

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**IN THE MATTER OF THE PETITION OF THE CITY OF)
LEBANON UTILITIES FOR APPROVAL OF A NEW)
SCHEDULE OF RATES AND CHARGES FOR)
ELECTRIC SERVICE AND FOR AUTHORITY TO)
ISSUE BONDS TO FINANCE CERTAIN PROJECTS)**

CAUSE NO. 44142

SETTLEMENT TESTIMONY OF

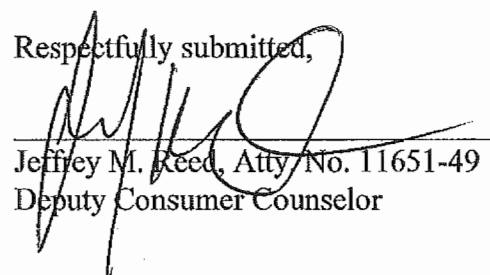
DUANE P. JASHEWAY – PUBLIC’S EXHIBIT NO.1

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JULY 26, 2012

Respectfully submitted,



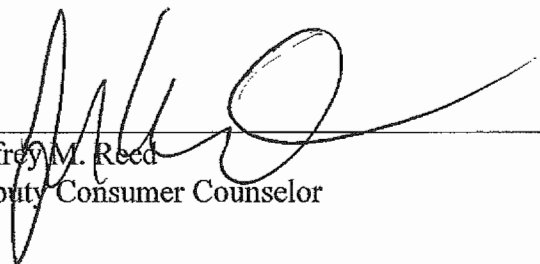
Jeffrey M. Reed, Atty No. 11651-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***OUCC TESTIMONY OF DUANE P. JASHEWAY*** has been served upon the following counsel of record in the captioned proceeding by electronic service on July 26, 2012.

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TESTIMONY OF DUANE P. JASHEWAY
CAUSE NO. 44142
THE CITY OF LEBANON UTILITIES

I. INTRODUCTION

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

2 A: My name is Duane P. Jasheway, and my business address is 115 West
3 Washington 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 Office of Utility Consumer Counselor ("OUCC") as a
6 Utility Analyst in the Electric Division.

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

8 A: I graduated from Indiana University with a Bachelor of Science Degree in
9 Business with a major in Accounting and Finance. I joined the OUCC in 2009.
10 Since then, I have attended the Annual Regulatory Studies Program sponsored by
11 the National Association of Regulatory Utility Commissioners ("NARUC") and
12 the Institute of Public Utilities at Michigan State University in East Lansing,
13 Michigan. I have also attended a number of other utility-related courses, seminars,
14 and conferences. Prior to my employment with the OUCC, I worked as a Staff
15 Accountant in public accounting. I also worked in the Indiana Treasurer of State's
16 Office in a variety of capacities including Chief Accountant, Investment Portfolio
17 Manager, and Deputy Treasurer.

18 **Q: Please describe your duties and responsibilities at the OUCC.**

19 A: I review Indiana utilities' requests for regulatory relief filed with the Indiana
20 Utility Regulatory Commission ("Commission"). I also prepare and present

1 testimony based on my analyses, and make recommendations to the Commission
2 on behalf of Indiana utility consumers.

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

4 A: My testimony describes The City of Lebanon Utilities ("Petitioner" or
5 "Lebanon") and analyzes its request for approval of a new schedule of rates and
6 charges in order to increase total revenues by \$3,087,475.¹ The Parties have
7 negotiated a proposed resolution of all outstanding issues in this Cause, as set
8 forth in the Settlement Agreement ("Settlement") attached to Petitioner's witness
9 Mr. Scott Miller's settlement testimony. I discuss the effect the Settlement has on
10 various accounting adjustments and the total revenue requirement and why the
11 OUCC supports approval of the Settlement.

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

13 A: Yes.

14 **Q: What have you done to prepare to testify in this proceeding?**

15 A: I reviewed the Petition, pre-filed testimony, Exhibits and Work Papers, and
16 responses to informal and formal Data Requests. I made an on-site visit to
17 Petitioner's offices where I reviewed the utility's books and records. Other agency
18 members attended a public field hearing, remaining after the hearing to speak
19 directly with customers. I reviewed the written customer comments from the field
20 hearing and discussed the hearing with OUCC Staff. In addition, I participated in
21 meetings and discussions with OUCC team members and Petitioner's
22 representatives, management and staff. I also reviewed the OUCC case file and

¹ Testimony of Lebanon Witness Martin, Page 8, Line 8.

1 the Commission's final order in Cause No. 43773, Crawfordsville Electric Light
2 & Power.

II. BACKGROUND

3 **Q: Please describe Petitioner.**

4 A: Lebanon Utilities is a municipal-owned group of utilities, owned and operated by
5 the City of Lebanon, Indiana, providing electric, sewer and water services to the
6 City of Lebanon and Town of Ulen. The City of Lebanon also owns a
7 Telecommunications ("Telecom") Division, "I-lines.net", which provides internet
8 service to Lebanon and the surrounding communities. The Electric utility serves
9 approximately 8,600 customers.

