ORIGINAL

ARW

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF SOUTH BEND, INDIANA, FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE, AND FOR APPROVAL OF NEW SCHEDULES OF WATER RATES AND CHARGES.	)	CAUSE NO. 44951 APPROVED: MAR 07 2018

ORDER OF THE COMMISSION

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

On May 31, 2017, the City of South Bend, Indiana ("South Bend" or "Petitioner") filed its Petition with the Indiana Utility Regulatory Commission ("Commission") seeking authority to increase its rates and charges for water service and requesting approval of new schedules of water rates and charges. South Bend also filed the direct testimony, including attachments, of Eric Horvath, Executive Director of South Bend's Public Works Department, and Eric J. Walsh, a certified public accountant ("CPA") with H.J. Umbaugh & Associates ("Umbaugh"). On June 14, 2017, South Bend submitted an updated version of Attachment EH-3 to the direct testimony of Mr. Horvath.

Pursuant to Ind. Code §§ 8-1.5-3-8(f) and 8-1-2-61(b), the Commission conducted a public field hearing in this Cause on October 24, 2017, at 6:00 p.m. at the South Bend Century Center in South Bend, Indiana. South Bend and the OUCC appeared, and members of the public offered oral and/or written comments.

On November 17, 2017, the OUCC filed the testimony and attachments of Edward R. Kaufman, Assistant Director of the OUCC's Water/Wastewater Division; Carl N. Seals, Utility Analyst; Richard J. Corey, Utility Analyst; Jennifer L. Sisson, Utility Analyst II; and Margaret A. Stull, Senior Utility Analyst. On December 8, 2017, South Bend filed rebuttal testimony of Messrs. Walsh and Horvath.

On December 28, 2017, and January 8, 2018, the Commission issued docket entries wherein the Presiding Officers requested additional information of South Bend. South Bend responded on January 4, 2018, and January 8, 2018, respectively.

A public evidentiary hearing commenced on January 9, 2018, at 9:30 a.m., in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and offered their respective evidence into the record, which was admitted without objection.

South Bend filed its proposed order on January 19, 2018, and then subsequently filed on February 9, 2018, a revised proposed order with which the OUCC agreed.[1]

Having considered the evidence presented and applicable law, the Commission now finds:

1. Notice and Jurisdiction. Due, legal, and timely notice of the hearings conducted in this Cause was given as required by law. South Bend is a municipally owned utility as defined by Ind. Code § 8-1-2-1(h). Under Ind. Code §§ 8-1-2-42, 8-1-2-42.7, and 8-1.5-3-8(f)(2) the Commission has jurisdiction over changes to South Bend's water utility rates and charges. Thus, the Commission has jurisdiction over South Bend and the subject matter of this proceeding.

2. Petitioner's Characteristics. Petitioner owns and operates municipal waterworks facilities providing water sales and service to customers in and near the City of South Bend, Indiana. Additionally, Petitioner sells water at wholesale to certain other customers.

3. Relief Requested. Petitioner requests authority to increase its rates and charges by 48.8% for inside city customers and 41.4% for outside city customers. Petitioner proposes to first reduce the existing outside city surcharge and then increase all rates on an across-the-board basis through a two-phase rate increase. The first increase ("Phase I") of approximately 22% is to be effective upon the Commission's approval and issuance of an Order in this Cause and the second increase ("Phase II") of approximately 22% is to be effective 12 months after Phase I.

4. Test Year. The test year selected for determining Petitioner's actual and pro forma operating revenues, expenses, and operating income under present and proposed rates is the 12 months ended December 31, 2016. With adjustments for changes that are fixed, known, and measurable, we find that this test period is sufficiently representative of Petitioner's normal operations to provide reliable data for ratemaking purposes.

