

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF EVERTON WATER) CAUSE NO. 44744 U
CORPORATION FOR A NEW SCHEDULE OF)
RATES AND CHARGES FOR WATER SERVICE) APPROVED: AUG 02 2016



ORDER OF THE COMMISSION

Presiding Officers:

James F. Huston, Commissioner

Loraine L. Seyfried, Administrative Law Judge

On January 29, 2016, Everton Water Corporation ("Petitioner" or "Everton") filed a Small Utility Rate Application ("Application") under Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. On February 18, 2016, Everton filed a copy of the Board of Director's resolution authorizing application of a rate increase, its notice to customers and the public, and the affidavit of its President as required by 170 IAC 14-1-2. Everton filed proof of publication of the notice on February 23, 2016. On that same day, the Commission's Water and Sewer Division issued a Memorandum stating that the Application was deemed complete.

On May 23, 2016, as required by 170 IAC 14-1-4(a), the Indiana Office of Utility Consumer Counselor ("OUCC") filed its report. The OUCC filed corrections to its report on June 21, 2016.

On June 21, 2016, Everton filed a letter indicating that the Board of Directors agreed to comply with the recommendations in the OUCC's report.

Under Ind. Code § 8-1-2-61.5, a formal public hearing is not required in rate cases involving small utilities with fewer than 5,000 customers, unless a hearing is requested by at least ten customers, a public or municipal corporation, or by the OUCC. On February 18, 2016, the Commission received a request for a public hearing from ten individuals. However, subsequent to this request, the OUCC notified the Commission that it had contacted the individuals and they no longer wished to have a hearing. Accordingly, no public hearing was held.

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

1. Commission Jurisdiction and Notice. Everton is a public utility as defined in Ind. Code § 8-1-2-1(a) and qualifies for treatment as a small utility under Ind. Code § 8-1-2-61.5. Everton published legal notice of the filing of this small utility rate case as required by 170 IAC 14-1-2(b). Therefore, we find that notice of this Cause was given and published as required by law. Further, the Commission finds the Application satisfies all of the requirements of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. Therefore, the Commission has jurisdiction over Everton and the subject matter of this proceeding, and may issue an Order in this Cause based upon the information filed as provided by 170 IAC 14-1-6.

2. **Petitioner's Characteristics.** Everton is a not-for-profit public utility that provides water utility service to approximately 750 residential and commercial customers in and around Everton, Indiana. Its office is at 5471 South State Road 1, Connersville, Indiana.

3. **Test Period.** The test period selected for determining revenues and expenses reasonably incurred in providing water utility services to customers is the 12 months ending December 31, 2014. With adjustments for changes that are fixed, known, and measurable, the Commission finds that this test period is sufficiently representative of normal operations to provide reliable data for ratemaking purposes.

4. **Background and Relief Requested.** The Commission approved Everton's current base rates and charges in its December 5, 2007 Order in Cause No. 43312. In its Application, Everton requests a 27.14% across-the-board rate increase to generate an additional \$71,068 in annual revenues for higher operating expenses and necessary capital improvements.

5. **OUCC Report.** The OUCC's report was prepared by Greg A. Foster and Carl N. Seals. In its report, the OUCC recommends a slightly lower across-the-board rate increase of 24.89% for an additional \$66,462 in annual revenues. The reduction in the proposed rate increase is primarily the result of a recommendation to normalize the change in the number of customers, which resulted in changes to other operating expenses.

The OUCC's report also included several comments it had received from customers generally expressing concern with the significance of the proposed rate increase.

6. **Commission Discussion and Findings.**

A. **Revenue and Operations & Maintenance Expense.** Under Ind. Code § 8-1-2-125, rates for a not-for-profit utility are calculated by first determining the amount of the adjusted net operating expenses based on the utility's current rates. The adjusted amounts are based on known recurring expenses, updated to include changes that are fixed, known, and measurable, and expected to occur within 12 months of the end of the test year.

The OUCC recommended an increase of \$873 to the test year water sales to normalize the change in the number of customers that occurred during the 12-month adjustment period. As a result of this adjustment, the OUCC made a corresponding adjustment to increase the purchased power expense (\$73), chemicals expense (\$6), and the postage expense (\$15). The OUCC agreed with Everton's other pro forma adjustments to operations and maintenance expense.

The table below shows the operating income variances between Everton's Application and the OUCC's proposal, to which Everton has agreed. The parties had no other revenue or O&M expense differences.

Operating Income Statement Adjustment Comparison

	Per Petitioner	Per OUCC	Variance
Operating Revenues			
Residential Metered Water Sales	\$ (4,264)	\$ 873	\$ 5,137
O&M Expense			
Fuel for Purchased Power	(351)	73	425
Chemicals	(28)	6	34
Postage	(72)	15	87
Total Operating Expenses	(451)	94	546
Net Operating Income	\$ (3,813)	\$ 779	\$ 4,591

B. Extensions and Replacements. Everton identified several capital improvements it intends to complete over the next three years and requested \$67,900 per year for these extensions and replacements. The OUCC noted that the capital improvements are reasonably necessary for the provision of water utility service and the requested amount is in line with Everton's pro forma test year depreciation expense. Accordingly, the OUCC recommended approval of the proposed \$67,900 per year for extensions and replacements. However, because the amount of funding is higher than what Everton has spent recently, the OUCC recommended that Everton be required to include in its annual report a page identifying the capital improvements made and the amounts expended.

