ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Veleta	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF ANDERSON, INDIANA, FOR AUTHORITY TO: (1) ISSUE LONG TERM DEBT TO FINANCE WATER SYSTEM IMPROVEMENTS; AND (2) ADJUST ITS RATES AND CHARGES

CAUSE NO. 46171

APPROVED: NOV 05 2025

ORDER OF THE COMMISSION

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

On December 5, 2024, the City of Anderson, Indiana ("Anderson" or "Petitioner"), filed a Petition with the Indiana Utility Regulatory Commission ("Commission") requesting authority to adjust its existing rates and charges for water service and issue bonds. On that same day, Anderson prefiled it direct testimony and exhibits.

The Commission held a public field hearing at the Anderson City Hall on March 6, 2025, at 6:00 p.m.

On April 3, 2025, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its case-in-chief testimony and exhibits as well as customer comments it had received.

On April 30, 2025, Anderson prefiled its rebuttal testimony and exhibits.

On May 20, 2025, Anderson filed its response to questions posed by the Presiding Officers in a May 16, 2025 docket entry.

The Commission conducted an evidentiary hearing on May 21, 2025, at 10:30 a.m. in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Anderson and the OUCC also offered their respective testimony and exhibits, which were admitted into the record without objection, and several witnesses were cross-examined.

On July 30, 2025, Anderson filed a Verified Petition to reopen the record and the OUCC filed its Response on August 8, 2025. Anderson filed its Verified Reply on August 15, 2025. On August 22, 2025, Anderson filed a Second Verified Petition to reopen the record. The OUCC filed its Response on September 2, 2025, and Anderson filed its Reply on September 8, 2025.

In a September 9, 2025 docket entry, the Presiding Officers granted Anderson's request to reopen the record.

The Commission conducted an evidentiary hearing on October 9, 2025, at 9:30 a.m. in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. At the hearing, both

Anderson and the OUCC offered additional evidence, which was admitted into the record without objection.

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

1. Statutory Notice and Commission Jurisdiction. Notice of the time and place of the hearings conducted by the Commission in this Cause was given as required by law. Anderson is a municipally owned utility as defined in Ind. Code § 8-1-2-1(h). Under Ind. Code § 8-1.5-3-8, the Commission has jurisdiction over changes to Anderson's water utility rates and charges. Further, the Commission has jurisdiction under Ind. Code § 8-1.5-2-19 to approve issuances of long-term debt. Accordingly, the Commission has jurisdiction over Anderson and the subject matter of this Cause.

2. Petitioner's Characteristics. Anderson furnishes water to the public in and around Anderson's municipal limits and collects rates and charges for the use of, and service rendered by, its municipal water system. Anderson serves approximately 23,300 residential, commercial, industrial, irrigation, and fire protection customers.

3. Existing Rates and Test Year. Anderson's existing rates and charges were approved by the Commission on March 4, 2015, in Cause No. 44510 ("2015 Rate Order"), and most recently amended pursuant to a 30-day filing approved on June 28, 2022, to reflect the repeal of the Utility Receipts Tax. Anderson seeks to adjust its rates and charges based on a test year ending December 31, 2023, with adjustments for changes which are fixed, known, measurable, and occurring within 12 months.

4. Petitioner's Requested Relief. Anderson seeks approval to adjust its rates and charges by approximately 121% over five phases. Anderson also seeks authority to issue up to $130 million in water utility revenue bonds through the Drinking Water State Revolving Fund Loan Program ("SRF Program") with the Indiana Finance Authority ("IFA"), through the Indiana Bond Bank Community Funding Resource Program, or to be sold on the open market. Anderson proposes to use the proceeds from the bonds to finance necessary extensions, replacements, and improvements to its water system.

5. Summary of the Evidence.

A. Anderson's Direct Evidence.

1. Neal L. McKee. Mr. McKee, Director of Anderson's water utility, testified about Anderson's existing and planned water facilities. He described Anderson's two water treatment plants—the Lafayette Water Treatment Plant ("Lafayette Plant"), which has a firm capacity of ten million gallons per day ("MGD") and the Wheeler Water Treatment Plant ("Wheeler Plant"), which has a firm capacity of 4.5 MGD. He stated Anderson's distribution system consists of approximately 420 miles of water main, ranging in size from two to 30 inches. Anderson also has 12-inch and larger transmission and distribution mains located on the south, southwest, and southeast areas of Anderson. Anderson also has seven water storage tanks that store approximately a total of 6.5 million gallons of water and an additional 2.6 million in ground storage with backup generation.

Mr. McKee testified that Anderson has prioritized providing its own source of water through wells. Anderson currently has two separate wellfields with each supplying its respective treatment plant. The Wheeler Wellfield has eight wells ranging in capacity from 200 gallons per minute ("GPM") to 1,000 GPM, and the Lafayette Wellfield has nine wells ranging from 150 GPM to 1,400 GPM. He also explained that Anderson has backup power generators to support its water supply in the event of power outages. Mr. McKee stated that Anderson commissioned a hydrogeological study in 2017 (which remains ongoing) to locate additional water source areas and based on that study, Anderson has identified 18 properties that have potable water and drilled 17 test wells and two production test wells.

Mr. McKee testified about some significant improvements Anderson has made to its water system, including the 10 MGD Lafayette Plant and four new wells in the Lafayette Wellfield. In addition, Anderson replaced 20,000 feet of old two- and three-inch galvanized water mains around the Homewood Development, which increased water pressure and enabled the installation of hydrants. Anderson also installed a booster station to move water from the Fairview Tank to the Park Road Tank for additional storage and increased fire protection to the southwest portion of Anderson's distribution system that serves its larger industrial users. He also explained that Anderson developed an asset management plan in September 2017, along with a valve database program, a water main and service line database, and a computerized maintenance program. He also testified about Anderson's tank maintenance and leak detection program through Anderson's advanced metering infrastructure ("AMI").

Mr. McKee also noted that Anderson is a party in two other cases pending before the Commission concerning water service territory. He explained that Anderson has been planning to expand its existing facilities and construct new facilities that can be used to provide service to existing customers as well as certain other adjacent areas in unincorporated Madison County. He stated that Anderson's City Council adopted on September 12, 2024, a water territory regulatory ordinance, Ordinance No. 27-24.