5. The Parties' Evidence.

A. South Bend's Case-in-Chief. Mr. Eric Horvath, Petitioner's Executive Director of Public Works, sponsored Attachment EH-2, the rate ordinance adopted by the South Bend Common Council ("Common Council" or "Council") authorizing Petitioner's proposed rate increase. Mr. Horvath noted that South Bend's existing rates were approved by the Commission in Cause No. 42779 on February 8, 2006, and thus, South Bend has gone more than 11 years without a water rate increase. He testified that South Bend has been able to delay

[1] The parties did not file a settlement agreement in this Cause. However, their joint proposed order would have us make findings based on evidence with which we were not presented (e.g., a specific reduction to Petitioner's proposed engineering services) and ignore evidence that was presented and contested (e.g., the OUCC's recommendation that Petitioner be required to file a rate case within the next five years). In the future, we encourage the parties to begin settlement negotiations earlier in the case so as to allow the submission of a settlement agreement on contested issues and supporting evidence as required by 170 IAC 1-1.1-17 prior to the close of the evidentiary hearing (and preferably earlier to achieve the benefits normally attendant with settlements, such as the conservation of litigation resources).

a rate increase by reducing expenses, but the length of time without a rate increase has caused difficulties for South Bend's water utility. These difficulties include the deferral of needed improvements and replacements, including the replacement of wells or pumps and operational difficulties.

Mr. Horvath testified that to recommence a comprehensive program of capital replacement and fund these needed improvements, the Common Council approved a 48.8% rate increase. Due to the magnitude of the increase, he said the Council elected to phase in the increase over two years, with the first half taking effect upon the issuance of an Order in this Cause and the second half taking effect 12 months thereafter. Mr. Horvath stated the decision to phase-in rates will not cause a further deferral of critical improvements because South Bend has committed to providing tax increment financing ("TIF") funds equal to $6,401,000 to finance capital improvements until the second phase-in step is fully in place.

Mr. Horvath described South Bends's capital improvement program ("CIP") and sponsored a copy of the program as Attachment EH-3. Mr. Horvath explained that South Bend's CIP is a six-year program Petitioner adopted in coordination with Arcadis U.S., Inc. ("Arcadis"), South Bend's consulting engineers, and includes both projects funded and unfunded through the proposed rate increase in this Cause. He said that South Bend is not requesting approval of rates that will fully fund its CIP because a 50% rate increase is already significant and the Common Council and Mayor are not willing to increase rates any further. He noted that his job of Executive Director is to prioritize South Bend's needs based on the funds available. Mr. Horvath testified that whether a project will be funded or unfunded is based on a determination of age, current condition, and whether the project can be deferred until rates are next approved. Specifically, with respect to water main, hydrant, and valve replacement, Mr. Horvath testified that South Bend is striving to reach the point where annually one-hundredth of water mains are replaced, one-fiftieth of valves, and one fiftieth of hydrants. He further testified that part of the requested rate relief will be used to fund a portion of the Asset Manager's salary to develop and implement an asset prioritization model which South Bend will use to help determine when and where mains are replaced.

Mr. Eric J. Walsh, a CPA and partner with Umbaugh, reviewed Petitioner's rate needs and sponsored the Accounting Report as Attachment EJW-1. That Report contains the accountants' letter; historical and pro forma financial information, including an estimate of the costs and funding of the proposed CIP; bond amortization schedules; and certain nonrecurring charge calculations. Mr. Walsh testified that costs associated with the proposed CIP are estimated to be $17,694,000 per year through 2021. However, he noted that the proposed rate increase will fund only $5,713,600 in annual capital expenditures. He explained that South Bend is not funding all or a portion of its CIP through debt issuance because many of the needed improvements are costs expected to occur regularly into the future. South Bend has determined that such costs should be funded annually through rates, rather than a debt issuance over time. He stated that by not issuing debt, Petitioner will avoid bond interest and issuance costs.

Mr. Walsh testified that annual CIP costs will be funded through a combination of the proposed rate increase, the $6,401,000 in TIF revenues, and additional revenues generated from the system development charged approved by the Commission in Cause No. 44892. With respect to the TIF revenues, Mr. Walsh noted that Petitioner is not obligated to use these revenues to fund water utility capital improvements and may use the revenues to fund capital projects that are located in or directly benefitting the source allocation area.

Mr. Walsh testified that South Bend is proposing to implement the rate increase in two phases, with an increase of approximately 22% in Phase I and an increase of approximately 22% in Phase II. He further testified that in conjunction with the rate increase, South Bend is proposing to reduce the existing outside city surcharge from 20% to 14%. He explained that South Bend's proposal is based on the Commission's gradualism policy. Mr. Walsh testified that after such reduction, South Bend proposes an across-the-board increase based on the rate analysis included with the Accountant's Report. He noted that Umbaugh performed a cost of service study prior to its across-the-board rate analysis and included that study in workpapers; however, such study was not used to propose rate adjustments in this Cause because the cost of service study resulted in a substantial shift of cost burden onto residential customers. He testified that he believes Umbaugh's Accounting Report coupled with South Bend's proposal to reduce the outside city surcharge provide a sufficient justification of the proposed rates.