10 **Q: Please describe Petitioner's request for a rate increase.**

11 A: Petitioner is requesting a 17.27% increase in operating revenues from its base
12 rates that would amount to a \$3,087,475 revenue increase. This is Petitioner's first
13 request for a rate increase since 1995.

III. SETTLEMENT

14 **Q: Based on your review of Petitioner's books and records, what does the**
15 **OUCC recommend in regards to the revenue requirement?**

16 A: The OUCC reviewed Petitioner's books, records, and Petitioner's revenue
17 requirement calculation and determined that Petitioner's operating revenues are
18 not covering its statutory revenue requirement. Petitioner and the OUCC were
19 able to come to settlement terms agreeing that Petitioner's revenues should
20 increase by \$2,385,273, which is \$702,202 less than Petitioner's initial filing. The
21 Settlement results in a 13.4% increase in operating revenues, 22% less than
22 Petitioner's original request.

1 **Q: Are you submitting schedules related to the Settlement?**

2 A: No. Petitioner's Witness Scott Miller is sponsoring the Settlement Schedules,
3 which are included with his settlement testimony. I have reviewed and agree with
4 the calculations shown in Joint Settlement Exhibit 1, which summarizes the
5 agreed-upon revenue requirement.

6 **Q: Please briefly describe the Settlement.**

7 A: The Settlement resolves all revenue requirement issues in this Cause and provides
8 for new base rates designed to produce additional utility operating revenue of
9 \$2,385,273 resulting in an overall 13.4% increase. The OUCC accepted many
10 adjustments proposed by Lebanon. Several other adjustments were agreed upon
11 over the course of the Settlement:

- 12 1. Purchase Power: The OUCC reviewed the 2012 IMPA bills and
13 recommended updating Petitioner's Purchase Power projections to use all
14 2012 IMPA factors. Petitioner agreed,² resulting in an annual net decrease
15 in Purchase Power of \$497,785.
- 16 2. Debt Service: Petitioner agreed to reduce the Principal and Interest
17 Payments by \$6,103 and the Debt Service Reserve by \$1,259 on an annual
18 basis.
- 19 3. Replacements and Improvements: Petitioner agreed to reduce its
20 Replacements and Improvements by \$186,752 on an annual basis.
- 21 4. Taxes: Modifications to utility receipts tax and payment in lieu of taxes
22 resulted from the previous adjustments.

² See Lebanon Witness Scott Miller's Settlement Testimony for further details regarding the Purchase Power Adjustment.

1 **Q: Were there non-revenue requirement issues resolved by the Settlement?**

2 A: Yes. The Settlement also resolves issues surrounding 1) allocations between
3 Petitioner's Utility Divisions, 2) Loan to the Telecom Division, and 3) post-order
4 reporting requirements.

5 **Q: Please describe the allocations between utility divisions.**

6 A: Lebanon Utilities' Electric, Water, Wastewater and Telecom Divisions share a
7 majority of its operations (staff, office equipment, etc). Petitioner allocates these
8 expenses between the Divisions based on customer count and other factors. As
9 part of this Settlement, "Petitioner has agreed to analyze the expense and fixed
10 asset allocations annually and include in its Electric Utility Annual Report filed
11 with the Commission, a summary of the updated analysis, including any proposed
12 changes in the allocation."³

13 **Q: What is the issue with the loan to the Telecom Division?**

14 A: In 2008, the Telecom Division received a loan from Lebanon Utilities funded
15 equally by the Electric, Wastewater and Water Divisions. At the end of 2008 the
16 outstanding balance of the loan was \$1,596,397.20, with the electric utility
17 assuming a one-third portion (\$532,132.40) and the water and wastewater utilities
18 each assuming a one-third amount.⁴ As part of the Settlement, Petitioner agrees to
19 use its best efforts to obtain repayment of its outstanding loan to the Telecom
20 Division. Any funds collected for the repayment of this outstanding loan will
21 inure to the direct benefit of Petitioner's customers. Petitioner further agrees that
22 it will not loan any additional monies to the Telecom Division or assume any

³ *Id.*, Page 8.

⁴ Petitioner's Response to OUCC Data Request Set No. 1 - Question 1 h, provided on May 14, 2012.

1 obligation or liability of the Telecom Division as a guarantor, endorser, surety or
2 otherwise.

