons for initially adopting the inside-outside rate differential were no longer appropriate because half of Ellettsville's water customers live outside of Ellettsville. Most of the recent growth has been outside of town rather than inside of town. The Town Council determined that the cost of providing water to outside-town customers is no longer greater than providing water to the inside-town customers and that it would be appropriate to eliminate the surcharge to its outside of town customers.

B. Mr. Farmer's Testimony. Mr. Farmer described Ellettsville's water utility; offered testimony to explain and support Ellettsville's requests to borrow money to construct a secondary water line and to increase rates and charges; and described the proposed secondary water line.

Ellettsville is a municipally owned water and wastewater utility. Ellettsville purchases all of its water from CBU and receives its water through one 12-inch ductile iron pipe with a capacity of 1.2 million gallons of water per day ("mgd"). Ellettsville has 107 miles of water main and two storage tanks with combined storage capacity of one million gallons. Over the three-year period from 2012 to 2014, Ellettsville had daily average flows of almost 1 mgd.

Ellettsville's first system was installed in or around 1927, most of which was constructed with cast iron pipe. Additional infrastructure was added in the mid-1960s. A portion of the old system was replaced in early 2000. The remainder of the old system is scheduled to be replaced within ten years as part of Ellettsville's extensions and replacements ("E&R") plan. The lines in the newer portion of the system, and the replacement lines, are either ductile iron pipe or PVC. The mains range in diameter from 2 to 16 inches.

Ellettsville wishes to construct a second supply line from CBU, which will be approximately three miles long. The second supply line will be a completely independent system and will double the daily supply of water available to Ellettsville. Ellettsville plans to construct the secondary water line on private property because it will not incur additional costs to navigate around other utility lines, pipes, and easements, to restore public property, to hire traffic control, or to make pavement repairs on public roads.

Ellettsville plans to construct the secondary water line using its existing employees and equipment plus one permanent full-time additional laborer and two additional crew members who will be hired only for the duration of the project. The approximate total construction cost of the proposed secondary water supply line is \$1.5 million. The cost of building the secondary water supply line using a contractor would be approximately \$2.3 million. Ellettsville Utility crews are qualified to perform the work and are best suited for the project because of their knowledge of existing infrastructures and the terrain associated with the work.

CBU has encouraged the construction of a secondary water line, and Ellettsville's 1994 contract with CBU contemplated that Ellettsville would construct a secondary water supply line. In Cause No. 43582 U, the OUCC expressed concern that Ellettsville had only a single line supplying its system. Ellettsville's average daily usage of almost 1 mgd is very close to the 1.2 mgd capacity of the existing supply line. For a period of sixty days during the summer of 2012, Ellettsville's average daily usage exceeded 1.2 million gallons per day, and within the last year, Ellettsville has had several days during which its daily usage was 1.5 million gallons, making it difficult to fill the storage tanks. Further, in the event that the single supply pipe were damaged or service was interrupted, Ellettsville would have only 12 to 15 hours' worth of water in reserve.

Ellettsville does not have \$1.5 million on hand to pay for the secondary water supply line and must borrow the funds to pay the costs. Ellettsville intends to issue a bond for the project on the open market as explained in Mr. Baldessari's testimony. Ellettsville considered other options for funding the project, including the State Revolving Fund ("SRF") and the Rural Development ("RD") loans, neither of which was a good fit for Ellettsville. The SRF will not fully fund a "do it yourself" project such as Ellettsville proposes. Therefore, to pursue SRF funding, Ellettsville would

need to have a contractor do the project work at a cost of \$2,254,000. RD is lender of last resort for municipalities that cannot obtain loans on the open market, and Ellettsville is able to borrow funds. Ellettsville determined that the least costly option was to borrow the funds with open market bonding to cover project and financing related costs, and for Ellettsville Utilities to construct the project itself. Because Ellettsville's existing rates for water service do not generate sufficient revenue to pay the debt service on, and related costs associated with, the proposed borrowing, Ellettsville proposes a rate increase.

Mr. Farmer described the proposed E&R plan in his testimony. Ellettsville proposed a revenue requirement for E&R in its petition, which is not based on Ellettsville's historical E&R spending. Ellettsville has not been able over the past years to spend adequate money on E&R because it has not had the funds with which to do so. Ellettsville proposes a ten-year E&R plan, which consists of vehicle and equipment replacements, replacement of meters and hydrants, and replacement and extensions of water lines.

Mr. Farmer believes that Ellettsville's E&R Plan is necessary and reasonable to provide reasonably adequate water utility service to the public. Mr. Farmer reviewed the utility work orders for the Test Year to verify the hours of labor and equipment allocated to water and sewer. There were more work orders for water than for sewer. About 65% of the labor and equipment hours spent completing repairs were devoted to water versus 35% for sewer. Mr. Farmer anticipates, however, that the number of hours will even out over the long haul to a 50/50 allocation. Based upon Mr. Farmer's review of the utility work records, he determined that 50% of labor and equipment costs should be allocated to each utility. Therefore, Ellettsville proposes to allocate its E&R items on a 50/50 basis between water and sewer operations.

Mr. Farmer described Ellettsville's vehicles and equipment, the life expectancy of each and the cost to replace each. All purchases will be competitively bid. The vehicles and equipment include three pick-up trucks, one three-quarter ton service truck, a single axle dump truck, two back hoes, one front loader, one skid loader, and a hand-held meter reader.

Ellettsville plans to upgrade its 4,861 meters. Its existing meter fleet is between 15 and 25 years old. Ellettsville proposes a 15-year meter replacement program under which approximately 325 meters will be replaced every year with radio-read meters at a cost of \$66,625 per year.

Ellettsville plans to update its system maps and implement a GIS and proposes to have the system mapping updated within the next five and one-half years. The new maps will show the location of all valves and hydrants and include utility facilities in three or four newer subdivisions not currently included on Ellettsville's maps. When complete, the water mapping will be integrated into the Monroe County GIS as a background that will include property lines and parcel and owner information that will be updated as the GIS is updated. Ellettsville proposes to recover the cost of the water system mapping work over the five and one-half year term of the mapping project, which will cost \$14,072.