Mr. Walsh testified regarding the adjustments made in the Accounting Report based on fixed, known, and measureable changes to arrive at the pro forma annual operation and maintenance expenses. Noting each of the adjustments is explained in detail on pages 14 through 16 of the Accounting Report, he stated that adjustments were made to reflect current price levels for labor, employee benefits, taxes, and insurance. In addition, non-recurring and/or capital items were removed from operating expenses. He testified further that additional adjustments were made for a leak detection survey, rate case expenses, and shared administrative costs. In total, these operation and maintenance expense adjustments result in an overall decrease of $599,998.

Mr. Walsh also testified regarding Petitioner's pro forma annual revenue requirements contained on pages 18 and 19 of the Accounting Report. He testified that Petitioner's pro forma revenue requirements incorporate South Bend's adjusted operation and maintenance expenses and payment in lieu of taxes as well as annual payments on outstanding debt, additional utility receipts tax, and replacements and improvements. He stated that the total annual resulting revenue requirements of $21,015,431 was then reduced by interest income, penalties, other revenues, management fees, and leak insurance, to arrive at total annual net revenue requirements of $17,785,890.

Mr. Walsh concluded by opining that the rates proposed in Umbaugh's Accounting Report are fair, just, non-discriminatory, reasonable, and necessary to meet the projected revenue requirements of Petitioner, as those requirements have been reduced by the Common Council.

B. <u>OUCC's Case-in-Chief</u>. Mr. Edward R. Kaufman, the OUCC's Assistant Director with the Water/Wastewater Division, testified regarding South Bend's decision not to issue additional debt in conjunction with its requested rate increase. Mr. Kaufman questioned South Bend's decision not to issue debt, testifying that the use of long-term debt to fund capital improvements prevents intergenerational inequities and would allow South Bend to complete a greater proportion of its capital projects with a lower rate increase.

Mr. Kaufman outlined the steps he said would be required for a debt financing. He recommended that South Bend use both debt and revenue for extensions and replacements ("E&R") to fund its CIP and testified that South Bend has the financial strength to issue $36.0 million of long-term debt. He explained that Petitioner has identified more than $88.0 million in capital improvements. Under Petitioner's proposal, he said South Bend will complete approximately $28.5 million of the improvements over the next five years and rate payers will pay $5.7 million per year in E&R. However, if Petitioner borrowed $36.0 million and limited E&R to $3.1 million per year, he said South Bend will have funds to complete $47.5 million of improvements and still have lower rates than proposed.

Mr. Kaufman also took issue with South Bend's current proposed annual debt service, which uses a three-year average that includes a payment that will be made before completion of this rate case. He testified that it is more appropriate to use the 2018 payments of $1,999,717 for Phase I rates and a four-year average of $1,873,658 for Phase II rates. Mr. Kaufman recommended that South Bend's rates include $1,999,717 for debt service in Phase I rates and $1,873,658 in Phase II rates for debt service on South Bend's current debt.

Mr. Carl N. Seals, a Utility Analyst in the OUCC's Water/Wastewater Division, testified regarding South Bend's proposed CIP. While he agreed that the projects included in the CIP appear to be reasonable and necessary for the continued provision of reliable service, he noted that noted that Petitioner's proposed E&R revenue requirement is insufficient to cover all of the CIP. He testified that to address these funding challenges, South Bend needs to have a good understanding of the changes that can be made to its system without negatively impacting customers. He recommended that South Bend be required to update and calibrate its existing distribution hydraulic model. In addition to recommending that the Commission find South Bend's CIP to be reasonable and necessary, he further recommended that South Bend be required to implement a regular distribution system valve inspection, exercise, and maintenance program.

