

ORIGINAL

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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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PETITION OF AQUA INDIANA, INC.)
PURSUANT TO IC 8-1-2-42.7 AND 170 IAC 1-5)
FOR AUTHORITY TO INCREASE THE)
MONTHLY RECURRING RATES AND)
CHARGES CURRENTLY CHARGED AND)
COLLECTED BY ITS ABOITE WASTEWATER)
DIVISION FOR WASTEWATER UTILITY)
SERVICES PROVIDED IN PORTIONS OF)
ALLEN, HUNTINGTON AND WHITLEY)
COUNTIES; ESTABLISH A NON-RECURRING)
SYSTEM DEVELOPMENT CHARGE TO BE)
CHARGED AND COLLECTED BY THE ABOITE)
WASTEWATER DIVISION AND IMPLEMENT)
NEW RATE SCHEDULES REFLECTING THE)
RATES AND CHARGES APPROVED IN THIS)
CAUSE)

CAUSE NO. 44752

APPROVED: JAN 18 2017

ORDER OF THE COMMISSION

Presiding Officers:
James F. Huston, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On March 1, 2016, Aqua Indiana, Inc. (“Petitioner” or “Aqua Indiana”), filed a Verified Petition with the Indiana Utility Regulatory Commission (“Commission”) in this matter seeking the following relief from the Commission: (i) determining and fixing increased monthly recurring wastewater utility service rates and charges by its Aboite Wastewater Division; (ii) authorizing and approving the implementation of a non-recurring system development charge to be charged and collected by its Aboite Wastewater Division; and (iii) authorizing and approving the filing of new schedules of rates and charges.

On March 1, 2016, Aqua Indiana also filed the direct testimony and exhibits of Thomas M. Bruns, President of Aqua Indiana, Bobby D. Estep, Controller of Aqua Indiana, and Dylan D’Ascendis, Director at ScottMadden, Inc.

On March 1, 2016, Aqua Indiana filed a motion for protective order, which was supported by an affidavit showing documents to be submitted to the Commission were confidential, proprietary, competitively sensitive and trade secret information within the scope of Indiana Code §§ 5-14-3-4(a) and 24-2-3-2.

On March 23, 2016, Aqua Indiana and the Indiana Office of Utility Consumer Counselor (“OUCC”) filed an Agreed Procedural Schedule in Lieu of Prehearing Conference as requested by the Presiding Officers. On April 21, 2016, the Commission issued a Docket Entry setting forth the procedural and scheduling details for this Cause.

On March 24, 2016 and April 20, 2016, the Commission issued Docket Entries disclosing ex parte communications it received.

On May 17, 2016, the Commission conducted a public Field Hearing at Summit Middle School, 4509 Homestead Road, Fort Wayne, Indiana, beginning at 6:00 pm.

On May 26, 2016, the City of Fort Wayne, Indiana (“Fort Wayne”) filed a Petition to Intervene. The Commission granted Fort Wayne’s Petition to Intervene on June 17, 2016.

On June 24, 2016, the OUCC filed the direct testimony and exhibits of the following witnesses:

- Margaret A. Stull, Senior Utility Analyst in the OUCC’s Water/Wastewater Division;
- Richard J. Corey, Utility Analyst in the OUCC’s Water/Wastewater Division;
- James T. Parks, Utility Analyst II in the OUCC’s Water/Wastewater Division;
- Crystal L. Thacker, Utility Analyst II in the OUCC’s Electric Division; and
- Edward R. Kaufman, Chief Technical Advisor in the OUCC’s Water/Wastewater Division.

Also on June 24, 2016, Fort Wayne filed the direct testimony and exhibits of Eric J. Walsh, Certified Public Accountant and principal of H.J. Umbaugh & Associates, and Thomas T. Nitza, Jr., Professional Engineer and president of The Secant Group, LLC.

On July 19, 2016, Aqua Indiana filed the rebuttal testimony and exhibits of Thomas M. Bruns, President of Aqua Indiana, Bobby D. Estep, Controller of Aqua Indiana, and Dylan D’Ascendis, Director at ScottMadden, Inc.

On July 29, 2016, Aqua Indiana and the OUCC filed a Joint Stipulation and Settlement Agreement on Less Than All Issues in this Cause (the “Initial Settlement Agreement”). The Initial Settlement Agreement, and its supporting testimony, was not entered into evidence.

On August 4, 2016, Aqua Indiana, the OUCC, and Fort Wayne (the “Parties”) filed a Joint Stipulation and Settlement Agreement on All Issues in this Cause (the “Settlement Agreement”). The Settlement Agreement resolved all of the issues raised in the Verified Petition and Aqua Indiana’s pre-filed testimony and exhibits, as well as the issues raised in the evidence filed by the OUCC and Fort Wayne. The Settlement Agreement superseded for all purposes the Initial Settlement Agreement. On August 5, 2016, Aqua Indiana and Fort Wayne each submitted written testimony in support of the Settlement Agreement, and on August 8, 2016, the OUCC submitted written testimony in support of the Settlement Agreement.

After their review of the Settlement Agreement, the Presiding Officers issued to Aqua Indiana a docket entry on August 18, 2016, to which Aqua Indiana provided a written response thereto on August 22, 2016.

On August 24, 2016, the Commission conducted an evidentiary hearing beginning at 1:00 pm in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. The Parties appeared and participated in the hearing by counsel. The prefiled evidence of the Parties was

offered and admitted into the record without objection. No members of the public appeared at the hearing.

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

1. **Notice and Jurisdiction.** Notice of the hearings in this Cause was given and published by the Commission as required by law. Petitioner published notice of the filing of the Verified Petition in this Cause and gave proper notice to its customers, which summarized the nature and extent of the proposed changes in Petitioner's rates and charges for wastewater service.

Petitioner is regulated as a public utility by the Commission under Ind. Code ch. 8-1-2. The Commission has jurisdiction over Petitioner's rates and charges under Ind. Code § 8-1-2-42. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is an Indiana for-profit corporation which owns and operates as part of its Aboite Wastewater Division utility plant, property, equipment, and facilities used and useful in the collection, transportation, treatment and disposal of wastewater for the public in portions of Allen County, Huntington County and Whitley County.

3. **Test Year.** The test year used in this Cause to determine Petitioner's actual and pro forma operating revenues, expenses and operating income under its present and proposed rates was the 12-month period ended September 30, 2015, adjusted for changes that are fixed, known and measurable for ratemaking purposes and that occur within 12 months following the end of the test year, and also thereafter solely for anticipated changes related to the Aboite Wastewater Division's service to the City of Fort Wayne, Indiana pursuant to a Water Pollution Treatment Contract approved by the Commission's October 22, 2014 Order in Cause No. 44503. We find that such test year, as adjusted, is sufficiently representative of Petitioner's normal utility operations to provide reliable data for ratemaking purposes.

4. **Background and Relief Requested.** The existing rates and charges for Petitioner's Aboite Wastewater Division originally were approved for Utility Center, Inc. by the Commission's April 13, 2011 Order in Cause No. 43874. Pursuant to the Commission's April 29, 2015 Order in Cause No. 44533, Petitioner was authorized to continue to charge and collect those rates and charges after acquiring Utility Center's wastewater utility plant and property. Utility Center's monthly recurring rates and charges now applied by Petitioner's Aboite Wastewater Division were based on a test year ending September 30, 2009. Petitioner's Verified Petition indicated that the existing rates and charges currently charged and collected by the Aboite Wastewater Division are, and will continue to be, insufficient to provide revenues adequate to cover its necessary and reasonable operating expenses and provide the opportunity to earn the fair return on the Aboite Property to which Aqua Indiana is lawfully entitled.

In its case-in-chief, Petitioner sought Commission approval to implement an increase of approximately 29.8% to the recurring monthly rates and charges that its Aboite Wastewater Division currently charges and collects for the wastewater utility service, phased-in over a two year period. The increase in overall operating revenue associated with the proposed increase is \$2,371,948, or 25.0%. Petitioner also proposed that its Aboite Wastewater Division implement a non-recurring system development charge of \$1,300 for each equivalent dwelling unit connected to its system, in order to more equitably recover costs associated with projected customer growth.

5. Summary of the Evidence.

A. Petitioner's Direct Evidence. Thomas M. Bruns provided an overview of Aqua Indiana's case-in-chief, and discussed the relief it was requesting in this Cause. Mr. Bruns stated that Aqua Indiana's Aboite Wastewater Division provides wastewater utility service to 13,035 customers in Allen County, Huntington County, and Whitley County. Most of these customers were previously served by Utility Center, Inc. pursuant to a certificate of territorial authority, and in the Commission's April 29, 2015 Order in Cause No. 44533, the Commission transferred such certificate of territorial authority, along with other assets, to Aqua Indiana. Aboite Wastewater Division has a work force of 15 individuals, including 12 on the operations staff, one provider of administrative services, one provider of customer service, and one provider of laboratory services.

The Aboite Wastewater Division includes two wastewater treatment plants, the Main Aboite Plant and Midwest Wastewater Treatment Plant ("Midwest WWTP"), 218 miles of sewage collection and transmission facilities, 34 lift stations and sludge disposal facilities. The Aboite Wastewater Division also includes certain land and land rights, structures, vehicles, equipment, materials and supplies and tools. Mr. Bruns testified that the Aboite Wastewater Division will be providing wholesale treatment services to the City of Fort Wayne per a Water Pollution and Treatment Contract approved by the Commission in Cause No. 44503.

Mr. Bruns indicated that the Aboite Wastewater Division's current rates and charges are the same as those inherited from Utility Center upon the transfer of its assets to Aqua Indiana in 2015. Utility Center's rates had been approved by the Commission in its April 13, 2011 Order in Cause No. 43874. Since the date of that Order, approximately \$27,800,000 in capital additions will have been made to the Aboite Wastewater Division. Aqua Indiana sought authority to implement an increase of approximately 29.8% to the recurring monthly rates and charges for its Aboite Wastewater Division. The increase in overall operating revenue associated with the proposed increase was \$2,371,948, or 25.0%, even though Aqua Indiana believed it could support an increase of 29.29%. Mr. Bruns testified that the 25% cap was proposed in an effort to keep the proposed rate increase low for its customers, and keep the rates in step with those charged to nearby wastewater customers of the City of Fort Wayne.

In addition to the capital improvements that are in service and used and useful in Aboite Wastewater Division's current provision of service, Aqua Indiana sought to reflect three major projects which were scheduled to be in service by June 30, 2016. The major projects include an expansion of the Midwest WWTP, construction of an Aboite Wastewater Division Office and Field Services Building, and the Main Aboite Basin Improvement ("MABI") Project. The MABI Project is one major capital project that has ten engineer identified work items.

Mr. Bruns proposed that the increased monthly recurring rates and charges be implemented in two phases, recovering two-thirds of the proposed increased operating revenues in Phase 1, while recovering the remaining one-third of the proposed increased revenues in Phase 2. Mr. Bruns testified that the purpose of the proposed phase-in was to cushion the impact of the proposed increase on customers, and keep the rates in step with the City of Fort Wayne's wastewater customers' rates.

Mr. Bruns also described the system development charge (“SDC”) proposed for the Aboite Wastewater Division. The SDC is a non-recurring \$1,300 fee proposed for each equivalent dwelling unit (“EDU”) connected to its system. Mr. Bruns testified that the SDC is necessary so that the primary responsibility for costs associated with improvements caused by future growth will be incurred by the future customers who necessitate such costs.

Bobby D. Estep also testified in support of the relief requested by Aqua Indiana. Mr. Estep sponsored the accounting schedules, including schedules reflecting revenue requirements, gross revenue conversion factor, comparison of present and proposed rates, proposed rate base, operating income, cost of equity, rate of return, and capital structure.

Mr. Estep discussed the development of the test year rate base, based upon the proposed test year of the 12 months ending September 30, 2015, adjusted for changes that are fixed, known and measurable through September 30, 2016. Additionally, the test year accounted for changes related to the Aboite Wastewater Division’s service to the City of Fort Wayne pursuant to a Water Pollution Treatment Contract. The test year rate base included utility plant in service balances, which included the projected major project plant additions and retirements. The rate base also included cash working capital allowance projection, as well as an acquisition adjustment, the latter of which was calculated in the matter directed by the Commission in its April 13, 2011 Order in Cause No. 43874. The original cost rate base is \$47,665,924, as set forth on Schedule B-1, which is part of Attachment A to Mr. Estep’s testimony. Aqua Indiana proposed that the Commission accept its original cost rate base with the inclusion of the acquisition adjustment as its just and reasonable fair value rate base.

Mr. Estep next discussed proposed levels of operating revenue and expenses. Of note, Aqua Indiana included estimated annual revenue anticipated to be collected from the City of Fort Wayne pursuant to the Water Pollution Treatment Contract to be \$1,505,625. Additionally, Aqua Indiana adjusted its depreciation expense consistent with proposed depreciable plant, by proposing depreciation at 2.5% with the implementation of Phase 2 rates (pursuant to the Commission’s depreciation memo dated December 28, 1987), as well as by proposing a fifty year amortization of deferred depreciation at 2% of the major projects, also to be effective with Phase 2 rates.

