

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF THE DEPARTMENT OF WATER)
WORKS OF THE CITY OF MICHIGAN CITY,)
INDIANA FOR AUTHORITY TO INCREASE RATES) CAUSE NO. 44538
AND CHARGES AND ISSUE BONDS FOR CAPITAL)
IMPROVEMENTS TO ITS WATER WORKS)**

TESTIMONY OF

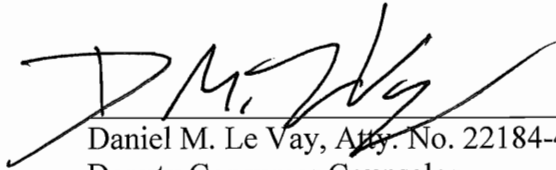
RICHARD J. COREY – PUBLIC’S EXHIBIT NO. 1

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JANUARY 21, 2015

Respectfully submitted,


Daniel M. Le Vay, Atty. No. 22184-49
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS RICHARD J. COREY
CAUSE NO. 44538
DEPARTMENT OF WATERWORKS OF THE CITY OF MICHIGAN CITY

I. INTRODUCTION

1 **Q: Please state your name and business address.**

2 A: My name is Richard J. Corey, and my business address is 115 West Washington
3 Street, Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor (OUCC) as a
6 Utility Analyst.

7 **Q: Please describe your educational background and experience.**

8 A: I graduated from Indiana University in May 1978 with a Bachelor of Science
9 degree majoring in accounting. Upon graduation, I took a position as an
10 accountant for Tousley-Bixler Construction Company for whom I worked until
11 1984. At that time, I began attending Indiana University School of Law. After
12 graduating from law school in 1988, I was employed by the public accounting
13 firm of Boyd, Stamper & Leeds and participated in the preparation of
14 compilations, audits, and corporate, individual and not-for-profit tax returns.
15 From 1990 to 1993, I worked for the CPA firm of Myers & Stauffer, which
16 specializes in Medicaid accounting, consulting and rate setting. After a short
17 tenure with the OUCC as a Principal Accountant in 1993, I became Controller,
18 Corporate Secretary, and a member of the Board of Directors of General

1 Acceptance Corporation. I returned to the OUCC in 1998 as an Assistant Utility
2 Consumer Counselor and represented the interests of the public before the Indiana
3 Utility Regulatory Commission (IURC or Commission) in a variety of Gas, Water
4 and Telecommunications cases. I assumed my current position as a Utility
5 Analyst with the OUCC in April of 2005. Since joining the OUCC, I have
6 attended the NARUC Annual Regulatory Studies Program, the NARUC Utility
7 Rate School, and other continuing education programs.

8 I became licensed as a Certified Public Accountant (CPA) in 1983.
9 Having left the practice of public accounting in 1993, my CPA License is
10 currently inactive. Additionally, I am an inactive member of the Indiana Bar in
11 good standing.

12 **Q: What is the purpose of your testimony?**

13 A: The City of Michigan City Department of Water Works' (hereafter "Petitioner" or
14 "Michigan City") has calculated its proposed rate increase based on the revenue it
15 asserts it requires to operate the utility. I recommend certain adjustments to more
16 properly reflect the revenue required to operate the utility.

17 **Q: Have you previously testified before the Indiana Utility Regulatory**
18 **Commission?**

19 A: Yes. I have testified in many cases before the Commission including a number of
20 applications by municipal water utilities for financing authority and changes to
21 rates and charges.

22 **Q: Please describe the review and analysis you conducted to prepare your**
23 **testimony.**

24 A: I read the testimony of Petitioner's witness Scott A. Miller, C.P.A. and reviewed
25 the schedules and workpapers he filed in this Cause. I participated in the

1 preparation of discovery requests and reviewed discovery responses. On
2 November 20, 2014, I traveled to Petitioner's offices where I conducted a field
3 audit and reviewed Petitioner's books and records.

4 **Q: Please explain how a municipal water utility's rate increase is calculated.**

5 A: Pursuant to Indiana Code § 8-1.5-3-8, rates for a municipal water utility are
6 calculated by first determining the amount of the adjusted (i.e., *pro forma*) net
7 operating expenses. These *pro forma* amounts are based on known, recurring
8 expenses updated to include changes that are fixed, known, and measurable, and
9 expected to occur within twelve months of the test year.

10 Municipal revenue requirements also include required taxes, such as
11 utility receipts tax and payment in lieu of taxes (PILT), working capital,
12 extensions and replacements, debt service, and debt service reserve. The total of
13 these revenue requirement elements are then reduced by interest income and other
14 income earned by the utility to determine the municipal utility's net revenue
15 requirements. From the total net revenue requirement, *pro-forma* revenues at
16 current rates (subject to increase and adjusted for revenue changes that are fixed,
17 known and measurable) are subtracted to determine the net revenue increase
18 required. The increase in net revenue is then "grossed up" for the additional
19 IURC fee related to these increased revenues.

20 **Q: What schedules are you sponsoring?**

21 A: I sponsor the following schedules based on the OUCC's review and analysis:

22 OUCC Schedule 1 – Comparison of Petitioner's and OUCC's Revenue
23 Requirement

1	OUCC Schedule 2 –	Comparative Balance Sheets for the Years Ended
2		December 31, 2013 and 2012
3	OUCC Schedule 3 –	Income Statements for the Years Ending December
4		31, 2013 and 2012
5	OUCC Schedule 4 -	<i>Pro-forma</i> Net Operating Income Statement
6		
7	OUCC Schedule 5 -	Revenue Adjustments
8	OUCC Schedule 6 –	Expense Adjustments
9		
10	OUCC Schedule 7 -	Extensions and Replacements
11	OUCC Schedule 8 –	Debt Service
12	OUCC Schedule 9 -	Debt Service Reserve

II. PROPOSED RATE INCREASE

13 **Q: What level of rate increase is Petitioner requesting in this Cause?**

14 A: Petitioner requests approval of a rate increase of 37.27%.

15 **Q: What level of rate increase does the OUCC recommend?**

16 A: The OUCC recommends the Commission approve a rate increase of 35.33% over
17 present rates.

III. REVENUE ADJUSTMENTS

A. Classification of Operating Revenues

18 **Q: Do you agree with Petitioner's classification of revenues subject to increase?**

19 A: No. Petitioner classified its late fee revenues of \$33,529 as revenues not subject
20 to its increase in rates.¹ However, late fee revenues will in fact be based on a
21 fixed percentage of water service charges outstanding. Therefore, as Michigan

¹ See page 13 of Petitioner's Accounting Report on Rate Study.