Ellettsville needs to repair or replace its hydrants. Ellettsville just completed a hydrant and flow inspection program, replaced some of the non-functioning hydrants, and repaired some of the hydrants that needed repair. Ellettsville plans to replace 25 hydrants in ten years for a total cost of \$105,000. Ellettsville also plans to upgrade its water line replacements and extensions by upgrading 7,600 feet of line, installing almost 11,000 feet of new line, and replacing and adding hydrants at a total cost of \$933,475.

Ellettsville initiated a ten-year leak detection program, and the audit was completed in July 2014. The Test Year unaccounted for water averaged over 24%. The audit identified a number of significant leaks that needed to be repaired. Ellettsville repaired most of the leaks within two weeks to reduce its unaccounted for water to 14.5%. Ellettsville's purchased water expense decreased noticeably after the Test Year. The decrease in water loss accounts for the reduction in Ellettsville's purchased water expense after the end of the Test Year.

Mr. Farmer testified that Ellettsville Utilities has been shorthanded for several years. Ellettsville needs to replace at least one of the former employees to pursue the proposed E&R Plan. The cost of the replacement employee, at starting pay for a Utility service person is \$59,283 annually, which includes wages, payroll taxes and benefits.

Mr. Farmer described Ellettsville's tank inspection and maintenance program. The contract with Caldwell Tanks for inspecting, washing out, and maintaining the McNeely Road tank is \$25,492 a year. Mid-Atlantic Storage Systems, Inc. performs the maintenance on the Loudon Road tank. Ellettsville plans to have Mid-Atlantic to perform an inspection and washout of the tank every three years, which will cost approximately \$1,600 per year.

Ellettsville Utilities has a maintenance program for its large and small booster pumps. Ellettsville proposes to accumulate funds to replace the booster pumps at an average of \$2,000 per year.

Mr. Farmer testified about Ellettsville's need to obtain new office space. Ellettsville had office space in the Ellettsville Town Hall. The old Town Hall has experienced flooding on several occasions. Floodwater damaged or destroyed Utilities' office equipment and records. In addition, the Town Hall lacks sufficient parking space, is not ADA accessible, and lacks sufficient storage space for records. Ellettsville's offices are currently located in a shopping center on State Road 46. The Town Council has decided to build a new Town Hall and has purchased real estate on Maple Grove Road next to the Ellettsville Police Station. The new Town Hall will be approximately 8,500 square feet and will cost approximately \$1.8 million to construct. Ellettsville's offices and the common areas will account for approximately 50% of the new building. The space will be shared equally by the Water and Sewer Operations. The Clerk-Treasurer, Town Manager, and the Planning Department will occupy the remaining 50% of the building. Ellettsville plans to pay for the new Town Hall by issuing property tax supported bonds. Ellettsville expects to occupy the new Town Hall in the fall of 2016.

The Town of Ellettsville expects to recover the costs related to the new Town Hall from the departments that will occupy it. The Town departments that occupy the new Town Hall will pay their share of the debt service and operating expenses based on the square foot percentage of the Town Hall they occupy. The annual office rent expense for Ellettsville proposed by the Town is approximately \$42,341. Ellettsville will begin paying rent on its space in the new Town Hall as soon as it occupies its space in the new Town Hall.

Mr. Farmer believes that the rent for the proposed Town Hall office space is reasonable. Under the bond financing, the construction of the Town Hall project will be subject to competitive bids, which will assure a reasonable construction cost, and once the bonds supporting the Town Hall are paid, Ellettsville's rent will be reduced to its share of the Town Hall's operating costs.

C. **Mr. Baldessari's Testimony.** Ellettsville retained Mr. Baldessari and Umbaugh to assist with compiling Ellettsville's future revenue requirements and to make recommendations regarding changes in Ellettsville's present schedule of rates and charges. Umbaugh was also retained to provide financing options for improvements to Ellettsville's waterworks system. Umbaugh's study was based on information Umbaugh obtained from Ellettsville's records. Mr. Baldessari filed the accounting report created by Umbaugh as Exhibit No. 3-A.

Mr. Baldessari explained that the Test Year when coupled with fixed, known, and measurable adjustments expected to occur within 12 months of the end of the Test Year is representative of Ellettsville's operations for rate-making purposes. Umbaugh analyzed Ellettsville's updated calendar year 2014 financial statements to determine whether the Test Year financial information was reflective of its current financial position, and determined that certain revenue and expense adjustments should be made to the Test Year. Umbaugh's proposed adjustments will bring the Test Year data in line with the calendar year 2014 financial information.

Mr. Baldessari explained that the estimated construction costs for the secondary water line, including contingencies and engineering fees, is \$1,500,000. Non-construction costs, which include allowances for costs related to the rate and financing case and the bond issue of \$189,275 and a 1.5% allowance for underwriter's discount of \$25,725, are \$215,000. The total estimated costs of the project are \$1,715,000. Principal repayments on the bonds are to be paid semi-annually over a 12-year period beginning July 1, 2018. The first principal payment will be deferred until July 1, 2018 in order to "wrap" the debt service around the outstanding Waterworks Refunding Revenue Bonds of 2010 (the "2010 Bonds"), which have a final maturity date of January 1, 2018. The debt service on the proposed Bonds is wrapped around the 2010 Bonds in order to ease the rate impact and financial burden on the ratepayers resulting from the proposed debt service requirements. Interest on the Bonds is to be paid semi-annually beginning January 1, 2016 at assumed interest rates ranging from 2.80 percent to 4.75 percent. The estimated rates include a 100-basis point allowance for fluctuations in the open market interest rates since interest rates are likely to trend higher in the future from the historically low market interest rates. Actual interest rates will be determined through competitive bidding.

Ellettsville proposes to issue the Bonds on the open market instead of issuing the Bonds through the SRF because the project does not qualify for SRF financing. Ellettsville's construction plan will result in lower project costs of \$750,000, which will more than offset the potential savings of \$180,000 over the life of the Bonds that could be achieved by issuing the Bonds through SRF at the lower interest rate. In addition, the project requires running a main extension through previously undisturbed lands, which will require environmental reviews if funded with SRF program bonds. The environmental review would slow down the project and add to the costs.