Mr. Estep also testified regarding the treatment of “Admin” rate base and “Admin” expenses. Because there exists common equipment assets that serve all customers of Aqua Indiana, not just solely the Aboite Wastewater Division, the company allocates the applicable portion of such assets to the Aboite Wastewater Division operations based on September 30, 2015 customer counts. Similarly, “Admin” expenses are those expenses common to Aqua Indiana on the corporate level, and allocated based on customer percentage.

Mr. Estep also proposed a capital structure consistent with the Commission’s Order in Cause No. 43874 of 49.99% debt to 50.01% equity. Aqua Indiana proposed to utilize a 10.35% cost of equity and a 5.08% debt cost rate, as further discussed by Mr. D’Ascendis. Aqua Indiana thus proposed a return on rate base of 7.21%, while Mr. Estep noted that Aqua Indiana could support a 7.715% rate of return, but for the 25% revenue cap described in Mr. Bruns’ testimony.

The various accounting matters underlying Aqua Indiana’s proposed rate increase are summarized on Schedule C-1, which is part of Attachment A to Mr. Estep’s testimony. This summary includes a comparison of the pro forma balances associated with the increase Aqua

Indiana maintains is supported, as well as those associated with the increase it has actually requested.

Mr. Estep next testified regarding the proposed two-year phase-in, emphasizing the importance that the Aboite Wastewater Division be permitted to earn at or close to its allowed rate of return during Phase 1. Mr. Estep testified that the company proposed to implement two-thirds of the overall 25% requested revenue increase for Phase 1, and the remaining one-third would be captured via implementation of Phase 2 rates one year after the effective date of Phase 1 rates. Correspondingly, Aqua Indiana proposed that the depreciation rate increase from 2.0% to 2.5% not be adopted until Phase 2 rates are implemented, and also, that depreciation on the three major projects be deferred up to the beginning of Phase 2, with a fifty year amortization of the deferral commencing when Phase 2 rates are implemented. Mr. Estep also proposed that rate case expense amortization not begin until Phase 2 rates are effective.

Mr. Estep also discussed the proposed SDC, and sponsored calculations supporting its calculation. Mr. Estep stated that collections of the SDC will be booked as contributions in aid of construction ("CIAC").

Dylan D'Ascendis provided testimony supporting Aqua Indiana's proposed capital structure and corresponding cost rates. Mr. D'Ascendis stated that Aqua Indiana should be authorized to earn overall rate of returns between 7.62% and 7.89%, based on the actual capital structure of Aqua Indiana, Inc. (49.99% long-term debt, and 50.01% common equity).

With respect to common equity cost rates, Mr. D'Ascendis recommended a range between 10.15% and 10.70%. In arriving at this range, Mr. D'Ascendis analyzed several cost of common equity models, specifically the Discounted Cash Flow ("DCF") model, the Risk Premium Model ("RPM"), and the Capital Asset Pricing Model ("CAPM"). Mr. D'Ascendis testified that he applied these models to the market data of a proxy group of eight water companies, as well as to a proxy group of domestic, non-price regulated companies comparable in total risk to the eight water companies. Mr. D'Ascendis then concluded that a size adjustment and flotation cost adjustment were appropriate for the cost of common equity calculation. Mr. D'Ascendis also recommended a long-term debt cost rate of 5.08%.

B. OUCC's Evidence. Margaret A. Stull provided testimony regarding the OUCC's analysis of Aqua Indiana's proposed revenue increase for the Aboite Wastewater Division. As an initial matter, Ms. Stull accepted Aqua Indiana's proposed test year and adjustment period.

However, Ms. Stull articulated the OUCC's position that the revenues Aqua Indiana estimates it will receive from the City of Fort Wayne for treatment of wastewater under the Water Pollution Treatment Agreement do not fully recover all of the estimated additional costs of the Midwest WWTP expansion. While conceding that Aqua Indiana's voluntary cap on its rate increase eliminates any subsidy it maintains existing customers would pay, under the OUCC's proposal, the estimated revenues from the Water Pollution Treatment Agreement recover all but \$5,495 of the estimated additional costs of the expansion. The OUCC proposed that this subsidy, or any subsidy that might result from the Commission's approved revenue requirement, should be removed from the revenue increase.

With regard to rate base, Ms. Stull disagreed with the proposed inclusion of the entirety of the costs of the MABI major project (as further discussed by OUCC witness Mr. Parks), as well as the proposed inclusion of Phase 1 major project depreciation expense in the calculation of accumulated depreciation. The OUCC also took issue with Aqua Indiana's determination of working capital by using the FERC 45-day method, as opposed to having conducted a lead/lag study. The OUCC eventually accepted use of the FERC 45-day method in this Cause, but recommended performance of a lead/lag study in its next rate case.

Ms. Stull testified that the OUCC disagreed with certain operating revenues and operating expenses proposed by Aqua Indiana, including the customer growth adjustment, employee benefits, contractual services-other, bad debt expense, rate case expense, depreciation expense and amortization expense related to Aqua Indiana's acquisition adjustment. The amortization of CIAC was most prominent in terms of financial impact. Ms. Stull proposed that \$397,224 of CIAC amortization be included as a reduction to depreciation expense.

Ms. Stull testified that the OUCC recommended an across-the-board increase of 15.64% in rates. Additionally, Ms. Stull touched on the OUCC's proposal of a 6.7854% weighted cost of capital based on its proposed 9.0% cost of equity and 4.57% cost of debt.

Ms. Stull stated that because the OUCC's proposed total rate increase is less than Aqua Indiana's proposed Phase 1 increase, the OUCC proposed that rates be increased without a phase-in.

Regarding the unmetered tariff rates, Ms. Stull proposed that unmetered customers be billed based on estimated water consumption of 4,000 gallons per EDU, as opposed to the approximately 8,000 gallon figure applied by Aqua Indiana. Further, Ms. Stull proposed that the current volumetric rate be increased, so as to ensure a revenue-neutral impact.

Ms. Stull also testified that the proposed SDC of \$1,300 is reasonable and balances the interests of all parties, including developers, the utility, and ratepayers. Finally, Ms. Stull proposed various changes and updates to Aqua Indiana's tariff, as well as additional annual reporting to the Commission.

Richard J. Corey recommended adjustments to reflect the revenue the OUCC considers reasonable and necessary to operate the Aboite Wastewater Division. Specifically, Mr. Corey recommended a customer growth revenue adjustment to appropriately account for test-year growth, and he also disagreed with Aqua Indiana's assumed growth rate. Mr. Corey also proposed adjustments to certain operating expense adjustments.

James T. Parks provided recommendations about improvements Aqua Indiana could make to its operations to improve or maintain quality service at reasonable cost. Mr. Parks testified that the projects included in the MABI project should not be treated as a "major project." Mr. Parks took the position that the MABI project included ten separate projects, generally independent of one another, which should not be allowed to be combined into one project in order to qualify as a major project. Mr. Parks recommended that only one of the MABI projects, the Cured in Place Pipe Project, be considered a major project and included in rate base.

Mr. Parks also provided a series of engineering recommendations for Aqua Indiana's proposed capital program: (1) fill out page S-7 in its Annual Report; (2) update its collection system

map and gravity sewer and force main asset inventories to account for all collection system assets; (3) modify major project treatment of MABI, as described above; (4) provide semi-annual written update reports detailing progress in completing Additional Action Plan submitted to IDEM, documenting information on any SSO that occurs, and documenting any new enforcement actions brought by IDEM; (5) increase its efforts to prevent inflow, and evaluate reinstating its program to remove illegal clear water connections; (6) consider developing educational materials as part of an SSO outreach program; (7) develop an active force main cleaning program to ramp up flows in Aboite Diversion force main, and also install a means to mechanically clean the force main by pigging; (8) develop feasible alternatives and perform life cycle cost analyses to determine whether it is less costly to construct, operate, and maintain trunk sewers versus construction of lift stations and force mains; and (9) periodically update its Master Plan, and identify, develop, and evaluate feasible alternatives for its wastewater facilities using life cycle cost analyses.

Crystal L. Thacker presented the OUCC's cost of equity analysis. Ms. Thacker recommended that a cost of equity of 9.0% was appropriate. In her analysis, Ms. Thacker employed a DCF model and a CAPM analysis. Ms. Thacker's DCF model resulted in a cost of equity range of 8.12% - 8.64%, while the CAPM analysis reflected a range of 7.71% - 8.42%. Based on the totality of her analysis, company-specific risks, and current economic conditions, Ms. Thacker recommended a cost of equity that was slightly above the high end of the range of her models.

Edward R. Kaufman provided testimony regarding cost of debt, cost of equity, and critiqued Mr. D'Ascendis' analysis. Regarding cost of debt, Mr. Kaufman testified that it was appropriate to use Aqua Indiana's parent company, Aqua America, overall weighted cost of debt to establish Aqua Indiana's capital structure. As a result, the OUCC recommended a cost of debt of 4.57%.

Mr. Kaufman also considered the effect of Indiana Senate Bill 383 on Aqua Indiana's risk. Mr. Kaufman asserted that SB 383 enhances a utility's ability to collect its authorized revenues, which should translate into a reduced risk and a lower cost of equity. However, the OUCC did not make an explicit adjustment to its proposed cost of equity in this case.

Mr. Kaufman's testimony next analyzed Mr. D'Ascendis' cost of equity analysis, and he explained why the OUCC's estimate of 9.0% is 135 basis points lower than Aqua Indiana's proposal. Mr. Kaufman testified that there is no single factor or adjustment that accounts for the 135 basis point difference, but rather a series of methodological differences. Some of these differences included Mr. D'Ascendis' use of a non-price regulated proxy group which produced a cost of equity that is more than 100 basis points greater than his next highest estimate, and Mr. D'Ascendis' use of a total market return of 13.86% to derive his risk premiums, which is well above the average historical market return.

Mr. Kaufman also disagreed with the necessity of Mr. D'Ascendis' adjustments for size and flotation costs.

C. Fort Wayne's Evidence. Eric J. Walsh testified regarding Aqua Indiana's proposed monthly service charge, unmetered residential rates, phase-in approach, and SDC. First, Mr. Walsh stated that the Aboite Wastewater Division's monthly service charge (\$26.97) for residential customers is significantly higher than that of similar sized wastewater utilities in Indiana. Mr. Walsh also disagreed with the contention that the Aboite Wastewater Division's monthly service charge is in step with those charged by Fort Wayne. Additionally, Mr. Walsh criticized the

monthly service charge for its lack of cost justification, and suggested the creation of a tiered monthly service charge based on meter size. Mr. Walsh also contended that the monthly service charge places an unfair burden on residential customers. Mr. Walsh recommended that the Commission accept the calculations contained in his Attachment C. Mr. Walsh also took issue with Aqua Indiana's proposed unmetered residential rate, calculating that it was based on an average monthly flow of 8,047 gallons. Asserting that normal residential customers do not use this amount of water, Mr. Walsh recommended pricing based on assumed usage of 5,984 gallons per month.

Mr. Walsh also disagreed that a two-year phase in would be in step with Fort Wayne's wastewater customers. Instead, Mr. Walsh recommended a five-year phase in. Finally, Mr. Walsh asserted that in calculating the SDC, the incremental cost method is more appropriate, as opposed to the buy-in method utilized by Aqua Indiana. Mr. Walsh proposed an SDC of \$1,713.

Thomas T. Nitza, Jr., also testified on behalf of the City of Fort Wayne. Mr. Nitza testified that approximately 240 homes are eligible for septic tank elimination programs, and he recommended that the Commission order Aqua Indiana to develop a more formal plan to eliminate remaining septic systems over the next several years.

Mr. Nitza also testified that he was in agreement with Mr. Walsh's rationale for an alternative calculation to the SDC. He also identified projects in the Aboite system that should be assigned as growth projects for use in the Mr. Walsh's incremental cost method calculation. Finally, Mr. Nitza offered a local utility office where Aqua Indiana's customers can deliver payment on their utility bills in person, and Fort Wayne asserted that it would like to work with Aqua Indiana on developing a combined bill for both water and wastewater service.

D. Petitioner's Rebuttal Evidence. Mr. Bruns responded to the OUCC's proposal that CIAC be amortized as an offset to depreciation expense. Mr. Bruns explained that despite this proceeding being the third Utility Center/Aqua Indiana rate case since 2003, this is the first instance where the OUCC has proposed to amortize CIAC as an offset to depreciation expense, and it would be inequitable for its application here when full depreciation without an offset for CIAC amortization benefits Aqua Indiana's customers. Mr. Bruns also noted that the Commission has a long-standing policy against amortizing CIAC as an offset against depreciation. Had Aqua Indiana had advance warning that the OUCC would take this position, it may have presented evidence that a higher depreciation rate was appropriate, over and above the 2.5% depreciation rate for wastewater assets included in the Commission's Chief Engineer's December 29, 1987 memorandum on which it relies. For all these reasons, Aqua Indiana recommended that the Commission reject the OUCC's proposal.

Mr. Bruns also addressed the OUCC's claim that the MABI project should not be treated in full as a major project. Mr. Bruns provided further background on the genesis of the MABI project, stating that it stemmed from an Agreed Order issued by the Indiana Department of Environmental Management ("IDEM") to address sanitary system overflow ("SSO") conditions. To that end, Aqua Indiana developed an Additional Action Plan to address continuing SSO events, which IDEM approved. The integrated remedial work required by the Additional Action Plan makes up the MABI project. Thus, these are not independent projects, but rather the elements of a single IDEM-approved project to address SSO events in the Aboite Wastewater Division's system, and their full cost should be included in rate base.

