

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
WELLS HOMEOWNERS ASSOCIATION, INC.) CAUSE NO. 45450-U
FOR A NEW SCHEDULE OF RATES AND)
CHARGES.)

OUCC's REPORT

In accordance with 170 IAC 14-1-4(a), the Indiana Office of Utility Consumer Counselor ("OUCC"), by counsel, hereby submits its Report consisting of the testimonies, including attachments and accounting schedules, of Thomas W. Malan (Public's Exhibit No. 1) and Carl. N. Seals (Public's Exhibit No. 2).

Respectfully submitted,
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR



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

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *OUCC's REPORT* has been provided to the following individuals by electronic service on February 2, 2021.

Wayne Brumbaugh
WELLS HOMEOWNERS
ASSOCIATION, INC.
2125 South Holiday Drive
Peru, IN 46970
E-mail: wlt090801@yahoo.com



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STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
WELLS HOMEOWNERS ASSOCIATION,) **CAUSE NO. 45450-U**
INC. FOR A NEW SCHEDULE OF RATES)
AND CHARGES.)

TESTIMONY
OF
THOMAS W. MALAN

ON BEHALF OF THE
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 1

February 2, 2021

TESTIMONY OF OUCC WITNESS THOMAS W. MALAN
CAUSE NO. 45450-U
WELLS HOMEOWNERS ASSOCIATION, INC.

I. INTRODUCTION

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

2 A: My name is Thomas W. Malan, and my business address is 115 W. Washington
3 St., Suite 1500 South, Indianapolis, IN 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
6 a Utility Analyst with the Water-Wastewater Division. My qualifications and
7 experience are set forth in Appendix A.

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

9 A: The Wells Homeowners Association, Inc. ("Wells" or "Applicant") is a small water
10 utility with less than forty residential customers. Wells asks the Indiana Utility
11 Regulatory Commission ("IURC" or "Commission") to authorize a 33.33%
12 increase to its unmetered monthly water rate, which would increase from \$30.00 to
13 \$40.00. This would result in a 32.19% increase to Wells' test year operating
14 revenues, which would increase from \$13,435 to \$17,760. Wells based its
15 application for rate increase on a historical test period ending December 31, 2019,
16 which may be adjusted for changes that are measurable in amount, fixed in time,
17 and known to occur within twelve months of the test year. Based on its review, the
18 OUCC recommends the approval of the requested rate increase of 33.33%. My
19 testimony support's the OUCC's recommendation and presents the OUCC's

1 schedules. I also make recommendations with respect to Wells' late fees and its
2 recordkeeping practices.

3 **Q: Describe the review and analysis you performed.**

4 A: I reviewed Wells' Small Utility Rate Application ("Application") dated November
5 4, 2020. I reviewed Applicant's 2016, 2017, 2018, and 2019 IURC annual reports.
6 I prepared discovery questions and reviewed Petitioner's responses. I exchanged
7 emails and/or engaged in telephone conversations with Wayne Brumbaugh
8 (President), Genny Weaver (Treasurer), Diane Edgerton (Secretary), and Alan
9 Smith (Manager at REA Logan, Accountant for Wells). I visited the utility on
10 January 15, 2021 where I took a tour of Applicant's system and had discussions
11 with Mr. Brumbaugh regarding the utilities management and future plans.

12 **Q: Do you sponsor any schedules?**

13 A: Yes. I sponsor the following schedules:

14 Schedule 1 – Comparison of Overall Revenue Requirements (pages 1 and 2)

15 Schedule 2 – Comparative Balance Sheet as of December 31, 2017, 2018 and 2019

16 Schedule 3 – Comparative Income Statement for the Twelve Months Ended
17 December 31, 2017, 2018, and 2019.

18 Schedule 4 – *Pro Forma* Net Operating Income Statement

19 Schedule 5 – Extensions and Replacements

20 Schedule 6 – Proposed Tariff

21 **Q: Please identify the attachments to your testimony.**

22 A: I have included the following attachments to my testimony:

- 23
- Attachment TWM 1 – Wells' current approved tariff
 - Attachment TWM 2 – Email dated January 5, 2021 regarding Late Fees.
- 24

II. OVERALL REVENUE REQUIREMENT

A. Overview of Wells' Case

1 **Q: What revenue increase does Applicant propose?**

2 A: Applicant requested a 32.19% revenue increase to generate \$4,325 of additional
3 operating revenue per year.

4 **Q: What are the principal drivers of Applicant's proposed rate increase?**

5 A: This is the first application for rate increase Wells has made since acquiring its
6 water utility. Therefore, for purposes of comparison the operating costs requiring
7 Wells' current rates is unknown. However, factors affecting Wells' need for a rate
8 increase include the need to fund extensions and replacements at a cost of \$3,105
9 per year and the loss of two of its customers.

B. Overview of OUCC's Case

10 **Q: What revenue increase does the OUCC recommend?**

11 A: Based on its review of Wells' test year revenues, expenses, and expense
12 adjustments, the OUCC recommends approval of Wells' requested increase of
13 32.19% to test year revenues to produce additional water revenues of \$4,325 per
14 year. Wells' application could support an increase of 34.75% to test year operating
15 revenues, which would produce additional water revenues of \$4,468.

16 **Q: Why did Wells request a lower rate than that supported by its application?**

17 A: In its application, Wells explained that "In Light of the current pandemic, the Board
18 wants to limit its increase to \$40.00 per month at this time." Application, p. 5.