Mr. Baldessari explained that the actual amount of Ellettsville's debt issuance, interest rates, issuance costs, annual debt service and the required debt service reserve will not be known until Ellettsville completes the financing. A true-up may be required after the financing is accomplished and the relevant amounts are known with certainty. Therefore, Ellettsville proposed filing a true-up report of its borrowing with the Commission and serving a copy with the OUCC within 60 days after the completion of the debt issuance. The true-up report would reflect Ellettsville's actual issuance costs, interest rates, average annual debt service requirement, and the amount of any required debt service reserve. The report would also include the impact that any differences

between the actual debt issuance results and the debt service estimates, including debt service reserve, will have on Ellettsville's rates and charges or its tariff. If Ellettsville believes that the actual debt issuance results require a modification of its rates and charges, Ellettsville would file a request to modify the rates and charges detailing its proposed changes and an amended tariff along with its report. If the OUCC believes that actual debt issuance results require a modification to Ellettsville's rates and charges, it could file a request to modify Ellettsville's rates and charges and must file its request for proposed modifications within 20 days of the filing of Ellettsville's financing report.

The pro forma combined average annual debt service is \$179,223 for the five bond years ending January 1, 2021. The debt service reserve requirement for the proposed and outstanding bonds is calculated to be \$182,165, which is representative of the maximum annual combined debt service for the bond year ending January 1, 2021.

Mr. Baldessari's report explained Umbaugh's ten adjustments to cash operating expenses. The first adjustment was related to the reduced water loss in Ellettsville's system as a result of the leak detection audit. The leak repairs resulted in reductions in water loss of about 10%. The repairs were made at the end of the Test Year and the reduced purchased water expense did not occur until after the Test Year. Therefore, Umbaugh made an adjustment to Test Year purchased water expense of \$101,052.

The second adjustment was related to salaries and wages. The adjustment reflected the current positions and pay rates for the Test Year, which were normalized to reflect the equivalent hours worked per employee adjusted for employee pay rates in the 2015 Salary Ordinance. The adjustment also includes the inclusion of a new utility employee to be paid 50% out of the Water Utility. This adjustment resulted in a \$39,967 increase in the Test Year cash operating expenses.

The third adjustment was to payroll taxes due to the increase in payroll expense from the addition of a new employee and the increase in pay rates. This adjustment resulted in a \$2,085 increase in Test Year cash operating expenses.

The fourth adjustment was to Public Employees' Retirement Fund ("PERF") expense, due to the increase in payroll expense. The adjustment is calculated by taking the pro forma salaries and wage expenses subject to PERF and multiplying them by the 2014 PERF rate of 14.2%, which resulted in a \$7,997 increase in Test Year cash operating expenses.

The fifth adjustment was for medical insurance to include the current premiums and the additional expense for the proposed new employee. The estimate of medical insurance was based on a normalized estimate from utility management and resulted in a \$7,226 increase in Test Year cash operating expenses.

The sixth adjustment removed capital and non-recurring items that occurred during the Test Year that were not expected to recur in a normal year. These expenses included the installation of a new accounting software system, the cost of the leak detection survey, the rate case fees, along with the cleanup costs of the Town Hall flooding. This adjustment resulted in a \$76,919 decrease in Test Year cash operating expenses.

The seventh adjustment was for the management contract, which was increased by an estimated 3% per year to allow for the annual inflationary adjustment included in the contract. This adjustment resulted in a \$3,384 increase in Test Year cash operating expenses.

The eighth adjustment was for periodic maintenance. The pro forma annual amount for periodic maintenance is calculated based on the tank maintenance agreement and the estimate for booster pump maintenance, inspection, and wash out expenses, which are described in Mr. Farmer's testimony. This total adjustment for tank painting, booster pump maintenance, tank inspection, and wash out resulted in a \$3,996 increase in Test Year cash operating expenses.

The ninth adjustment was for utility receipts tax. This adjustment is calculated by taking the operating revenues at current rates subject to utility receipts tax less the \$1,000 exemption times the 1.4% tax rate. This adjustment resulted in a \$1 increase in Test Year cash operating expenses.

The tenth adjustment was for rent expense paid to the Town for use of a portion of the new Town Hall. This adjustment is calculated by allocating 25% of the total estimated costs of the Town hall including debt service on the future bonds and anticipated operating costs for the Town Hall to the water utility. This allocation is based on the water utility and sewer utility collectively using 4,290 square feet (50%) of the future Town Hall's total square footage of 8,580 square feet and splitting the utilities' allocated portion 50/50 to the water utility and sewage works. The annual rent expense for the Town Hall allocated to the water utility is estimated to be \$42,341. This expense adjustment results in a \$40,153 increase in Test Year cash operating expenses after deducting out the Test Year rent expense.

The total annual requirement for Ellettsville's E&R Plan is \$163,376. This includes replacing vehicles and equipment, upgrading to radio-read meters, and updating system maps. The percentage allocation is 50% to water and 50% to sewer. Ellettsville's annual requirement for equipment is \$66,028. The E&R plan also includes upgrading water lines, an interconnect project, the replacement of hydrants, and enhancing the leak detection plan. These proposed improvements are amortized over a ten-year period to result in an annual requirement of \$97,348.

The total pro forma cash operating expenses are \$1,435,744. An allowance of \$2,601 is included in the revenue requirements for the expected additional Indiana Utility Receipts Taxes.

The debt service requirement includes the debt service currently outstanding on the 2010 bonds and the proposed bonds. The total annual debt service requirement is calculated to be \$179,223, which represents the average annual debt service on the combined debt for the five bond years ending January 1, 2021.

The debt service reserve for the 2010 refunding bonds of \$65,321 is fully funded. The debt service reserve is calculated to be the minimum of a three prong test. The three prongs of the test are the maximum annual debt service, 125% of the average annual debt service or 10% of the par amount of the original bond issues. The debt service reserve for the outstanding and proposed bonds is estimated to be \$182,165. The debt service reserve requirement represents the current balance in the debt service reserve account of \$65,543 related to the outstanding 2010 bond issue and \$116,622 related to the proposed bond issue pursuant to the requirements in Ellettsville's bond ordinance. This incremental debt service reserve requirement will be funded through future revenues with monthly transfers over five years subsequent to the issuance of the bonds.

Payment in lieu of taxes is held constant at the Test Year level of \$16,100.

The total annual allowance for extensions and replacements included in revenue requirements is an estimated. The allowance for Extensions and Replacements approved in the June 3, 2009 Order in Cause No. 43582 U was \$184,240. The actual Test Year Extensions and Replacements expenditures were significantly lower in the Test Year than what was approved in the last rate case due to the lack of available revenues from rates to expend on the E&R items.