Mr. Bruns also rebutted the OUCC's proposal to modify the unmetered customers' rates. Mr. Bruns testified that both of the most recent Utility Center/Aqua Indiana cases resulted in across-the-board rate increases, and the OUCC raised no issue with the unmetered flat rate charged for wastewater utility service. Also, Mr. Bruns argued that to modify just one part of Aqua Indiana's rate design in this proceeding, without a supporting cost of service study, would be inappropriate. However, Mr. Bruns represented that Aqua Indiana can commit to performing a cost of service study, with a rate design based upon it, in its next general rate case.

Mr. Bruns stated that Aqua Indiana would accept most of the engineering recommendations of Mr. Parks, with a few modifications. Mr. Bruns also addressed the alleged customer "subsidization" of the Midwest WWTP expansion, explaining the reasons why no such subsidy actually exists. The expansion project benefits not only Fort Wayne residents, but all customers of the Aboite Wastewater Division, as service capabilities to existing customers will significantly improve. Moreover, the Commission has already approved the terms of the agreement by which Fort Wayne will compensate Aqua Indiana for the latter's wastewater treatment services, and this proceeding is not an appropriate venue to challenge them collaterally.

In response to Fort Wayne's testimony, Mr. Bruns corrected the misconception that its proposed rates are out of step with Fort Wayne's rates over the next five years. Additionally, with regard to Fort Wayne's proposals to modify minimum and unmetered tariff rates, it would be inequitable to modify only certain of these rates without a cost of service study. Moreover, Mr. Bruns defended the use of a two-year phase in as opposed to the five-year phase in recommended by Fort Wayne, and Mr. Bruns also questioned Fort Wayne's proposals on septic tank elimination and billing matters.

Mr. Estep also provided rebuttal testimony to address certain accounting and other adjustments proposed by Ms. Stull, Mr. Corey and Mr. Kaufman. Mr. Estep first explained that the OUCC's proposed customer growth rate factor of 1.83% did not capture actual customer growth in 2015, the inclusion of which would result in a growth rate factor of 1.76%. Mr. Estep also disagreed with Mr. Corey's proposal to amortize Aqua Indiana's projected rate case expense over five years as opposed to three. Aqua Indiana and its predecessor Utility Center have filed an average of one rate case every three years since 2007, which mirrors Aqua Indiana's proposed three-year amortization proposal. Mr. Estep also pointed out that the interval between Aqua Indiana's last rate case and this one was due to unusual circumstances.

Mr. Estep next testified that he disagreed with the amount of OUCC's proposed disallowance of certain legal and engineering fees. Only 51.78% of the amounts proposed to be disallowed were actually allocated as test year expenses to the Aboite Wastewater Division, and accordingly, only that percentage should be removed as operating expenses. Additionally, Mr. Estep corrected the OUCC's use of a 34% federal income tax rate, as opposed to 35%, and also disagreed with the OUCC's recommendation to not reflect in rates all of Aqua Indiana's property taxes on major projects, despite the amount of property taxes being fixed, known and measurable.

With respect to the weighted average cost of long-term debt, Mr. Estep took issue with the OUCC's proposal of 4.57%. This figure represents the consolidated average cost of debt issued by Aqua America, Inc., the ultimate parent company to Aqua Indiana, and six other subsidiaries. Thus, the 4.57% figure is incorrect as it is specific to entities other than Aqua Indiana. Rather, Mr. Estep calculated an appropriate cost of debt of 4.93%.

Mr. Estep, in conjunction with the proposed two-year phase in, also reiterated the proposal that the movement of Aqua Indiana's depreciation rate from 2.0% to 2.5%, as well as depreciation on the three major projects, not be implemented and reflected in rates until Phase 2, with the amount of the depreciation deferral being recorded as a regulatory asset. Aqua Indiana also proposed to amortize the deferred depreciation on the major projects over fifty years commencing when Phase 2 rates are implemented, and also proposed that rate case expense amortization should not begin until Phase 2 rates are effective.

Mr. Estep also disagreed with Ms. Stull's proposal that Aqua Indiana perform a lead-lag study in its next rate case to calculate working capital, due to its unjustifiably high expense and the prospect it would not result in any substantial change in Aqua Indiana's working capital requirement. However, Aqua Indiana agreed to update new customer fees and reconnection fees to include additional costs billed by the City of Fort Wayne. Aqua Indiana also agreed to file separate annual reports with the Commission for each of its divisions.

In response to Fort Wayne's testimony, Mr. Estep disagreed with Mr. Walsh's proposed SDC of \$1,713. Mr. Estep defended the use of the buy-in method to calculate Aqua Indiana's proposed \$1,300 SDC, and testified that an unreasonably high SDC would create a disincentive for residential customers to connect to the Aboite Wastewater Division's system.

Mr. D'Ascendis also provided testimony to rebut certain aspects of the testimony of Ms. Thacker and Mr. Kaufman concerning common equity cost rate. Mr. D'Ascendis first pointed out that the OUCC's recommended 9.00% return on common equity is unreasonable because he is unaware of the Commission ever authorizing a cost of common equity so low for any public utility company. Mr. D'Ascendis discussed that Ms. Thacker's application of the CAPM was flawed because her historical market equity risk premium was incorrectly derived, her forecasted risk premium estimate was flawed, and she failed to apply the empirical CAPM to account for the fact that the Security Market Line ("SML") as described by the traditional CAPM is not as steeply sloped as the predicted SML. Mr. D'Ascendis continued to recommend a range of common equity cost rates of 10.15% to 10.70%.

Mr. D'Ascendis also reflected on Mr. Kaufman's critique of cost of equity analysis. Mr. D'Ascendis defended his reliance upon multiple cost of common equity models in arriving at his recommended common equity cost rate. Mr. D'Ascendis testified regarding the appropriateness of his DCF analysis, as well as his PRPM application. Mr. D'Ascendis also testified that Mr. Kaufman's critiques of his traditional risk premium/CAPM analysis were unfounded. Mr. D'Ascendis pointed out that while Mr. Kaufman rejected the proposed fifty-four (54) basis point adjustments to cost of equity for Aboite, he accepted Ms. Thacker's adjustments which ranged from thirty-four (34) to eighty-three (83) basis points.

Finally, with regard to Senate Bill 383, Mr. D'Ascendis explained that it provides a timeline for a utility's recovery of a system integrity charge. He explained that each and every company that Ms. Thacker and he used to derive their cost of common equity recommendations has some form of system integrity charge. As such, the presence of system integrity charges akin to the one presented by Senate Bill 383 are already accounted for in the market, and no additional adjustment is warranted.

6. **Settlement Agreement.** The Settlement Agreement is attached hereto and incorporated herein by reference. The Settlement Agreement provides:

A. **Rate Base.** The Parties agreed that the Aboite Wastewater Division’s original cost depreciated value, as well as the regulatory fair value rate base, of the utility properties used and useful for the provision of wastewater disposal service to the public is \$50,208,318. After providing for working capital and other adjustments, the regulatory fair value rate base for purposes of this proceeding is \$47,768,947. The OUCC disagreed with Aqua Indiana that the entirety of its MABI project qualified as a single major project under the Commission’s Minimum Standard Filing Requirements (“MSFRs”), but the OUCC agreed for purposes of this settlement that all actual expenditures for work items listed under the MABI project, which have already been completed, shall be included in rate base. Aqua Indiana agreed that the OUCC’s agreement is not to be construed as support for a finding that the entire MABI project qualified as a major project under the MSFRs.

B. **Allowed Return.** The Parties agreed that an overall rate of return on rate base of 7.3155% will adequately and fairly compensate Aqua Indiana for its investments, while maintaining the financial viability of the wastewater disposal utility of its Aboite Wastewater Division. Application of such rate of return to the regulatory fair value rate base will generate a fair return of \$3,494,537. The 7.3155% overall rate of return is computed as follows:

	Percent of <u>Total</u>	<u>Cost</u>	<u>Cost</u>	Weighted
Common Equity	50.01%	9.70%		4.8510%
Long Term Debt	49.99%	4.93%		2.4645%
Deferred Income Taxes	<u>0.00%</u>	0.00%		<u>0.0000%</u>
Total	<u>100.00%</u>			<u>7.3155%</u>

C. **Operating Results at Present Rates.** The Parties agreed that Aqua Indiana’s total pro forma operating revenues at present rates for the wastewater disposal utility of its Aboite Wastewater Division are \$9,573,441, and its pro forma present total operating expenses are \$7,254,331. The pro forma net operating income under present rates is \$2,319,110 for the Aboite Wastewater Division. All of the Parties agree that this amount is unjust, unreasonable, insufficient and confiscatory, and should be increased.

D. **Allowed Increases.** The Parties agreed that Aqua Indiana’s Aboite Wastewater Division’s current recurring monthly rates and charges could be increased to levels sufficient to produce additional operating revenues of \$1,896,416, which reflects an approximately 19.81% increase in operating revenues.

E. **Phase-in of Rates.** The Parties agreed that Aqua Indiana will implement the allowed increase in annual operating revenues in two phases. Phase 1 will increase Aqua Indiana’s current recurring monthly rates and charges for wastewater disposal service of its Aboite Wastewater Division to produce additional annual operating revenues of approximately \$1,388,021

("Phase 1"). In Phase 2, Aqua Indiana may increase its then current recurring monthly rates and charges for wastewater disposal service of its Aboite Wastewater Division to produce additional operating revenues of approximately \$508,395 ("Phase 2"). The above-stated Phase 1 and Phase 2 amounts were determined as proposed by Aqua Indiana in its case-in-chief. Specifically, the Parties have agreed to the following: (1) the increase in depreciation rate from 2% to 2.25% will not take place until Phase 2 rates are implemented; (2) depreciation expense for the major projects and other agreed rate base updates, will be deferred to the beginning of Phase 2; (3) amortization of deferred depreciation will commence with the implementation of Phase 2 rates; and (4) rate case expense amortization will commence with the implementation of Phase 2 rates. The amount of the depreciation deferral would be calculated using Aqua Indiana's current depreciation rate of 2% and recorded as a regulatory asset. Beginning with the implementation of Phase 2, the deferred amount would be amortized over fifty (50) years. The result of the agreed phase-in process is that 73.2% of the rate increase will be implemented in Phase 1 and 26.8% of the rate increase will be implemented in Phase 2.

F. Recurring Rates and Charges. The Parties agreed that Aqua Indiana will establish a Service Charge component of its General Metered Rate at \$31.62 in Phase 1 and \$32.65 in Phase 2 and implement an Unmetered Flat Rate of \$60.55 in Phase 1 and \$63.85 in Phase 2. Aqua Indiana also shall modify the Volumetric Charge to its General Metered Rates in order that implementation of the above described charges is accomplished in a revenue neutral manner. The amount of the modified volumetric charges are shown on exhibits to the Settlement Agreement.

G. System Development Charge. The Parties agreed that Aqua Indiana will implement an SDC of \$1,300.00 per equivalent dwelling unit. The SDC will be billed for each new connection to the system. One-half of the SDC is to be paid upon request for service and one-half to be paid upon connection of service.

H. Nonrecurring Charges. Aqua Indiana will modify its non-recurring fees to eliminate inapplicable charges, adjust its new customer fees, and update its reconnection fees in a manner consistent with Public's Exhibit No. 1 at pages 54-58.

I. New Schedules of Rates. Aqua Indiana shall file with the Commission's Water/Wastewater Staff within thirty (30) days of the Commission's issuance of its Final Order a new schedule of rates and charges for its Aboite Wastewater Division in the form set forth on Joint Settlement Exhibit 2 and, upon its approval, cancel its currently existing schedules of recurring monthly rates and charges. Within one year of the implementation of Phase 1, Aqua Indiana shall file in order to implement Phase 2 a new schedule of rates and charges for its Aboite Wastewater Division in the form set forth on Joint Settlement Exhibit 3 and, upon its approval, cancel its then existing schedules of recurring monthly rates and charges, i.e., the schedules implementing Phase 1.

J. Additional Covenants.

(1) CIAC/Depreciation Study. In its next general rate case, Aqua Indiana has agreed to begin amortizing its then current balance of contributions in aid of construction ("CIAC") as an offset to its depreciation expense. For this purpose and to calculate its depreciation expense in its next general rate case, Aqua Indiana shall use a composite rate of 2.5%. In the event Aqua Indiana desires to use a rate or rates other than the composite 2.5% rate to calculate its depreciation expense and amortize CIAC, it shall first conduct a depreciation study identifying such

alternative rate(s) and seek the Commission's approval for such rate(s) in a separately-docketed proceeding that shall result in a final order prior to the initiation of Aqua Indiana's next general rate case. However, Aqua Indiana shall not implement any new depreciation rate(s) until the final order has been issued in its next general rate case. Aqua Indiana agrees that in connection with any such separately-docketed proceeding it shall provide the OUCC up to \$25,000 to assist in covering the costs of obtaining the services of a depreciation consultant to review and, if necessary, respond to Aqua Indiana's proposed depreciation study. Any amount paid to the OUCC in connection with its review and response to Aqua Indiana's depreciation study, as well as Aqua Indiana's reasonable costs to conduct its depreciation study, shall be recoverable as a rate case expense in Aqua Indiana's next general rate case.