1 **Q: Do you support Wells desire to limit its rate to \$40.00 per month?**

2 A: Yes. Wells has a long history of being fiscally responsible. Wells has an all-
3 volunteer staff doing what they can to reduce cost and maintain low rates. The staff
4 has consistently made prudent capital investments.

III. OPERATING REVENUE

5 **Q: What level of present rate operating revenues does Wells propose?**

6 A: Wells made no adjustment to its test year operating revenues. Wells proposes
7 present rate *pro forma* operating revenues of \$13,435.¹

8 **Q: Do you accept Wells' proposed present rate operating revenues?**

9 A: Yes.

IV. OPERATING EXPENSES AND TAXES

10 **Q: What level of operating expenses and taxes does Wells propose?**

11 A: Wells proposes *pro forma* operating expenses and taxes of \$14,992 a decrease of
12 \$4,433 from test year expense of \$19,425, detailed on OUCC Schedule 4.

13 **Q: What operating expense adjustments does Applicant propose?**

14 A: Wells proposes two adjustments to test year operating expenses -- (1) a \$17 increase
15 to IURC fees, and (2) a \$4,450 reduction to Contractual Services – Other/Testing
16 expenses for the cost associated with a certified operator.

17 **Q: Does the OUCC accept Wells' proposed operating expense adjustments?**

18 A: Yes. The OUCC accepts both of Wells' expense adjustments.

¹ Wells uses cash accounting rather than accrual accounting. Wells does not accrue water revenues and instead records customer payments as revenues when payment is received not when service is rendered. Annual revenues based on Wells' current customer count and current rate would be \$13,320 (\$30 * 37 customers * 12 months).

1 **Q: How can Wells continue to maintain its system and meet testing requirements**
2 **of the Indiana Department of Environmental Management (“IDEM”) if costs**
3 **associated with a certified operator have been removed from the revenue**
4 **requirement?**

5 A: To keep water rates low, the testing and other services performed by a certified
6 operator during the test year have been assumed by Mr. Brumbaugh and Mr.
7 Salazar, each of whom is a homeowner and member of Wells’ Board of Directors.
8 Mr. Smith has been certified to conduct testing. Wells can now collect its own
9 samples and will only incur the lab fees associated with IDEM testing.

10 **Q: Do you propose any additional operating expense adjustments?**

11 A: No.

C. Extensions & Replacements

12 **Q: What level of annual E&R did Wells propose in its revenue requirement?**

13 A: Wells proposed \$3,105 of annual E&R be included in its revenue requirement. This
14 proposal covers the years 2021 – 2025 and is a reasonable amount to make capital
15 improvements in the future.

16 **Q: What *pro forma* E&R does the OUCC propose?**

17 A: OUCC Witness Carl Seals presents the OUCC’s analysis and review of Wells’
18 proposed capital asset management plan and extension and replacement revenue
19 requirement. Mr. Seals recommends Applicant’s yearly E&R of \$3,105 be included
20 in the total revenue requirement in accordance with Wells forming a plan for
21 replacement of utility assets.

V. TARIFF ISSUES

1 **Q: Did you identify any tariff issues during your review of Wells' books and**
2 **records?**

3 A: Yes. Mr. Brumbaugh and Ms. Weaver informed me that Wells charges a late fee
4 of \$10 for utility payments made after the 10th of the month in which a utility bill
5 is issued. Ms. Weaver explained this fee was being assessed in an email dated
6 January 5, 2021 (Attachment TWM-2).

7 **Q: Is the late fee being charged part of Wells' current or proposed tariff?**

8 A: No. Wells' current tariff (Attachment TWM-1) does not indicate an approved late
9 fee. Therefore, I recommend Wells discontinue charging the \$10 late fee, which
10 has not been approved by the Commission. Moreover, Wells' late fee is not
11 otherwise consistent with the late fee practices authorized by the Commission's
12 rules. Therefore, I also recommend Wells add language to its tariff that is consistent
13 with the Commission's rules regarding delinquent bills (see 170 IAC 6-1-13(B)).
14 The tariff language should be consistent with the following:

15 (1) A utility service bill which has remained unpaid for a period of more
16 than seventeen (17) days following the mailing of the bill shall be a
17 delinquent bill.

18 (2) A utility service bill shall be rendered as a net bill. If the net bill is not
19 paid within seventeen (17) days after the bill is mailed, it shall become
20 a delinquent bill and a late payment charge may be added in the amount

1 of ten (10) percent of the first three (3) dollars and three (3) percent of
2 the excess of three (3) dollars.

VI. BOOKKEEPING AND ACCOUNTING PRACTICES

3 **Q: Did you identify any other issues regarding Wells' books and records?**

4 A: Yes. During the discovery process some payment records were not available.

5 **Q: What process should Wells implement that would correct this?**

6 A: Wells should implement a matching system where invoices approved and paid are
7 matched with the monthly bank statement for reconciliation purposes. The invoices
8 and bank statements should be kept in good accounting order for future audits and
9 tax purposes. With an all-volunteer staff, record maintenance and retention are of
10 the utmost importance as volunteers are replaced over time. Wells should task one
11 individual with the responsibility to keep utility records. I also suggest members
12 of the utility attend the Small Utility Workshop presented by the IURC and review
13 the AWWA Small Utility Handbook and other IURC Small Utility Resources.