Mr. Richard J. Corey, a Utility Analyst in the OUCC's Water/Wastewater Division, testified regarding South Bend's proposed rate increase. He testified that the OUCC recommends an overall across-the-board rate increase of 42.39% to produce an increase in water revenues of $5,098,379 per year. More specifically, Mr. Corey recommended a 21.66% across-the-board increase in Phase I, to produce an increase in water revenues of $2,604,705 per year, and a 17.04% across-the-board increase over Phase I rates in Phase II, to produce additional water revenues of $2,493,674 per year. He indicated that the OUCC's proposed Phase I rates reflect all current revenue requirements. The OUCC's proposed Phase II rates include annual debt service on its recommended additional long-term debt and a change to the annual debt service on current debt to reflect the actual average cost of debt service while Phase II rates are expected to be in effect.

Mr. Corey testified that the OUCC accepts Petitioner's proposed revenue adjustments and recommends an increase to both non-recurring operating revenues and management fees.

He explained that because the OUCC accepts Petitioner's proposed increases to several non-recurring fees, a revenue adjustment is required to reflect the increased revenues that the increased fees will generate. Mr. Corey ultimately recommended that South Bend's other operating revenues be increased by $210,700.

Mr. Corey testified that the OUCC accepts all of Petitioner's proposed operating expense adjustments and also recommends a $302,169 decrease to operating expenses and a $1,560 decrease to test year utility receipts tax expense. Mr. Corey addressed South Bend's capitalization policy and cited to the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Account ("USoA") guidelines for the appropriate capitalization threshold. Recommending that a capitalization threshold of $1,000 be applied to Petitioner's expenditures, he proposed that $268,340 in expenditures be capitalized and removed from operating expense.

Ms. Jennifer L. Sisson, a Utility Analyst II in the OUCC's Water/Wastewater Division, addressed South Bend's proposed leak detection survey allowance, revenue requirement offsets, and non-recurring charges. Ms. Sisson recommended that the Commission accept South Bend's proposed revenue requirement for a leak detection survey allowance. Regarding South Bend's proposed revenue requirement offsets, Ms. Sisson disagreed with the inclusion of penalty revenues as an offset and also recommended an adjustment of $170,666 for management fees to offset the shared costs incurred during 2016 but not yet reimbursed by other city departments. She further recommended that the Commission accept all of the non-recurring charges proposed by South Bend, except for its new disconnect/reconnect fee, which she recommended the Commission instruct South Bend to seek approval of through the 30-day filing process.

Ms. Margaret A. Stull, a Senior Utility Analyst in the OUCC's Water/Wastewater Division, testified regarding the OUCC's recommended revenue requirement for E&R. She testified that it is more appropriate to fund non-recurring, long-lived capital projects through debt and provided examples of costs that should be debt funded rather than cash funded to avoid intergenerational rate inequities. Ms. Stull recommended that the Commission approve an E&R revenue requirement of $3.1 million and financing of up to $36.0 million to fund South Bend's remaining CIP projects.

Ms. Stull further noted that South Bend's test year in this case may not be representative of its operating and maintenance expense because it has been deferring maintenance for several years. She stated this deferred maintenance has created greater repair expense during the test year than otherwise may be incurred under normal operating conditions. Thus, she recommended that South Bend file its next general rate case within five years of the issuance of an order in this Cause.

C. <u>South Bend's Rebuttal Case</u>. Mr. Walsh responded to each of the OUCC's concerns and recommendations. He reiterated that this is strictly a rate case and that the proposed rate increase will not fully fund the capital improvements that South Bend has identified. He noted that OUCC witness Seals agreed all of the CIP projects are necessary. In addition, while the OUCC identified ways to reduce the overall revenue requirement presented in the Accounting Report, including debt financing, he said that no OUCC witness addressed the fact that there are considerable capital improvements that will remain unfunded under South Bend's proposed rates.

Regarding South Bend's decision to fund its CIP without issuing additional debt, Mr. Walsh explained South Bend follows a policy of setting rates based on its CIP budget and then issuing debt between rate cases when circumstances allow. He noted that while the OUCC may view South Bend's approach unfavorable, any debt issuance requires Common Council approval and the Council has not approved additional debt at this time. He reiterated that South Bend has formulated a reasonable capital funding approach with many advantages. He testified that setting rates to support Petitioner's requested E&R: (1) allows Petitioner to begin implementing its CIP without taking on additional debt; (2) positions Petitioner well for potential future debt issuance at lower rate impact; and (3) avoids associated financing costs. He also pointed to South Bend's ability to use TIF funding to finance capital improvements until Phase II rates are in effect.