(2) Cost of Service Study. Aqua Indiana agreed to conduct a cost of service study for its wastewater utility service and propose in its next general rate case rates and charges consistent with the results of the cost of service study. In connection with conducting such a cost of service study, Aqua Indiana shall consider, but shall not be required by this agreement to accept or follow, the matters raised in the testimony presented as part of the Public's Exhibit No. 1 and Intervenor's Exhibit No. 1. Aqua Indiana's reasonable costs to conduct and present to the Commission a cost of service study shall be recoverable as a rate case expense in Aqua Indiana's next general rate case. Aqua Indiana shall provide a copy of its proposed cost of service study to Fort Wayne before filing the cost of service study with the Commission to allow Fort Wayne the opportunity to review and comment on the cost of service study; provided, however, Aqua Indiana shall have no obligation to provide the cost of service study to Fort Wayne until after Aqua Indiana and Fort Wayne have entered into a mutually-acceptable agreement establishing the cost of service study and its contents as confidential and protected from public disclosure until it is filed with the Commission.

(3) Engineering Recommendations. Under the Settlement Agreement, Aqua Indiana accepts and agrees to implement the recommendations described in Public's Exhibit 3, pp. 45-47, with the exception of those numbered 3, 4, and 7. Recommendation 3, relating to treatment of the MABI project, has been addressed above. In regard to recommendations 4 and 7, the Parties agree as follows:

(i) Aqua Indiana shall provide together with its Annual Report filing with the Commission a written update report detailing progress in completing Additional Action Plan submitted to the Indiana Department of Environmental Management ("IDEM"), documenting information on any SSO that occurs, and any new enforcement actions brought by IDEM.

(ii) Aqua Indiana shall develop an active force main cleaning program to ramp up flows in its Aboite Diversion force main, and actively monitor and document discharge pressures and flows from the Braemar and Sycamore Hills Lift Stations. Aqua Indiana shall also periodically conduct pump tests at both lift stations to assess whether the Aboite Diversion force main is experiencing diminished flow capacity. If Aqua Indiana determines, in its sole discretion, that cleaning using the increased flows is not effective, Aqua Indiana shall evaluate the costs and benefits of mechanical cleaning, including mechanically cleaning the force main by pigging. Aqua Indiana shall provide with the update described in part (i) of this subparagraph information on the effectiveness of using increased flows and the results of any evaluation of the costs and benefits of mechanical cleaning, including mechanically cleaning the force main by pigging.

(4) Lead-Lag Study. The Parties agree that Aqua Indiana shall not be required to prepare a lead-lag study for its next rate case. In so agreeing, the OUCC otherwise waives no argument it may make in that next rate case with respect to Aqua Indiana's investment in working capital.

(5) Annual Report Filings. Aqua Indiana agrees to submit to the Commission a separate annual report for the Aboite Wastewater Division and for each of the other regulated utilities it owns and operates until such time as a regulated utility is included in a consolidated rate case or included in the determination of single tariff pricing in the State of Indiana.

(6) Septic System Elimination Study. Aqua Indiana agrees to prepare a septic elimination plan/program concerning the 240 septic systems identified on Attachment A to Intervenor's Exhibit No. 2. The plan/program will be filed in this Cause with the Commission within one (1) year of the issuance of the Final Order in this Cause. As part of developing the plan, Aqua Indiana shall reach out to Fort Wayne and the Allen County Health Department in an effort to eliminate appropriate septic systems. Aqua Indiana also shall explore whether it can/should offer its current \$10,000 loan at a higher amount so as to provide residents relief from out-of-pocket expenses. Aqua Indiana's plan should provide specific sewer service proposals in neighborhoods where the 240 identified septic systems exist within three years of a final order in this Cause.

(7) Bill Payments/Collections. The Settlement Agreement provides that Fort Wayne shall be an additional collection point for Aqua Indiana's customers to pay Aqua Indiana's bills. In addition to other payment options with Aqua Indiana, Aqua Indiana's customers can remit their payment in person at Fort Wayne's central office (located at 200 E. Berry Street in Fort Wayne, Indiana). Fort Wayne anticipates that it will in the near future provide kiosks to its customers where Fort Wayne's customers can remit payment. Fort Wayne anticipates that it will eventually be able to make its kiosks available for Aqua Indiana's customers as well. At such time as the kiosk system can accept payment from Aqua Indiana's customers, Aqua Indiana's customers may, in addition to other payment options with Aqua Indiana, remit payment through those kiosks. When a customer remits the bill to one of these locations, Fort Wayne will remit the payment as collected to Aqua Indiana within ten days and without offset for any purpose. The customer's bill will be treated by Aqua Indiana as paid at the time it is remitted to Fort Wayne either at the central office or via the kiosk. The above-described arrangement shall be formally reviewed by Fort Wayne and Aqua Indiana after one year to determine its utilization and effectiveness and shall be subject to termination by either of them without penalty upon giving thirty (30) days written notice.

7. Evidence in Support of Settlement Agreement.

A. Aqua Indiana's Evidence. Mr. Bruns testified that the Settlement Agreement is the product of negotiations that began after the OUCC and Fort Wayne filed their respective cases-in-chief. Mr. Bruns then provided an overview of the major aspects of the Settlement Agreement.

Mr. Bruns explained that the agreed-upon rate increase of annual operating revenue of \$1,896,416, which reflects an approximately 19.81% increase, represents a significant decrease in the amount of increase originally proposed by Aqua Indiana. In its case-in-chief, Aqua Indiana

requested an overall operating revenue increase of \$2,371,948, or 25.0%, and believed it could support an increase of \$2,779,112, or 29.29%. Mr. Bruns said the rates and charges resulting from the Settlement Agreement are reasonable and just and will produce income for Aqua Indiana's wastewater utility sufficient to satisfy its service requirements.

Mr. Bruns next described the phase-in to which the Parties agreed. As initially proposed by Aqua Indiana, the rate increase will be implemented in two phases, with a \$1,388,021 increase being implemented upon the Commission's Water/Wastewater Staff approving a revised Schedule of Rates and Charges, to be submitted by Aqua Indiana within 30 days after a Final Order approving the Settlement Agreement. The remaining \$508,395 of the rate increase will be implemented approximately one year after implementation of the first phase. In order that Aqua Indiana will have an opportunity to earn the agreed-upon return, or close to it, during both phases, the Parties agreed that (1) the increase in depreciation rate from 2% to 2.25% will not take place until Phase 2 rates are implemented; (2) depreciation expense for the major projects and other agreed rate base updates, will be deferred to the beginning of Phase 2; (3) amortization of deferred depreciation will commence with the implementation of Phase 2 rates; and (4) rate case expense amortization will commence with the implementation of Phase 2 rates. Mr. Bruns testified that the amount of the depreciation deferral would be calculated using Aqua Indiana's current depreciation rate of 2% and recorded as a regulatory asset. Furthermore, beginning with the implementation of Phase 2, the deferred amount would be amortized over 50 years. According to Mr. Bruns, the agreed-upon phase in will benefit Aqua Indiana's customers by mitigating the financial impact of the rate increase.

Mr. Bruns next testified regarding the certain components of the Aqua Indiana's rates and charges, including changes to its monthly recurring Unmetered Flat Rate and General Metered Rate, as well as implementation of the \$1,300 SDC. With regard to Paragraph 7 of the Settlement Agreement, Mr. Bruns explained that Aqua Indiana agreed to establish a Service Charge component of its General Metered Rate at \$31.62 in Phase 1 and \$32.65 in Phase 2. Moreover, so that their implementation would occur in a revenue neutral manner, Aqua Indiana will correspondingly modify its Volumetric Charge to its General Metered Rate. Additionally, with regard to Aqua Indiana's agreement to modify parts of its non-recurring fees and charges consistent with the OUCC's recommendations, Aqua Indiana will set its Reconnection Fee at \$35.00 for General Metered Rate customers, and \$800.00 for Unmetered Flat Rate customers, based upon a third-party estimate for the costs necessary to physically separate a customer from its system. In response to the Commission's August 18, 2016 Docket Entry, Aqua Indiana further explained that should an unmetered flat rate customer have to be disconnected subsequent to the installation of a shutoff valve, a fee of \$35.00 would be appropriate.

Mr. Bruns also explained the additional proposals contained in the Settlement Agreement. The Parties agreed to use a depreciation rate of 2.25% for purposes of this Cause and initiate the use of a 2.5% depreciation rate in Aqua Indiana's next general rate case when CIAC would be amortized as an offset against depreciation rate. Additionally, should Aqua Indiana desire to use a rate or rates other than the 2.5% for its depreciation expense and CIAC amortization, it will conduct a depreciation study and seek the Commission's approval in a separate proceeding concluding prior to its next general rate case. Aqua Indiana also agreed to provide the OUCC with up to \$25,000 to assist in covering the costs of a depreciation consultant. Mr. Bruns also testified that Aqua Indiana would conduct a cost of service study and propose in its next general rate case rates and charges consistent with its results.

Mr. Bruns next stated that Aqua Indiana had accepted most of the OUCC's engineering recommendations contained in the Public's Exhibit 3, pages 45-47, with the exception of the third, fourth, and seventh recommendations. As to its third recommendation, Mr. Bruns explained that the OUCC agreed for purposes of this settlement that all actual expenditures for work items listed under the MABI project, which have already been completed, shall be included in rate base, but Aqua Indiana agreed that the OUCC's agreement is not to be construed as support for a finding that the entire MABI project qualified as a major project under the MSFRs. As to the fourth recommendation, Aqua Indiana agreed to provide together with its Annual Report filing with the Commission a written update report detailing progress in completing Additional Action Plan submitted to IDEM, documenting information on any SSO that occurs, and any new enforcement actions brought by IDEM. Furthermore, as to the seventh recommendation, Mr. Bruns described the development of an active force main cleaning program to ramp up flows in its Aboite Diversion force main, and actively monitor and document discharge pressures and flows from the Braemar and Sycamore Hills Lift Stations. Mr. Bruns also testified that Aqua Indiana would provide separate annual reports to the Commission for each regulated utility it owns and operates until such time as a regulated utility is included in a consolidated rate case or included in the determination of single tariff pricing in Indiana.

Mr. Bruns also explained Aqua Indiana's compromise agreement to certain issues raised by Fort Wayne. First, Aqua Indiana agreed to prepare a septic elimination plan/program concerning the 240 identified septic systems, which will be filed in this Cause with the Commission within one year of the issuance of the Final Order in this Cause. As part of developing the plan, Aqua Indiana shall reach out to Fort Wayne and the Allen County Health Department in an effort to eliminate appropriate septic systems, and it will explore whether it can/should offer its current \$10,000 loan at a higher amount so as to provide residents relief from out-of-pocket expenses. Mr. Bruns stated that Aqua Indiana's plan will provide specific sewer service proposals in neighborhoods where the 240 identified septic systems exist within three years of a final order in this Cause. In response to the Commission's August 18, 2016 Docket Entry, Aqua Indiana explained that existing customers will be benefitted by the septic elimination plan by the increased customer base leading to lower costs per customer, environmental benefit, and potential increased property values.

Additionally, Mr. Bruns agreed that Aqua Indiana's customers can remit their payment at Fort Wayne's central office and at kiosks, as Fort Wayne makes them available. The bill payment arrangement shall be formally reviewed after one year, and shall be subject to termination by either Aqua Indiana or Fort Wayne without penalty.

Finally, Mr. Bruns commented that Aqua Indiana agreed to reduce the revenue requirements that the Parties otherwise agreed were appropriate to reflect the amounts by which the expenses of Aqua Indiana's treatment services for Fort Wayne exceed the estimated revenues to be received from Fort Wayne for those services. Mr. Bruns reiterated, however, that Aqua Indiana, and Fort Wayne, do not believe there is any shortfall or subsidy, but Aqua Indiana agreed to accept the deduction in the interest of achieving a settlement.