1 City's water charges will increase because of this rate case, Michigan City's late
2 fee revenues will also increase. Accordingly, in the OUCC's schedules I have
3 classified late fees revenues as revenues subject to the increase.

4 **Q: Does the OUCC accept Petitioner's classification of all other operating**
5 **revenues?**

6 A: Yes.

7 **B. Fire Protection Revenues**

8 **Q: Did Petitioner propose a reduction to its *pro forma* public fire protection**
9 **revenue.**

10 A: Yes. Petitioner reduced its test year public fire protection revenue by \$441,844.
11 According to Petitioner, this reduction was necessitated by a change in City
12 policy regarding the water utility's "payment" of PILT. While previously the
13 City did not require the Water Utility to pay the City PILT, according to
14 Petitioner PILT payments will now be made to the City. (See footnote 11 on page
15 15 of the Utility's Accounting Report on Rate Study (Accounting Report).)
16 Petitioner advised that on a going forward basis, the City will begin retaining all
17 PILT funds paid by Petitioner and will not "pay" these funds back to the utility as
18 "fire protection revenue." In its response to OUCC Data Request No. 6.1²
19 Petitioner included the following statement:

20 At this time it is not anticipated that a similar arrangement will be
21 made with the City as part of this rate proceeding. Instead, it is
22 anticipated that the Department will need to make the actual PILT
23 payment to the City.

² See Attachment RJC-1.

1 The adjustment proposed by Petitioner reflects this new arrangement, eliminating
2 the PILT monies given back to the Utility in the past.

3 **Q: As proposed by Petitioner, what do *pro forma* public fire protection revenues**
4 **represent?**

5 A: Historically, the transaction booked by Petitioner resulted in an overstatement of
6 public fire protection revenues. I eliminated this overstatement by reducing fire
7 protection revenue by the amount of PILT expense. After Petitioner's adjustment,
8 *pro forma* public fire protection revenues accurately represent fire protection
9 revenues collected from customers based on Petitioner's tariff rates.

10 **Q: Do you accept Petitioner's adjustment to Public Fire Protection Revenues?**

11 A: Yes. This adjustment is appropriate and correctly reflects the amount of Public
12 Fire Protection Revenues to be received by Petitioner on a going-forward basis.

13 **Q: Are you proposing any other adjustments to Fire Protection Revenue?**

14 A. Yes. Petitioner's Accounting Report includes a Summary of Fire Protection
15 Consumer Study that was used to calculate total normalized fire protection for the
16 cost of service study. (See p. 17 of the Accounting Report) This Summary
17 supports total test year public and private fire protection of \$718,129. From this
18 amount I deducted actual test year fire protection revenue of \$715,231,
19 normalized for the PILT adjustment discussed above, for an increase in fire
20 protection revenues of \$2,988.

21	Public Fire Protection per Trial Balance	\$784,227
22	Private Fire Protection per Trial Balance	<u>372,848</u>
23	Total Fire Protection Revenue	1,157,075
24	Less: PILT Expense	<u>(441,844)</u>
25	Normalized Fire Protection	<u>\$715,231</u>

26 See OUCC Schedule 5, Adjustment 1.

IV. OPERATING EXPENSE ADJUSTMENTS

1 **Q: Do you accept any of Petitioner's *pro forma* adjustments?**

2 A: Yes. I accept Petitioner's adjustments to Payroll, FICA, Health Insurance,
3 General Insurance, Rate Case Expense, Non-recurring Expenses, Periodic
4 Maintenance, PILT and Utility Receipts Tax.

A. Purchased Power

5 **Q: Does Petitioner propose an adjustment for Purchased Power Expense?**

6 A: Yes. On page 9 of its Accounting Report, Petitioner proposes an adjustment to
7 Purchased Power Expense that would increase test year expense of \$388,698 by
8 \$27,302 yielding a *pro forma* Purchased Power Expense of \$416,000. Petitioner
9 further states that this adjustment reflects an estimated increase for Purchased
10 Power per the Utility's Management.

11 **Q: Do you accept Petitioner's adjustment for Purchased Power Expense?**

12 A: No. Petitioner's proposed adjustment is not is not based on a change that is fixed
13 in time, known to occur and measurable in amount. Petitioner has provided no
14 support for an increase in purchased power expense during the twelve month
15 adjustment period. Instead, it has relied on extrapolations based on actual
16 changes in purchased power expense activity from prior years.

17 Moreover, during and subsequent to its field audit, OUCC personnel
18 requested Petitioner's most recent financial statements and received a schedule
19 showing purchased power expense for the ten months ended October 31, 2014 of
20 \$315,764. The annualization of this amount indicates that at the end of the year

Petitioner is not on track to incur even the amount of purchased power expense it incurred during the test year.³

Purchased Power as of 10/31/14	\$315,764
Divided by 10 Months	<u>10</u>
Monthly Expense	31,576
Annualize to 12 Months	<u>12</u>
Projected Purchased Power Exp.	<u>\$378,917</u>

Michigan City's proposed adjustment is not fixed known and measurable. (Moreover, Michigan City is not on track to incur the \$388,698 of purchased power expense it sustained in the test year.) Accordingly, I recommend Petitioner's proposed *pro forma* purchased power increase be rejected.

B. Disallowed Expense

Q: Please explain the OUCC's adjustment for disallowed expense.

A: Based on my review of Petitioner's books, I determined that Petitioner spent \$3,246 for celebrations, donations, and gifts for its employees during the test year.⁴ The costs of such items provide no benefit to ratepayers and should not be included as an operating expense for ratemaking purposes. Accordingly, the cost of these items has been removed. (See OUCC Schedule 6, Adjustment 11.)

