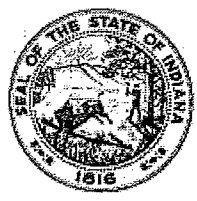


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INDIANA UTILITY  
REGULATORY COMMISSION

STATE of INDIANA



INDIANA UTILITY REGULATORY COMMISSION  
101 WEST WASHINGTON STREET, SUITE 1500 EAST  
INDIANAPOLIS, INDIANA 46204-3419

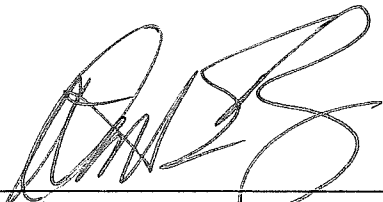
www.in.gov/iurc  
Office: (317) 232-2701  
Facsimile: (317) 232-6758

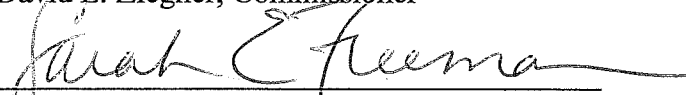
IN THE MATTER OF THE PETITION OF )  
BLOOMINGTON, INDIANA, FOR AUTHORITY TO )  
ISSUE BONDS, NOTES, OR OTHER OBLIGATIONS, )  
FOR AUTHORITY TO INCREASE ITS RATES AND ) CAUSE NO. 44855  
CHARGES FOR WATER SERVICE, AND FOR )  
APPROVAL OF A NEW SCHEDULE OF WATER )  
RATES AND CHARGES )

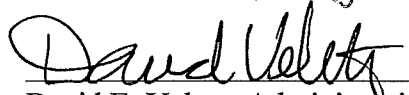
You are hereby notified that on this date the Indiana Utility Regulatory Commission ("Commission") has caused the following Entry to be made:

Please be advised that the City of Bloomington, Indiana received correspondence from the Commission that addresses matters currently pending in this proceeding. The entire text of the letter is attached to this Docket Entry. Disclosure of this written communication is being tendered to the record pursuant to 170 IAC 1-1.5-6.

**IT IS SO ORDERED.**

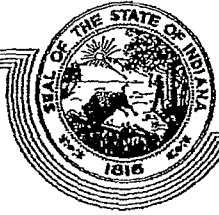
  
\_\_\_\_\_  
David E. Ziegner, Commissioner

  
\_\_\_\_\_  
Sarah E. Freeman, Commissioner

  
\_\_\_\_\_  
David E. Veleta, Administrative Law Judge

November 17, 2016  
\_\_\_\_\_  
Date

# STATE OF INDIANA



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OCT 21 2016

UTILITIES

INDIANA UTILITY REGULATORY COMMISSION  
101 W. WASHINGTON STREET, SUITE 1500E  
INDIANAPOLIS, INDIANA 46204-3407

<http://www.in.gov/iurc>  
Office: (317) 232-2701  
Facsimile: (317) 232-6758

**COPY** October 18, 2016

John Langley  
Bloomington Municipal Water  
600 East Miller Drive  
Bloomington, IN 47402

Dear John Langley :

Based on Bloomington Municipal Water's 2015 annual report, the utility is not using the correct composite depreciation rate to depreciate its assets, which is a violation of Indiana Code Section 8-1-2-19. Unless Bloomington Municipal Water has received the Commission's approval for depreciation rates developed from a depreciation studies, the Commission's "standard" composite depreciation rates reflected in a memo dated December 28, 1987 should be used. The Commission's composite depreciation rates were developed using a weighted average depreciation rate for all groups of assets and is applied to the utility's gross plant to calculate depreciation expense. The composite depreciation rates from the memo follow:

Complete Water System - 2.0%  
Purchase Water System - 1.7%  
Complete Wastewater System - 2.5%  
Purchase Treatment System - 2.2%

Using various depreciation rates based on the asset lives of a plant account group is a common error found on a utility's annual report. For example, for office furniture, a depreciation rate of 5% may be used for an expected service life of 20 years or for a truck, a depreciation rate of 20% may be used based on a service life of five years. Neither of these rates is correct.

On the surface, it may seem illogical for a water utility to apply a 2% depreciation rate to vehicles and furniture knowing these assets will not last for 50 years ( $2\% * 50 \text{ years} = 100\%$ ). However, it is important to remember that the 2% composite rate is a combination of asset classes with various useful lives. For instance, transmission and distribution mains are depreciated over 75 years or 1.33%. Fire hydrants and water storage tanks are depreciated over 60 years, or 1.67%, while Transportation Equipment is depreciated over 7 years (14.29%) and Office Furniture and Equipment over 25 years (4%). When depreciation rates for each asset class is combined, a composite depreciation rate of 2% results. Thus, when applying the Commission's 2% composite rate to the Utility Plant in Service balance less depreciation, Transportation Equipment is really being depreciated over 7 years.

Please begin using the Commission's applicable composite rate for all plant assets on a going forward basis. There is no need to restate prior years' submissions.

If you have any questions feel free to contact me at (317) 232-2750. Thank you for your assistance in this matter.

Sincerely,

Dana Lynn,  
Principal Utility Analyst  
Indiana Utility Regulatory Commission  
Water/Sewer Division