The total revenue requirements of \$1,820,368 were reduced by Test Year penalties, miscellaneous revenue, and other incomes resulting in net revenue requirements of \$1,731,068. Ellettsville's other income included tap fees, water tank cell tower rental income, and interest income for the Test Year. Test Year revenue also included metered sales and fire protection totaling \$1,545,272 after a normalization adjustment for a reduction in revenues based on calendar year 2014. The normalization adjustment was made after Umbaugh analyzed the calendar year 2014 revenues and noticed that there was a material reduction in revenues. Umbaugh then normalized metered revenues down by \$36,952.

Umbaugh also analyzed the billed water usage sold to customers, the number of customers, water purchases, and water loss for the years 2007 through 2014. There was an increase of 76 customers in 2008, but the increase in customers averaged 27 over the past 6 years and only nine customers were added in 2014. The billed usage for water sold declined in all years since 2007 except for years 2010 and 2012. The revenues have also seen similar reductions factoring out the 23.09% rate increase effective in 2009 and the two purchased water tracking factor increases effective in 2011. Umbaugh made an adjustment to reduce revenues to the calendar year 2014 level because there appears to be a pattern of reduced usage and revenues in recent years.

Mr. Baldessari explained that Umbaugh also made a revenue adjustment to decrease metered and fire protection in Test Year revenues by \$156,561 in order to factor in the Town Council's decision to eliminate the inside/outside Town rate differential. All customers will pay the same amount for water. The outside of Town customers' revenues were re-calculated at the inside of Town rates resulting in a reduction in Test Year revenues of \$156,561. In order to provide revenues to meet its lawful revenue requirements, Ellettsville proposed its water rates and charges be increased across-the-board by 24.65% effective upon approval by this Commission.

Mr. Baldessari believes that the proposed financing through the issuance of Bonds and the structure of the Bonds is a reasonable and necessary method of funding the proposed second water supply line. This will allow Ellettsville the ability to spread the recovery of these costs among benefited users, will result in lower rates for current customers, and will provide a mechanism for future customers to pay for a portion of the facilities that they will use. Ellettsville's rates and charges will provide a 213% margin calculated as required by Inc. Code § 8-1.5-2-19(b).

D. Mr. Coppock's Testimony. Mr. Coppock described Ellettsville's water utility. Ellettsville's service territory covers approximately 15 square miles in Monroe County and serves 4,900 residential and commercial customers. The water utility consists of 107 miles of water main and two storage tanks. Ellettsville purchases all of its water from CBU on a wholesale basis. Ellettsville currently has two connection points to CBU, which supply one 12-inch water main that is Ellettsville's sole source of water. The 12-inch water main has a capacity of 1.2 mgd.

Mr. Coppock testified that Ellettsville needs a secondary water supply line from CBU to keep pace with system demands. Within the last year, Ellettsville has had several days in which 1.5 million gallons of water have been used, and Ellettsville only has one million gallons of storage. The average daily demand for water on Ellettsville's system between 2012 and 2014 was almost one mgd. On occasion, Ellettsville has had trouble refilling its two tanks when the usage has averaged 1.5 mgd. Ellettsville uses an average of 76% of its capacity during normal water usage periods.

The secondary water line from CBU will double the daily supply of water available to Ellettsville, which will provide better service to Ellettsville's customers during periods of high usage. Both Ellettsville's Waterworks Master Plan and the October 3, 1994 Contract for Sale of Water between Ellettsville and CBU contemplated that a second water line would be built.

Mr. Coppock described the proposed water supply line, which will consist of 3.39 miles of 12-inch ductile iron pipe. The project will connect to CBU's system at Loesch Road and Woodyard Road by connecting to a 12-inch line. The line will then run parallel with Woodyard Road until it is north of Walcott Lane. After Walcott Lane, the water line will run to the west and run through an open field until it reaches Hartstraight Road. The water line will then run north and parallel to Hartstraight Road and then turn west through open ground to Thomas Road. The line will then turn to the north and run parallel to Thomas Road and connect with Ellettsville's existing water distribution system and the 500,000 gallon storage tank on Loudon Road. Mr. Coppock explained that this particular route was chosen because it has the least obstacles and has optimal accessibility for construction and future maintenance.

Mr. Coppock explained why Ellettsville proposed to install the secondary water line in easements rather than the road right-of-way. The existing road right-of-way has a maximum width of 25 feet on each side of the road, which currently contains gas, phone, and fiber optic lines. In most areas of the water line route there is not enough room in the right-of-way for the installation of the proposed water line. Some portions of the proposed water line route will run parallel to the roadway, and in other areas, the water line route will depart from the road course and cross farm fields to avoid drives, mailboxes, landscaping areas and utility lines. By not using the road right-of-way, Ellettsville will avoid the costly backfill required near a roadway and the cost of traffic control. Ellettsville will also avoid having to relocate the water line, at its expense, if the road is ever widened.

Mr. Coppock explained that Ellettsville plans to construct the secondary water line with its own employees and equipment. Ellettsville's employees participated in the construction of the State Road 46 widening project and constructed over 12,000 feet of water line from May 2001 to September 2003.

The proposed cost for the secondary water line project is \$1,500,000. The same project would cost \$2,254,000 if it was installed by a contractor. The easement acquisition costs are approximately \$127,050. The easement acquisition costs have been included in the total cost of the project. Ellettsville expects the project to be completed within two years of approval.

6. **The Settlement Agreement.** On December 21, 2015, the Settling Parties entered into the Settlement Agreement, which was offered into evidence as Joint Exhibit 1. A copy of the Settlement Agreement is attached to this order and is incorporated by reference.

7. **Settlement Testimony.**

A. **Mr. Baldessari's Testimony.** Mr. Baldessari testified that the Settling Parties have agreed to a pro-forma Revenue Requirement of \$1,706,980 and an across-the-board increase of 21.72% to Ellettsville's rates and charges after normalizing the rates and charges for the customers located outside the Ellettsville town limits to eliminate the territorial surcharge.