Mr. McKee also addressed the requirements of the 2015 Rate Order, which approved a Settlement Agreement between Anderson and the OUCC. He stated that Anderson hired American Structurepoint for its strategic planning process, which was completed in 2016; hired a tank consultant, Tank Infrastructure Consultants, on August 19, 2015, and began its asset condition assessment in 2016, which remains ongoing; contracted with American Structurepoint for assessment of its smart grid system in November, 2015; and began using the Zonescan software in June 2019 for leak detection.

Mr. McKee testified that Anderson began its asset condition assessment in 2016 and water distribution system modeling was conducted by CHA Consultants, Inc. He explained Anderson completed its valve database in 2016, developed a valve exercising program in 2016, and began working the valves identified by the hydraulic model. As part of Anderson's 10-year Capital Improvement Plan ("CIP"), he explained Anderson identified problem and critical areas and created maps and a spreadsheet of annual main breaks. Anderson also implemented GIS mapping for mains and service lines. In 2019, Anderson purchased software for ticket/work order management. In 2018, Anderson also entered a 20-year tank maintenance and inspection program with Suez to annually inspect all tanks. Since entering into that agreement, Anderson has painted five of its seven elevated tanks. Mr. McKee also testified that Anderson contracted with American

Structurepoint in 2015 regarding a comprehensive flushing program for the water system and hydrants and implemented its full annual flushing program in April 2017. Mr. McKee also confirmed there were no debt service transfers from other accounts requiring notice to the Commission and the OUCC.

Mr. McKee described Anderson's efforts to meet with the OUCC following the 2015 Rate Order. He also explained that about two years ago, Anderson began meeting with the OUCC in preparation for the rate case, and that Anderson shared its progress and findings (including its strategic plan activities), the proposed improvements, and proposed rate increase at that time. However, because the Anderson City Council did not vote to approve the rate increase, he said Anderson did not move forward with a rate case at that time. He also testified that over the last two years, counsel for Anderson and the OUCC have had several follow-up conversations.

As to reporting requirements, Mr. McKee testified that Anderson filed the terms and conditions of its debt issuance associated with its prior rate case on June 7, 2016. He testified that Anderson began funding the well and tank maintenance funds at the rate of $6.4 million over the 20-year contract in January 2017. He noted that Anderson's lease with Chase ended on January 1, 2023, and the Johnson Controls contract terminated in 2016. He further explained that after 2014, Anderson retained in electronic format all final engineering reports, designs, studies, cost estimates, evaluation reports, inspections, quotes, and prepared bids.

Mr. McKee testified that to determine its capital improvement needs, Anderson implemented a rolling, short term capital improvement plan that includes an annual extensions and replacements budget. The budget covers four major categories, including water meter replacement, water main and service line replacement, hydrogeological investigation, and service fleet replacement for a total annual rolling amount of $2,842,400 per year. He testified that Anderson proposes to build up to this amount through the proposed phased rate increase, with funding of $1,000,000 per year for Phases I – IV, then full funding in Phase V. Mr. McKee testified the projects are needed due to the aging condition and reduced capacity of its facilities, leaks in Anderson's distribution facilities, and the need for a new source of supply. He further explained that Anderson's treatment plant is aging, has declining performance, and the transmission and distribution system experiences too many breaks because much of the water main infrastructure is 50-80 years old. He also indicated a need to address lead service lines, removal of per- and polyfluoroalkyl substances ("PFAS"), and other regulatory concerns.

Mr. McKee testified that Anderson's requested financing is to fund proposed capital projects totaling $95,368,900, which does not include non-construction related costs and contingencies. The first phase of projects is recommended based on water main and service line leak history, lead service line replacement needs, and the elimination of two-inch galvanized water mains. A new south side water treatment plant ("South Side Plant") and supply wells ("South Side Wells") are recommended for Phase II to provide time to complete well siting, land acquisition, and design work. And, the final Phase will include Belmont water main and service line replacement, Brentwood service line replacements, Indiana Meadows service line replacements, and Historic District service line replacements.

Mr. McKee provided an overview of Anderson's requested five-phase rate adjustment. He explained that based on the Commission's 2024 Report, Anderson's current average monthly water bill is lower than many other water utilities included in the residential water bill survey. He testified that while it is impossible to know what other water utility rates will be in the future, he believed that when Anderson's proposed rates are in place, its average monthly water bill will remain generally aligned with the average water bills for several utilities.

As for Anderson's requested financing authority, Mr. McKee testified that the IFA has indicated a willingness to finance the proposed facilities in three different bond issues ("Proposed Bonds") with the first issue being done in the SRF Program's 2025 fiscal year. He said the SRF Program has reviewed Anderson's preliminary engineering report ("PER") and formal approval is expected in the next few months. He also testified that Anderson is exploring borrowing options with the SRF Program that include zero percent interest loans, forgivable loans, subsidized loans, and, if needed, participation in the SRF's pooled loan program. He said Anderson qualifies for special funding as a Disadvantaged Community with Median Household Income of $44,974 and Lead Service Line Replacement SRF funding. He testified that Anderson will apply for these programs and strive to access funding to the extent possible in each of the three project phases but noted the SRF pooled funds will likely be necessary for a portion of the project funding.

2. <u>Lori A. Young</u>. Ms. Young, a registered professional engineer employed by Fleis & VandenBrink Engineering, Inc., described Anderson's existing water facilities. She testified that Anderson has been conducting tests and activities to develop facilities to serve customers. She testified that Anderson began a hydrogeological investigation study shortly after the 2015 Rate Order which is still ongoing. She testified that Anderson has been working to identify potential ground water resources that are adequate to support Anderson's long-term needs. She testified the hydrogeological investigation has identified areas on the south side of Anderson with good potential for the needed water supply. She stated that a test production well was drilled in 2024, and pump testing indicated the well would produce a sustainable source of supply. She said Anderson is continuing to perform test drilling in this area to confirm that Anderson can install additional wells with a sufficient and sustainable water supply for Anderson's proposed South Side Plant.