Mr. Walsh disagreed with Ms. Stull's contention that non-recurring, long-lived capital projects are more properly funded through debt rather than E&R. He stated that the decision to use debt or E&R should be made on a case-by-case basis weighing more factors than simply whether the asset replaced is long-lived or not. He also disagreed with Ms. Stull's recommendation that South Bend file its next general rate case within five years of the issuance of an order in this Cause. He testified that he did not believe it practical to force Petitioner to arbitrarily enter into a rate case when it may or may not be needed; nor was he aware of any authority under which Petitioner could be forced to file a rate case.

Regarding the OUCC's recommended adjustment to South Bend's proposed annual debt service, Mr. Walsh testified that he agreed with Mr. Kaufman setting Phase I rates based on 2018 debt payments. He disagreed, however, with using the four-year average for Phase II rates because the maximum annual combined debt service of $2,014,541 would occur in 2019. Accordingly, Phase II rates would still need to support this debt payment regardless of a reduction in debt service the following year. He also noted that given the considerable unfunded capital improvements remaining, any reduction in future debt service could be used towards those projects.

As to the OUCC's recommended operating revenue adjustments, Mr. Walsh testified that he disagreed with the OUCC's proposal to increase delinquency processing fees and service initiation fees. He said Mr. Corey's rationale ignores the preventative nature of these fees and suggested lowering the OUCC's proposed adjustment to acknowledge the likelihood of these fees deterring future non-payment. Mr. Walsh further requested that any reduction in proposed rate relief due to the OUCC's proposed revenue adjustments be offset by increasing the E&R allowance to result in a two phase rate adjustment of 48.8%.

Mr. Walsh also testified that he disagreed with Mr. Corey's statements concerning the applicability of the NARUC USoA. He said the State Board of Accounts regulates municipalities. Mr. Walsh also explained how Mr. Corey's use of the $1,000 capitalization threshold would impact the OUCC's recommended adjustments to South Bend's proposed revenue requirements. And, he pointed out that neither South Bend's nor the OUCC's proposed revenue requirements account for the proposed increase in electric costs to the utility as a result of the proposed increase in electric rates sought by Indiana Michigan Power Company pending in Cause No. 44967.

Finally, Mr. Walsh disagreed with the OUCC's recommendation that South Bend seek approval of its proposed disconnect/reconnect fee through the 30-day filing process. He recommended that any issues and concerns regarding South Bend's disconnect/reconnect fee be addressed in the current Cause. In response to a January 8, 2018 docket entry, South Bend provided proposed tariff language to link application of those fees to circumstances of "Unauthorized Use" as presently described in South Bend's Rules and Regulations for Water Utility Service.

Mr. Horvath responded to the OUCC's criticisms of South Bend's decision not to issue additional debt to fund its CIP and Ms. Stull's recommendation that the Commission require South Bend to file a rate case within five years. He also responded to the OUCC's overall recommendation that the Commission reduce the revenue requirement supporting South Bend's requested rate increase. He testified that the OUCC has provided no justification for its proposed reduction and fails to take into account certain aspects of the local process for setting rates and issuing debt as well as the Commission's role in approving those actions by South Bend.

Mr. Horvath explained that the Common Council must approve any rate increase, and that South Bend's last rate increase was approved by the Commission 11 years ago. He testified that South Bend managed to delay a rate increase by reducing expenses, but now needs to make improvements and replacements to the system. He testified that despite this need, the Council has limited the requested increase to mitigate the impact on ratepayers. Mr. Horvath testified that South Bend has developed a comprehensive strategy to finance capital improvements through the limited rate increase, and, although the OUCC desires South Bend to issue debt, the Common Council has not chosen to authorize long-term debt at this time.

With respect to the OUCC's recommendation that South Bend be required to file its next general rate case in five years, Mr. Horvath testified that the timing of South Bend's next rate case is for the Common Council, not the OUCC, to decide.

6. <u>Commission Discussion and Findings</u>.

