Commissioner	Yes	No	Not Participating
Huston	√		
Freeman	√		
Krevda	√		
Ober	√		
Ziegner			√

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF JACKSON COUNTY WATER UTILITY, INC., FOR AUTHORITY TO ISSUE LONG TERM DEBT AND CHANGES TO ITS RATES, CHARGES AND TARIFF	))))	**CAUSE NO. 45640** **APPROVED: APR 27 2022**

PHASE 1 ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On November 5, 2021, Jackson County Water Utility, Inc. ("Petitioner") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") seeking authority to issue long-term debt through a Phase 1 proceeding; and to change its rates, charges, and tariff through a Phase 2 proceeding. On that same day, Petitioner prefiled its Phase 1 case-in-chief.

On January 26, 2022, the Indiana Office of the Utility Consumer Counselor ("OUCC") prefiled its Phase 1 case-in-chief. On February 10, 2022, Petitioner prefiled its rebuttal evidence.

The Commission held an evidentiary hearing concerning Petitioner's Phase 1 requested relief on March 2, 2022, at 10:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared and offered their respective prefiled testimony and exhibits, which were admitted into evidence without objection, and witnesses were cross-examined.

The Commission, having considered the evidence of record and the applicable law, now finds as follows:

1. <u>Notice and Jurisdiction</u>. Notice of the proceedings in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as defined by Ind. Code § 8-l-2-1 and a not-for-profit utility as defined in Ind. Code § 8-1-2-125. The Commission has jurisdiction to approve a not-for-profit utility's rates and charges for water service under Ind. Code § 8-1-2-125 and the utility's issuance of stocks, bonds, and debt under Ind. Code §§ 8-1-2-76 through 8-1-2-80. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. <u>Petitioner's Characteristics</u>. Petitioner is a not-for-profit utility organized and existing under the laws of the State of Indiana. Petitioner provides water service to customers in both rural and municipal areas in Jackson, Jennings, Bartholomew, Brown, and Lawrence Counties, Indiana.

3. <u>Existing Rates, Test Year, and Relief Requested</u>. Petitioner's current rates and charges were approved by the Commission in its Phase II Order issued on April 17, 2019, under

Cause No. 44986. In its Verified Petition, Petitioner proposed that its requested relief be addressed in 2 phases. In Phase 1, Petitioner requests approval to issue long-term debt in an amount not to exceed $4,300,000, for a period no greater than 35 years, at an average interest rate of 2.50% or less. In Phase 2, Petitioner requests approval to change its rates and charges to repay the long-term debt authorized in Phase 1. The test year for Phase 2 is the 12 months ending December 31, 2021, adjusted for changes that are fixed, known, measurable, and occurring within 12 months following the end of the test year.

4. <u>Petitioner's Direct Evidence</u>. Mr. Larry W. McIntosh, Petitioner's General Manager, testified Petitioner is proposing to replace old water mains within the Town of Brownstown ("Brownstown"), which often contain lead and need repair. He explained the distribution mains used to transmit water from the water treatment plant within Brownstown are more than 100 years old. He described the Board of Directors for Jackson County Water, noting the directors are customers of Petitioner and elected by Petitioner's customers. He testified the Board of Directors is responsible for managing the utility and approved of the relief being sought in this case. He stated Petitioner is proposing to borrow funds for the project from the Indiana Finance Authority's ("IFA") State Revolving Fund ("SRF") and possibly from Jackson County through its American Rescue Plan Act funds. Finally, he expressed his belief that the project is reasonable because it will replace old facilities containing lead-based components.

Ms. Lori A. Young, a professional engineer with Curry & Associates, Inc., described Petitioner's current facilities and the proposed improvements. She testified the estimated total cost for the proposed improvements is $4,211,000 and expressed her willingness to advise the Commission and the OUCC of any material changes in the estimates reflected in the Preliminary Engineering Report ("PER") provided as Exhibit LAY-1 of Petitioner's Exhibit 4. Ms. Young stated the minimum expected useful life of the replacement water mains and service lines referenced in the PER are 50 years. She explained why the main replacement project is reasonable and necessary at this time and that absent the Commission granting financing authority Petitioner cannot close on a loan from SRF or begin constructing these improvements. She testified the SRF performs its own due diligence on proposed projects and approved this project on October 20, 2021.