Ms. Young explained that Anderson is developing new water supply and treatment facilities for two reasons. First, the Wheeler Plant and Ranney and Norton wells are more than 50 years old and have reached the end of their useful life. She testified these facilities were originally rated to produce and treat 9.7 MGD, but now only produce and treat 4.8 MGD. She testified that the proposed South Side Plant and Wells would replace these facilities and provide additional capacity to serve existing and future customers. Second, the raw water quality in the Ranney wells is a public health concern, as recent testing discovered PFAS exceeding the Environmental Protection Agency ("EPA") maximum contaminant level ("MCL"). She said because the PFAS levels exceed EPA's limits, Anderson must implement remedial measures within five years. However, rather than installing granular activated carbon treatment facilities, she said Anderson is seeking to find an alternative supply that has not been impacted by the PFAS plume. Ms. Young also noted that the Ranney wells have also been designated Groundwater Under the Direct Influence of Surface Water and have volatile organic carbon ("VOC") contamination, which has resulted in the area being designated as an EPA Superfund Site.

Ms. Young testified that her engineering firm prepared Anderson's PER (dated March 27, 2024), which details a number of proposed facilities that will be constructed within and used to serve Anderson's service area. She testified the projects include the new 6 MGD South Side Plant and Wells to replace the existing Wheeler Plant and Wellfield. She testified the new South Side Plant will supply water that benefits Anderson's existing customers and provides additional capacity to serve future growth. She noted the project will also include new water transmission mains to connect the new plant to Anderson's existing water transmission mains.

Ms. Young testified that the PER also identifies and recommends replacement of aged and deteriorated water mains and service lines in ten regional areas within Anderson. She said this work will focus on replacing aged water mains, eliminating several miles of two-inch galvanized water mains, and replacement of lead service lines and galvanized service lines with lead connectors, all of which should assist in reducing the amount of lost water. She testified the PER also identifies significant waterworks improvements projects currently underway and funded without a bond issue. Projects that will go into construction in early 2025 include the following: (1) the expansion of the Lafayette Plant to 14 MGD, (2) two new wells in the Lafayette Wellfield ("Fuller Wells"), and (3) a large diameter water transmission main from the Lafayette Plant to 8th Street.

Ms. Young summarized Anderson's efforts to comply with the 2015 Rate Order. She stated that Anderson developed and implemented a rolling, short-term capital improvement plan for its depreciation funds. She explained why each of the four categories and identified budgets are important for the ongoing operations of the water system. Ms. Young also testified about the cost and work with Anderson's consultants on tank and well maintenance activities. She also described Anderson's progress in strategic planning related to: (1) developing a hydraulic model of Anderson's water distribution system, (2) developing a hydrogeological study that was combined with the water resources alternative study, and (3) performing water loss audits.

Ms. Young identified the most notable conditions of Anderson's water system that require the proposed improvements in this case. She said eight of Anderson's 17 drinking water wells are over 50 years old and have lost much of their capacity, and thus new sources of supply need to be developed. Additionally, the Wheeler Plant is aging and declining in performance. She explained that the Wheeler Plant is identified as Groundwater Under the Direct Influence of Surface Water, which requires additional chemical and physical treatment techniques and the on-site operator with WT5 licensure 24 hours a day, seven days a week. Additionally, the Wheeler Plant's interior piping suffers from corrosion and leaks, and the exterior filter walls are leaking. Ms. Young testified that Anderson's distribution system averages 104 main breaks and 245 service line breaks annually, and a 34% water loss rate, costing Anderson approximately $440,000 annually in operating costs. She noted that significant portions of water main infrastructure are past their useful life and there are instances of severe corrosion and leaks in the distribution system. She also noted source water quality concerns in the Ranney wells due to PFAS contamination and regulatory compliance mandates further show the need for the proposed waterworks improvements.

Ms. Young provided the recommended alternatives considered within the PER in Attachment LAY-1 to Petitioner's Exhibit 2. She also set forth a summary and estimated cost of the recommended projects and explained how the individual cost estimates were developed. Ms. Young also testified about certain non-construction and contingency costs that Anderson requests

as part of its rate adjustment. Such costs include professional services to accomplish the waterworks improvements, such as funding support, environmental review, project engineering services, land acquisition costs, and other contingencies.

Ms. Young testified that Anderson proposes implementing its projects in three phases, which is beneficial for funding and allows Anderson to phase in the necessary rate adjustments. She stated Anderson has begun taking steps to construct and finance the facilities in the PER. She said the Fuller Wells and large diameter water transmission projects were bid in November 2024 and are expected to begin construction in early 2025. She also stated that the Lafayette Plant expansion project will be bid in January 2025, with construction starting in Spring 2025. She noted that Anderson and its consultants spent time discussing the proposed facilities with the SRF Program, which has indicated a willingness to finance the facilities, and that the IFA has reviewed the PER and formal approval is expected in the next few months.

3. Jennifer Z. Wilson. Ms. Wilson, a Consulting Director with Crowe LLP ("Crowe"), presented a Revenue Requirements Report, dated October 10, 2024 ("Revenue Report") prepared by Crowe. She testified that the Revenue Report shows a proposed five-phase revenue increase over an approximate four-year, four-month time period. She testified that the increases in operating revenues are required for Anderson to meet its pro forma revenue requirements. She explained that the differences between the five phases of proposed revenue requirements is due to the schedule for the payment of various revenue requirement components.

Ms. Wilson testified that Anderson proposes a five-phase revenue increase to temper the impact of annual revenue increases and allow customers to experience less "rate shock" relative to a single-phase increase, which is particularly important in the context of the proposed rate changes across all customer classes resulting from Anderson's cost of service study ("COSS"). Ms. Wilson testified the Revenue Report shows that absent a rate adjustment, Anderson would generate a net operating loss of approximately $1,141,208 in a pro forma 12-month period. She said with a net operating loss, the estimated maximum annual debt service on the current outstanding bonds and the Proposed Bonds could not be funded.

Ms. Wilson identified and explained certain expense and tax adjustments made in the Revenue Report. She also explained that the Revenue Report lists each project in the CIP and its source of funding. She stated the total cost of the CIP is $164,011,400 for the five-phase period, with $28,169,000 expected to be funded by the American Rescue Plan Act ("ARPA") and Tax Increment Financing ("TIF") revenues for projects currently underway or funded in the year 2025, and $113,442,000 to be funded by the Proposed Bonds along with an additional $16,558,000 set as the Contingency Amount in Ordinance No. 37-24 ("Bond Ordinance"). The extensions and replacements, which are to be funded with annual cash revenues, are approximately $6,092,400 over the five-phase period. She noted that the allocation of the CIP between the Proposed Bonds and extensions and replacements allows the Anderson to rely on bond proceeds for larger projects and minimize rate shock to customers by building up extensions and replacements from $1,000,000 in Phases 1 through IV to the full amount of $2,842,400 in Phase V.