V. PAYMENT IN LIEU OF TAXES (PILT)

Q: Do you accept Petitioner's proposed revenue requirement for PILT?

A: Yes. Based on my review of Petitioner's filing and Petitioner's responses to OUCC discovery, I believe the \$706,579 of PILT proposed by Petitioner is

³ See Attachment RJC-2.

⁴ See Attachment RJC-3.

1 reasonable. (See OUCC Schedule 6, Adjustment 9.)

2 VI. DEBT SERVICE

2 Q: Please explain the OUCC's adjustment to Petitioner's proposed debt service.

3 A: Due to lower interest rates, the OUCC proposes an average annual debt service
4 requirement for the 2014 and 2015 bonds of \$1,412,323, which is \$61,811 less
5 than Petitioner's proposal. The OUCC's adjustment to debt service is more fully
6 discussed in the pre-filed testimony of OUCC witness Edward R. Kaufman. (See
7 OUCC Schedule 8.)

VII. NON-RECURRING CHARGES

8 Q: What non-recurring charges has Petitioner proposed to update?

9 A: Petitioner has proposed updating its tap fee, shut-off request fee, turn-on request
10 fee, plumbing check fee, and meter test service charge.

11 Q: Do you have any concerns regarding these proposed updates?

12 A: The proposed non-recurring charge updates are correctly calculated and well
13 documented. I have no concerns regarding these changes.

14 Q: Does the change in tap fees require a revenue adjustment to reflect the *pro*
15 *forma* increase in tap fee revenue?

16 A: No. Tap costs are capitalized and tap fees are recorded as an increase in
17 contributions in aid of construction. Accordingly, since no income statement
18 accounts are affected, no adjustment to *pro forma* expense or revenue is required.

19 Q: Do the other non-recurring fees that Petitioner proposes to increase require a
20 revenue adjustment to reflect the additional *pro forma* revenue they will
21 generate?

22 A: Yes, an adjustment should be made but it is relatively immaterial and I currently

1 do not have the information necessary to calculate it.

VIII. RECOMMENDATIONS

2 **Q: Please summarize your recommendations to the Commission in this cause.**

3 A: I recommend the Commission allow Petitioner to increase rates by 35.33%, or
4 \$2,024,727.

5 I recommend Petitioner be allowed to update its tap fee, shut-off request
6 fee, turn-on request fee, plumbing check fee, and meter test service charge as
7 presented in its Accounting Report.

8 I recommend Petitioner be authorized to account for PILT and fire
9 protection revenue as discussed above.

10 **Q: Does this conclude your testimony?**

11 A: Yes.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.



Richard J. Corey
Indiana Office of Utility Consumer Counselor

January 21, 2015
Date

Cause No. 44538
Michigan City Department of Waterworks

MICHIGAN CITY MUNICIPAL WATER

CAUSE NUMBER 44538

Comparison of Petitioner's and OUCC's Revenue Requirements

	Per Petitioner	Per OUCC	Sch Ref	OUCC More (Less)
Operating Expenses	\$ 4,358,274	\$ 4,327,226	4	\$ (31,048)
Taxes other than Income	72,982	72,982	4	-
Depreciation	1,275,199	1,275,199	7	-
Working Capital	-	-		-
Payment in Lieu of Taxes	706,579	706,579	4	-
Debt Service	1,474,134	1,412,323	8	(61,811)
Debt Service Reserve	172,900	172,900	9	-
Total Revenue Requirements	8,060,068	7,967,209		(92,859)
Less: Interest Income	(15,688)	(15,688)	3	-
Other Income (penalties and other revenues)	(33,529)	-	3	33,529
Add: Other Expenses				-
Net Revenue Requirements	8,010,851	7,951,521		(59,330)
Less: Revenues at current rates subject to increase	(5,694,169)	(5,730,686)	4	(36,517)
Other revenues at current rates	(224,454)	(224,454)	4	-
Net Revenue Increase Required	2,092,228	1,996,381		(95,847)
Divide by Revenue Conversion Factor (100% - 1.4%)	0.986	0.986		0.986
Recommended Increase	\$ 2,121,935	\$ 2,024,727		\$ (97,208)
Recommended Percentage Increase	37.27%	35.33%		-1.93%

MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538

Reconciliation of Net Operating Income Statement Adjustments
***Pro-forma* Present Rates**

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>OUCC More (Less)</u>
Operating Revenues			
	-	-	-
Fire Protection		\$ 2,988	\$ 2,988
Total Operating Revenues	<u>-</u>	<u>2,988</u>	<u>2,988</u>
O&M Expense			
Payroll	38,971	38,971	-
FICA	1,213	1,213	-
Health Insurance	38,023	38,023	-
Purchased Power	27,302	-	(27,302)
General Insurance	16,737	16,737	-
Rate Case Expense	(20,347)	(20,347)	-
Non-recurring Expenses	(60,000)	(60,000)	-
Periodic Maintenance	46,363	46,363	-
Disallowed Items	-	(3,746)	(3,746)
Depreciation Expense	27,199	27,199	-
Taxes Other than Income	-	-	-
Payment in Lieu of Taxes	264,735	264,735	-
Other - Utilities Receipts Tax	8,533	8,533	-
Total Operating Expenses	<u>388,729</u>	<u>357,681</u>	<u>(31,048)</u>
Net Operating Income	<u>\$ (388,729)</u>	<u>\$ (354,693)</u>	<u>\$ 34,036</u>

MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538

COMPARATIVE BALANCE SHEET
As of December 31,

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Utility Plant			
Utility Plant in Service	\$ 63,851,246	\$ 62,541,194	\$ 61,037,541
Construction Work in Progress			
Less: Accumulated Depreciation	(16,594,755)	(15,567,617)	(15,063,393)
Net Utility Plant in Service	<u>47,256,491</u>	<u>46,973,577</u>	<u>45,974,148</u>
Restricted Assets			
Debt Service Fund	406,101	403,240	404,131
Improvement Fund	<u>1,070,989</u>	<u>1,487,475</u>	<u>2,746,413</u>
Total Restricted Assets	<u>1,477,090</u>	<u>1,890,715</u>	<u>3,150,544</u>
Current Assets			
Cash and Cash Equivalents	1,953,759	2,089,334	1,862,905
Accounts Receivable	418,272	514,788	463,556
Materials and Supplies	312,261	362,432	368,448
Prepaid Insurance	164,544	45,036	66,976
Other Current Assets			
Total Current Assets	<u>2,848,836</u>	<u>3,011,590</u>	<u>2,761,885</u>
Deferred Debits			
Bond Issuance Costs, net		133,063	157,095
Deferred Rate Case Expense	<u>92,895</u>	<u>122,231</u>	<u>151,566</u>
Total Deferred Debits	<u>92,895</u>	<u>255,294</u>	<u>308,661</u>
Total Assets	<u>\$ 51,675,312</u>	<u>\$ 52,131,176</u>	<u>\$ 52,195,238</u>

MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538

COMPARATIVE BALANCE SHEET
As of December 31,

<u>LIABILITIES</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Equity			
Retained Earnings	\$ 21,439,824	\$ 21,516,874	\$ 20,941,535
Paid in Capital	97,628	97,628	97,628
Total Equity	<u>21,537,452</u>	<u>21,614,502</u>	<u>21,039,163</u>
Contributions in Aid of Construction	20,347,605	19,695,692	19,519,108
Long-term Debt			
Bonds Payable - 2004 Revenue Refunding	3,100,000	3,970,000	4,800,000
Bonds Payable - SRF Matures 03-01-22	<u>5,934,916</u>	<u>5,964,916</u>	<u>6,004,916</u>
Total Long-term Debt	<u>9,034,916</u>	<u>9,934,916</u>	<u>10,804,916</u>
Current Liabilities			
Accounts Payable	99,611	131,270	135,086
Customer Deposits	531,087	510,403	489,097
Accrued Interest	95,631	106,071	116,141
Accrued Taxes	14,683	19,160	21,318
Miscellaneous	<u>14,327</u>	<u>98,255</u>	<u>21,884</u>
Other Current Liabilities	<u>755,339</u>	<u>865,159</u>	<u>783,526</u>
Deferred Credits			
Advances for Construction	<u>-</u>	<u>20,907</u>	<u>48,525</u>
Total Deferred Credits	<u>-</u>	<u>20,907</u>	<u>48,525</u>
Total Liabilities	<u>\$ 51,675,312</u>	<u>\$ 52,131,176</u>	<u>\$ 52,195,238</u>

**MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538**

**COMPARATIVE INCOME STATEMENT
Twelve Months Ended December 31,**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues			
Water Sales			
Residential	\$ 3,410,344	\$ 3,681,253	\$ 3,410,042
Commercial			
Industrial	1,172,909	1,085,612	1,029,221
Fire Protection			
Public	784,227	782,694	781,137
Private	372,848	360,595	372,470
Sales for Resale	395,685	430,453	368,155
Late Fees	33,529	36,029	36,136
Other	224,454	222,494	244,973
Total Operating Revenues	<u>6,393,996</u>	<u>6,599,130</u>	<u>6,242,134</u>
Operating Expenses			
Salaries and Wages	1,736,127	1,630,365	1,681,336
Employee Benefits	551,357	499,375	497,000
Purchased Water			
Purchased Power	388,698	371,722	371,507
Chemicals	129,059	132,631	129,815
Materials and Supplies	251,577	239,462	262,886
Contractual Services	569,051	374,457	358,922
Transportation Expense	109,463	115,946	99,436
Insurance	84,661	78,069	73,542
Bad Debt Expense	9,600	9,600	9,600
Rate Case Expense Amortization			
Miscellaneous Expense	300,482	367,376	220,325
Total O&M Expense	<u>4,130,075</u>	<u>3,819,003</u>	<u>3,704,369</u>
Depreciation Expense	1,248,000	1,202,400	1,191,600
Amortization Expense	162,398	53,367	53,367
Taxes Other than Income	646,230	642,304	634,065
Total Operating Expenses	<u>6,186,703</u>	<u>5,717,074</u>	<u>5,583,401</u>
Net Operating Income	207,293	882,056	658,733
Other Income (Expense)			
Interest Income	15,688	24,172	48,149
Interest Expense	(300,031)	(330,889)	(360,661)
Total Other Income (Expense)	<u>(284,343)</u>	<u>(306,717)</u>	<u>(312,512)</u>
Net Income	<u>\$ (77,050)</u>	<u>\$ 575,339</u>	<u>\$ 346,221</u>

MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538

Pro-forma Net Operating Income Statement

	Year Ended Dec 31, 2013	Adjustments	Sch Ref	<i>Pro-forma</i> Present Rates	Adjustments	Sch Ref	<i>Pro-Forma</i> Proposed Rates
Operating Revenues							
Water Sales							
Residential and Commercial	\$ 3,410,344			\$ 3,410,344	\$ 1,204,920	1	\$ 4,615,264
Industrial and Governmental	1,172,909			1,172,909	414,404	1	1,587,313
Fire Protection *	715,231	\$ 2,988	5-1	718,219	253,756	1	971,975
Sales for Resale	395,685			395,685	139,801	1	535,486
Late Fees	33,529			33,529	11,846	1	45,375
Other	224,454			224,454			224,454
Total Operating Revenues	<u>5,952,152</u>	<u>2,988</u>		<u>5,955,140</u>	<u>2,024,727</u>		<u>7,979,867</u>
O&M Expense	4,130,075			4,327,226			4,327,226
Payroll		38,971	6-1				
FICA	139,937	1,213	6-2				
Health Insurance		38,023	6-3				
General Insurance		16,737	6-4				
Rate Case Expense		(20,347)	6-5				
Non-recurring Expenses		(60,000)	6-6				
Periodic Maintenance		46,363	6-7				
Disallowed Items		(3,746)	6-11				
Depreciation Expense	1,248,000	27,199	6-10	1,275,199			1,275,199
Amortization Expense	162,398			162,398			162,398
Taxes Other than Income				779,561	28,346	1	807,907
Payment in Lieu of Taxes	441,844	264,735	6-9				
Other - Utilities Receipts Tax	64,449	8,533	6-8				
Total Operating Expenses	<u>6,186,703</u>	<u>357,681</u>		<u>6,544,384</u>	<u>28,346</u>		<u>6,572,730</u>
Net Operating Income	<u>\$ (234,551)</u>	<u>\$ (354,693)</u>		<u>\$ (589,244)</u>	<u>\$ 1,996,381</u>		<u>\$ 1,407,137</u>