B. OUCC's Evidence. Ms. Stull presented the OUCC testimony on the Settlement Agreement, and sponsored Joint Settlement Exhibit 1. Ms. Stull said that the overall rate increase of 23.56% would occur in two phases, with a 17.24% increase to present rates in Phase 1,

and an additional increase of 5.39% in Phase II. Other aspects of the phase-in mechanism, as agreed to by the Parties, are reflected in the below table:

Table 1: Comparison of Proposed Rate Increases

	(A) Aqua	OUCC	(B) Settlement	(B) - (A) Settlement More (Less)
Phase I Increase				
Net Operating Income Required	\$ 3,677,604	\$ 3,212,308	\$ 3,494,537	\$ (183,067)
Less: Present Rate Net Operating Income	2,368,593	2,454,755	2,641,478	72,885
Revenue Shortfall	1,109,011	757,553	853,059	(255,952)
Gross Revenue Conversion Factor	167.062603%	167.073947%	167.073947%	0.011344%
Calculated Revenue Increase	1,852,743	1,265,674	1,425,239	(427,504)
Less: Cap/Voluntary Reduction	271,443	5,495	37,218	(234,225)
Proposed Revenue Increase	<u>\$ 1,581,300</u>	<u>\$ 1,260,179</u>	<u>\$ 1,388,021</u>	<u>\$ (193,279)</u>
Percentage Increase in Revenues	19.84%	15.64%	17.24%	-2.60%
Phase II Increase				
Net Operating Income Required	\$ 3,677,604		\$ 3,494,537	\$ (183,067)
Less: Present Rate Net Operating Income	3,123,099		3,172,169	49,070
Revenue Shortfall	554,505		322,368	(232,137)
Gross Revenue Conversion Factor	167.062603%		167.073947%	0.011344%
Calculated Revenue Increase	926,370		538,593	(387,777)
Less: Cap/Voluntary Reduction	135,721		30,198	(105,523)
Proposed Revenue Increase	<u>\$ 790,649</u>		<u>\$ 508,395</u>	<u>\$ (282,254)</u>
Percentage Increase in Revenues	8.29%		5.39%	-2.90%
Overall Increase				
Net Operating Income Required	\$ 3,677,604	\$ 3,212,308	\$ 3,494,537	\$ (183,067)
Less: Present Rate Net Operating Income	2,014,088	2,454,755	2,319,110	305,022
Revenue Shortfall	1,663,516	757,553	1,175,427	(488,089)
Gross Revenue Conversion Factor	167.062603%	167.073947%	167.073947%	0.011344%
Calculated Revenue Increase	2,779,113	1,265,674	1,963,832	(815,281)
Less: Cap/Voluntary Reduction	407,164	5,495	67,416	(339,748)
Proposed Revenue Increase	<u>\$ 2,371,949</u>	<u>\$ 1,260,179</u>	<u>\$ 1,896,416</u>	<u>\$ (475,533)</u>
Percentage Increase in Revenues	29.76%	15.64%	23.56%	-6.20%

Ms. Stull testified that the Parties agreed to a required net operating income of \$3,494,537, with approximately 73% of the increase effective in Phase I, and the remaining 27% increase becoming effective one year after Phase I rates go into effect. This agreed to revenue requirement represents a decrease of \$475,533 from Aqua Indiana's case-in-chief proposal and a decrease of \$882,696 from Aqua Indiana's supported rate increase.

Ms. Stull testified that the settled rate base is \$47,768,947. This amount includes the treatment of the entire MABI project in rate base. The OUCC disagreed that the entirety of the MABI project qualifies as a "major project." Notwithstanding its position, the OUCC acknowledged that since all of the projects comprising the MABI project have already been completed and placed in service, it is appropriate to permit those projects in rate base for purposes of reaching the settlement.

Ms. Stull next discussed agreed adjustments to other aspects of rate base, including engineering fees, master plan costs, and working capital. Additionally, while the OUCC proposed that any working capital included in rate base in future rate cases must be supported by a lead/lag study or other evidence of Aqua Indiana's investment in working capital, Ms. Stull explained that the OUCC withdrew this proposed finding in order to achieve a settlement. Also, the Parties agreed to the deferral of depreciation expense on major projects (including the MABI project) until Phase

II. Therefore, both the increase to accumulated depreciation as well as the associated regulatory asset should be included in rate base.

Ms. Stull stated that the Parties agreed that the Commission should authorize a 9.7% cost of equity, which is within the range of evidence presented. The Parties also agreed to a cost of debt of 4.93%. Based on a capital structure of 50.01% equity and 49.99% debt, the weighted average cost of capital is 7.3155%.

Ms. Stull next testified regarding present rate net operating income. The Settlement Agreement would result in a pro forma present rate net operating income on an overall basis of \$2,319,110. The Parties agreed to total pro forma present rate operating revenues of \$9,573,441, of which \$8,050,256 are subject to increase in this Cause. Ms. Stull described some of the adjustments that the Parties agreed to, including compromise on a customer growth adjustment, additional recurring lab fees, and an additional adjustment to metered and unmetered revenues to reflect their agreement on rate design for unmetered customer rates. Related to the latter adjustment, the Parties agreed to base Aqua Indiana's unmetered customer rate per EDU on 6,000 gallons. To incorporate this rate design modification, the Parties agreed to offset the decrease to unmetered revenue by increasing metered revenues through an increase to the volumetric rate per gallon from the current \$4.0012 to \$4.1135. This resulted in an operating revenue decrease to unmetered revenues of \$90,699, and a corresponding increase to metered revenues.

The Parties also agreed to pro forma operating expenses of \$7,254,331, including depreciation and taxes. Ms. Stull explained that Aqua Indiana accepted all of the OUCC's proposed operating expense adjustments except rate case expense, miscellaneous expense, depreciation expense, and amortization of CIAC. Of special note, the Parties agreed that Aqua Indiana would begin amortizing its CIAC balance in its next base rate case using the depreciation rate or rates applicable in that case. For purposes of this Cause, Aqua Indiana will continue to depreciate its utility plant at a 2.0% composite rate until the implementation of Phase II rates, when the composite depreciation rate will increase to 2.25%. Additionally, the Parties agreed that depreciation expense on its major projects, inclusive of the MABI project, will be deferred until the implementation of Phase II rates. Ms. Stull explained that this results in the creation of a \$366,978 regulatory asset which will be amortized over fifty years beginning with the implementation of Phase II rates. The resulting depreciation expense related to the amortization of this regulatory asset is \$7,340.

Ms. Stull reiterated the Settlement Agreement's provision that Aqua Indiana will use a composite depreciate rate of 2.5% in its next base rate case, except as approved by the Commission in a separate rate case following a depreciation study. In such proceeding, Aqua Indiana will provide the OUCC up to \$25,000 to assist in covering costs of a depreciation consultant to review and respond to Aqua Indiana's proposed depreciation study. This cost, in addition to Aqua Indiana's reasonable costs to conduct the depreciation study, shall be recoverable as rate case expense in Aqua Indiana's next base rate case.

Ms. Stull next described the OUCC's position that there exists a subsidy regarding the Midwest WWTP expansion, in that unrecovered costs related to the plant's expansion should not be borne by the current ratepayers. Although Aqua Indiana and Fort Wayne disagree that there exists a subsidy, the Parties agreed to remove \$67,416 from the revenue requirement.

Ms. Stull then provided further explanation of the rate design changes agreed to by the Parties. As touched on above, the Parties agreed to set the unmetered rate per EDU to reflect monthly wastewater flows of 6,000 gallons, a decrease from the approximate 8,000 gallons the rate currently appears to be based upon. The revenue neutral nature of this rate design change caused an increase to the volumetric rate as described earlier in Ms. Stull's testimony. The impact on unmetered customers is a reduction to the present unmetered rate of \$7.56 (\$59.21 - \$51.65) per EDU per month. The impact on metered customers is a minimal increase of \$0.45 per month based on average flows of 4,000 gallons, as reflected on the following table:

Table 11: Impact on Metered Customers

	<u>Current</u>	<u>Adjusted</u>	<u>Settlement</u>	
			<u>Phase I</u>	<u>Phase II</u>
Monthly Service Charge	\$ 26.97	\$ 26.97	\$ 31.62	\$ 32.65
Volumetric Rate per 1,000 Gallons	\$ 4.0012	\$ 4.1135	\$ 4.8227	\$ 5.2000
Average Customer Monthly Bill	\$ 42.97	\$ 43.42	\$ 50.91	\$ 53.45
Increase (Decrease) Over Current Rates		\$ 0.45	\$ 7.94	\$ 10.48
Percent Increase Over Current Rates		1.05%	18.48%	24.39%

The Parties also agreed to limit the base fixed charge to \$32.65, in order to reduce some of the burden on the typical residential customer. Because this rate design modification is revenue neutral, there is a resulting increase to the volumetric charge and, to a lesser extent, the unmetered charge. The following table provides a comparison of customer rates:

Table 12: Comparison of Customer Rates

	<u>Current</u>	<u>As Adjusted</u>	<u>Petitioner</u>	<u>Settlement Across the Board</u>	<u>Settlement</u>	
					<u>Phase I</u>	<u>Phase II</u>
Base Fixed Charge	\$ 26.97	\$ 26.97	\$ 35.00	\$ 33.32	\$ 31.62	\$ 32.65
Volumetric Rate	\$ 4.0012	\$ 4.1135	\$ 5.1918	\$ 5.0826	\$ 4.8227	\$ 5.2000
Unmetered Rate	\$ 59.21	\$ 51.65	\$ 76.83	\$ 63.81	\$ 60.55	\$ 63.85

Finally, Ms. Stull testified about the terms of the Settlement Agreement that do not directly affect Aqua Indiana's rates, including the cost of service study, engineering recommendations, Commission annual reporting requirements, and miscellaneous changes to Aqua Indiana's tariff, all of which the OUCC supports.

Ms. Stull concluded that the Settlement Agreement resolves all controversial issues among the Parties, provides rate relief for unmetered customers, eliminates any subsidy, and requires Aqua Indiana to take certain actions with respect to its next base rate case. In the OUCC's opinion, the Settlement Agreement is a fair, just and reasonable compromise of all issues, is in the public

interest, and she therefore recommends that the Commission approve the Settlement Agreement in its entirety.

C. Fort Wayne's Evidence. Mr. Nitza provided testimony on behalf of Fort Wayne, also in support of the Settlement Agreement. Mr. Nitza stated that the Settlement Agreement reaches a reasonable middle ground among the Parties as to the issues raised. Specifically, the Settlement Agreement achieves a fair and reasonable compromise on all six issues raised by Fort Wayne in this Cause.

Mr. Nitza first addressed the monthly service charge (which Ms. Stull refers to as the base fixed charge). Mr. Nitza described that the agreed-to monthly service charge of \$31.62 in Phase 1 and \$32.65 in Phase 2 benefits the customers in light of Aqua Indiana's proposed monthly service charge of \$35.00. Also, this is a fair and reasonable compromise because Aqua Indiana has agreed to conduct a cost of service study as part of its next rate case, and allow the Parties to evaluate whether the monthly service charge is cost-justified.

Mr. Nitza next testified that the resolution of the residential unmetered rate issue is fair and reasonable in that the Settlement Agreement bases the rate on an assumed average monthly flow of 6,000 gallons. This is consistent with Mr. Walsh's recommendation in Fort Wayne's direct testimony (Intervenor's Exhibit 1). Mr. Nitza also agreed that the two-year phase in will provide some initial rate increase relief to customers of Aqua Indiana, and thus the phase-in agreement is fair, reasonable, and in the public interest. Mr. Nitza further stated that the \$1,300 SDC is fair and reasonable in light of the compromise agreement among the Parties.

With respect to Settlement Agreement's provisions relating to the septic relief/elimination program, Mr. Nitza believes they provide a fair and reasonable resolution. The Settlement Agreement resolves Fort Wayne's concerns by providing a process through which Aqua Indiana will prepare a septic elimination plan/program regarding the 240 identified septic systems, to be filed with the Commission. Aqua Indiana will also reach out to Fort Wayne and the Allen County Health Department, and it may offer loans at more than \$10,000 to provide relief from out-of-pocket expenses. These efforts are in the public interest.

Finally, Mr. Nitza testified that the Settlement Agreement provisions regarding billing/collection methods are fair and reasonable. The Settlement Agreement resolves Fort Wayne's concerns in a compromise that benefits the customers at no detriment to Aqua Indiana or Fort Wayne. Mr. Nitza recommended that the Commission approve the Settlement Agreement.

8. Commission Discussion and Findings. In evaluating the Settlement Agreement, the Commission begins with the general statement that settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum v. Ind. Gas Co., Inc.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, the settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coal. v. PSI Energy, Inc.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coal.*, 644 N.E.2d at 406 (Internal citation omitted).

Furthermore, any Commission decision, ruling or order – including approval of a settlement – must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coal. v. Pub. Serv. Co.*, 582 N.E.2d 330, 333 (Ind. 1991)). The Commission’s own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the agreement is reasonable, just, and serves the public interest.

A. Revenue Requirement. In this case, the Parties agreed for purposes of settlement that the current recurring monthly rates and charges of Aqua Indiana’s Aboite Wastewater Division could be increased to levels sufficient to produce additional operating revenues of \$1,896,416 from wastewater disposal service, which reflects an approximate 19.81% increase in operating revenues. This agreement is based on concurrence among the Parties regarding original cost depreciated value, regulatory fair value rate base, cost of capital, and operating revenue and operating expenses. As is discussed in further detail below, we find that the Settlement Agreement regarding Aqua Indiana’s revenue requirement is reasonable, supported by evidence of record, and should be approved.

(1) Aqua Indiana’s Rate Base. Aqua Indiana presented evidence that its utility properties were used and useful for the provision of wastewater disposal service to the public by its Aboite Wastewater Division are properly valued for purposes of this proceeding as of June 30, 2016. The Parties agreed that the original cost depreciated value, as well as the regulatory fair value rate base, of the utility properties used and useful for the provision of wastewater disposal service by Aqua Indiana’s Aboite Wastewater Division to the public, including without limitation those placed in service after the close of the test year and prior to July 1, 2016, is \$50,208,318. The Parties further agreed that, after providing for working capital calculated using FERC’s 45-Day Method and other adjustments to that regulatory fair value reflected on Joint Settlement Exhibit 1, Schedule 8, the regulatory fair value rate base of the wastewater disposal utility of Aqua Indiana’s Aboite Wastewater Division is approximately \$47,768,947 for purposes of this proceeding. This value is supported by Aqua Indiana’s direct and rebuttal testimony, as well as Aqua Indiana’s and the OUCC’s settlement testimony. Accordingly, we find that the regulatory fair value rate base of the wastewater disposal utility of Aqua Indiana’s Aboite Wastewater Division is approximately \$47,768,947 for purposes of this proceeding, and that this value should be used for purposes of determining a fair return on the fair value of the Aboite Wastewater Division’s used and useful property in this case.