VII. RECOMMENDATIONS

14 **Q: Please summarize your recommendations to the Commission.**

15 A: I recommend the following:

- 16 • The Commission approve a rate increase of 33.33%.
- 17 • The Commission require Wells implement a late fee through its tariff and that
18 the tariff be consistent with the Commission's rules for establishing late fees.
- 19 • The Commission require Wells to implement a records organization and
20 retention program that includes the designation of a person to be responsible for
21 keeping the utility records.

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

23 A: Yes.

APPENDIX A - QUALIFICATIONS

1 **Q: Please describe your educational experience.**

2 A: In December of 2002 I received a bachelor's degree in Business Administration
3 focusing on Accounting from Indiana University Kelley School of Business. In
4 December of 2012 I received my Master of Science in Accounting from Indiana
5 University Kelley School of Business, Indianapolis Indiana.

6 **Q: Please describe your professional experience.**

7 A: I was hired as a Utility Analyst in Water / Wastewater division of the OUCC on
8 April 30, 2018. Prior to being hired by the OUCC, I was the controller of All Trades
9 Staffing. I have over fifteen years of accounting experience. I worked for several
10 years as a Financial Analyst in the insurance and healthcare industries. I have
11 participated in conferences and seminars regarding utility regulation, rate making
12 and financial issues. I have completed the National Association of Regulatory
13 Utility Commissioners (NARUC) Eastern Utility Rate School. I also regularly
14 attend the National Association of State Utility Consumer Advocates (NASUCA)
15 Accounting and Tax committee monthly meetings. In August of 2019 I completed
16 the Annual Regulatory Studies Program from the Institute of Public Utilities at
17 Michigan State University.

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

20 A: Yes.

Wells Homeowners Association, Inc.
CAUSE NUMBER 45450-U

**Comparison of Petitioner's and OUCC's
Revenue Requirements**

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>Sch Ref</u>	<u>OUCC More (Less)</u>
Operating Expenses	\$ 14,992	\$ 14,992	4	\$ -
Extensions and Replacements	3,105	3,105	7	-
Total Revenue Requirements	18,097	18,097		-
Less: Revenues at current rates subject to increase	(13,435)	(13,435)	4	-
Net Revenue Increase Required	4,662	4,662		-
Add: Additional IURC Fee	6	6		-
	-	-		-
Calculated Increase	<u>\$ 4,668</u>	<u>\$ 4,668</u>		<u>\$ -</u>
Calculated Percentage Increase	<u>34.75%</u>	<u>34.75%</u>		<u>0.00%</u>
Recommended Increase	<u>\$ 4,325</u>	<u>\$ 4,325</u>		<u>\$ 0</u>
Recommended Percentage Increase	<u>32.19%</u>	<u>32.19%</u>		<u>0.00%</u>

<u>Current Rate for 5,000 Gallons</u>	<u>Proposed</u>		<u>OUCC More (Less)</u>
	<u>Petitioner</u>	<u>OUCC</u>	
Current Rate = \$30	\$ 40.00	\$ 40.00	\$ -

(1) The new rate calculated by Wells in its application and by the OUCC in these schedules would have been \$40.42 per month for each customer. However, Wells has chosen to limit its increase to \$40.00 per month for each customer.

Wells Homeowners Association, Inc.
CAUSE NUMBER 45450-U

COMPARATIVE BALANCE SHEET
As of December 31,

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Utility Plant:			
Utility Plant in Service	\$ 87,645	\$ 87,645	\$ 87,645
Less: Accumulated Depreciation	<u>(75,300)</u>	<u>(73,313)</u>	<u>(70,808)</u>
Net Utility Plant in Service	<u>12,345</u>	<u>14,332</u>	<u>16,837</u>
Current Assets:			
Cash and Cash Equivalents	<u>36,534</u>	<u>42,522</u>	<u>40,743</u>
Total Current Assets	<u>36,534</u>	<u>42,522</u>	<u>40,743</u>
Total Assets	<u>\$ 48,879</u>	<u>\$ 56,854</u>	<u>\$ 57,580</u>
<u>LIABILITIES</u>			
Equity			
Retained Earnings	\$ 47,956	\$ 55,933	\$ 56,657
Paid in Capital			
Total Equity	<u>47,956</u>	<u>55,933</u>	<u>56,657</u>
Current Liabilities			
Accrued Taxes	<u>921</u>	<u>921</u>	<u>921</u>
Other Current Liabilities	<u>921</u>	<u>921</u>	<u>921</u>
Total Liabilities	<u>\$ 48,877</u>	<u>\$ 56,854</u>	<u>\$ 57,578</u>

Wells Homeowners Association, Inc.
CAUSE NUMBER 45450-U

COMPARATIVE INCOME STATEMENT
Twelve Months Ended December 31,

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues			
Unmetered Water Sales	\$ 13,435	\$ 13,560	\$ 14,060
Total Operating Revenues	<u>13,435</u>	<u>13,560</u>	<u>14,060</u>
Operating Expenses		11,780	6,846
Purchased Power	1,858		
Materials & Supplies	4,158		
Contract Services - Accounting	760		
Contract Services - Legal	540		
Contract Services - Other/Testing	8,783		
Insurance	980		
Regulatory Commission Expense	350		
Miscellaneous Expenses	1,996		
Total O&M Expense	<u>19,425</u>	<u>11,780</u>	<u>6,846</u>
Depreciation Expense	1,987	2,504	2,971
Total Operating Expenses	<u>21,412</u>	<u>14,284</u>	<u>9,817</u>
Net Income	<u>\$ (7,977)</u>	<u>\$ (724)</u>	<u>\$ 4,243</u>