* Petitioner has reduced its test year fire protection revenue by \$441,844 in order to normalize revenues by reflecting actual cash receipts in lieu of accrued revenue. This is due to an arrangement the utility has with city where PILT that would be received is used as a credit to reduce public fire protection.

Public fire protection revenue	784,227
Private fire protection revenue	372,848
Total fire protection revenue	<u>1,157,075</u>
Less: PILT paid during test year	<u>(441,844)</u>
Adjusted fire protection revenue	<u>715,231</u>

**MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538**

Revenue Adjustments

(1)

Petitioner's Fire Protection Cost of Service Study

To adjust fire protection to conform with Petitioner's Cost of Service Study (page 17).

Test Year Fire Protection per Consumer Study	\$ 718,219	
Less: Actual Cash Received for Fire Protection	<u>\$ (715,231)</u>	
		<u>\$ 2,988</u>

**MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538**

Expense Adjustments

(1)

Payroll

To adjust test year salaries and wages to reflect *pro forma* staffing levels and *pro forma* pay rates, per utility management.

	pro forma Salaries and Wages	Less Capitalized Labor	pro forma Expense	Test year Expense	Adjustment
Source of Supply	\$ 285,759		\$ 285,759	\$ 268,882	\$ 16,877
Water Treatment	287,298		287,298	270,330	16,968
Transmission and Distributi	763,565	\$ (70,000)	693,565	718,469	(24,904)
Customer Accounts	259,267		259,267	243,955	15,312
Administrative	249,209		249,209	234,491	14,718
Totals	<u>\$ 1,845,098</u>	<u>\$ (70,000)</u>	\$ 1,775,098	\$ 1,736,127	
Adjustment Increase (Decrease)					<u><u>\$ 38,971</u></u>

(2)

FICA

To adjust test year FICA expense for *pro forma* salaries and wages.

<i>Pro forma</i> salaries and wages	\$ 1,845,098	
Times 7.65%	<u>7.65%</u>	
Sub-total		\$ 141,150
Less: Test year expense		<u>139,937</u>
Adjustment Increase (Decrease)		<u><u>\$ 1,213</u></u>

(3)

Health Insurance

To adjust test year employee benefits for the most recent monthly health insurance premium, per utility management.

Monthly health insurance premium	\$ 48,739	
Monthly disability insurance premium,	<u>376</u>	
Subtotal		\$ 49,115
Times 12 month		<u>12</u>
Annual insurance premium		\$ 589,380
Less: Test year expense		<u>551,357</u>
Adjustment Increase (Decrease)		<u><u>\$ 38,023</u></u>

MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538

Expense Adjustments

(4)

General Insurance

To adjust test year vehicle, liability and comprehensive insurance expense to reflect the current premium, per utility management.

	<i>Pro forma</i> Expense	Test year Expense	Adjustment
Insurance - liability, property and vehicles	\$ 64,288	\$ 53,575	\$ 10,713
Insurance - workers compensation	37,110	31,086	6,024
	<u>\$ 101,398</u>	<u>\$ 84,661</u>	
Adjustment Increase (Decrease)			<u>\$ 16,737</u>

(5)

Rate Case Expense

To adjust test year for periodic rate case expense.

Rate case expense	\$ 165,000	
Amortized over 5 years	<u>5</u>	
Subtotal	33,000	
Less: Test year expense	<u>\$ (53,347)</u>	
Adjustment Increase (Decrease)		<u>\$ (20,347)</u>

(6)

Non-recurring Expenses

To adjust test year for non-recurring expenses.

Utility master plan expenses	<u>\$ (60,000)</u>	
Adjustment Increase (Decrease)		<u>\$ (60,000)</u>

MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538

Expense Adjustments

(7)

Periodic Maintenance

To adjust test year expenses for periodic maintenance requirements, per utility management.

A. Biannual inspection and cleaning of two intake structures

Clean and maintain intakes	\$	79,109	
Amortized over 2 years		<u>2</u>	
Adjustment Increase (Decrease)	\$		39,555

B. Painting of three elevated storage tanks

Tank 1 - estimated cost (1 MG elevated)	\$	230,000	
Amortized		<u>15</u>	
Annual Requirement	\$		15,333
Tank 2 - estimated cost (1 MG elevated)	\$	120,000	
Amortized		<u>15</u>	
Annual Requirement			8,000
Tank 3 - estimated cost (100,000 gallon elevated)	\$	100,000	
Amortized		<u>15</u>	
Annual Requirement		<u>6,667</u>	
Adjustment Increase (Decrease)			30,000

C. Chlorine scrubber maintenance - estimated cost
Amortized

Adjustment Increase (Decrease)		6,037
--------------------------------	--	-------

D. Intake pump maintenance - estimated cost
Amortized

\$	138,000
	<u>7</u>

Annual Requirement	<u>19,714</u>
--------------------	---------------

Total Revenue Requirement	\$	95,306
Less: Test year expense		<u>48,943</u>

Total Adjustment (Decrease)	\$	<u>46,363</u>
-----------------------------	----	---------------

**MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538**

Expense Adjustments

(8)

Utility Receipts Tax

To adjust test year Indiana Utility Receipts Tax expense for pro forma expense.