The Revenue Report also shows the estimated sources and uses of funds for the Proposed Waterworks Revenue Bond Anticipation Note, Series 2024 ("2024 BAN") and the Proposed Waterworks Revenue Bond Anticipation Note, Series 2025 ("2025 BAN"), which were to fund

the engineering design and bidding for the proposed projects. The Revenue Report also includes the Estimated Amortization Schedule for the 2024 BAN and the 2025 BAN. Ms. Wilson testified that Anderson is requesting approval to issue up to $130 million in revenue bonds at rates not to exceed 7% per annum, with the par amount requested as $16,558,000 greater than the aggregate par amount of $113,442,000. She explained the reason for this difference is two-fold; the extra borrowing amount will allow for additional project contingency and provide Anderson with the ability to leverage bonding capacity for additional projects if Anderson is able to bond with a SRF Program subsidized rate or qualifies for a grant or zero interest loan.

Regarding the Estimated Amortization Schedules for the Proposed Bonds, Ms. Wilson noted that the Bond Ordinance allows for a 7% maximum permissible interest rate for the Proposed Bonds. Each bond issuance's principal payments will occur annually each January for 35 years, and interest payments on July 1, 2026, January 1, 2027, and July 1, 2027, are proposed to be capitalized and funded by the proceeds of the 2025 BAN. She said the use of capitalized interest allows for a gradual increase in the Proposed Bonds' annual debt service over several phases of the implementation of revenue increase.

Ms. Wilson testified that the issuance of the Proposed Bonds is a reasonable method of financing Anderson's proposed projects because the projects will benefit customers into the future and during the time the Proposed Bonds will be outstanding. She further noted that the SRF Program allows for a financing term of 35 years for pipe related projects and a term for 20 years for non-pipe related projects.

Ms. Wilson explained the process to issue an SRF Program loan. Ms. Wilson testified that Anderson hopes to obtain Commission approval to issue the Proposed Bonds and for a rate adjustment in late summer, which would allow Anderson to close with the SRF Program before the end of 2025 and secure SRF Program financing on the 2026 BAN in the fall of 2026 and on the 2027 BAN in the fall of 2027. However, she explained Anderson will not know where it ranks on the Project Priority List until they are released in July each year, and if Anderson is in the fundable range, it will need to commit closing with the SRF Program by mid-August. If Anderson is not in the fundable range, it will wait to find out if it will be allowed to close on a pool loan. Ms. Wilson testified that Anderson may also apply to the Indiana Bond Bank or issue debt in the open market. She also explained that the 5% coupon rate applied in the amortization schedules is for flexibility and the estimated effect of not issuing the Proposed Bonds through the SRF Program.

Ms. Wilson also testified that Anderson will pursue the best financing terms available and agrees to true-up the combination of the debt service and funds balances required by the Bond Ordinance (debt service reserve and operating fund balance) at the time of issuance. She further explained the methodology of calculating the operating fund balance build up revenue requirement for compliance with the bond ordinances that authorized Anderson's 2016 debt issuances ("2016 Bond Ordinances").

Ms. Wilson stated that Anderson proposes: (i) a Phase I pro forma revenue requirement of $13,691,464, which is a 24.1% increase that would be effective upon receipt of the Commission's order; (ii) a Phase II pro forma revenue requirement of $14,393,266, which is a 5.2% incremental increase that would be effective January 1, 2026; (iii) a Phase III pro forma revenue requirement of $17,869,843, which is 24.5% incremental increase that would be effective January 1, 2027; (iv)

Phase IV pro forma revenue requirement of $21,276,397, which is a 19.2% incremental increase that would be effective January 1, 2028; and (v) a Phase V pro forma revenue requirement of $24,286,604, which is 14.3% incremental increase that would be effective January 1, 2029.

Ms. Wilson provided the Non-Recurring Rates and Charges Report dated October 15, 2024, as Attachment JZW-3 to Petitioner's Exhibit 2. She explained the calculations and components for the non-recurring charges, including: (i) Current Charge, (ii) Process Description, (iii) Additional Information, and (iv) Cost Buildup. Ms. Wilson also explained that the calculations for the proposed System Development Charges ("SDCs") that would be applied to new connections were based on the American Water Works Association ("AWWA") Principles of Water Rates, Fees, and Charges, Seventh Edition ("M1 Manual"). She testified Anderson selected an average of the incremental cost method and the equity buy-in method resulting in a charge of $900 per equivalent 5/8" meter charge, and then are converted for each meter sized using equivalency ratios used in the COSS.

Finally, Ms. Wilson testified regarding Anderson's compliance with certain requirements imposed by the 2015 Rate Order. She explained Anderson's comprehensive accounting manual, monthly reconciliation of bank accounts, analysis of recording fire protection charges separately from water sales, and inclusion of the National Association of Regulatory Utility Commissioners' system of accounts within the MUNIS System. Ms. Wilson testified that Anderson also established a depreciation fund, which is restricted to only pay for capital improvement projects. However, she noted that due to cash constraints in the operating fund, the monthly transfers have not been maintained at one-twelfth of the annual depreciation amount. She said that Anderson has also established a tank and well maintenance fund, which is restricted to paying the expenses associated with tank and well maintenance.

4. Mark C. Beauchamp. Mr. Beauchamp, President of Utility Financial Solutions, LLC, testified that his company completed cost of service and rate design studies for Anderson's revenue requirements using a test year between January 1, 2023, and December 31, 2023. He sponsored the COSS, supporting schedules, and proposed tariff (Attachments MCB-2, MCB-3, and MCB-4 to Petitioner's Exhibit 4).

Mr. Beauchamp explained the purpose of a COSS. He stated the information used to develop the COSS was obtained from Anderson and Crowe. Mr. Beauchamp stated that he used the AWWA's base-extra capacity method to allocate costs based on the usage patterns of customers within each meter size, which recognizes base costs and extra capacity costs. Anderson's costs (i.e., revenue requirements) were functionalized to the following cost functions according to the design and operation of the water system: base, extra capacity, customer, and direct public fire protection costs. The functionalized costs were then allocated to each meter size according to their usage and demand characteristics.