Wells Homeowners Association, Inc.
CAUSE NUMBER 45450-U

***Pro-forma* Net Operating Income Statement**

	Year Ended 12/31/19	Adjustments	Sch Ref	<i>Pro-forma</i> Present Rates	Adjustments	Sch Ref	<i>Pro-Forma</i> Proposed Rates
Operating Revenues							
Unmetered Water Sales	\$ 13,435	\$ -		\$ 13,435	\$ 4,325		\$ 17,760
Total Operating Revenues	<u>13,435</u>	<u>-</u>		<u>13,435</u>	<u>4,325</u>		<u>17,760</u>
O&M Expense	-			-			-
Purchased Power	1,858			1,858			1,858
Materials & Supplies	4,158			4,158			4,158
Contract Services - Accounting	760			760			760
Contract Services - Legal	540			540			540
Contract Services - Other/Testing	8,783	(4,450)	PET	4,333			4,333
Insurance	980			980			980
Regulatory Commission Expense	350			350			350
Miscellaneous Expenses	1,996			1,996			1,996
IURC Fees		17	PET	17	6		23
Total Operating Expenses	<u>19,425</u>	<u>(4,433)</u>		<u>14,992</u>	<u>6</u>		<u>14,998</u>
Net Operating Income	<u>\$ (5,990)</u>	<u>\$ 4,433</u>		<u>\$ (1,557)</u>	<u>\$ 4,319</u>		<u>\$ 2,762</u>

Wells Homeowners Association, Inc.
CAUSE NUMBER 45450-U

Extensions and Replacements

To reflect the average amount of extensions and replacements 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>
South Well Replacement	1,441	1,442	1,441	1,442	1,441	\$ 7,207
North Well Replacement	1,664	1,663	1,663	1,663	1,663	8,316
						-
	<u>\$ 3,105</u>	<u>\$ 3,105</u>	<u>\$ 3,104</u>	<u>\$ 3,105</u>	<u>\$ 3,104</u>	<u>\$ 15,523</u>
Divide by 5 Years						5
Average Annual Extensions and Replacements						<u><u>\$ 3,105</u></u>

Wells Homeowners Association, Inc.
CAUSE NUMBER 45450-U

Current and Proposed Rates and Charges

	<u>Current</u>	<u>Petitioner Proposed</u>	<u>OUC Proposed</u>
Unmetered Water Service	\$ 30	\$ 40	\$ 40

PIPE CREEK WATER COMPANY
P.O. Box 1034, Peru, IN 46970

SCHEDULE OF RATES
Issued pursuant to Order in Cause No. 40056, approved 4/12/95

Each Household pays a monthly flat rate of \$30.00.

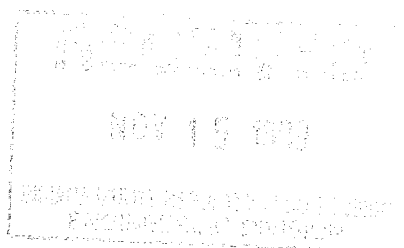


Larry Fathauer
Treasurer

ISSUED PURSUANT TO
ORDER NUMBER

40056

INDIANA UTILITY
REGULATORY COMMISSION



From: [Genny Weaver](#)
To: [Malan, Thomas W](#)
Subject: Re: 45450 - Wells HOA Rate Increase
Date: Tuesday, January 5, 2021 9:35:45 AM

**** This is an EXTERNAL email. Exercise caution. DO NOT open attachments or click links from unknown senders or unexpected email. ****

Good morning Tom,
I am getting ready to call REA Logan for a phone meeting with you. I expected them to call yesterday but never did.
Yes, I do assess on the 10th for late payments.
Thanks, Genny

Sent from my iPhone

On Jan 4, 2021, at 11:03 AM, Malan, Thomas W <TMalan@oucc.in.gov> wrote:

Genny,

I just wanted to follow up with our phone call last Thursday. Please let me know as soon as you are able to schedule a call with the accountant. I will be happy to make time.

Also could you verify that the \$10 late fee Wells HOA charges to water customer's is assessed on the 10th of the month if payment has not been received?

Thank you for your assistance.

Tom

<image003.png> Tom Malan
Utility Analyst II
Indiana Office of Utility Consumer Counselor
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Indianapolis, Indiana 46204
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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**IN THE MATTER OF THE PETITION OF)
WELLS HOMEOWNERS ASSOCIATION,) CAUSE NO. 45450-U
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AND CHARGES.)**

**TESTIMONY
OF
CARL N. SEALS**

**ON BEHALF OF THE
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

PUBLIC'S EXHIBIT NO. 2

February 2, 2021

TESTIMONY OF CARL N. SEALS
CAUSE NO. 45450-U
WELLS HOMEOWNERS ASSOCIATION, INC.

I. INTRODUCTION

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

2 A: My name is Carl N. Seals, and my business address is 115 West Washington Street, Suite
3 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
6 Assistant Director in the Water/Wastewater Division. My qualifications and experience are
7 set forth in Appendix A.

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

9 A: Wells Homeowners Association Inc. (hereinafter “Wells” or “Applicant”) is a very small
10 water utility that has requested authority from the Indiana Utility Regulatory Commission
11 (“IURC” or “Commission”) to increase its unmetered monthly rate from \$30 per month to
12 \$40 per month. I describe Wells’ operational characteristics and discuss its request for an
13 extensions and replacements (“E&R”) revenue requirement.