The total prefiled Revenue Requirements of \$1,820,368 were reduced by the test year penalties, miscellaneous revenue, and other income resulting in a net Revenue Requirement of \$1,731,068. The Settlement Agreement annual Revenue Requirement is \$37,772 less than the original amount requested by Ellettsville. The prefiled Revenue Requirements were reduced for reductions in operating expenses for additional capital and non-recurring expenditures and reductions in rent expense and utility receipts taxes. Also, the annual debt service and debt service reserve requirements were reduced based on a reduction in the assumed interest rate on the proposed bonds. Test year revenue, including metered sales and fire protection, totaled \$1,388,711, after a normalization adjustment and elimination of the outside town territorial surcharge.

The rent expense on the new town hall was reduced by \$21,183 based on the use allocable to the Water Utility as proposed by the OUCC. The rent for the new town hall was also adjusted for estimated operating expenses that could be fairly allocated to the Water Utility, which resulted in a downward adjustment of \$5,681. In total, the Settling Parties have agreed to a \$26,864 downward adjustment for operating expenses.

The Settling Parties agreed to a \$901 downward adjustment for taxes other than income.

The annual debt service and debt service reserve requirements were adjusted for the reduction in the assumed interest rates on the proposed bonds. The Settlement Agreement's proposed debt service requirements are based on a more current "BAA" interest rate scale plus 50 basis points, which results in a reduction in the combined debt service of \$8,264 and a reduction in the debt service reserve requirement of \$1,743. The Settling Parties have agreed to these adjustments and have also agreed that the highest annual interest rates on the proposed bond shall not exceed 6% per annum.

The Settling Parties agreed to Ellettsville's amounts for metered water sales, fire protection, normalization for the elimination of the outside town surcharge, forfeited discounts, miscellaneous and other income.

B. **Mr. Corey's Testimony.** Mr. Corey testified that the OUCC accepted Ellettsville's adjustments for revenue normalization and the elimination of the outside town surcharge. But the OUCC did not agree with Ellettsville's allocation of water revenues that are subject to increase. In its petition, Ellettsville requested that forfeited discounts, tap fees, other water revenue, reconnect and NSF fees, other service charges, reimbursements, tank rental, and interest income not be subject to its increase in rates. The Settling Parties' settlement schedules

reflect forfeited discount revenues as subject to the increase. The remaining revenue accounts are not subject to the increase.

The OUCC accepted Ellettsville's adjustments to purchased water, salaries and wages, FICA, PERF expense, medical insurance, management contract expense, and periodic maintenance. The OUCC proposed eliminating expenditures that were non-recurring or capital in nature such as clean-up costs for flooding, leak detection, and legal fees. The Settling Parties agreed that those expenditures were non-recurring and should be removed from the operating expenses for the purpose of rate setting. The OUCC settlement schedule 6, adjustment 6, lists the additional capital and non-recurring expenditures in the amount of \$5,681.

The OUCC disagreed with Ellettsville's proposal to allocate 25% of the rent expense to the water utility. The Settling Parties agreed that the annual building rent for Ellettsville would be \$18,003 per year or about 13% of the total cost. The Settling Parties agreed to add to this amount \$3,155 for Ellettsville's share of the Town Hall's utility expense for a total annual rental expense of \$21,158. Reducing this by the test year rental expense of \$2,188, results in a pro-forma adjustment of \$18,970.

The OUCC disagreed with Ellettsville's calculation of its annual debt service of \$179,223. The Settlement Agreement uses a recalculated annual debt service amount based on updated interest rates as of October 31, 2015, and reduces the proposed 100 basis points added to 50 basis points. This results in a settlement annual debt service of \$170,959, or a reduction of \$8,264. The updated interest rates and smaller cushion reduce Ellettsville's annual debt service to \$170,959, based on a five-year average between 2017 and 2021.

Because the precise interest rates and annual debt service will not be known until Ellettsville's debt is issued, Mr. Corey recommended that Ellettsville's rate should be true-up to reflect the actual annual cost of the debt. Within 30 days of closing on its long-term debt issuance, Ellettsville would file with the Commission a report explaining the terms of the new loan that includes an amortization schedule, the amount of debt service reserve, and an itemized account of all issuance costs. The report should include a revised tariff and also calculate the rate impact in a manner similar to the OUCC schedules. Ellettsville would serve a copy of the report on the OUCC, and the OUCC would have 20 days to challenge Ellettsville's proposed true-up.

Mr. Corey further testified that an additional restriction on Ellettsville's proposed debt service reserve should be a requirement that Ellettsville deposit \$21,581 per year, adjusted for final debt service, into its debt service reserve fund.

8. 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 agreement and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition 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 interests will be served by accepting the settlement." *Citizens Action Coalition*, 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 Coalition v. Public Service Co. of Ind., Inc.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's procedural rules also 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 conclusion that the Settlement Agreement is reasonable, just, and consistent with the purpose of Indiana Code ch. 8-1-2 and that such agreement serves the public interest.

A. The Settlement Agreement. The Settling Parties provided sufficient evidence to support the terms of the Settlement Agreement. Based on the evidence presented, we find that the Settlement Agreement represents a reasonable resolution of the issues presented. The rate increase and borrowing authority agreed upon by the Settling Parties will provide Ellettsville with sufficient revenue for its operations and will allow it to implement the capital improvements that are reasonable and necessary for safe and reliable service to its customers. Therefore, we conclude the Settlement Agreement is reasonable and in the public interest, and we approve the Settlement Agreement.

B. Ellettsville's Borrowing Authority. We find that Ellettsville's proposed secondary water line project is necessary for Ellettsville to provide a reasonably adequate service to its customers. The evidence shows that Ellettsville's average daily demand for water service is very close to the 1.2 mgd capacity of the existing supply line and that Ellettsville's demand has exceeded that on several occasions, making it difficult to fill the storage tanks. Further, should the existing supply line become damaged or unusable, Ellettsville would only have 12 to 15 hours of water reserve available. Therefore, we authorize Ellettsville to construct a secondary water line to connect to CBU.

Ellettsville provided sufficient evidence, with which the OUCC agreed, that the projected cost of the secondary water line is reasonable. Ellettsville will use its own workforce to construct the secondary water line, and will site the line in such a way as to avoid additional costs for construction along rights-of-way. Therefore, we find that the cost of the secondary water line project is reasonable. But the evidence demonstrates that Ellettsville does not have the funds on hand to pay for the project, and must borrow funds. The Settling Parties agreed on the proposed borrowing method. They propose that Ellettsville will issue long-term bonds not to exceed \$1,715,000 in principal amount with the highest annual interest rates not to exceed 6% percent per annum. We find that the proposed financing amount and terms are reasonable and we authorize Ellettsville to issue long-term debt consistent with the agreed terms.