3 **Q: Please explain the post-order reporting requirements.**

4 A: Lebanon will also make a true-up Filing with the Commission within thirty (30)
5 days of the closing of the electric utility revenue bonds to reflect the final cost of
6 the capital improvement projects, the actual principal amount of the electric utility
7 revenue bonds, the interest rate of the debt, the financing term, actual average
8 annual debt service requirements and the actual impact on Lebanon's metered
9 rates. If the actual impact on Lebanon's metered rates is materially different from
10 the increase approved by the Commission in this Cause, Lebanon shall file
11 amended schedules of rates and changes within fifteen (15) days of the filing of
12 the true-up report.⁵

IV. CONSUMER CONCERNS

13 **Q: Did you review the comments submitted by consumers to the OUCC?**

14 A: Yes. I reviewed the comments submitted directly to the OUCC and those
15 submitted at the Field Hearing conducted on June 11, 2012. I also discussed
16 concerns voiced at the Field Hearing with other OUCC Staff.

17 **Q: Did the OUCC make an effort to resolve these issues?**

18 A: Yes. The OUCC values the input of consumers and takes their input very
19 seriously. However, several of the consumers' concerns involve matters outside
20 this rate case. The OUCC did address consumer concerns when they were
21 applicable to this Cause.

⁵ Settlement Testimony of Lebanon Witness Miller, Page 7.

1 **Q: What were the consumers' concerns?**

2 A: 1. IMPA Purchased Power tracker: Consumers expressed frustration,
3 confusion and disbelief regarding comments that Petitioner had not increased base
4 rates since 1995 (Martin Direct at 5). Customers described in some detail how
5 their monthly bills had increased during that period.

6 These increases are attributable to the IMPA Purchased Power Tracker,
7 approved by the Commission in Cause No. 36835-S3 (December 1989). The
8 Tracker allows Petitioner to pass through increases or decreases in the cost of
9 power purchased from IMPA.⁶ Petitioner updates the Purchase Power Tracker for
10 rate making purposes quarterly. The Purchase Power billing factor is updated on
11 Petitioner's Web Site under the Electric Rates tab, Appendix A.⁷ Consumers' bills
12 fluctuate due to the Purchase Power Tracker even though Lebanon's last base rate
13 case was in 1995.

14 2. Annexation: Consumers voiced concerns regarding annexed territory
15 formerly served by Boone County REMC. The IURC addressed this matter in two
16 previous cases. The Commission approved the incorporation of the annexed area
17 in Petitioner's assigned service area in Cause No. 43857 (September 29, 2010).

18 "The Petition filed in this Cause to change the assigned service
19 area of the City of Lebanon's municipally owned electric utility to
20 include the annexed territory described in the certified copy of the
21 annexation Ordinance filed herein is approved, and said
22 municipally owned electric utility shall have the right to serve and
23 immediate possession of said annexed area."⁸

⁶ See Final Order dated December 13, 1989.

⁷ http://www.lebanon-utilities.com/e_rates.html

⁸ See Final Order dated September 29, 2010.

1 The Commission also addressed the annexation when approving the changes to
2 the service area boundaries in Cause No. 43983 (March 30, 2011).

3 3. Outstanding Telecom Division Loan: Consumers provided both written
4 and verbal complaints about the utility's loan to the Telecom Division and the "I-
5 Lines.net" internet service (discussed above). The OUCC investigated this matter,
6 discussed it with Petitioner, and issued Data Requests to obtain a greater
7 understanding of the complexities of this issue. As discussed above, Petitioner
8 agrees to certain prohibitions against further loans and agrees to use its best
9 efforts to obtain repayment of the loan. In January 2011, Lebanon Utilities
10 determined that the Telecom Division had sufficient revenues such that it could
11 hold enough cash to overcome the monthly volatility and use excess cash for
12 upgrades and loan repayment. The Telecom Division continues to pay back any
13 excess cash.⁹ The terms of this portion of the Settlement Agreement are consistent
14 with language included in the Commission's Order in Cause No. 43773,
15 Crawfordsville Electric Light & Power (July 28, 2010).

V. RECOMMENDATION

16 **Q: What does the OUCC recommend?**

17 **A:** The OUCC recommends the Commission approve the Settlement between
18 Lebanon and the OUCC as the Settlement represents a reasonable compromise
19 between the Parties on many disputed issues, including revenue requirements and

⁹ Petitioner Response to OUCC Data Request Set No. 1 - Question 1 h, provided on May 14, 2012.

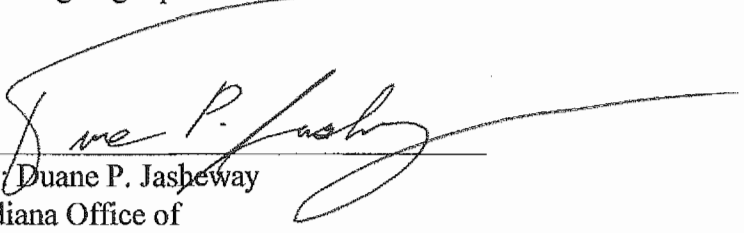
1 the other issues the OUCC raised in this Cause. The Parties used a collaborative
2 process to reach this Settlement and address the OUCC's concerns.

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

4 **A: Yes.**

AFFIRMATION

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


By Duane P. Jasheway
Indiana Office of
Utility Consumer Counselor

July 26, 2012
Date

Cause No. 44142