14 **Q: What have you done to prepare your testimony?**

15 A: I reviewed Wells’ Small Utility Rate Application (“Application”) and its IURC Annual
16 Reports for years 2015 through 2019. I wrote data request questions and reviewed Wells’
17 responses. I reviewed the 1994 final order in Cause No. 40056, in which Forest Hills
18 Utilities, Inc. was authorized to transfer its water facilities to Wells’ predecessor Pipe Creek
19 Water Company. (See OUCC Attachment CSN-1.) I spoke with Wells’ president on at
20 least two occasions by telephone. I reviewed reports Wells filed with the Indiana

1 Department of Environmental Management's ("IDEM"), which I accessed by using
2 IDEM's [Virtual File Cabinet](#) and [Drinking Water Watch](#) sites, and spoke with an IDEM
3 representative regarding Wells' reporting requirements. Finally, on January 15, 2021,
4 Utility Analyst Thomas Malan and I made a site visit to Wells, where we toured the
5 facilities and neighborhood and met with its president.

6 **Q: Does your testimony include attachments?**

7 A: Yes. My testimony includes the following attachments:

- 8 • OUCC Attachment CNS-1: Final Order in Cause No. 40056, and
- 9 • OUCC Attachment CNS-2: Pictures taken during site visit.

II. WELLS WATER SYSTEM

10 **Q: Please describe Wells' characteristics.**

11 A: Wells is a not-for-profit utility providing water service to 37 customers in Miami County,
12 approximately 1.15 miles southwest of Peru, Indiana. The system is comprised of two
13 wells, nine 119-gallon pressure tanks and approximately 2,400 feet of main with diameters
14 ranging from ¾" to six inches.¹ The system also includes four Eclipse #2 post-style
15 hydrants² which are for flushing purposes only.³ In 2019, Wells pumped a total of 1.722
16 million gallons, or 3,878 gallons per customer per month. Wells' current \$30 unmetered
17 rate was established in 1994 through the final order issued in Cause No. 40056.

¹ 2019 Wells Annual Report, page W-9.

² <https://hydrants.com/eclipse-2>

³ Given its size, the system does not support flows sufficient for fire suppression.

1 **Q: Do you have any other observations from your site visit and discussions with Wells'**
2 **President?**

3 A: Yes. The Utility appears to be well-maintained. Wells' current president has taken
4 proactive measures such as marking service line locations on the streets and valves and
5 creating a binder of each residence with pictures of service valve locations. Examples of
6 each of these are shown in OUCC Attachment CNS-2, where I included pictures I took
7 during our site visit. In addition, Wells' president is planning to prepare standard operating
8 procedures for the Utility, which will promote continuity and help subsequent managers
9 and operators run the system effectively.

10 **Q: What is Wells' level of water loss?**

11 A: As used in Applicant's IURC annual reports, "water loss" is the difference between the
12 volume of water Wells pumped from both of its wells and the total volume of water it sold
13 to customers or used for flushing mains, street cleaning or other authorized consumption.
14 Water loss may reasonably be attributed to leaks or inaccurate measurement of
15 consumption. Because customers are not metered, it is not possible to measure
16 consumption and thereby compare volumes sold with the amount pumped. However, I
17 would note that during the 2015-2019 period, the number of gallons pumped per customer
18 increased from an average of approximately 110 gallons per day ("gpd") to 139 gpd. This
19 *may* indicate an increase in water lost through leaks in mains and service lines.

III. EXTENSIONS AND REPLACEMENTS

20 **Q: Has Wells proposed an extensions and replacements revenue requirement?**

21 A: Yes. According to Indiana Code § 8-1-2-125(d), which applies to not-for-profit utilities,
22 Wells' rates should, among other things, produce sufficient revenue to pay for extensions

1 and replacements (“E&R”) of utility infrastructure. According to Wells’ Small Utility Rate
2 Application, Schedule 7, it has requested \$3,105 for its proposed revenue requirement for
3 annual extensions and replacements.

4 **Q: What does Wells propose to fund with its E&R revenue requirement?**

5 A: Wells intends to replace both of its well pumps within five years. According to Annual
6 Reports, the wells are approximately 25 and 64 years old. These two wells are the sole
7 source of supply to the community and while they are not currently experiencing any
8 operational problems, it is reasonable to consider and plan for the replacement of such
9 critical assets. Additionally, while it has not specifically sought authority for main
10 replacements, it is reasonable to expect some increasingly necessary level of main
11 replacements, given that certain portions of main within the subdivision are likely to be
12 more than 60 years old.⁴ Wells also operates nine pressure tanks and four flush hydrants
13 that will eventually need replacement.

14 **Q: Did you request additional information regarding this proposed project?**

15 A: Yes. I sought and received additional information on the well pump project through data
16 requests and through discussions with Wells’ President. A plan to begin replacing these
17 well pumps is reasonable and will enhance the utility’s ability to serve its customers
18 effectively and efficiently.

19 **Q: How does Wells’ proposed extensions and replacements revenue requirement**
20 **compare to a rate of depreciation on which municipal utilities or for-profit public**
21 **utilities may base an expense?**

⁴ Age of oldest mains was estimated, based upon the age of homes in the subdivision, some of which date back to the late 1950’s.

1 A: Not-for-profit utilities are not authorized to include depreciation expense in rates but must
2 base the revenue requirement on extensions and replacements. However, it is useful in
3 some cases to compare the E&R revenue requirement with the rate of composite
4 depreciation as a benchmark. Applying the composite depreciation rate of 2.0% to
5 depreciable Utility Plant in Service (“UPIS”) results in a *pro forma* test year depreciation
6 expense of \$1,753, as noted in Small-Utility Application, Schedule 7. Wells’ requested
7 E&R revenue requirement of \$3,105 is \$1,352 greater than its *pro forma* test year
8 depreciation expense of \$1,753.