Because the actual terms of the bond issue are not known at this time, Ellettsville shall file a report with the Commission within 30 days of closing on the long-term debt issuance. The report shall include the actual principal amount of the debt issuance, the interest rate, an amortization schedule, the actual amount of debt service revenue requirement, the actual amount of the debt service reserve revenue requirement, and an itemized account of all issuance costs. In the event that there is a difference between the estimated and actual revenue requirements related to the long-term debt issuance, Ellettsville shall file an amended tariff implementing the revised rates and charges.

The OUCC shall have 20 days to file an objection to the report. If an objection is filed, or if the Commission believes that terms of the long-term debt issuance are inconsistent with the findings of this order or otherwise unreasonable, the Commission will reopen the record in this Cause to receive additional evidence. If the OUCC does not file an objection, and the terms of the long-term debt issuance are consistent with this order, the Commission's water and wastewater staff are authorized to approve the modified tariff, to be effective on the first billing cycle following approval.

C. Ellettsville's Rate Increase.

1. Elimination of Ellettsville's Territorial Surcharge. The evidence presented shows that Ellettsville's cost of service customers outside of its municipal boundary is not materially different than the cost to service customers inside the municipal boundary. Therefore, we approve Ellettsville's proposal to eliminate the surcharge charged to water customers located outside of the town limits.

2. Ellettsville's Test Year Operating Revenue. Based on the evidence presented, we find that Ellettsville's adjusted test year operating revenue at present rates is \$1,402,395.

3. Ellettsville's Revenue Requirement. Based on the evidence presented, we find that Ellettsville's adjusted pro-forma revenue requirement is \$1,706,980, calculated as follows:

Operating Expenses	\$ 1,386,033
Taxes other than income	24,547
Debt Service	170,959
Debt Service Reserve	21,581
Payment in Lieu of Taxes	16,100
Extension and Replacements	<u>163,376</u>
Total Revenue Requirements	1,782,596
Less: Miscellaneous revenue	(30,128)
Less: Other income	<u>(45,488)</u>
Net Revenue Requirements	<u>\$ 1,706,980</u>

4. Ellettsville's Authorized Rates. Based on the evidence presented, we find that Ellettsville's current rates and charges, which provide annual adjusted revenues of \$1,402,395, are insufficient to satisfy Ellettsville's annual pro forma adjusted revenue requirement of \$1,706,980. Therefore, we authorize Ellettsville to increase its rates and charges for water service, across-the-board, after normalizing the rates of the customers located outside the town limits to eliminate the territorial surcharge, so as to produce annual revenues of \$1,706,980. This results in an increase of \$304,585, over annual adjusted present rate revenues of \$1,402,395.

10. Effect of Rate Increase on Customers. Based on the approved rate increase, a residential customer taking service from 5/8" meters will see the following changes. The minimum

charge, which includes 3,000 gallons of usage, will increase by \$2.97 from \$13.65 to \$16.62 for inside-town customers. The minimum charge for customers outside the municipal limits will decrease \$0.20 from \$16.82 to \$16.62. For 5,000 gallons of usage, the bill for inside-town customers will increase by \$4.75 from \$21.87 to \$26.62. The bill for customers outside the municipal limits will decrease by \$0.63 from 27.25 to \$26.62.

11. Certification Required by Ind. Code 8-1.5-2-19(b). Ind. Code § 8-1.5-2-19(b) states:

(b) If the evidence presented to the commission establishes that the rates and charges proposed by the municipally owned utility 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 ten percent (10%) in excess, the commission shall so certify in its order approving the issuance of bonds.

Based on the evidence presented, and the rates and charges approved in this order, we certify that Ellettsville's authorized 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 ten percent (10%) in excess.

12. Use of Settlement Agreement. The Settling 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 herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, (IURC March 19, 1997).

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

1. The Settlement Agreement is approved.
2. Ellettsville is authorized to increase its rates and charges for water utility service, across-the-board, after normalizing the rates of the customers located outside of the Ellettsville Town limits to eliminate the territorial surcharge, so as to produce annual revenues of \$1,706,980, which is an increase of \$304,585, over annual adjusted present rate revenues of \$1,402,395.
3. Ellettsville is authorized to engage in long-term borrowing and to issue bonds in a principal amount not to exceed \$1,715,000 with the highest annual interest rates not to exceed 6% per annum.
4. Ellettsville shall comply with the Debt Service Timing Agreements set forth in Paragraph A.3 of the Settlement Agreement and the Report of Borrowing and True-Up Procedure set forth in Paragraph A.4 of the Settlement Agreement and as described above.

5. Prior to implementing the authorized rates, Ellettsville shall file the applicable rate schedules under this Cause for approval by the Commission's Water and Wastewater Division. Ellettsville's new schedules of rates and charges shall be effective after approval by the Water and Wastewater Division and shall cancel all previously approved schedules of rates and charges.

6. In accordance with Ind. Code § 8-1-2-70, Ellettsville shall pay the following itemized charges within twenty (20) days from the date of this Order to the Secretary of the Commission:

Commission Charges	\$ 2,187.51
OUCG Charges	\$ 9,517.24
Legal Advertising Charges	\$ 81.11
TOTAL	\$11,785.86


7. In accordance with Ind. Code § 8-1-2-85, Ellettsville shall pay a fee equal to \$0.25 for each \$100 of bonds issued, to the Secretary of the Commission, within thirty (30) days of the receipt of the financing proceeds authorized herein.