(2) Rate of Return. The Parties agreed that the capital structure for Aqua Indiana’s Aboite Wastewater Division should be the same capital structure as Aqua Indiana as of September 30, 2015: 50.01% equity and 49.99% debt. This capital structure is consistent with the Commission’s decision in Cause No. 43874. Based on the evidence in this Cause, we conclude that the 50.01% equity and 49.99% debt capital structure employed by Aqua Indiana’s Aboite Wastewater Division best represents the costs incurred to raise capital.

We next determine Aqua Indiana’s cost of debt. The evidence presented by Aqua Indiana was that a long-term debt cost rate of 5.08% as of September 30, 2015, is reasonable and appropriate, as it was derived from Aqua America’s actual long-term debt outstanding as of such date. The OUCC proposed a 4.57% cost of debt. In its rebuttal, Aqua Indiana incorporated into its calculation additional debt that had been allocated to Aqua Indiana by Aqua America on February

29, 2016, resulting in a debt cost rate of 4.93%. In achieving the settlement, the Parties agreed that 4.93% should be used as Aqua Indiana's debt cost rate. Based on the evidence, we agree that Aqua Indiana's cost of debt of 4.93% is reasonable.

As to cost of equity, the record contains a number of different methods of estimating Aqua Indiana's cost of equity. We recognize that the cost of equity cannot be precisely calculated and estimating it requires the use of judgment and the consideration of more than one methodology. Aqua Indiana initially proposed a range between 10.15% and 10.70%. The OUCC recommended a 9.0% cost of equity, each based on numerous methodologies and after analyzing competing data. In the Settlement Agreement, the Parties agreed that the Commission should authorize a 9.7% cost of equity, which is within the range of evidence presented.

Given due consideration to this evidence of record, including the Settlement Agreement, we find that the agreed upon cost of equity of 9.7% is within a reasonable range. We find that the use of a 9.7% cost of equity to set rates for Aqua Indiana's Aboite Wastewater Division is supported by the risks facing Aqua Indiana in particular and the wastewater utility industry generally. Accordingly, we find that a 9.7% cost of equity, along with the cost of debt shown above, produces an overall weighted cost of capital of 7.3155%, which is reasonable in this case. Applying a 7.3155% rate of return to the regulatory fair value rate base of approximately \$47,768,947 would generate for purposes of this Cause a fair return of \$3,494,537 for the wastewater utility of Aqua Indiana's Aboite Wastewater Division

(3) Operating Results at Present Rates. In the Settlement Agreement, the Parties agreed that total pro forma operating revenues at present rates for the wastewater utility of Aqua Indiana's Aboite Wastewater Division are \$9,573,441 for purposes of this proceeding. The Parties further agreed that pro forma total operating expenses for purposes of this proceeding were \$7,254,331, which included, without limitation, depreciation expense calculated at an agreed-upon depreciation rate of 2.25%, in the amount of \$1,880,510. Thus, the resulting pro forma net operating income under present rates is \$2,319,110. The Parties initially agreed on all of Aqua Indiana's proposed pro forma adjustments, with the exception of certain adjustments which were disputed at some point during the process of this rate case. However, these were all compromised or were no longer in dispute at the conclusion of the evidentiary hearing in this Cause. All such pro forma adjustments have been fully identified in the testimony supporting the Settlement Agreement and the evidence of record. Accordingly, we find all pro forma adjustments agreed upon in the Settlement Agreement are reasonable and supported by substantial evidence of record.

(4) Subsidy Reduction. The OUCC maintained that the revenues Aqua Indiana estimates it will receive from Fort Wayne for treatment of wastewater under the Water Pollution Treatment Agreement (approved by the Commission in Cause No. 44503) do not fully recover all of the estimated additional costs of the Midwest WWTP expansion. The OUCC proposed that any subsidy that might result from the Commission's approved revenue requirement, should be removed from the revenue increase. Both Aqua Indiana and Fort Wayne denied that such a subsidy exists. However, as part of its compromise to achieve a settlement of this proceeding, Aqua Indiana agreed to accept a deduction of \$67,416 from its revenue requirement in the interests of achieving a settlement. We find that this reduction is reasonable and supported by the evidence of record.

(5) Allowed Increase. Joint Settlement Exhibit 1 shows the revenue proof and support the agreed-to revenues. The Parties agreed that Aqua Indiana's Aboite Wastewater Division's current recurring monthly rates and charges should be increased to levels sufficient to produce additional operating revenues of \$1,896,416, which reflects an approximately 19.81% increase in operating revenues. Aqua Indiana agrees that this level of operating revenue yields a fair return for purposes of this case.

The Commission finds that the rates estimated to produce these results are just and fair and should allow Aqua Indiana's Aboite Wastewater Division to earn a reasonable return on its property dedicated to providing wastewater disposal utility services to the public.

(6) Phase-In. The Parties agreed that Aqua Indiana will implement the allowed increase in annual operating revenues in two phases. Phase 1 will increase Aqua Indiana's current recurring monthly rates and charges for wastewater disposal service of its Aboite Wastewater Division to produce additional annual operating revenues of approximately \$1,388,021 ("Phase 1"). In Phase 2, Aqua Indiana may increase its recurring monthly rates and charges for wastewater disposal service of its Aboite Wastewater Division to produce additional operating revenues of approximately \$508,395 ("Phase 2"). The above-stated Phase 1 and Phase 2 amounts were determined as proposed by Aqua Indiana in its case-in-chief. Specifically, the Parties have agreed to the following: (1) the increase in depreciation rate from 2% to 2.25% will not take place until Phase 2 rates are implemented; (2) depreciation expense for the major projects and other agreed rate base updates, will be deferred to the beginning of Phase 2; (3) amortization of deferred depreciation will commence with the implementation of Phase 2 rates; and (4) rate case expense amortization will commence with the implementation of Phase 2 rates. The amount of the depreciation deferral would be calculated using Aqua Indiana's current depreciation rate of 2% and recorded as a regulatory asset. Beginning with the implementation of Phase 2, the deferred amount would be amortized over 50 years. The result of the agreed phase-in process is that 73.2% of the rate increase will be implemented in Phase 1 and 26.8% of the rate increase will be implemented in Phase 2.

Having considered the evidence of record, the Commission finds that the agreed-to phase-in is fair and reasonable. The two-year phase in will benefit Aqua Indiana's customers by mitigating the financial impact of the rate increase. The Commission also finds that the following items are reasonable and appropriate in light of the evidence presented: (1) the increase in depreciation rate from 2% to 2.25% will not take place until Phase 2 rates are implemented; (2) depreciation expense for the major projects and other agreed rate base updates, will be deferred to the beginning of Phase 2; (3) amortization of deferred depreciation will commence with the implementation of Phase 2 rates; and (4) rate case expense amortization will commence with the implementation of Phase 2 rates. The Commission also finds that the amount of the depreciation deferral should be calculated using Aqua Indiana's current depreciation rate of 2%, should be recorded as a regulatory asset, and that beginning with the implementation of Phase 2, the deferred amount should be amortized over 50 years. All of these items are supported by the evidence of record, and are reasonable in light of the compromise of the Parties in reaching a settlement.

(7) Rate Design. Aqua Indiana initially proposed an across-the-board increase. In reaching a compromise, the Parties agreed that an across-the-board increase was appropriate, with a relatively minor rate design modification to certain recurring rates and charges. Specifically, the Parties agreed that Aqua Indiana will establish a Service Charge component of its

General Metered Rate at \$31.62 in Phase 1 and \$32.65 in Phase 2 and implement an Unmetered Flat Rate of \$60.55 in Phase 1 and \$63.85 in Phase 2. Petitioner also shall modify the Volumetric Charge to its General Metered Rates in order that implementation of the above described charges is accomplished in a revenue neutral manner. We find that these rate design modifications are reasonable. However, as discussed further below, we order Aqua Indiana to conduct a cost of service study prior to filing its next rate case and propose rates and charges consistent with the results thereof.

The Settlement Agreement also contained an agreement that Aqua Indiana implement an SDC of \$1,300 per EDU. The SDC will be billed for each new connection to the system. One-half of the SDC is to be paid upon request for service and one-half to be paid upon connection of service. Fort Wayne proposed an SDC of \$1,713, but agreed to the \$1,300 SDC as part of its compromise to reach a settlement. The Commission believes this amount is fair and reasonable, this approach should allocate the costs associated with improvements caused by growth to be funded by customers who necessitate growth related costs. The Commission finds that Aqua Indiana shall implement the \$1,300 SDC consistent with the Settlement Agreement.

B. OUCC Issues. In this proceeding, several other issues were raised primarily by the OUCC, which were compromised in the Settlement Agreement.

(1) Non-Recurring Charges. The Settlement Agreement contained provisions for Aqua Indiana to modify parts of its non-recurring fees and charges consistent with the OUCC's recommendations. We find these modifications to be fair and reasonable. Specifically, Aqua Indiana will set its Reconnection Fee at \$35.00 for General Metered Rate customers, and \$800.00 for Unmetered Flat Rate customers, which were based upon a third-party estimate for the costs necessary to physically separate a customer from its system. Aqua Indiana also proposed that should an unmetered flat rate customer have to be disconnected subsequent to the installation of a shutoff valve, a fee of \$35.00 would be appropriate. Paragraph F of Joint Settlement Exhibits 2 and 3 should be modified as set forth in its Petitioner's August 22, 2016 Response to the Commission's August 18, 2016 Docket Entry.

(2) CIAC/Depreciation Study. The Parties agreed that in its next general rate case, Aqua Indiana shall begin amortizing its then current balance of CIAC as an offset to its depreciation expense. For this purpose and to calculate its depreciation expense in its next general rate case, Aqua Indiana shall use a composite rate of 2.5%. The Commission determines that this agreement balances the interests of the Parties, and provides increased certainty for customers in the next base rate case.

In the event Aqua Indiana desires to use a rate or rates other than the composite 2.5% rate to calculate its depreciation expense and amortize CIAC, the Parties agreed that Aqua Indiana shall first conduct a depreciation study identifying such alternative rate(s) and seek the Commission's approval for such rate(s) in a separately-docketed proceeding that shall result in a final order prior to the initiation of Aqua Indiana's next general rate case. However, Aqua Indiana shall not implement any new depreciation rate(s) until the final order has been issued in its next general rate case. Aqua Indiana further agreed that in connection with any such separately-docketed proceeding, it shall provide the OUCC up to \$25,000 to assist in covering the costs of obtaining the services of a depreciation consultant to review and, if necessary, respond to Aqua Indiana's proposed depreciation study. The Parties further agreed that any amount paid to the OUCC in connection with

its review and response to Aqua Indiana's depreciation study, as well as Aqua Indiana's reasonable costs to conduct its depreciation study, shall be recoverable as a rate case expense in Aqua Indiana's next general rate case. All of these compromise points are fair and reasonable, and we approve of their terms.

(3) Cost of Service Study. One of the major issues of contention among the Parties was the overall rate design to be employed by Aqua Indiana in this proceeding. Aqua Indiana did not perform a cost of service study prior to the initiation of this rate case, instead proposing an across-the-board increase. The OUCC proposed that unmetered customers be billed based on estimated water consumption of 4,000 gallons per EDU, as opposed to the approximately 8,000 gallon figure applied by Aqua Indiana. Similarly, Fort Wayne proposed that the unmetered customers be billed on assumed usage of 5,984 gallons per month. Aqua Indiana countered that modifying just one part of Aqua Indiana's rate design in this proceeding, without a supporting cost of service study, would be inappropriate. Further, Mr. Bruns represented that Aqua Indiana would commit to performing a cost of service study, with a rate design based upon it, in its next general rate case. In resolving these matters, the Settlement Agreement provided that Aqua Indiana would conduct a cost of service study for its wastewater utility service and propose in its next general rate case rates and charges consistent with the results of the cost of service study, with Aqua Indiana's reasonable costs to conduct and present the cost of service study bring recoverable as a rate case expense. The Commission agrees that this is a fair and reasonable compromise.

(4) Engineering Recommendations. In Ms. Park's direct testimony, he recommended a number of engineering recommendations to Aqua Indiana, described in Public's Exhibit 3, pp. 45-47. Aqua Indiana accepted and agreed to implement most of these recommendations, with the exceptions of recommendations 3, 4, and 7, which the Settlement Agreement further resolved. We approve of the implementation of these engineering recommendations, as set forth in the Settlement Agreement.