9 **Q: Do you have any recommendations regarding Applicant’s proposed E&R revenue**
10 **requirement?**

11 A: Yes. Based on my review of Wells’ application, its assets, and its operations, I recommend
12 the Commission approve Wells’ requested \$3,105 for its E&R revenue requirement.

13 **Q: Does the United States Environmental Protection Agency (“EPA”) have any**
14 **resources that may be beneficial to Wells’ operations?**

15 A: Yes. In conjunction with the United States Department of Agriculture (“USDA”), the EPA
16 developed the Rural and Small Systems Guidebook to Sustainable Utility Management
17 (“Guidebook”)⁵. Rural and small water systems can use the information in the Guidebook
18 in several different ways:

- 19 • By system managers, water system operation specialist and staff as a guide for taking
20 actions leading to short- and long-term improvements to system management and
21 performance;
- 22 • By service providers as they work with individual systems or groups of systems through
23 workshops or other assistance efforts;
- 24 • As a resource for system improvement workshops, like those sponsored by USDA and
25 EPA;

⁵ The Guidebook can be obtained for free from the following website: <https://www.epa.gov/small-and-rural-wastewater-systems/rural-and-small-systems-guidebook-sustainable-utility-management>

- 1 • As a resource for guiding conversations about sustainability with utility board
2 members; or
- 3 • As a resource for communicating and educating utility board members on the
4 importance of effective management.

5 **Q: How should Wells use the Guidebook?**

6 A: At a minimum, Wells should work through Appendices 1 and 2 of the Guidebook to see if
7 it might benefit from any of the Guidebook's practices or programs.

8 **Q: Did the OUCC receive any customer comments regarding Wells' proposed rate
9 increase?**

10 A: No.

11

IV. SUMMARY OF RECOMMENDATIONS

12 **Q: Please summarize your recommendations:**

13 A: I recommend the Commission approve a revenue requirement for extensions and
14 replacements of \$3,105 as shown on Schedule 7 of the Application.

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

16 A: Yes.

V. APPENDIX A

QUALIFICATIONS

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

2 A: In 1981 I graduated from Purdue University, where I received a Bachelor of Science degree
3 in Industrial Management with a minor in Engineering. I was recruited by the Union Pacific
4 Railroad, where I served as mechanical and maintenance supervisor and industrial engineer
5 in both local and corporate settings in St. Louis, Chicago, Little Rock and Beaumont,
6 Texas. I then served as Industrial Engineer for a molded-rubber parts manufacturer before
7 joining the Indiana Utility Regulatory Commission ("IURC") as Engineer, Supervisor and
8 Analyst for more than ten years. It was during my tenure at the IURC that I received my
9 Master of Health Administration degree from Indiana University. After the IURC, I worked
10 at Indiana-American Water Company, initially in their rates department, then managing
11 their Shelbyville operations for eight years, and later served as Director of Regulatory
12 Compliance and Contract Management for Veolia Water Indianapolis. I joined Citizens
13 Energy Group as Rate & Regulatory Analyst following the October 2011 transfer of the
14 Indianapolis water utility and joined the Office of Utility Consumer Counselor in April of
15 2016. In March 2020 I was promoted to my current position of Assistant Director of the
16 Water and Wastewater Division.

17 **Q: Have you previously testified before the Commission?**

18 A: Yes, I have testified in telecommunications, water and wastewater utility cases before the
19 Commission.

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STATE OF INDIANA

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INDIANA UTILITY REGULATORY COMMISSION

UTILITY CONSUMER COUNSELOR
OF INDIANA

IN THE MATTER OF THE PETITION OF) CAUSE NO. 40056
FOREST HILLS UTILITIES, INC. AND)
PIPE CREEK WATER COMPANY FOR)
AUTHORITY TO TRANSFER WATER) APPROVED:
FACILITIES AND ESTABLISH INITIAL)
RATES, TARIFFS AND CHARGES.

APR 12 1995

BY THE COMMISSION:

David E. Ziegner, Commissioner
Don R. Mueller, Administrative Law Judge

On September 23, 1994, Joint Petitioners Forest Hills Utilities, Inc. and Pipe Creek Water Company filed their Petition for authority to transfer water facilities and establish initial rates, tariffs and charges. A prehearing conference order was issued December 14, 1994.

Pursuant to notice published as required by law, incorporated in the record, filed and placed in the official files of the Commission, a public hearing was held in this Cause on December 19, 1994, at 2:30 p.m. EST, in Room E306, of the Indiana Government Center South, Indianapolis, Indiana. No members of the general public appeared or sought to testify in this proceeding. Before the hearing, Joint Petitioners and the Office of Utility Consumer Counselor ("Public") notified the presiding Officers that a Joint Agreement and Stipulation had been reached between the parties. This Agreement and Stipulation was filed at the hearing. Leave was granted to the parties to late-file a proposed tariff and a copy of the By-Laws adopted by Pipe Creek Water Company. The By-Laws have been late-filed without objection and are now received into evidence.