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

STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: APR 13 2016

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



Shala M. Coe
Acting Secretary to the Commission

			Unit	Total
Description	Quantity	Units	Price	Amount
12 Inch DIP Water Main	17,874	LFT	\$27.48	\$491,177.52
12 Inch Gate Valve & Box	22	EA	\$2,267.80	\$49,891.60
Mechanical Restraints, 45 Bends & 22 1/2 Bends	1	LS	\$87,949.16	\$87,949.16
8 Inch DIP Water Line	20	LFT	\$22.02	\$440.40
8 Inch Gate Valve & Box	1	EA	\$1,295.06	\$1,295.06
Fire Hydrant, 12"x6" Tee, w/Aux. Valve & Box	16	EA	\$4,267.20	\$68,275.20
Air Release Valve	10	EA	\$1,536.92	\$15,369.20
Pressure Reducing Valve	2	EA	\$10,600.00	\$21,200.00
Cut & Repair Asphalt Pavement	120	LFT	\$30.60	\$3,672.00

Granular Backfill	6620	Tons	\$14.00	\$92,680.00
Final Seeding	10000	LFT	\$1.70	\$17,000.00
Traffic Control	1	LS	\$3,500.00	\$3,500.00
Temporary Labor - 2	1	LS	\$66,459.36	\$66,459.36
Equipment Rental	1	LS	\$50,000.00	\$50,000.00
Rock Excavation - Subcontracted	629	CYS	\$175.00	\$110,075.00
Fuel	1	LS	\$24,664.00	\$24,664.00
Erosion Control	1	LS	\$11,350.00	\$11,350.00
Testing	1	LS	\$4,200.00	\$4,200.00
Disinfection (Tablets)	40	EA	\$32.54	\$1,301.60
Connection to Existing Ellettsville Water Line	1	EA	\$6,165.00	\$6,165.00
		Sub-Total		\$1,126,665.10
Looped Connection to Forest Park Farms				
8 Inch DIP Water Line	860	LFT	\$22.02	\$18,937.20
8 Inch Gate Valve & Box	2	EA	\$1,295.06	\$2,590.12
Fire Hydrant, 8"x6" Tee, w/Aux. Valve & Box	1	EA	\$4,007.20	\$4,007.20
Granular Backfill	480	Tons	\$14.00	\$6,720.00
Cut & Repair Asphalt Pavement	30	LFT	\$30.60	\$918.00
Final Seeding	860	LFT	\$1.70	\$1,462.00
		Sub-Total		\$34,634.52
Looped Connection to Ratliff Road				
8 Inch DIP Water Line	1,250	LFT	\$22.02	\$27,525.00
8 Inch Gate Valve & Box	2	EA	\$1,295.06	\$2,590.12
Fire Hydrant w/Aux. Valve & Box	0	EA	\$4,007.20	\$0.00
Granular Backfill	700	Tons	\$14.00	\$9,800.00
Cut & Repair Asphalt Pavement	30	LFT	\$30.60	\$918.00
Final Seeding	1250	LFT	\$1.70	\$2,125.00
		Sub-Total		\$42,958.12
		Total		\$1,204,257.74
		Contingency @ 10%		\$120,425.77
		Engineering Design		\$48,170.31
		Easement Acquisitions		\$127,050.00
		Total Project		\$1,499,903.82

ASC Project Cost Summary

ASC Project Costs from detail above (rounded)	\$1,500,000
Other Non-Construction Costs	
Local Counsel, IURC Counsel, Bond Counsel,	
Financial Advisory-Bond Issue & Rate Case, Trustee and Misc.	\$ 189,275
1.5% Allowance for Underwriter's Discount	<u>\$ 25,725</u>
Total ASC Project Costs	\$1,715,000

The Parties stipulate and agree the ASC Project is necessary for Petitioner to provide reasonably adequate service. The Parties stipulate and agree that the projected costs of the ASC Project are reasonable. The Parties also stipulate and agree that the Petitioner does not have the funds on hand to pay for the ASC Project and the proposed borrowing is a reasonable method to fund the ASC Project.

2. Borrowing Authorization. The Parties stipulate and agree that Petitioner shall be authorized to engage in long term borrowing, and to issue bonds related thereto, for the purpose of funding the costs of Petitioner's ASC Project as described above, not to exceed \$1,715,000 in principal amount, with the highest of the annual interest rates not to exceed six (6) percent per annum.

3. Debt Service Timing Agreements. The Parties stipulate and agree that any amounts provided by Petitioner's debt service revenue requirement, as agreed herein, in excess of Petitioner's actual debt service expense shall be used to pre-fund Petitioner's debt service reserve fund. The Parties stipulate and agree that any sums used to partially pre-fund the debt service reserve, as described above, will act to reduce the amount which Petitioner needs to accumulate to fully fund the debt service reserve over five (5) years. The Parties further stipulate and agree

that the funds that Petitioner receives in rates to fund its debt service reserve shall be set aside and added to the debt service reserve when Petitioner closes on its financing. If Petitioner is not permitted to “pre-fund” its debt service reserve account, the Parties stipulate and agree that Petitioner will put these funds aside in a designated account and use these funds as needed to make appropriate deposits into its debt service reserve account.

4. Report of Borrowing and True-Up Procedure. The Parties acknowledge that the actual amount of Petitioner’s debt issuance, interest rate, issuance costs, annual debt service and the required debt service reserve will not be known until Petitioner accomplishes its financing. Because the amounts of these several variables pertinent to Petitioner’s proposed financing set forth in Petitioner’s evidence are necessarily estimates, a reconciliation, or true-up, may be required after the financing is accomplished and the relevant amounts are known with certainty. In recognition of this uncertainty, the Parties stipulate and agree to the following procedure to be operative after the completion of Petitioner’s long-term debt issuance:

Petitioner shall file a Report of its borrowing with the Commission, serving a copy to the OUCC, within thirty (30) days after the completion of Petitioner’s long-term debt issuance. This Report shall include the actual principal amount of Petitioner’s debt issuance, the interest rate and an amortization schedule of the debt. The Report shall also set forth Petitioner’s actual annual debt service revenue requirement and the actual amount of the required debt service reserve revenue requirement based on the results debt issuance. In the event there is any difference between the estimated debt service and debt service reserve revenue requirements (as set forth in Para..B, 3 herein), and the actual debt service and debt service reserve revenue requirements, either an increase or decrease, Petitioner shall file along with its Report an amended tariff implementing that difference in rates.. The Parties stipulate and agree that the

Commission should expressly authorize and direct its Staff to approve a tariff for Petitioner which implements the increase or decrease in rates contemplated above.

Within twenty (20) days of the filing of Petitioner's Report of Borrowing, the OUCC may file an objection to the Report of Borrowing, setting forth the basis of the objection. In the event of an objection, either party may request a hearing and seek to re-open the record in this Cause. The hearing should be limited to the issue of the appropriate modification to Petitioner's rates and charges based upon the actual results of Petitioner's debt issuance set forth in Petitioner's Report of Borrowing.