A. <u>Petitioner's Authorized Rates</u>. As an initial matter, we note that Petitioner seeks approval of rates adopted by South Bend's Common Council to satisfy annual revenue requirements based on a proposed E&R revenue requirement and is not requesting any financing authority. The OUCC pointed out that the level of E&R is not sufficient to complete all of the projects indicated by South Bend's CIP, which the OUCC agrees includes reasonable and necessary improvements. The OUCC suggested that South Bend use long-term debt to fund its proposed capital improvements to prevent intergenerational inequities and allow South Bend to complete a greater proportion of its capital projects with a lower rate increase. Petitioner explained why its Common Council has chosen not to issue additional debt at this time, and that South Bend is committed to providing TIF funds to further assist in financing the capital improvements. Accordingly, Petitioner's revenue requirement authorized in this Order will not be based on the issuance of new long-term debt. While we do not have before us a proposal for the issuance of long-term debt, we encourage Petitioner to work with the Common Council to consider the OUCC's suggestions, which we believe have merit, and to continue to monitor debt markets and availability.

A comparison of Petitioner's proposed revenue requirements with those recommended by the OUCC is shown in the table below:

	Petitioner Overall	OUCC Overall
Operating Expenses	$ 11,356,862	$ 11,030,491
Taxes other than income	-	147,486
E&R	5,713,600	3,100,000
Working Capital	-	-
PILT	1,857,040	1,857,040
Debt Service - Existing	2,006,267	1,873,658
Debt Service - New	-	2,590,636
Total Revenue Requirements	20,933,769	20,599,311
Less Revenue Requirment Offsets:		
Interest Income	(114,318)	(114,318)
Penalties	(76,958)	-
Leak Insurance Revenue	(1,018,574)	(1,018,574)
Management Fees	(1,431,154)	(1,601,820)
Other Operating Revenues and Income	(588,537)	(799,671)
Add: Other Expenses	-	-
Net Revenue Requirements	17,704,228	17,064,928
Less: Revenues at current rates subj to increase	(11,952,901)	(12,026,046)
Deferred Revenue Increase	-	-
Net Revenue Increase Required	5,751,327	5,038,882
Add: Additional Utility Receipts Tax	81,662	59,497
Recommended Increase	$ 5,832,989	$ 5,098,379
Percentage Increase	48.80%	42.39%

Petitioner's proposed 5-year CIP includes approximately $88.0 million in E&R projects. However, it is seeking approval for only approximately $5.7 million per year, or approximately $28.5 million over the next five years, in E&R. Consequently, South Bend will be deferring approximately $60.0 million of identified capital improvements beyond the next five years. While the OUCC recommended several adjustments to Petitioner's revenue requirements as indicated above, Petitioner's proposed rates are still insufficient to fully fund its revenue requirement. Given that there is no dispute over the reasonableness and prudence of South Bend's 5-year CIP, we find that any reduction to Petitioner's revenue requirement that would have resulted from the OUCC's recommended adjustments should be available to Petitioner for further funding of its CIP.

Based on evidence presented, we find that Petitioner's current rates and charges are insufficient to satisfy its annual pro forma net revenue requirement set forth in its case-in-chief. Thus, we find that Petitioner is authorized to increase its rates and charges for water service, across-the-board, to produce annual revenues of $17,785,890, representing a 48.8% increase. Further, Petitioner is authorized to implement said rate increase in two phases. Petitioner may implement the Phase I increase of its current rates by 22%, upon issuance of this Order and approval of Petitioner's revised tariff. Twelve months after the implementation of the Phase I rates, Petitioner may implement the Phase II increase of approximately 22%. We also approve the reduction of Petitioner's outside user surcharge from 20% to 14%.

B. Non-Recurring Charges. No objection was raised to Petitioner's proposed non-recurring charges. However, the OUCC expressed concern over the lack of clarity as to the circumstances in which Petitioner's stop box disconnect/reconnect fee of $750 would apply and suggested Petitioner be required to obtain approval through the 30-day filing process. To gain a better understanding of the issue, we sought additional information from Petitioner through docket entries issued on December 28, 2017, and January 8, 2018. We agree this is an issue that is appropriately addressed in this proceeding and find Petitioner's response to the docket entry of January 8, 2018, included satisfactory tariff language making clear that those fees apply in circumstances of "Unauthorized Use" described in Petitioner's Rules and Regulations for Water Utility Service. The fee is designed to cover the cost associated with disconnecting and reconnecting the stop box from the main in rare instances of meter tampering or theft of water service. Accordingly, we approve Petitioner's proposed non-recurring charges subject to the addition of the tariff language explaining the circumstances under which the disconnect/reconnect fee will apply, as specified in Petitioner's Exhibit 4.