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

1. Commission Jurisdiction and Notice. Proper notice of the filing of the Petition in this Cause was given as required by law. The only water utility operating within five (5) miles of the subject utility service is the Peru

Utilities Water Department which filed its executed **WAIVER OF HEARING AND CONSENT** on December 19, 1994. Joint Petitioner Forest Hills Utilities, Inc., owns and operates a for-profit water utility and wishes to transfer its facilities to Joint Petitioner Pipe Creek Water Company. Pipe Creek Water Company is a newly formed Indiana public utility which will operate a not-for-profit water utility. As such, Joint Petitioners are subject to the jurisdiction of this Commission to the extent provided for in the Public Service Commission Act, as amended. The provisions of said Act authorize the Commission to act in this proceeding. The Commission, therefore, has jurisdiction over the parties and the subject matter herein.

2. **Joint Petitioners Characteristics.** Joint Petitioner Forest Hills Utility, Inc. ("Forest Hills") is an Indiana public utility corporation subject to the jurisdiction of this Commission, providing water service to the public residing in the Forest Hills subdivision, Pipe Creek Township, Miami County, Indiana. Its office address is P.O. Box 336, Millford, Indiana 46542-0336. Joint Petitioner Pipe Creek Water Company ("Pipe Creek") is a newly formed Indiana public utility, with thirty-nine (39) members. Pipe Creek is subject to the jurisdiction of this Commission and intends to provide water service to the public and residents of Forest Hills subdivision located in Pipe Creek Township, Miami County, Indiana. Its offices are located at 15 Sycamore Boulevard, Peru, Indiana 46970. Pipe Creek is a non-profit corporation, organized as a "Mutual Benefit Corporation."

3. **Relief Requested.** Joint Petitioners are requesting that this Commission permit the transfer of assets from Forest Hills Utilities, Inc. to Pipe Creek Water Company. Joint Petitioners notified the only other water utility in the immediate area, the Peru Municipal Water Utility ("Peru") of the pending Petition in this Cause and of the scheduled evidentiary hearing held on December 19, 1994 (Joint Petitioner's Exhibit No 3, **WAIVER OF HEARING AND CONSENT**). The evidence of record indicates that Peru did not wish to purchase Forest Hill's facilities or serve the Forest Hills area. Pipe Creek Water Company is asking this Commission for authority to establish initial rates, tariffs

and charges. The new schedule of rates and charges include a flat rate of thirty dollars (\$30.00) per month for its customers. The proposed rates and charges would produce total annual operating revenues of \$14,040.

4. Petitioners' Project Costs and Estimated Funding. Joint Petitioner Pipe Creek Water Company intends to repair one of its two wells at an approximate cost of \$15,000. Pipe Creek proposes to finance the project with a loan in the amount of \$15,000 payable over five (5) years and with a projected interest rate of 11.75%.

Public's witness Mr. William Sudhoff indicated in prefiled testimony that Pipe Creek secured a loan commitment upon the terms proposed by the Norwest Bank Indiana, N.A. office in Peru, Indiana. While the Public considered the interest rate high, Mr. Sudhoff explained that interest rates had been rising and that Joint Petitioner Pipe Creek could secure no other lender. Therefore, the Public recommended that the proposed financing be approved. (Public's Exhibit No. 3 with attachment).

Based upon the evidence of record and the parties' Joint Agreement and Stipulation, we find that the proposed project is reasonable and Petitioner's method of financing is also reasonable. Petitioner is thus authorized to enter into a loan agreement to borrow an amount not to exceed \$15,000, at an annual interest rate not to exceed 11.75% per annum, for a term of five (5) years, which should result in annual debt service of \$3,981.

5. Test Year. Because Pipe Creek Water Company is a new utility and we are establishing initial rates, it has no test year expenses. For the purposes of this Cause, Joint Petitioners and the Public have agreed to use Forest Hills Utilities, Inc., test year expenses for the 12 month period ending September 30, 1994. This test year was chosen because it was the most current information available for review. The Commission finds that the test year period selected, together with adjustments for fixed, known and measurable changes, is sufficiently representative of the anticipated normal operations for the Pipe Creek Water Company for ratemaking purposes.

6. Operating Revenues. Because these are initial rates, Pipe Creek Water has no test year operating revenues. Rather than adjust the test year revenues of Forrest Hills, the parties have agreed for the Commission to establish initial rates to meet Pipe Creek's revenue requirement.

7. Petitioner's Revenue Requirement. The parties have agreed that the aggregate revenue requirement will be addressed as follows: cash operating expenses including taxes, extensions and replacements and debt service.

a. Cash Operating Expenses. Joint Petitioners and the Public have agreed that Pipe Creek Water's pro forma cash operating expenses should be \$6,959. Based upon the evidence of record, the Joint Stipulation and Agreement, that figure appears to be reasonable and therefore we find that Petitioner's annual cash operating expenses should be \$6,959.

b. Extensions and Replacements. Joint Petitioners and the Public have agreed that Pipe Creek's pro forma annual extensions and replacements expense will be \$3,100. Based on the evidence of record and the Joint Stipulation and Agreement of the parties, that figure appears to be reasonable. Therefore, we find that Pipe Creek's annual extensions and replacements expense should be \$3,100.

c. Debt Service. Joint Petitioners and the Public agree that Petitioner's pro forma annual debt service is \$3,981. Based upon our prior finding approving such debt, the evidence of record and the Joint Stipulation and Agreement between the parties, that figure appears to be reasonable and therefore we find that Petitioner's pro forma annual debt service is \$3,981.

d. Petitioner's Aggregate Annual Cash Revenue Requirement. Based upon the Joint Stipulation and Agreement of the parties and the evidence of record, the Commission now finds that Petitioner's aggregate annual cash revenue requirement is \$14,040. Therefore, Joint Petitioner, Pipe Creek, should be authorized sufficient rates and charges to generate such revenue requirement.