Mr. Beauchamp testified that Anderson currently uses a minimum charge based on 4 centum cubic feet ("CCF") of water and a declining block rate starting at $4.17 per CCF and decreasing to $1.54 per CCF. He explained the COSS indicated increases were needed in all rate classes (meter sizes). Based on this and discussions with Anderson, Mr. Beauchamp proposed Anderson's minimum bill be replaced by a fixed monthly customer charge and the declining block rate structure be eliminated over the five phases and replaced with a flat rate per CCF. He testified

that the proposed rate design moves toward aligning rates with the COSS results, while also trying to avoid rate shock.

Mr. Beauchamp testified that Anderson's proposal for the minimum bill to be replaced with a fixed monthly charge will better align cost recovery and promote fairness and transparency with customers by separating the fixed and variable component of the rate. He said a fixed monthly charge is simpler for customers to understand because it clearly delineates the cost of having access to the water system, independent of consumption, whereas a minimum bill can be confusing as customers may not realize they are being charged for a set amount of usage even if they do not consume that amount. He testified that the proposed rate changes aim to improve cost recovery, promote fairness across customer classes, and encourage water conservation, while also minimizing the impact on customers and achieving long-term utility financial stability.

B. OUCC Case-in-Chief.

1. James T. Parks. Mr. Parks, a Senior Utility Analyst in the OUCC's Water/Wastewater Division, addressed the necessity for Anderson's proposed South Side Plant and Wellfield.

Mr. Parks described Anderson's water utility, noting that Anderson is currently expanding water production by 6 MGD firm capacity at its Lafayette Plant and adding two additional water supply wells (i.e, Fuller Wells). He said when combined with the proposed South Side Plant, Anderson would have 19 MGD firm capacity (with one 3.0 MGD Unilater out of service) and a 22 MGD rated capacity (all ten filters in service).

Mr. Parks testified that Anderson's population is not expected to grow, and customer counts are not increasing, which is supported by Anderson's PER. He stated that as population grows, the residential water demand increases, and as population decreases, residential water demand decreases. He testified that Anderson's current service area is generally within its city limits, and its estimated 2023 population is 55,199. Based on Petitioner's IURC Annual Reports, he testified that Anderson's customer base has not grown over the last 20 years. Mr. Parks also discussed Anderson's population forecast over the planning period and expressed his agreement with Anderson's forecasted population decline.

Mr. Parks testified that Petitioner's PER indicates that Anderson's existing treatment capacity is not sufficient to meet its projected 20-year water needs. He noted that the PER attributes the steady increase in water demand to come primarily from industrial and commercial customers, rather than residential customers. Mr. Parks noted that over the past 15 years, industrial and commercial growth has not increased demand for water, with the exception of when Anderson's largest customer, Nestle, began operations in 2009 and added a production line in 2014.

Mr. Parks opined that Anderson's increased water demand is almost entirely caused by lost water, which has steadily increased since 2009. He testified that managing water loss is a key part of effective utility management that balances the costs of a water main replacement program against the increasing costs to respond to leaks and build new treatment capacity. He noted the Commission's Indiana Utility Guide recognizes that when a utility mitigates water loss, it can reduce the need to develop new sources of supply and capacity.

Mr. Parks testified that based on his review, Anderson made several errors in determining its water demand, resulting in an overstatement of average and peak day demands. He identified the following problems: (i) application of the same 2022 water loss factor (39%) to its 2042 water demand forecast, (ii) using incorrect 2014 average daily and peak flows, (iii) using data points from only two years (2014 and 2022) to calculate growth rates, (iv) including water production data from prior to Nestle's start-up, (v) incomplete water production data, (vi) omission of other authorized consumption, (vii) incorrect water production data, (viii) overestimated 2042 residential water demand, (ix) overestimated 2042 commercial water demand, (x) under-reported 2022 industrial water demand, (xi) underestimated 2042 industrial demand, (xii) incorrect 2022 domestic, commercial, and industrial water demand, (xiii) incorrect 2042 domestic, commercial, and industrial water demand, (xiv) incorrect and under-reported 2022 and 2024 peak day demand, and (xv) overestimated and incorrect peak 2042 domestic, commercial, and industrial water demand. He stated that Anderson should correct its projections and perform a reanalysis within six months of a final order in this case and submit it as a compliance filing.

Mr. Parks addressed Anderson's residential, commercial, and industrial water demand. He identified Anderson's current residential and commercial water demands and recommended that Anderson lower its forecasted 2042 residential demand by at least 10% to account for Petitioner's forecasted 10% population decline by 2050, replacement of less efficient fixtures, and installation of more efficient fixtures. Mr. Parks testified that industrial demands are not driving Anderson's proposed expansion projects, as Nestle's demand has stabilized since 2021. However, Mr. Parks stated that he corrected Anderson's 2022 industrial demand but also accepted Anderson's 2042 industrial demand increase projection.

Mr. Parks testified that Anderson forecasts the 2042 gallons per day of water sold will be 8,255,000, but he estimates it will be 7,885,000. He stated that non-revenue water also needs to be added to the 2042 water sold forecast, but disagreed that Anderson's 2022 39% water loss figure should be applied given Petitioner's proposed improvements to its water system. He explained that the OUCC expects the water main projects will reduce water loss. He calculated two scenarios for reducing water losses to 25% and 30% by 2042. He testified that under either scenario, the average water production needed would be below 11 MGD and the maximum (peak) day water demand would be below 14 MGD, which is the firm capacity of the Lafayette Plant. He testified that the South Side Plant is not needed given the Lafayette Plant expansion currently in progress. He further testified that additional supply, at lower production volumes than currently achieved, could be provided by the existing Wheeler Plant if Anderson only pumped raw water from wells without PFAS contamination.

Citing prior rate cases, Mr. Parks testified that Anderson's water losses have been an issue for nearly 50 years. He said that according to Anderson's PER, Anderson's water loss was 1.63 billion gallons in 2022, which means that on an average daily basis Anderson is losing 4.47 MGD. He noted that Anderson's lost water was 2.03 MGD in 2012. Mr. Parks testified that non-revenue water has more than doubled since 2012 and Anderson is losing one gallon for every 1.3 gallons of water sold. Mr. Parks testified that because Anderson has assumed its 2022 lost water rate of 39% in 2022 will continue at the same percentage of water produced until 2042, Anderson is assuming its lost water volumes will grow to 5.62 MGD. Mr. Parks testified that Anderson's non-revenue water is unacceptably high and that Anderson should undertake a long-term program to identify, reduce, and manage water losses to a maximum target rate of 15% of pumped water.