If the OUCC and Petitioner both agree that the modification of rates need not take place due to the lack of materiality of the difference or otherwise, the true-up need not take place if both parties state their waiver of the requirement through a writing filed with the Commission in this Cause. In the event of any true-up, the amended tariff will apply at the start of the first billing cycle following its approval by the Water/Wastewater Division.

B. Petitioner's Rate Increase.

1. Elimination of Petitioner's Territorial Surcharge. The Parties stipulate and agree that Petitioner's existing territorial surcharge charged to its water customers located outside of Ellettsville's town limits will be eliminated.

2. Petitioner's Test Year Operating Revenue. The Parties stipulate and agree that Petitioner's adjusted test year operating revenue at present rates is \$1,402,395.

3. Petitioner's Revenue Requirement. The Parties stipulate and agree that Petitioner's adjusted pro forma revenue requirement is \$1,706,980, and is calculated as follows:

Operating Expenses	\$ 1,386,033
Taxes other than income	24,547

Debt Service	170,959
Debt Service Reserve	21,581
Payment in lieu of taxes	16,100
Extension and replacements	<u>163,376</u>
Total Revenue Requirements	1,782,596
Less: Miscellaneous revenue	(30,128)
Less: Other income	<u>(45,488)</u>
Net Revenue Requirements	<u>\$ 1,706,980</u>

4. Petitioner's Authorized Rates. The Parties stipulate and agree that Petitioner's current rates and charges which provide annual adjusted revenues of \$1,402,395 are insufficient to satisfy Petitioner's annual pro forma adjusted revenue requirement of \$1,706,980 and Petitioner's current rates are, therefore, unjust and unreasonable. The Parties further stipulate and agree that Petitioner shall be authorized to increase its rates and charges for water service, across-the-board after normalizing the rates of the customers located outside the Town limits to eliminate the territorial surcharge, so as to produce annual revenues of \$1,706,980, which is an increase of \$304,585, over annual adjusted present rate revenues of \$1,402,395.

C. The Settlement and Use of the Settlement.

1. The Settlement. The Parties shall support this Settlement before the Commission and request that the Commission expeditiously accept and approve the Settlement. If the Settlement is not approved by the Commission without amendment, the Parties agree that the terms thereof shall not be admissible in evidence or in any way discussed in any proceeding. Further, the concurrence of the Parties with the terms of the Settlement is expressly predicated upon the Commission's approval of the Settlement without amendment. If the Commission alters the Settlement in any material way or imposes any additional obligations on Petitioner, the

Settlement shall be deemed withdrawn unless that alteration is unanimously consented to by the Parties in writing. In that event, an informal attorneys' conference will be promptly requested wherein a procedural schedule will be fixed for the processing of the balance of this Cause. The Parties expressly reserve all of their rights, including the right to present appropriate evidence, in the event this Cause is required to be litigated.

The Petitioner has prefiled its direct testimony and the Parties have prefiled testimony in support of this Settlement, all of which shall be offered into evidence without objection and the Parties hereby waive cross-examination. The Parties agree that Petitioner's evidence and the evidence in support of this Settlement constitutes substantial evidence to support this Settlement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact or conclusions of law necessary for the approval of this Settlement, as filed. The Parties shall prepare and file an agreed proposed order with the Commission as soon as possible after the hearing in this Cause.

2. Use of the Settlement. If the Settlement is approved by the Commission the Parties agree that the terms of the Settlement are intended to represent a resolution by compromise of the issues in this Cause. The Parties further agree that the provisions of the Settlement may never be deemed an admission by any of the Parties, may never be used as substantive precedent in future Commission proceedings and may never be used against any of the Parties in subsequent regulatory or other Commission proceedings, except to the extent necessary to enforce the Settlement.

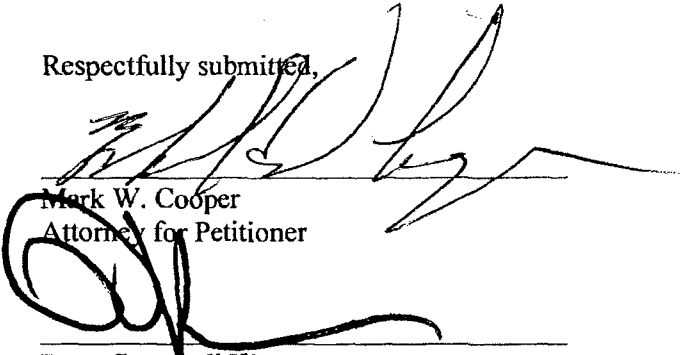
The Parties stipulate and agree that the Settlement is solely the result of compromise in the settlement process and, except as provided herein, is without prejudice to and shall not

constitute a waiver of any position that either of the Parties may take with respect to any issue or item whether or not resolved herein, in any future regulatory or other proceeding.

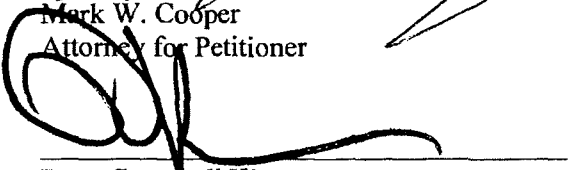
D. Authority to Execute.

The undersigned have represented and agreed that they are fully authorized to execute this Stipulation and Settlement Agreement on behalf of the designated Parties who will be bound thereby.

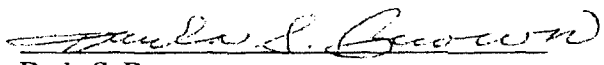
Respectfully submitted,



Mark W. Cooper
Attorney for Petitioner



Peter Campbell King
Attorney for Petitioner



Darla S. Brown
Attorney for Petitioner

By: _____
Daniel M. LeVay, Deputy Consumer Counselor

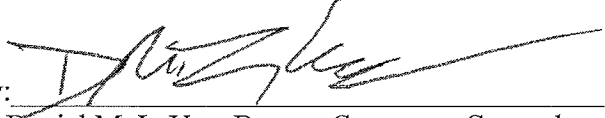
Date: _____

Respectfully submitted,

Mark W. Cooper
Attorney for Petitioner

Peter Campbell King
Attorney for Petitioner

Darla S. Brown
Attorney for Petitioner

By: 
Daniel M. LeVay, Deputy Consumer Counselor

Date: 12/21/15