8. **Proposed and Authorized Rates.** Petitioners and the Public have proposed that Joint Petitioner Pipe Creek's customers should pay a flat monthly bill of thirty dollars (\$30.00) per month. Petitioners and the Public agree that these rates and charges should produce annual revenues of \$14,040 from its 39 customers. We also note that 37 of Pipe Creek's 39 customers have previously signed a petition (Exhibit C in the Joint Petition) agreeing to a rate increase not to exceed \$30.00. Since the parties did not stipulate to additional revenue for sales tax, we will accept the rates and charges proposed by Public and Joint Petitioners and find them fair and reasonable and should be approved.

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

1. Forest Hills Utilities, Inc., is hereby authorized to transfer its water facilities to the newly formed Pipe Creek Water Company.

2. Pipe Creek Water Company is hereby authorized to establish its rates at a flat monthly fee of \$30.00 per month, pursuant to the parties' Joint Agreement and Stipulation.

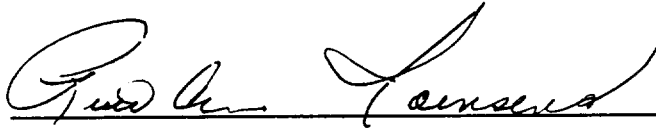
3. Petitioner Pipe Creek Water Company is hereby authorized to incur long term indebtedness in an amount not to exceed \$15,000 at an annual interest rate not to exceed 11.75%, consistent with Finding No. 4 above, for the repair of its well and for the benefit of its customers in the Forest Hills subdivision.

4. Petitioner, Pipe Creek Water Company shall file with the Engineering Division of this Commission, prior to placing into effect the rates and charges approved in ordering paragraph 2, a tariff schedule in accordance with the Commission's rules. Said tariff, when approved by the Engineering Division, shall cancel all previously approved rates and charges for the Forest Hills Utilities, Inc.

MORTELL, CORBAN, HUFFMAN, KLEIN AND ZIEGNER CONCUR:
APPROVED:

APR 12 1995

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



Executive Secretary to the Commission
and Executive Director



South well house exterior



South well house interior, showing 3 of 4 pressure tanks, valve operation keys



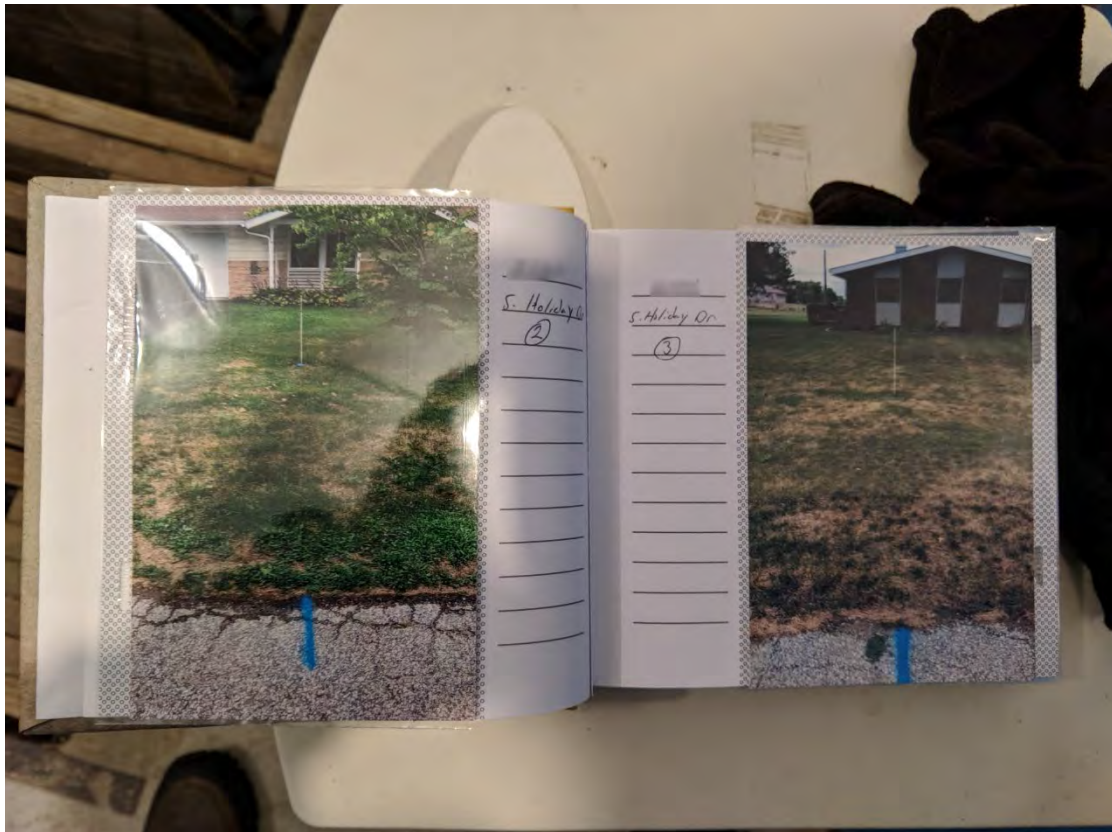
North well house exterior



North well house interior



Example of post hydrant, valves near north well structure



Sample pages from service line record book (addresses blurred)



Example of service line, riser marking at residence. This is useful when trying to locate valves for emergency shut-offs.