Revenue subject to tax

Residential and commercial	\$	3,410,344
Industrial and governmental		1,172,909
Private fire protection		372,782
Penalties		33,529
Other		<u>224,454</u>

Subtotal	\$	5,214,018
Less: Exemption		<u>(1,000)</u>

Subtotal	\$	5,213,018
Times 1.4%		<u>1.40%</u>

Annual Requirement	\$	72,982
Less: Test year expense		<u>64,449</u>

Total Adjustment (Decrease) \$ 8,533

(9)

Payment in Lieu of Taxes

To reflect *pro forma* present payment in lieu of taxes (PILT).

Utility Plant in Service 12/31/2013	\$	63,851,246
Less: Accumulated Depreciation		<u>(16,594,755)</u>

Net assessed value	\$	47,256,491
Times corporate tax rate (2014 budget order) (per \$100)		<u>1.4952%</u>

Annual Requirement	\$	706,579
Less: Test year expense		<u>441,844</u>

Adjustment Increase (Decrease) \$ 264,735

(10)

Depreciation Expense

To reflect *pro forma* depreciation expense.

Utility Plant in Service at 12/31/2013	\$	63,851,246
Less: Land		<u>(91,291)</u>

Subtotal	\$	63,759,955
Times composite depreciation rate		<u>2.00%</u>

Annual Requirement	\$	1,275,199
Less: Test year expense		<u>1,248,000</u>

Adjustment Increase (Decrease) \$ 27,199

MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538

Expense Adjustments

(11)

Disallowed Items

To adjust pro forma operating expense for disallowed items.

Alzheimer's Service of Northern Indiana	\$	(100)
Cary Rose Winski Memorial		(100)
Wrights Flowers		(89)
Wrights Flowers		(65)
Immanuel Lutheran Church		(75)
Retirement Dinner		(712)
Michigan City Main Street Association		(500)
Share Foundation		(75)
Turkeys for Employees		(940)
National Parkinson Foundation		(50)
Great Lakes Catering	\$	<u>(1,038)</u>
		<u>\$ (3,746)</u>

**MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538**

Debt Service

To reflect the average amount of debt service required over a five year period.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Total</u>
2014 Bonds	\$1,189,200	\$1,188,600	\$1,187,600	\$1,183,150	\$ 1,185,150	\$ 5,933,700
2015 Bonds	300,140	299,993	299,685	299,263	298,785	1,497,866
	<u>\$1,489,340</u>	<u>\$1,488,593</u>	<u>\$1,487,285</u>	<u>\$1,482,413</u>	<u>\$ 1,483,935</u>	<u>7,431,566</u>
Divide by 5 years						<u>5</u>
Average Annual Debt Service						1,486,313
Less: Funds from Pottawattamie Park Debt Service Surcharge						<u>(73,990)</u>
Adjusted Annual Debt Service						<u>\$ 1,412,323</u>

**MICHIGAN CITY MUNICIPAL WATER
CAUSE NUMBER 44538**

Debt Service Reserve

To reflect the average amount of debt service reserve required over a five year period.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Total</u>
2015 Bonds	\$172,900	\$ 172,900	\$172,900	\$ 172,900	\$ 172,900	\$ 864,500
	<u>\$172,900</u>	<u>\$ 172,900</u>	<u>\$172,900</u>	<u>\$ 172,900</u>	<u>\$ 172,900</u>	<u>864,500</u>
	Divide by 5 years					<u>5</u>
	Average Annual Debt Service Reserve					<u>\$ 172,900</u>

MICHIGAN CITY (INDIANA) DEPARTMENT OF WATERWORKS

CAUSE NO. 44538

OUC Data Request Set No. 6

Date: November 24, 2014

Data Requests Response

- Q 6.1: Petitioner has adjusted fire protection revenue to a cash basis rather than an accrual basis in calculating its proposed revenue increase. Please explain why.
- R 6.1: The Department and the City currently have an agreement in which payment in lieu of tax ("PILT") amounts that would be received by the City are instead, used as a credit to reduce the Public Fire Protection receipts paid by the water customers. The PILT expense and corresponding offset to fire protection revenue are recorded on the accrual books of the Department. As a result, Public Fire Protection revenues exceed actual cash receipts by the amount of recorded PILT. The adjustment to the cash receipt for public fire protection on the revenue requirement calculation schedule excludes the non-cash revenues. At this time it is not anticipated that a similar arrangement will be made with the City as part of this rate proceeding. Instead, it is anticipated that the Department will need to make the actual PILT payment to the City. See previously provided workpapers, page 39 for additional explanation.

DEPARTMENT OF WATER WORKS
MICHIGAN CITY, INDIANA
31-Oct-14

OPERATING EXPENSES	CURRENT MONTH			YEAR - TO DATE		
	ACTUAL	FORECAST	PRIOR YEAR	ACTUAL	FORECAST	PRIOR YEAR
Salaries & Wages	(34) \$ 117,039.96	\$ 129,000.00	(38) \$ 124,910.45	\$ 1,476,484.25	\$ 1,484,000.00	\$ 1,468,645.52
F.I.C.A. Tax	9,378.44	10,000.00	10,261.91	117,828.11	118,000.00	118,745.36
Employee Benefit	41,437.96	54,000.00	49,799.49	465,753.69	523,000.00	451,032.49
Sub Total Employment Expense	167,856.36	193,000.00	184,971.85	2,060,066.05	2,125,000.00	2,038,423.37
Purchased Power	47,421.95	32,000.00	36,224.51	315,763.76	312,000.00	302,963.16
Chemicals	8,807.00	12,000.00	10,787.13	101,024.86	116,000.00	111,675.31
Materials & Supplies	16,138.71	22,000.00	25,892.24	196,715.42	206,000.00	208,756.00
Contracted Services	80,445.01	40,000.00	86,988.67	282,452.68	460,000.00	450,974.23
Transportation Expense	10,708.52	9,000.00	7,549.12	80,336.42	89,000.00	82,706.92
Insurance	8,127.83	8,000.00	6,812.58	87,903.36	83,000.00	71,743.80
Bad Debt	600.00	1,000.00	800.00	7,200.00	9,000.00	8,000.00
Water & Sanitation	10,975.59	25,000.00	17,885.23	165,884.70	202,000.00	150,244.02
Miscellaneous	3,915.53	7,000.00	5,532.25	50,877.84	75,000.00	67,455.38
Depreciation	106,300.00	106,000.00	104,000.00	1,063,000.00	1,063,000.00	1,040,000.00
P.I.L.T.	36,820.33	37,000.00	36,820.33	368,203.30	370,000.00	368,203.30
Utility Receipts Tax	6,231.85	6,000.00	6,865.87	51,816.09	54,000.00	54,722.93
TOTAL OPERATING EXPENSES	\$ 504,348.68	\$ 498,000.00	\$ 531,129.78	\$ 4,831,244.48	\$ 5,164,000.00	\$ 4,955,868.42