Regarding the presence of PFAS in wells, Mr. Parks testified that PFAS were detected in groundwater samples taken by the Indiana Department of Environmental Management ("IDEM") in three of the eight wells serving the Wheeler Plant. He explained that under PFAS regulations finalized in April 2024, Anderson has two more years to analyze the well water and two more years to design and construct a PFAS removal system for the Wheeler Plant or find a new source of supply when required as water demand rises.

Mr. Parks also noted that Anderson did not include a life cycle cost-benefit analysis for the South Side Plant in its 2024 PER. While he opined that there is not a current need to construct the South Side Plant, he recommended that, when additional capacity is needed, Anderson conduct a life cycle cost-benefit analysis to consider other available alternatives. He suggested Anderson evaluate installing horizontal pressure filters of the same design used for the Lafayette Plant to standardize operations between Anderson's two treatment plants.

Mr. Parks further testified that Anderson has historically experienced water main breaks and leakage in its small diameter steel water mains. However, he noted that Anderson does not have a schedule or program for ongoing galvanized iron (steel) water main and service line replacement. He recommended the Commission require Anderson to develop and implement a plan to replace all two-inch and smaller black steel and galvanized iron water mains, along with certain tracking requirements. He also recommended that the Commission require Anderson to develop an ongoing water loss action plan within two years, submit the plan in a compliance filing under this Cause, and provide periodic reporting on small diameter main replacements.

2. Carla F. Sullivan. Ms. Sullivan, a Utility Analyst in the OUCC's Water/Wastewater Division, testified that the OUCC recommends an increase of 75.37% over five phases, generating $8,261,146 of additional revenue per year. She also stated that the OUCC recommends the Commission grant Anderson authority to borrow up to $101,839,000, which does not include costs related to the South Side Plant.

Ms. Sullivan testified that she accepted Anderson's pro forma operating revenues and Anderson's pro forma operating expense adjustments for union arbitration expenses, non-recurring expenses, capital expenses, and rental expense. Regarding Anderson's pro forma salaries and wages expense, she said that Anderson has both union and non-union employees. She testified that she disagreed with Anderson's proposed adjustments to: (i) test year annualization of union salaries, (ii) annualization of a 3.0% salary increase occurring in the adjustment period for union and non-union employees, and (iii) inclusion of the cost of unfilled positions.

Ms. Sullivan disagreed with Anderson's methodology for calculating annualized union wages because it included items that should not be annualized and excluded retroactive longevity payments. She also explained that Anderson did not propose an adjustment to annualize non-union salaries and wages, and thus she recommended an adjustment for this category. Regarding Anderson's proposed 3% salary increase that went into effect on January 1, 2024, Ms. Sullivan testified that multiplying test year salaries and wages by 3% understates and overstates the adjustment. Thus, Ms. Sullivan recommended applying the 3% increase to annualized regular salaries and wages along with test year overtime earnings. Finally, Ms. Sullivan disagreed with Anderson's inclusion of vacant positions in its revenue requirement because it assumes those

positions were vacant in the 2023 test year. However, she did not propose any adjustment because her methodology to annualize regular salaries accounts for the vacant positions.

Ms. Sullivan also proposed two additional adjustments to salaries and wages expenses. The first is a decrease of $235,114 to remove test year retroactive longevity pay, which is a nonrecurring expense. The second is an increase of $33,227 to reflect additional longevity payments due to the recently negotiated union contract.

Ms. Sullivan also recommended: (i) no adjustment for health insurance expenses because there was no increase in cost per employee during the adjustment period, (ii) a $10,440 increase to test year pension expense based on her recommended pro forma salaries and wages expense amount, (iii) a $14,275 increase to test year payroll tax expense (iv) an $80,209 adjustment to account for several test year payments that Petitioner omitted, and (v) a $58,333 increase to test year general liability insurance expense because Anderson's 2024 budgeted amount exceeded actual expenditures during the adjustment period. While Ms. Sullivan agreed with Anderson's rate case expense of $299,500, she disagreed with Anderson's proposed four-year amortization period because Anderson did not propose to remove the costs once they were recovered. She recommended including $99,833 for rate case expense in Phases II, III, and IV only.

Ms. Sullivan accepted Anderson's proposed extensions and replacement revenue requirement but disagreed with its proposed working capital. Ms. Sullivan stated that working capital for municipally owned utilities is the cash required to bridge the gap between the time expenditures that are required to provide service and the time that revenues are received for that service. She explained the two methods used to determine the amount of working capital, a lead/lag study and the 45-day method. She disagreed with Anderson's proposal to include an "operating fund build-up," which she indicated was not authorized under Ind. Code § 8-1.5-3-8(c)(4), and instead recommended using the 45-day method. She testified that an operating fund build-up is not the same as working capital because it does not consider when operating expenses are incurred and when they are paid.

Ms. Sullivan accepted Anderson's proposed non-recurring charges, except the bad check fee and both overtime hours charges. She recommended a $14 bad check charge based on the actual bank charges incurred for bad checks. As for the overtime hours charges, she recognized the proposed charges may be cost-based due to a union contract, but considered them to be unreasonable for the services provided. She recommended an after-hours service call or connection charge of $116. She stated that because the after-hours service calls and reconnections will not recover the total labor costs that must be paid by Anderson under its union contract, she recommended the additional costs be recovered in Anderson's operating expense revenue requirement.

Regarding Anderson's proposed SDC, Ms. Sullivan disagreed with Anderson's methodology for calculating the SDC. Rather than average the results of two different methodologies, she recommended the Commission authorize an SDC of $518 using the equity buy-in method and require Anderson to reevaluate the SDC and request a review of its charge no later than 2031, or sooner if there are any significant changes in capacity usage, demand forecasts, or capital planning.

In summary, Ms. Sullivan recommended the Commission approve a $579,979 increase to test year operating expenses of $10,578,112 yielding pro forma operating expenses of $11,185,091. She also recommended the Commission approve Anderson's extensions and replacements of $1,000,000 in Phases I through IV and $2,842,400 in Phase V. Additionally, she recommended the Commission deny Anderson's proposed operating fund build-up revenue requirement and approve certain non-recurring charges. She also recommended the Commission approve an SDC of $518.

3. Carl N. Seals. Mr. Seals, the Assistant Director of the OUCC's Water/Wastewater Division, addressed Anderson's water loss statistics, customer demand, and his ultimate recommendation that Anderson should not be authorized to construct and finance the South Side Plant.