Mr. Earl L. Ridlen, III, a certified public accountant and partner at LWG CPAs & Advisors, testified he performed an audit of Petitioner's financials for calendar year 2020. He also explained the reasons Petitioner proposes to delay an increase in rates and charges until Phase 2. Mr. Ridlen described the basis Petitioner used to estimate the maximum amount to be borrowed, the maximum period for such borrowing, and the likely interest rate that will be established by the SRF at closing. Regarding the interest rate, Mr. Ridlen expressed his belief that the interest rate charged by the SRF will not exceed 2% if Petitioner can close a loan with the SRF by early 2022 but also recognized interest rates could increase given current economic conditions. He described the alternatives Petitioner considered prior to moving forward with the SRF as its source of funds and explained why the SRF funding is the most reasonable long-term debt funding for the project. Mr. Ridlen provided a potential amortization schedule for the new debt and testified that while Petitioner's current financial condition is sound, Petitioner cannot make these improvements unless it borrows the long-term debt. Finally, he offered that Petitioner would advise the Commission and the OUCC of the closing terms within 60 days of closing.

5. OUCC's Direct Evidence. Mr. Shawn Dellinger, a Utility Analyst in the OUCC's Water/Wastewater Division, discussed his review of Petitioner's Phase 1 request. He agreed the structure of the proposed borrowing is appropriate and in the public interest, but recommended Petitioner be authorized to borrow based on interest rates not to exceed 4.5% rather than the 2.5% requested. He also recommended the amortization table provided in Exhibit D of Petitioner's Exhibit 3 be modified to show two years of interest only payments and the remaining debt amortized over 33 years. Mr. Dellinger further indicated the OUCC accepts all projects for the purpose of qualifying for financing authority, but he recommended removing some of the contingency included in Petitioner's request resulting in a reduced debt authority of $4,066,400.

Regarding debt service reserve, Mr. Dellinger recommended that once the debt service reserve has been fully funded, Petitioner's rates should be reduced to eliminate debt service reserve as a revenue requirement. He also discussed the need for a true-up of the annual debt service once the interest rates and borrowed amounts are known and recommended Petitioner file a report within 30 days of loan closing and include this information in its Phase 2 rate request. He also recommended that: (1) any unused financing authority expire in one year; (2) Petitioner file an interim report two years after loan closing if projects are still ongoing; (3) Petitioner's debt service reserve be placed in a restricted account; and (4) Petitioner be required to report to the Commission if Petitioner spends any funds from its debt service reserve for any reason other than to make the last payment on its current or proposed debt issuances.

Mr. James T. Parks, a Senior Utility Analyst in the OUCC's Water/Wastewater Division, expressed the OUCC's support for Petitioner's proposed projects that will remove lead components through replacement of aging assets. Comparing Petitioner's estimated project cost to a 2018 competitively bid project in Fort Wayne, he accepted the estimated construction costs but proposed a reduction of the contingency from 15% to the standard IFA contingency of 10%. Mr. Parks recommended that Petitioner evaluate the life cycle costs of alternate water main materials to include both PVC and ductile iron pipes and provide for such alternatives during its bidding process. He also recommended that once the design is complete, Petitioner update its engineer's estimate based on construction starting in late 2022. Additionally, he recommended Petitioner obtain easements for its replacement water mains, especially for those water mains along Brownstown's streets that are likely to be widened under a road project, which would prevent the utility from incurring relocation costs.

Ms. Margaret A. Stull, a Chief Technical Advisor in the OUCC's Water/Wastewater Division, discussed her review of Petitioner's rate increase calculation. She testified the ultimate effect the authorized debt issuance will have on Petitioner's rates should be determined and addressed in Phase 2 of this proceeding. She recommended the Commission authorize Petitioner's requested financing authority subject to the OUCC's recommendations by other witnesses.

6. Petitioner's Rebuttal Evidence. Mr. McIntosh disagreed with the OUCC's recommendation to limit borrowing authority to $4,066,400. He stated Petitioner's request includes a reasonable contingency to account for potential delays and cost increases associated with the ongoing COVID-19 pandemic and the volatile market for pipes and other materials. He added that to the extent there are remaining funds after the completion of the project, Petitioner will use such funds to address additional capital needs, just as Petitioner has with prior borrowings. As to Mr. Parks' recommendation to reduce contingency, Mr. McIntosh provided a copy of the

IFA PER approval letter, which includes the 15% contingency. He further explained Petitioner has experienced 20% to 160% increases in common materials used in the water utility industry since January 1, 2021. Finally, he explained Petitioner tries to obtain easements, but after considering numerous variables and associated costs, Petitioner determined it was not feasible to place the project's new water mains in an easement.