(5) Lead-Lag Study. Aqua Indiana determined its working capital by employing the FERC 45-day method. OUCC initially proposed that Aqua Indiana be forced, in its next rate case, to calculate its working capital by conducting a lead-lag study. In the Settlement Agreement, the OUCC withdrew its request for an order requiring such a study for the next rate case. We find that the OUCC's withdrawal of lead-lag requirement to be fair and reasonable in light of the remaining terms of the settlement.

(6) Annual Report Filings. The OUCC recommended that Aqua Indiana file separate annual reports with the Commission for each of its divisions. Aqua Indiana agreed with this recommendation, and the Settlement Agreement memorializes that Aqua Indiana will file a separate report for the Aboite Wastewater Division and for each of the other regulated utilities it owns and operates until such time as a regulated utility is included in a consolidated rate case or included in the determination of single tariff pricing in the State of Indiana. We approve the proposed annual report filing requirements.

C. Fort Wayne Issues. Fort Wayne raised two additional issues which were compromised in the Settlement Agreement.

(1) Septic System Elimination Study. Fort Wayne, through Witness Nitza, testified that approximately 240 homes (identified on Attachment A to Intervenor's Exhibit

No. 2) are eligible for septic tank elimination programs, and recommended that the Commission order Aqua Indiana to develop a more formal plan to eliminate remaining septic systems over the next several years. While Aqua Indiana initially questioned Fort Wayne's proposal regarding the septic systems, the Settlement Agreement contained provisions requiring Aqua Indiana to prepare a septic elimination plan/program concerning the 240 identified septic systems. The Settlement Agreement contained further details regarding development and implementation of the program. We approve of the Settlement Agreement's terms on this issue.

(2) Bill Payments/Collections. Fort Wayne also provided several proposals with respect to bill payment and collection options for Aqua Indiana's customers. Fort Wayne offered a local utility office where Aqua Indiana's customers can deliver payment on their utility bills in person, and Fort Wayne asserted that it would like to work with Aqua Indiana on developing a combined bill for both water and wastewater service. Aqua Indiana again questioned these proposals. However, in the Settlement Agreement, the Parties agreed to several aspects of the framework proposed by Fort Wayne on the topic of bill payments and collections. These include allowing Aqua Indiana customers to pay bills at Fort Wayne's central office and, prospectively, at kiosks. The agreement also allows each party to review the effectiveness of these logistics after one year. The Commission approves implementation of these low-cost, customer-friendly terms.

D. Conclusion Regarding Settlement Agreement. Based on our discussion above and our review of the evidence presented, we find that the Settlement Agreement is reasonable, supported by the evidence and in the public interest. Therefore, we approve the Settlement Agreement consistent with our findings above.

E. Effect of Settlement Agreement. The Parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434 (IURC March 19, 1997).

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

1. The Joint Stipulation and Settlement Agreement on All Issues in this Cause between Aqua Indiana, the OUCC, and Fort Wayne, filed in this Cause on August 5, 2016, and which is attached to this Order, is approved consistent with our findings above.

2. Aqua Indiana is authorized to increase its rates and charges for its Aboite Wastewater Division to levels sufficient to produce additional operating revenues of \$1,896,416, which reflects an approximate 19.81% increase in operating revenues.

3. Aqua Indiana shall file with the Commission's Water/Wastewater Division a new schedule of rates and charges for its Aboite Wastewater Division in the form set forth on Joint Settlement Exhibit 2 and, upon its approval, cancel its currently existing schedules of recurring monthly rates and charges. After January 1, 2018, Aqua Indiana shall file in order to implement Phase 2 a new schedule of rates and charges for its Aboite Wastewater Division in the form set forth on Joint Settlement Exhibit 3 and, upon its approval, cancel its then existing schedules of recurring

monthly rates and charges, i.e., the schedules implementing Phase 1. Aqua Indiana shall modify Paragraph F of Joint Settlement Exhibits 2 and 3 as set forth in its August 22, 2016 Responses to the Commission's August 18, 2016 Docket Entry.

4. This Order shall be effective on and after the date of its approval.

HUSTON, FREEMAN, WEBER, AND ZIEGNER CONCUR:

APPROVED: JAN 18 2017

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



Mary M. Becerra
Secretary of the Commission

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF AQUA INDIANA, INC. PURSUANT TO)
IC 8-1-2-42.7 AND 170 IAC 1-5 FOR AUTHORITY TO)
INCREASE THE MONTHLY RECURRING RATES AND)
CHARGES CURRENTLY CHARGED AND COLLECTED)
BY ITS ABOITE WASTEWATER DIVISION FOR)
WASTEWATER UTILITY SERVICES PROVIDED IN)
PORTIONS OF ALLEN, HUNTINGTON AND WHITLEY) CAUSE NO. 44752
COUNTIES; ESTABLISH A NON-RECURRING SYSTEM)
DEVELOPMENT CHARGE TO BE CHARGED AND)
COLLECTED BY THE ABOITE WASTEWATER)
DIVISION AND IMPLEMENT NEW RATE SCHEDULES)
REFLECTING THE RATES AND CHARGES APPROVED)
IN THIS CAUSE)

JOINT STIPULATION AND SETTLEMENT AGREEMENT
ON ALL ISSUES IN THIS CAUSE

On March 1, 2016, Aqua Indiana, Inc., ("Petitioner") filed its Verified Petition requesting authority to increase the recurring monthly rates and charges its Aboite Wastewater Division collects for wastewater disposal services provided to the public. In its case-in-chief filed on March 1, 2016, Petitioner proposed an across-the-board increase of approximately 29.8% in the recurring monthly rates and charges of its Aboite Wastewater Division in order to produce an approximately 25% increase in operating revenues.

The Indiana Office of Utility Consumer Counselor ("OUCC") reviewed the Petitioner's filed testimony and exhibits, met with representatives of Petitioner and requested additional information from Petitioner through both formal and informal discovery. Similarly, Intervenor City of Fort Wayne, Indiana ("City") reviewed the Petitioner's filed testimony and exhibits, requested additional information from Petitioner and met with representatives of Petitioner. Subsequent to the OUCC's and City's filing of their respective

cases-in-chief, Petitioner, the OUCC and City (individually, a “Settling Party” and collectively, the “Settling Parties”) engaged in settlement negotiations. As a result of those negotiations, the Settling Parties reached an agreement with respect to all the issues between them before the Commission, including without limitation as follows:

1. **Test Year.** The period used for determining the revenues and expenses incurred by Petitioner’s Aboite Wastewater Division to provide wastewater disposal service to the public was the twelve months ended September 30, 2015. With revenue and expense adjustments for changes that were fixed, known and measurable for ratemaking purposes and occurring through September 30, 2016, and thereafter for changes that are fixed, known and measurable related to service to the City pursuant to a Water Pollution Treatment Contract approved by the Commission’s October 22, 2014 Order in Cause No. 44503,¹ this test year is sufficiently representative of the normal operations of Petitioner’s Aboite Wastewater Division to provide reliable information for ratemaking purposes.

2. **Rate Base.**

A. The utility properties used and useful for the provision of wastewater disposal service to the public by Petitioner’s Aboite Wastewater Division are properly valued for purposes of this proceeding as of June 30, 2016. All statements of value contained in this Joint Stipulation and Settlement Agreement On All Issues In This Cause (“Settlement Agreement”), including without limitation those set forth on Joint Settlement Exhibit 1, are intended to be used exclusively in this proceeding for ratemaking purposes only and are not intended to be reflective of the fair market value of the assets of Petitioner’s Aboite Wastewater Division.

¹ The Parties stipulate that nothing in this Joint Stipulation and Settlement Agreement alters or otherwise amends the Water Pollution Treatment Contract.

B. The original cost depreciated value of the utility properties used and useful for the provision of wastewater disposal service by Petitioner's Aboite Wastewater Division to the public, including without limitation those placed in service after the close of the test year and prior to July 1, 2016, is approximately \$50,208,318 for purposes of this proceeding. The above-stated original cost depreciated value is shown on Joint Settlement Exhibit 1, Schedule 8.

C. For purposes of this proceeding only, the regulatory fair value rate base of the utility properties used and useful for the provision of wastewater disposal service by Petitioner's Aboite Wastewater Division to the public is the same as its original cost depreciated value, i.e. \$50,208,318. After providing for working capital calculated using FERC's 45-Day Method and the other adjustments to that regulatory fair value shown on Joint Settlement Exhibit 1, Schedule 8, the regulatory fair value rate base of the wastewater disposal utility of Petitioner's Aboite Wastewater Division is approximately \$47,768,947 for purposes of this proceeding.

D. The OUCC disagreed with Petitioner that its Main Aboite Basin Improvement project ("MABI") qualified as a single major project under the Commission's Minimum Standard Filing Requirements ("MSFRs"). However, the OUCC agrees for purposes of this settlement that all actual expenditures for work items listed under the MABI, which have already been completed, shall be included in rate base. Petitioner agrees and acknowledges that this agreement by the OUCC is not to be construed as support for a finding that the MABI Project qualifies as a major project under the MSFRs.

3. **Allowed Return.** An overall rate of return on rate base of 7.3155%, as calculated in the manner shown on Joint Settlement Exhibit 1, Schedule 9, will adequately

and fairly compensate Petitioner for its investments, while maintaining the financial viability of the wastewater disposal utility of Petitioner's Aboite Wastewater Division. As shown on Joint Settlement Exhibit 1, Schedule 9, applying a 7.3155% rate of return to the regulatory fair value rate base of approximately \$47,768,947 would generate for purposes of this Cause a fair return of \$3,494,537 for the wastewater utility of Petitioner's Aboite Wastewater Division.

4. **Operating Results at Present Rates.** As shown on Joint Settlement Exhibit 1, Schedule 4, total pro forma operating revenues at present rates for the wastewater utility of Petitioner's Aboite Wastewater Division are \$9,573,441 for purposes of this proceeding. With pro forma present total operating expenses for purposes of this proceeding at \$7,254,331, which includes without limitation depreciation expense calculated at agreed-upon composite depreciation rate of 2.25%, in the amount of \$1,880,510, the pro forma net operating income under present rates for purposes of this proceeding is \$2,319,110 for Petitioner's Aboite Wastewater Division. (See Joint Settlement Exhibit 1, Schedule 4, page 3 of 3.) This net operating income amount is insufficient to cover the necessary and reasonable operating expenses of Petitioner's Aboite Wastewater Division and provide the opportunity for Petitioner to earn the fair return to which Petitioner is lawfully entitled. The return earned by Petitioner's Aboite Wastewater Division on its rate base is below the level required to provide revenues which will enable Petitioner to continue to attract capital required for additions, replacements, and improvements at a reasonable cost; to maintain and support its credit; to assure confidence in its financial soundness; and to earn a return on the regulatory fair value of its plant and properties dedicated to provide service to and for the public equal to that available on other investments of comparable risk. The existing rates and charges

collected by Petitioner's Aboite Wastewater Division are unjust, unreasonable, insufficient and confiscatory and should be increased.

5. **Allowed Increases.** As shown on Joint Settlement Exhibit 1, Schedule 1, the Settling Parties agree for purposes of settlement that the current recurring monthly rates and charges of Petitioner's Aboite Wastewater Division could be increased to levels sufficient to produce additional operating revenues of **\$1,896,416** from wastewater disposal service, which reflects an approximately 19.81% increase in operating revenues. The above-stated amount of additional operating revenues reflect the reduction identified on Joint Settlement Exhibit 1, Schedule 10, line 23, as well as the effect of the increased revenue on federal and state income taxes, Indiana gross receipts tax and the Commission's fee as shown on Joint Settlement Exhibit 1, Schedule 1. Further, the amount of that allowed increase in additional revenues will provide Petitioner an opportunity to realize adequate utility operating income, enable Petitioner to maintain and support its credit and provide adequate financing, assure market confidence in its financial soundness, allow Petitioner to earn a return equal to that available on other investments of comparable risk, and permit it to obtain reasonable additional capital to enable Petitioner to render adequate, reliable and safe wastewater disposal services to the public.

6. **Phase-in of Rates.** As reflected on Joint Settlement Exhibits 2 and 3, Petitioner shall implement in two phases the allowed increase in the annual operating revenues described Paragraph 5 above. Phase 1 shall increase Petitioner's current recurring monthly rates and charges for wastewater disposal service of its Aboite Wastewater Division to produce additional annual operating revenues of approximately **\$1,388,021** ("Phase 1"). In Phase 2, Petitioner may increase its then current recurring monthly rates and charges for

wastewater disposal service of its Aboite Wastewater Division to produce additional operating revenues of approximately \$508,395 (collectively, "Phase 2"). The above-stated Phase 1 and Phase 2 amounts were determined as proposed by Petitioner in its case-in-chief. Specifically, the Settling Parties have agreed to the following: (1) The increase in depreciation rate from 2% to 2.25% will not take place until Phase 2 rates are implemented; (2) Depreciation expense for the major projects and other agreed rate base updates, will be deferred to the beginning of Phase 2; (3) Amortization of deferred depreciation will commence with the implementation of Phase 2 rates; and (4) Rate case expense amortization will commence with the implementation of Phase 2 rates. The amount of the depreciation deferral would be calculated using Petitioner's current depreciation rate of 2% and recorded as a regulatory asset. Beginning with the implementation of Phase 2, the deferred amount would be amortized over 50 years. The result of the agreed phase-in process is that 73.2% of the rate increase will be implemented in Phase 1 and 26.8% of the rate increase will be implemented in Phase 2. See Joint Settlement Exhibit 1, Schedule 4, pages 1-3, for the detailed calculation of net operating income and revenue increase for each phase of the rate increase.