MICHIGAN CITY DEPARTMENT OF WATER WORKS VOUCHER REGISTER - CALENDAR YEAR 2013 BY ACCOUNT NO.

INDEX	CHECK NUMBER	CHECK DATE	MONTH	VENDOR-NAME	DESCRIPTION	LINE AMOUNT	ACCOUNT AMOUNT	ACCOUNT NUMBER	SUB	FS Line
3328	0000031695	12/26/2013	12	GREAT LAKES CATERING	EMPLY CHRISTMAS LUNCHEON	1,038.40		6018000567608		Promotional
3326	0000031612	12/11/2013	12	CARDMEMBER SERVICE	TURKEYS FOR EMPLOYEES	940.46		6018000567608		Promotional
1956	0000030922	7/10/2013	7	CARDMEMBER SERVICE	RETIRMEENT DINNER-ALICE & SUE	712.38		6018000567608		Promotional
614	0000030225	2/6/2013	2	RF-ALZHEIMER'S SERV OF NRTHN I	RF-ALZHEIMER'S SERV OF NRTHN I	100.00		6018000567608		Promotional
875	0000030425	3/13/2013	3	RF-CAREY ROSE WINSKI MEMORIAL	MEMORIAL DONATION	100.00		6018000567608		Promotional
874	0000030421	3/13/2013	3	WRIGHT'S FLOWER	LAMB - VAN GIESON	89.49		6018000567608		Promotional
1152	0000030613	4/24/2013	4	RF-IMMANUEL LUTHERAN CHURCH	RF-IMMANUEL LUTHERAN CHURCH	75.00		6018000567608		Promotional
2520	0000031301	9/25/2013	9	SHARE FOUNDATION	IN MEMORY OF STU MCDONNELL	75.00		6018000567608		Promotional
1151	0000030550	4/10/2013	4	WRIGHT'S FLOWER	PLANTS-WISTHOFF-MCGINNIS	65.00		6018000567608		Promotional
3327	0000031636	12/11/2013	12	NATIONAL PARKINSON FOUNDATION	IN MEMORY OF DONALD HEDRICK	50.00		6018000567608		Promotional
						3245.73				

Form NO. 301st (Rev. 1995)

ACCOUNTS PAYABLE VOUCHER

TO Great Lakes Catering
ADDRESS 701 Washington St., Michigan City, In 46360

Invoice Date	Item	Amount	
12/19/2013	Catering services for Employee Christmas Party - 2013	\$1,038.40	

I hereby certify that the attached invoice(s), or bill(s), is (are) true and correct and that the material or services itemized thereon for which charge is made were ordered and received except _____

Signature

Title

I hereby certify that the attached invoice(s), or bill(s), is (are) true and correct and I have audited same in accordance with IC 5-11-10-1.6.

Officer

Title

Statement 2013 Statement 10/30/2013 - 11/27/2013

Page 2 of 2

DEPARTMENT OF WTR WRKS
RANDALL E RUSSELL (CPN 000041776)

Cardmember Service 1-866-552-8855

Transactions

Payments and Other Credits

Post Date	Trans Date	Ref #	Transaction Description	Amount	Notation
11/15	11/14	0025	PAYMENT THANK YOU	\$787.11CR	
TOTAL THIS PERIOD				\$787.11CR	

CLK # 31612
12/11/13

Purchases and Other Debits

Post Date	Trans Date	Ref #	Transaction Description	Amount	Notation
11/25	11/22	9560	EAST SIDE FRESH MEAT LAPORTE IN	\$940.46	
TOTAL THIS PERIOD				\$940.46	

2013 Totals Year-to-Date

Total Fees Charged in 2013	\$0.00
Total Interest Charged in 2013	\$0.00

Company Approval

(This area for use by your company)

Signature Approver: _____

Accounting Code: _____

Interest Charge Calculation

Your Annual Percentage Rate (APR) is the annual interest rate on your account.

**APR for current and future transactions.

Balance Type	Balance By Type	Balance Subject to Interest Rate	Variable	Interest Charge	Annual Percentage Rate	Expires with Statement	Interest Free Period
**BALANCE TRANSFER	\$0.00	\$0.00	YES	\$0.00	13.99%		NO
**PURCHASES	\$940.46	\$0.00	YES	\$0.00	13.99%		YES
**ADVANCES	\$0.00	\$0.00	YES	\$0.00	20.99%		NO

Contact Us

Phone

Voice: 1-866-552-8855
TDD: 1-888-352-6455
Fax: 1-866-807-9053

Questions

Cardmember Service
P.O. Box 6353
Fargo, ND 58125-6353



Mail payment coupon with a check

Cardmember Service
P.O. Box 790408
St. Louis, MO 63179-0408



Online

myaccountaccess.com

2013 Statement 05/30/2013 - 06/27/2013

DEPARTMENT OF WTR WRKS
RANDALL E RUSSELL (CPN 000041776)

Cardmember Service 1-866-552-8855

Important Messages

Receive Email Updates. Sign up for Important updates and special offers for your credit card account to be delivered to your Inbox. Provide your email address at email.myaccountaccess.com.