Regarding debt service reserve, Mr. McIntosh confirmed Petitioner has not included any revenue requirement in this Phase 1 filing. He also disagreed with the OUCC's recommendation to reduce rates after the debt service reserve is fully funded because Petitioner has historically adjusted its rates every three to five years. He testified Petitioner is willing to file within 60 days of closing on the long-term debt a report that includes the terms of the new loan, interest rate, amount borrowed, and the amount of debt service reserve and an amortization schedule. He noted that the 2014 and 2018 SRF projects came in under budget and that the SRF allowed Petitioner to amend the scope of the PER to allow additional projects to be funded. He also noted that the Commission did not require an interim report as to the use of excess funds after approving financing authority for the previous two SRF loans.

7. <u>Commission Discussion and Findings</u>. This proceeding has been divided into two phases, with Phase 1 addressing Petitioner's request to issue new long-term debt through the SRF and Phase 2 addressing Petitioner's request to adjust its rates and charges. While the Commission questions the efficiency of conducting two separate proceedings, the parties agreed to use this procedure. Therefore, this Phase 1 Order addresses Petitioner's request for authority to issue long-term debt to fund the replacement of aging mains and service lines in Brownstown.

Ind. Code § 8-1-2-78 authorizes the issuance of long-term debt to the extent required to provide sufficient funds for the construction, completion, extension, or improvement of facilities. The evidence shows the purpose of the long-term debt is to replace aging water mains and related components containing lead in Petitioner's service area. While the OUCC supports Petitioner's proposed project and the issuance of long-term debt at a rate not to exceed 4.5%, it disagreed with the 15% contingency included in the project cost. Considering the current construction and cost uncertainties driven in large part by the ongoing COVID-19 pandemic as explained by Mr. McIntosh, we find Petitioner's cost estimate of $4,300,000 to be sufficiently reasonable for purposes of authorizing the issuance of long-term debt. In addition, should there be any remaining funds after completion of the project, the evidence demonstrates Petitioner will use those funds for additional capital needs as it has done with prior authorized financing. Accordingly, Petitioner is authorized, to issue long-term debt through the SRF up to $4,300,000 at a term of no more than 35 years at an average interest rate not to exceed 4.5%.

We further find that Petitioner shall file under this Cause within 60 days of closing on the long-term debt a report concerning the terms of the loan, the interest rate, the amount borrowed, and the amount of debt service reserve and an amortization schedule. Regarding the OUCC's recommendations that Petitioner eliminate its debt service reserve from rates once the reserve has been fully funded and place its debt service reserve in a restricted account, we find these issues are more appropriately addressed in Phase 2 of this proceeding. As for the OUCC's recommendation that Petitioner be required to file an interim report two years after loan closing for any ongoing projects, we fail to see a need to impose such a requirement given Petitioner's historical completion of projects and the OUCC's ability to obtain project information in Petitioner's next rate case. Nor do we find it necessary to include an expiration date on the financing authority authorized in this Order because we fully expect Petitioner to seek to close on the financing as early as possible given the current rising interest rate environment. Additionally, as recommended by the OUCC, we do encourage Petitioner to bid ductile iron pipe as an alternative material and to base their option to award on an analysis of the life-cycle costs of the material options and availability of appropriate funding to complete the work.

Finally, Petitioner shall coordinate with the OUCC regarding a proposed procedural schedule to be used for the Phase 2 proceeding. Petitioner shall file the proposed procedural schedule with the Commission on or before May 9, 2022. If the parties are unable to agree to scheduling matters, the parties shall so advise the Commission.

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

1. Petitioner is authorized to incur additional long-term indebtedness not to exceed $4,300,000 for a period of no more than 35 years at an average interest rate not to exceed 4.5%.

2. Within 60 days following the closing on the authorized debt, Petitioner shall file under this Cause information on the actual terms of such long-term debt, the interest rate, the amount borrowed, and the amount of debt service reserve and an amortization schedule.

3. Petitioner is authorized to seek a Phase 2 increase in its rates and charges by filing additional evidence based upon a test year of December 31, 2021, as adjusted for fixed, known, and measurable changes that will occur within 12 months of the end of such test year. Petitioner shall coordinate with the OUCC regarding a proposed procedural schedule to be used for the Phase 2 proceeding. Petitioner shall file the proposed procedural schedule with the Commission on or before May 9, 2022. If the parties are unable to agree to scheduling matters, the parties shall so advise the Commission.

4. This order shall be effective on or after the date of its approval.

HUSTON, FREEMAN, KREVDA, AND OBER CONCUR; ZIEGNER ABSENT:

APPROVED: APR 27 2022

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

Regina K. Joyner Digitally signed by Regina K. Joyner
Date: 2022.04.27 10:37:09 -04'00'

_______________________________ on behalf of

Dana Kosco
Secretary of the Commission