7. **Recurring Rates and Charges.** Petitioner shall establish the Service Charge component of its General Metered Rate at \$ 31.62 in Phase 1 and \$ 32.65 in Phase 2 and implement an Unmetered Flat Rate of \$ 60.55 in Phase 1 and \$ 63.85 in Phase 2. Petitioner also shall modify the Volumetric Charge to its General Metered Rates in order that implementation of the above described charges is accomplished in a revenue neutral manner. The above-described General Metered Rate and Unmetered Flat Rate, as well as the modifications to the Volumetric Charge to Petitioner's General Metered Rates, are reflected

on Joint Settlement Exhibits 2 and 3.

8. **System Development Charge.** Petitioner shall implement a System Development Charge of \$1,300.00 per equivalent dwelling unit. The system development charge will be billed for each new connection to the system. One-half of the System Development Charge is to be paid upon request for service and one-half to be paid upon connection of service. The above-described System Development Charge is reflected on Joint Settlement Exhibits 2 and 3.

9. **Nonrecurring Charges.** Petitioner shall modify its non-recurring fees and charges in a manner consistent with Public's Exhibit No. 1 at pages 54-58 and as reflected on Joint Settlement Exhibits 2 and 3.

10. **New Schedules of Rates.** In order to implement (i) Phase 1 increase described in Paragraph 6 above, (ii) the Unmetered Flat Rate and General Metered Rates described in Paragraph 7 above, (iii) the System Development Charge described in Paragraph 8 above, and (iv) the changes to Petitioner's non-recurring fees and charges discussed in Paragraph 9 above, Petitioner shall file with the Commission's Water/Wastewater Staff within thirty (30) days of the Commission's issuance of its Final Order a new schedule of rates and charges for its Aboite Wastewater Division in the form set forth on Joint Settlement Exhibit 2 and, upon its approval, cancel its currently existing schedules of recurring monthly rates and charges. Within one (1) year of the implementation of Phase 1, Petitioner shall file in order to implement Phase 2 a new schedule of rates and charges for its Aboite Wastewater Division in the form set forth on Joint Settlement Exhibit 3 and, upon its approval, cancel its then existing schedules of recurring monthly rates and charges, i.e., the schedules implementing Phase 1. The Commission should find that the rates and charges set forth on

the schedules attached as Joint Settlement Exhibits 2 and 3 are sufficient to produce the results described in Paragraph 5 and 6 above and are otherwise fair, just, reasonable and non-discriminatory.

11. **Additional Covenants.**

A. **CIAC/Depreciation Study.** In its next general rate case, Petitioner shall begin amortizing its then current balance of contributions in aid of construction ("CIAC") as an offset to its depreciation expense. For this purpose and to calculate its depreciation expense in its next general rate case, Petitioner shall use a composite rate of 2.5%. In the event Petitioner desires to use a rate or rates other than the composite 2.5% rate to calculate its depreciation expense and amortize CIAC, it shall first conduct a depreciation study identifying such alternative rate(s) and seek the Commission's approval for such rate(s) in a separately-docketed proceeding that shall result in a final order prior to the initiation of Petitioner's next general rate case. However, Petitioner shall not implement any new depreciation rate(s) until the final order has been issued in its next general rate case. Petitioner agrees that in connection with any such separately-docketed proceeding it shall provide the OUCC up to \$25,000 to assist in covering the costs of obtaining the services of a depreciation consultant to review and, if necessary, respond to Petitioner's proposed depreciation study. Any amount paid to the OUCC in connection with its review and response to Petitioner's depreciation study, as well as Petitioner's reasonable costs to conduct its depreciation study, shall be recoverable as a rate case expense in Petitioner's next general rate case.

B. **Cost of Service Study.** Petitioner shall conduct a cost of service study for its wastewater utility service and propose in its next general rate case rates and charges

consistent with the results of the cost of service study. In connection with conducting such a cost of service study, Petitioner shall consider, but shall not be required by this agreement to accept or follow, the matters raised in the testimony presented as part of the Public's Exhibit No. 1 and Intervenor's Exhibit No. 1. Petitioner's reasonable costs to conduct and present to the Commission a cost of service study shall be recoverable as a rate case expense in Petitioner's next general rate case. Petitioner shall provide a copy of its proposed cost of service study to City before filing the cost of service study with the Commission to allow the City the opportunity to review and comment on the cost of service study; provided, however, Petitioner shall have no obligation to provide the cost of service study to the City until after Petitioner and the City have entered into a mutually-acceptable agreement establishing the cost of service study and its contents as confidential and protected from public disclosure until it is filed with the Commission.

C. **Engineering Recommendations**. Petitioner accepts and agrees to implement the recommendations described in Public's Exhibit 3, pp. 45-47, with the exception of those numbered 3, 4 and 7. Recommendation 3 has been addressed above in Paragraph 2(D) above. In regard to recommendations 4 and 7, the Settling Parties agree as follows:

(i) Petitioner shall provide together with its Annual Report filing with the Commission a written update report detailing progress in completing Additional Action Plan submitted to the Indiana Department of Environmental Management ("IDEM"), documenting information on any SSO that occurs, and any new enforcement actions brought by IDEM.

(ii) Petitioner shall develop an active force main cleaning program to ramp up flows in its Aboite Diversion force main, and actively monitor and document discharge pressures and flows from the Braemar and Sycamore Hills Lift Stations. Petitioner shall also

periodically conduct pump tests at both lift stations to assess whether the Aboite Diversion force main is experiencing diminished flow capacity. If Petitioner determines, in its sole discretion, that cleaning using the increased flows is not effective, Petitioner shall evaluate the costs and benefits of mechanical cleaning, including mechanically cleaning the force main by pigging. Petitioner shall provide with the update described in Paragraph 11(C)(i) above information on the effectiveness of using increased flows and the results of any evaluation of the costs and benefits of mechanical cleaning, including mechanically cleaning the force main by pigging.

D. **Lead-Lag Study.** In exchange for the consideration conferred by this Settlement Agreement, the OUCC agrees Petitioner should not be required to prepare a lead-lag study for its next rate case and hereby withdraws its request for an order requiring such a study. The Settling Parties agree that Petitioner shall not be required to prepare a lead-lag study for its next rate case. In so agreeing, the OUCC otherwise waives no argument it may make in that next rate case with respect to Petitioner's investment in working capital.

E. **Annual Report Filings.** As part of the settlement reached in this Cause, Petitioner agrees to submit to the Commission a separate annual report for the Aboite Wastewater Division and for each of the other regulated utilities it owns and operates until such time as a regulated utility is included in a consolidated rate case or included in the determination of single tariff pricing in the State of Indiana.

F. **Septic System Elimination Study.** Petitioner shall prepare a septic elimination plan/program concerning the 240 septic systems identified on Attachment A to Intervenor's Exhibit No. 2. The plan/program will be filed in this Cause with the Commission within one (1) year of the issuance of the Final Order in this Cause. As part of

the plan, Petitioner shall reach out to the City and the Allen County Health Department in an effort to eliminate appropriate septic systems. Petitioner also shall explore whether it can/should offer its current \$10,000 loan at a higher amount so as to provide residents relief from out-of-pocket expenses. Petitioner's plan should provide specific sewer service proposals in neighborhoods where the 240 identified septic systems exist within three (3) years of a final order in this Cause.

G. **Bill Payments/Collections.** The City shall be an additional collection point for Petitioner's customers to pay Petitioner's bills. In addition to other payment options with Petitioner, Petitioner's customers can remit their payment in person at the City's central office (located at 200 E. Berry Street in Fort Wayne, Indiana). In addition, the City anticipates that it will in the near future provide kiosks to its customers where Fort Wayne's customers can remit payment. Fort Wayne anticipates that it will eventually be able to make its kiosks available for Petitioner's customers as well. At such time as the kiosk system can accept payment from Petitioner's customers, Petitioner's customers may, in addition to other payment options with Petitioner, remit payment through those kiosks. When a customer remits the bill to one of these locations, the City will remit the payment as collected to Petitioner within ten (10) days and without offset for any purpose. The customer's bill will be treated by Petitioner as paid at the time it is remitted to the City either at the central office or via the kiosk. The above-described arrangement shall be formally reviewed by the City and Petitioner after one (1) year to determine its utilization and effectiveness and shall be subject to termination by either of them without penalty upon giving thirty (30) days written notice.

12. **Scope and Approval**

A. **No Admission/No Waiver.** Neither the making of this Settlement Agreement nor any of its provisions, including without limitation any provisions contained in exhibits to this Settlement Agreement, shall constitute in any respect an admission by any Settling Party in this or any other litigation or proceeding. This Settlement Agreement is solely the result of compromise in the settlement process and, except as provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Settling Parties may take with respect to any or all of the issues resolved herein in any future regulatory or other proceedings.

B. **Precedential Effect.** Neither the making of this Settlement Agreement, nor the provisions thereof, nor the entry by the Commission of a Final Order approving this Settlement Agreement, shall establish any principles or legal precedent applicable to Commission proceedings other than those resolved herein. This Settlement Agreement shall not constitute nor be cited as precedent by any person or deemed an admission by any Settling Party in any other proceeding except as necessary to enforce its terms before the Commission, or any tribunal of competent jurisdiction.

C. **Authority to Stipulate.** The undersigned have represented and agreed that they are fully authorized to execute this Settlement Agreement on behalf of their designated clients, and their successors and assigns, who will be bound thereby, subject to the agreement of the Settling Parties on the provisions contained herein and in the attached exhibits.

D. **Privileged Communications.** The communications and discussions during the negotiations and conferences have been conducted based on the explicit understanding that said communications and discussions are or relate to offers of settlement and therefore

are privileged. All prior drafts of this Settlement Agreement and any settlement proposals and counterproposals also are or relate to offers of settlement and are privileged.

E. **Supporting Testimony.** The Settling Parties shall each offer supplemental testimony supporting the Commission's approval of this Settlement Agreement and will request that the Commission issue a Final Order incorporating the agreed proposed language of the Settling Parties and accepting and approving the same in accordance with its terms without any modification. Such supportive testimony will be agreed-upon by the Settling Parties and offered into evidence without objection by any Settling Party and the Settling Parties hereby waive cross-examination of each other's witnesses.

F. **Acceptance in Entirety.** This Settlement Agreement is conditioned upon and subject to Commission acceptance and approval of its terms in their entirety, without any change or condition that is unacceptable to any Settling Party. The Settling Parties will support this Settlement Agreement before the Commission and request that the Commission accept and approve the Settlement Agreement. This Settlement Agreement is a complete, interrelated package and is not severable, and shall be accepted or rejected in its entirety without modification or further condition(s) that may be unacceptable to any Settling Party. The Settling Parties propose to submit this Settlement Agreement and evidence conditionally, and if the Commission fails to approve this Settlement Agreement in its entirety without any change or imposes condition(s) unacceptable to any adversely affected Settling Party, the Settlement Agreement and supporting evidence may be withdrawn and the Commission will continue to proceed to a decision in the affected proceeding, without regard to the filing of this Settlement Agreement.

G. **Proposed Order.** The Settling Parties will work together to prepare an

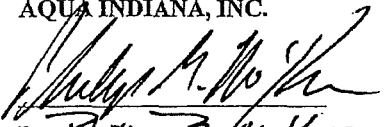
agreed upon proposed order to be submitted in this Cause. The Settling Parties will request Commission acceptance and approval of this Settlement Agreement in its entirety, without any change or condition that is unacceptable to any party to this Settlement Agreement. The Settling Parties will request that the Commission issue a Final Order promptly accepting and approving this Settlement Agreement in accordance with its terms.

H. **Reconsideration/Appeal.** The Settling Parties shall not appeal or seek rehearing, reconsideration or a stay of any Final Order entered by the Commission approving the Settlement Agreement in its entirety without changes or condition(s) unacceptable to any Settling Party (or related orders to the extent such orders are specifically and exclusively implementing the provisions hereof) and shall not oppose this Settlement Agreement in the event of any appeal or a request for rehearing, reconsideration or a stay by any person not a party hereto.

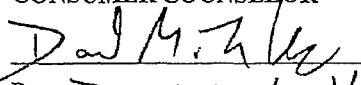
I. **Prior Agreement.** This Settlement Agreement shall supersede and replace for all purposes in this Cause the *Joint Stipulation and Settlement Agreement on Less Than All Issues in this Cause* entered into by Petitioner and the OUCC and filed with the Commission on July 29, 2016.

AGREED and ACCEPTED this 4th day of August, 2016.

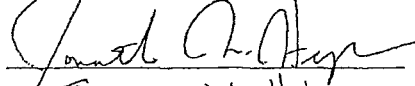
AQUA INDIANA, INC.


By: Philip R. McKernan
Its: Attorney

INDIANA OFFICE OF UTILITY
CONSUMER COUNSELOR


By: Daniel M. LeVay
Its: Deputy Consumer Counselor

CITY OF FORT WAYNE, INDIANA



By: Jonathan W. Hughes

Its: Attorney

Joint Settlement Exhibit 1