Mr. Seals testified that water loss is the difference between the total volume of water pumped and purchased by the water utility and the total volume of water sold to customers or other authorized consumption. He stated that water loss may generally be attributed to leaks or inaccurate measurement of consumption and explained how water loss affects a utility's cost and operations. According to Anderson's last ten IURC Annual Reports (2014 through 2023), Mr. Seals stated that Anderson's water loss has ranged from a low of 22.9% in 2017 to a high of 39.4% in 2022. He noted that Anderson's last reported water loss in 2023 was 36.9 %. He recognized that Anderson has started using leak detection software in conjunction with its AMI but noted that Anderson has also shown an increasing trend in water loss. He further noted that Anderson proposes to complete ten water main and service line replacement projects, which are focused on reducing water loss and should reduce the need for additional treatment and pumping capacity.

Mr. Seals discussed Anderson's PER and the Lafayette Plant's current and future treatment capacity. He noted that with the additional 4 MGD from the Lafayette Plant's expansion, the operational safe capacity will increase to 15.5 MGD and operational peak capacity will increase to 18.8 MGD. He noted that, based on information provided to IDEM, Anderson's maximum day pumpage was 13.1 MGD over the last five years. He also noted that Anderson's current average daily sale of water over the last ten years was 6.352 MGD, which is approximately 41% of Anderson's new operational safe capacity of 15.5 MGD. He further testified that Anderson's water sales are trending downward and that an increase in total system pumpage combined with a decline in sales indicates increasing water loss.

Mr. Seals testified that there are two trends that also suggest Anderson may continue to experience declining customer water usage. One is that the trend for gallons per customer per day appears to be trending downward and the other is that Anderson's population is also trending downward. Based on his analysis, he testified that the South Side Plant is not needed to serve customers, but is instead being constructed to serve increasing levels of water loss. He recommended that Anderson complete the ten water main and service line replacement projects and continue to focus on finding and fixing lost water. He also offered additional suggestion for how Anderson might address its lost water by utilizing new technologies.

Ultimately, Mr. Seals recommended the Commission deny Anderson's request for $28,161,000 of financing authority for the South Side Plant.

4. Shawn Dellinger. Mr. Dellinger, a Senior Utility Analyst in the OUCC's Water/Wastewater Division, addressed Anderson's request for financing authority. He testified that although Anderson requests authority to borrow $130 million, Anderson only presented project cost support for $113,442,000, leaving approximately $16.5 million not supported by estimated project costs. However, because Anderson supported the extra borrowing for additional project contingency and to leverage bonding capacity for additional projects if Anderson is able to issue bonds with the SRF Program at a subsidized rate, he testified that the OUCC supports Anderson's request for the $16,558,000 of additional borrowing authority. Mr. Dellinger testified that the approximately $16.5 million in additional debt authorization should be subject to conditions, such as limiting it to additional subsidized funding for lead service lines or PFAS and such funding should not be used for projects not included in this Cause or to expand projects included in this Cause.

Mr. Dellinger testified that the OUCC disagrees with Anderson's requested $130 million debt authorization because it includes an estimated construction cost of $24,977,300 for the South Side Plant, which the OUCC believes is not necessary at this time. Because the South Side Plant was to be funded by the 2026A bond issuance for $28,161,000, he recommended removing these costs from the total debt authorization. He stated that Anderson should be authorized to incur $101,839,000.

Mr. Dellinger expressed agreement with many aspects of Anderson's proposed borrowing, including the assumed terms and interest rates, the timing of the primary bond issuances, the inclusion of the Water Equipment Lease in the debt service revenue requirement, and the inclusion of capitalized interest in the Series 2025 bond. However, he recommended adjusting both the amount financed and some structure of borrowings. He also testified that he agreed with Anderson's proposed debt service revenue requirement for its existing debt.

Regarding the amount financed and the structure of borrowings, Mr. Dellinger recommended eliminating the funding for the South Side Plant and shifting the lead service line funding from standard borrowing to the most current SRF subsidized program. He said the shift in funding involves removing $5 million from the 2026 bond issuance and $15 million from the 2027 bond issuance and reallocating these amounts to four separate $5 million bond issuances in 2026, 2027, 2028, and 2029. He testified that his proposed debt service revenue requirement contains an upward bias, and because the exact interest rates are not known, a true-up is almost always needed for rates to reflect actual debt service costs. He also explained that lead service line funding through the SRF Program is different from standard borrowing, and that Anderson should shift its projections to take advantage of these programs. He stated that if Anderson cannot access these programs, the true-ups will reflect the actual cost of borrowing.

Mr. Dellinger identified Anderson's six proposed bond issuances, which include a BAN in 2024 and 2025, a Series 2025 Bond of $46,607,000 for a 35-year term, a Series 2026A Bond of $28,161,000 for 20 years, a 2026B Bond of $11,274,000 for 35 years, and a Series 2027 Bond of $27,400,000 for 35 years, all of which are forecasted at 5%. Mr. Dellinger agreed with including the BANs' costs in the financing but recommended the Commission reject the inclusion of the BAN costs associated with the South Side Plant. He said this results in a 70% reduction of the 2025 BAN and elimination of that same amount from the principal in the 2026A Bond issuance. He further testified that while he accepted Anderson's Series 2025 Bond terms, he did not accept

the 2026A Bond terms since they include costs for the South Side Plant. He also explained that he disagreed with the 2026B Bond terms regarding the lead service line funding and did not accept the 2027 Bond terms for the same reason. He also recommended Anderson include additional bonds of $5,000,000 in 2026, 2027, 2028, and 2029 for subsidized funding through the SRF Program for the lead service line projects. Based on his recommendations, he provided Attachment SD-1 to OUCC Exhibit 3, which sets forth the OUCC's proposed revenue requirements for Anderson's financings.

Mr. Dellinger disagreed with Anderson's proposed debt service reserve based on the OUCC's recommendation to remove costs associated with the South Side Plant and restructure the lead service line borrowings. He also recommended that Anderson's debt service be placed in a restricted account and certain notification and reporting requirements be imposed. He further stated that Anderson should be required to true-up its proposed annual debt service once the interest rates on the debt are known, subject to certain dispute resolutions and exceptions. He also recommended that Anderson's financing authority expire on December 31, 2030.