While we approve Everton's requested \$67,900 per year for extensions and replacements, we decline to require Everton to annually submit information concerning the specific improvements made and the associated costs. No evidence was offered indicating that Everton has a history of not making capital investments or spending its funds on investments that are unnecessary or unreasonable. Therefore, we do not believe the additional reporting requirements are necessary or justified by the evidence presented.

C. Rates and Revenue Requirement. Based on the evidence presented, we find that the OUCC's proposed revenue requirements and rate increase is reasonable and in the public interest. While we recognize the concern for the amount of the rate increase as expressed by some of Everton's customers, it has been almost nine years since Everton's rates were last adjusted and the evidence presented supports the need for additional revenue as recommended by the OUCC. The parties agreed on debt service and interest income. Below is the agreed upon revenue requirement schedule:

Revenue Requirements

Operating expenses	\$ 188,502
Debt Service	119,844
Debt Service Reserve	-
Extensions and Replacements	67,900
Working Capital	-
Total Revenue Requirements	<u>\$ 376,246</u>
Less: Interest Income	4,317
Net Revenue Requirements	<u>\$ 371,929</u>
Less: Other Revenues not subject to increase	38,557
Less: Pro Forma Present Rate Op Rev.	<u>\$ 266,981</u>
Revenue Increase required Excluding Taxes	<u>\$ 66,390</u>
Add: Additional IURC Fee	\$ 72
Recommended Increase	<u>\$ 66,462</u>
Recommended Percentage Increase	<u>24.89%</u>

D. Effect on Rates. A residential customer using 5,000 gallons per month would experience an increase of \$8.39 per month from \$33.70 to \$42.09.

E. Periodic Maintenance. Everton proposed to adjust its test year expenses by \$20,017 for periodic maintenance, such as tank painting, well cleaning and pump maintenance, filter media replacement, and variable speed drive maintenance. Of the amount requested, \$12,617 is for painting all three of Everton's tank, amortized over 15 years. The OUCC recommended approval of Petitioner's periodic maintenance expenditures, but also recommended Everton establish a dedicated tank maintenance fund to ensure sufficient funds are available when tank maintenance or painting is necessary. The OUCC also recommended that Everton create written tank inspection and maintenance programs as described in the American Water Works Association's Standard G200, Distribution Systems Operation and Management ("AWWA Standard G200") and to obtain copies of the relevant standards.

Based on the evidence presented, we agree with the OUCC that establishing a dedicated fund for the collection of revenues related to tank maintenance is good business practice because such maintenance is critical to the preservation of a significant utility asset. Therefore, Everton shall establish a dedicated tank maintenance fund. In the event that Everton should need to use the dedicated funds for something other than tank maintenance or painting, Everton shall file a notification under this Cause within 30 days after using the funds indicating the reason for the use of the funds and the amount used.

Regarding the OUCC's recommendation to create written tank inspection and maintenance programs, we agree the AWWA Standard G200 offers appropriate guidance and standards for development of generally acceptable utility practices. However, no evidence was offered that Everton's practices are deficient or that the AWWA Standard G200 is appropriate for Petitioner's operations. Therefore, we decline to order Everton to develop tank inspection and maintenance programs that comply with AWWA Standard G200, and instead encourage Everton to review the standard and consider incorporating such programs in its utility operations.

F. Other OUCC Recommendations. The OUCC made several other recommendations. First, it noted that Petitioner does not maintain a comprehensive, detailed map of its system and recommended that Petitioner begin doing so and explore the costs and benefits of potentially retaining a professional engineering firm to assist in the development of the map. Second, the OUCC noted that Petitioner's finished water meter has not been tested since it was installed in 2001 and recommended that Everton begin exploring the costs and benefits of having the meter tested and potentially calibrated by an established service provider. And, finally, the OUCC indicated that Everton may not have provided certain information to the Indiana Finance Authority as required by Senate Enrolled Act 347 ("SEA 347").¹

The evidence demonstrates that Petitioner agrees with the OUCC's recommendations. We also agree that each of these recommendations are reasonable and appropriate actions that Everton should consider and explore for the reasons articulated by the OUCC and encourage Everton to do so. However, because they are simply recommendations for the utility to consider and we were not presented with any evidence supporting or demonstrating that specific steps be taken, we need not order Everton to take any specific action. With respect to Everton's compliance with SEA 347, the Indiana Finance Authority is the appropriate entity with jurisdiction to enforce those reporting requirements.

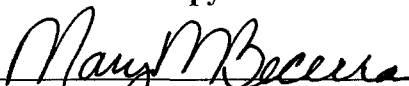
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. Everton is authorized to increase its rates and charges by \$66,462 or 24.89% so as to produce net annual revenues of \$371,929.
2. Everton shall establish a dedicated fund for the collection of revenues related to tank maintenance and painting within 30 days of the date of this Order. In the event that Everton should need to use the dedicated funds for something other than tank maintenance or painting, Everton shall file a notification under this Cause within 30 days after using the funds indicating the reason for the use of the funds and the amount used.
3. Prior to implementing the rates authorized herein, Everton shall file the applicable rate schedules under this Cause for approval by the Commission's Water and Wastewater Division.
4. This Order shall be effective on and after the date of its approval.

STEPHAN, HUSTON, AND ZIEGNER CONCUR; WEBER ABSENT:

APPROVED: AUG 02 2016

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



Mary M. Becerra
Secretary of the Commission

¹ Codified at Ind. Code ch. 8-1-30.7.