Transactions**Payments and Other Credits**

Post Date	Trans Date	Ref #	Transaction Description	Amount	Notation
06/21	06/21	0075	PAYMENT THANK YOU	\$184.16	
TOTAL THIS PERIOD				\$184.16	

Purchases and Other Debits

Post Date	Trans Date	Ref #	Transaction Description	Amount	Notation
05/31	05/30	7916	AL'S SUPERMARKET MICHIGAN CITY IN	\$29.99	
06/10	06/07	4728	OFFICE DEPOT #2725 MICHIGAN CITY IN	\$35.96	
06/17	06/16	8470	NORTON 'ANNUAL RENEWAL 877-294-5265 CA	\$85.69	
06/17	06/13	4521	SHERATON DENVER DENVER CO	\$1,118.80	
			06/08/13		
			FOLIO: 01001267		
06/17	06/13	5946	MIDWAY PARKING CHICAGO IL	\$4.00	
06/24	06/21	7901	GALVESTON STEAK HOUSE MICHIGAN CITY IN	\$712.38	
TOTAL THIS PERIOD				\$2,066.72	

2013 Totals Year-to-Date

Total Fees Charged in 2013	\$0.00
Total Interest Charged in 2013	\$0.00

RETIRED
DEBIT CARD**Company Approval**

Signature/Approval: _____

Accounting Code: _____

Continued on Next Page

TO Alzheimer's Services of Northern Indiana
P.O. Box 4204, South Bend, IN 46634
ADDRESS

[illegible]

I hereby certify that the attached invoice(s), or bill(s), is (are) true and correct and that the material or services itemized thereon for which charge is made were ordered and received except _____

Signature

Title

I hereby certify that the attached invoice(s), or bill(s), is (are) true and correct and I have audited same in accordance with IC 5-11-10-1.6.

Officer

Title

ACCOUNTS PAYABLE VOUCHER

TO Carey Rose Winski Memorial
P.O. Box 1125, Michigan City, IN 46361
ADDRESS _____

Invoice Date	Item	Amount	
3/8/2013	Donation in memory of O. Jerrold Winski	\$100.00	

I hereby certify that the attached invoice(s), or bill(s), is (are) true and correct and that the material or services itemized thereon for which charge is made were ordered and received except _____

Signature

Title

I hereby certify that the attached invoice(s), or bill(s), is (are) true and correct and I have audited same in accordance with IC 5-11-10-1.6.

Officer

Title

Account #
0005904

Date	Invoice #	Description	Credit	Debit
02/25/13	66872/1	GAIL LAMB MICHIGAN CITY/IN		56.99
02/28/13	66994/1	GEORGE VAN GIESON MICHIGAN CITY/IN		32.50

Current	Over 30 Days	Over 60 Days	Over 90 Days	Over 120 Days	Balance Due
89.49	0.00	0.00	0.00	0.00	89.49

WRIGHT'S FLOWERS BY KEN & JEANNE HUFF



5424 N. Johnson Road • Michigan City, Indiana 46360 • (219) 873-1111 • www.wrightsflowers.com

ACCOUNTS PAYABLE
Department of Water Works
Michigan City, Indiana

Favor Of

Immanuel Lutheran Church

Total Amount of Voucher Deductions

\$

Amount of Warrant

\$

\$75.00

Month of

April, 2013

.20

VOUCHER RECORD

Acct.
No.

Source of Supply

Water Treatment

Transmission and Dist.

Customer Accounts

Administrative and General

Operation-Maintenance	
-----------------------	--

Utility Plant in Service

Constr.Work in Progress

Materials and Supplies

Customer Deposits

Total

Allowed

Filed

APR 24 2013

Board of Directors

Official Title

DETAIL ACCOUNTS

ACCT.
NO.

60180005676.08

\$75.00

\$75.00

Public Comment

Adjourn

Order No. 31301 Warrant No. 31301

ACCOUNTS PAYABLE
Department of Water Works
Michigan City, Indiana

Favor Of

Share Foundation

Total Amount of Voucher Deductions	\$	
Amount of Warrant	\$	\$75.00

Month of September, 2013

VOUCHER RECORD

Acct.
No.

Source of Supply		
Water Treatment		
Transmission and Dist.		
Customer Accounts		
Administrative and General		
Operation-Maintenance		
Utility Plant in Service		
Constr. Work in Progress		
Materials and Supplies		
Customer Deposits		
Total		

Allowed

Filed

SEP 25 2013

Board of Directors

Ann Fucato

Official Title

DETAIL ACCOUNTS

ACCT
NO.

450

00100005676.08

\$75.00

ACCOUNTS PAYABLE
Department of Water Works
Michigan City, Indiana

Favor Of

Wright's Flowers & Gifts

Total Amount of Voucher Deductions

Amount of Warrant

\$

\$65.00

Month of April, 2013

April, 2013

.20

VOUCHER RECORD

Acct.
No.

Source of Supply

Water Treatment

Transmission and Dist.

Customer Accounts

Administrative and General

Operation-Maintenance

Utility Plant in Service

Constr. Work in Progress

Materials and Supplies

Customer Deposits

Total

Allowed

Filed

APR 10 2013

Board of Directors

Official Title

DETAIL ACCOUNTS

ACCT.
NO.

60180005676 08

\$65.00

CK #
31636
12/14

TO National Parkinson Foundation
P.O. Box 5018, Hagerstown, MD 21741-5018
ADDRESS _____

[illegible]

Title



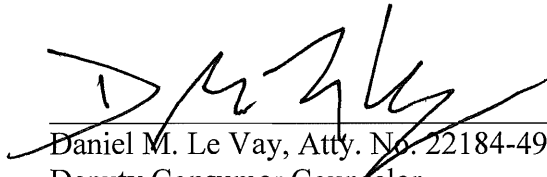
Title

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***OUCC Testimony of Richard J. Corey – Public's Exhibit No. 1*** has been served upon the following counsel of record in the captioned proceeding by electronic service on January 21, 2015.

Dennis H. Otten
J. Christopher Janak
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Indianapolis, IN 46204
dotten@boselaw.com
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Daniel M. Le Vay, Atty. No. 22184-49
Deputy Consumer Counselor

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317/232-2494 – Phone
317/232-5923 – Facsimile