C. Additional OUCC Recommendations.

1. Engineering Recommendations. OUCC witness Carl Seals recommended that we require South Bend to: (1) update and calibrate its existing distribution hydraulic model, and (2) implement a regular distribution system valve inspection, exercise, and maintenance program. While we agree with the OUCC that both projects would be beneficial, Petitioner's proposed CIP, which the OUCC agrees includes reasonable and necessary projects, is underfunded. We were not presented with any evidence that would suggest these two projects should have priority over any of the other CIP projects. Accordingly, we decline to require Petitioner to undertake these projects. Instead, we encourage Petitioner to evaluate including, and implementing to the extent funds are available, an update to its existing distribution hydraulic model in its CIP and to develop and implement a proactive inspection and preventative maintenance program for its distribution system valves using the American Water Works Association's M44 Manual as a guide.

2. Future Rate Case Recommendation. OUCC witness Margaret Stull recommended we require South Bend to file its next general rate case within five years from the date of this Order because Petitioner's test year operating and maintenance expense may not be representative of normal operating conditions. Without addressing the Commission's authority to require Petitioner to make such a filing, we see no reason, based on the evidence presented, to accept the OUCC's recommendation. While we understand that South Bend has been deferring maintenance for several years, its proposed CIP, which is underfunded, contains a large number of capital projects that will span multiple years and will likely result in Petitioner needing to seek another rate increase within a similar time period. Therefore, we decline to accept the OUCC's recommendation.

3. Capitalization Policy. OUCC witness Corey recommended a capitalization threshold of $1,000 be applied to Petitioner's expenditures, which is consistent with the NARUC USoA. We recognize that the Commission, through its administrative rules, has required public utilities to follow the NARUC USoA. However, municipal utilities are not subject to the Commission's administrative rules and are subject instead to the State Board of Accounts. Therefore, we decline to require Petitioner to modify its capitalization policy threshold.

D. <u>Effect on Rates</u>. A residential inside city customer using 700 cubic feet per month will experience an increase of $3.04 per month from $13.81 to $16.85 in Phase I and an increase of $3.71 per month from $16.85 to $20.56 in Phase II.

A residential outside city customer using 700 cubic feet per month will experience an increase of $2.65 per month from $16.57 to $19.22 in Phase I and an increase of $4.22 per month from $19.22 to $23.44 in Phase II.

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

1. Petitioner is authorized to increase its rates and charges for water service, across-the-board, in two Phases with the increase for Phase I constituting a 22% increase and Phase II constituting a 22% increase in order to produce total annual operating revenues of $17,785,890.

2. For Phase I, Petitioner shall file new schedules of rates and charges with the Water/Wastewater Division of the Commission on the basis set forth above. Such schedules shall include the reduction to the outside user surcharge to 14% and Petitioner's proposed non-recurring charges in accordance with Findings Paragraph 6.B. Petitioner's new schedules of rates and charge shall be effective upon filing and after approval by the Water/Wastewater Division and shall apply to water usage from and after the date of filing.

3. Prior to placing into effect the Phase II rates and charges approved herein, Petitioner shall file new schedules of rates and charges with the Water/Wastewater Division of the Commission. Petitioner's Phase II schedules of rates and charges shall be effective upon filing and after approval by the Water/Wastewater Division. Said Phase II rates and charges may not be approved sooner than 12 months following the date of this Order. Upon such approval, Petitioner's Phase II tariff schedules shall replace Petitioner's Phase I schedules of rates and charges.

4. In accordance with Ind. Code § 8-1-2-70, the Petitioner shall pay within 20 days from the date of this Order, and prior to placing into effect the rates approved herein, the following itemized charges, as well as any additional charges which were or may be incurred in connection with this Cause.

Commission Charges	$ 2,420.11
OUCC Charges	$ 44,549.29
Legal Advertising Charges	$ 225.10
Total:	$ 47,194.50

Petitioner shall pay all charges into the Commission public utility fund account described in Ind. Code § 8-1-6-2, through the Secretary of the Commission.

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

HUSTON, FREEMAN, WEBER, AND ZIEGNER CONCUR:

APPROVED: MAR 07 2018

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

Mary M. Becerra

Mary M. Becerra
Secretary of the Commission