C. Anderson's Rebuttal Evidence.

1. Neal L. McKee. Mr. McKee disagreed with the OUCC's recommendation to exclude Anderson's vacant positions in its revenue requirement. He stated Anderson needs these positions to be filled and they were only vacant because Anderson did not have the funds to fill them. He also explained that Anderson's job descriptions at the end of the 2023 test year had not been updated due to the lack of funding to fill them.

Mr. McKee also disagreed with the OUCC that the South Side Plant is unnecessary. He said Anderson evaluated at least four options for providing sufficient water in the future, and the South Side Plant is the most cost-effective solution. He said keeping the Wheeler Plant in service or relying solely on the Lafayette Plant are not cost-effective options or consistent with the goals of resilience and redundancy. He further testified that, based on cost alone, the OUCC's recommendation to increase water loss mitigation efforts without the South Side Plant will be more costly than constructing the South Side Plant and will not result in a water supply that is more resilient and redundant. He therefore concluded that construction of the South Side Plant is the best option.

Mr. McKee testified there are other reasons he disagreed with the OUCC's recommendation to deny approval for financing the South Side Plant. He explained that the pumping rates from the Lafayette Wellfield have increased and are starting to affect the aquifer. He testified that since May 2024, Anderson has replaced five residential wells in the Lafayette Wellfield due to increased pumping, which has lowered the historic water levels in that aquifer. He testified that reliance on one source of supply is not sustainable, and it is important for Anderson to pursue the South Side Plant and Wells to provide relief and longevity to the Lafayette Wellfield, as well as redundancy and resiliency. He testified that the backup to the Lafayette Plant and Wellfield cannot be a 70-year-old treatment plant and wellfield (that is a confirmed Superfund Site with VOC and PFAS contamination) with a 90-year-old Clearwell because it would be irresponsible operation and management of a municipal water utility.

Mr. McKee testified that Anderson has always operated with two separate wellfields and treatment plants, which provides resiliency and redundancy for its customers. He stated that due to aging infrastructure and facilities past their useful life, the system has experienced near system failure under both emergency and non-emergency conditions. He provided examples of incidents that occurred in 2014 and 2025. He also noted that drought conditions in recent years have resulted in tower levels at critically low levels. He testified that normal well maintenance and cleaning, plant maintenance, and system flushing can also stress the system. He further noted that even for the current Lafayette Plant expansion project, down-time for the current plant must be limited to two hours to ensure the water towers do not reach critically low levels.

Mr. McKee testified that new and emerging PFAS contamination in the Wheeler Wellfield has confirmed Anderson's decision to replace the Wheeler facilities. He said the Wheeler Plant facilities are past their useful life, and trying to rehabilitate or replace them would cost more, including the additional cost of PFAS treatment. He testified that the risk of not constructing the South Side Plant is that Anderson is left with insufficient facilities to provide reasonably adequate service to its current and future customers.

Mr. McKee testified that Anderson's efforts to mitigate water loss are reasonable and prudent. He testified the proposed projects are based on 20 years of leak location data. He said that while the data showed leaks covering the entire city, proving they are widespread due to aging infrastructure, Anderson prioritized the worst areas as the initial projects to complete.

Mr. McKee testified the OUCC's recommendation that Anderson should first reduce lost water before investing in additional water treatment infrastructure oversimplifies the issue because it assumes that replacement of the worst historical leaking areas will make a significant difference in non-revenue water. He testified it is nearly impossible to predict how much water loss will be eliminated by main replacements.

Mr. McKee testified that Anderson's construction of the South Side Plant is reasonable and prudent for several reasons. First, current infrastructure is past its useful life and needs to be replaced. He noted that the Ranney wells, constructed in 1947, have lost 70% of their capacity, and the Norton wells, constructed in 1910, are shut down due to repair costs. Second, the Ranney wells contain both VOCs and PFAS above current MCLs and the Wheeler Wellfield was added to the list of EPA Superfund Sites. Third, the Wheeler Plant was constructed in 1947 and is past its useful life. He said the filter walls are cracking and have been repaired several times but continue to leak. Fourth, the clear well was built in 1935 and shows significant deterioration. And fifth, the air strippers designed to remove VOCs are almost 30 years old and media will have to be chemically washed and/or replaced to continue operation.

As for the OUCC's recommendation to explore new leak detection technologies, Mr. McKee testified that Anderson already utilizes some of the newest leak detection technologies, including Gutermann Zonescan 820 loggers, lift and shift utilizing acoustic sound waves and reporting through Anderson's AMI system, as well as Gutermann Correlators and ground mics. He said that with additional qualified personnel (which Anderson needs), Anderson will use this technology to find the leaks and repair them.

Mr. McKee also disagreed with the OUCC's claim that Anderson does not have an asset management plan. He said Anderson's asset management plan is found across multiple databases instead of a single document.

As to the OUCC's recommendation to implement a plan and program to replace its two-inch diameter and smaller black steel and galvanized water mains, Mr. McKee reiterated that Anderson plans to identify and replace mains based on the severity and immediacy of the need for replacement. He also testified that Anderson already has an inventory of its water mains, which is actively updated to reflect conditions as leaks and breaks occur.

2. Lori A. Young. Ms. Young explained Anderson's plan to reduce lost water through its proposed investment of $71 million in ten water main and service line replacement projects and implementation of a water main and service line replacement program that prioritizes two-inch galvanized steel water mains through a $1.5 million annual capital improvements budget. She stated that Anderson's replacement of all residential water meters and its capital improvements budget will allow for replacement of approximately 2,400 meters, or 10%, each year.

Ms. Young testified that it is not possible to accurately predict the water loss reduction from Anderson's proposed projects and that it would be irresponsible to assume a potential quantity of water loss reduction. She said meaningful water loss reduction could take as long as 20 years and, if Anderson were to wait for the water loss results without having another water source in place, Anderson may be without sufficient supply, especially during an emergency.

Ms. Young testified that Anderson's proposed projects have been prioritized with the goal of reducing water loss. However, she explained that the ongoing concern is that while these projects are undertaken, the remaining 80% of two-inch water mains will continue to be in service and further deteriorate. She stated that the 2022 water loss rate of 39% was projected for future planning out of caution that water loss in other areas of the water distribution system may worsen over time while these projects are constructed. She noted that water loss projections may be revised in the future based upon success but said over-estimating the projected success could result in a water supply shortfall.

Ms. Young testified that Anderson is concerned with its water loss and is working toward the Commission's 15% water loss goal as evidenced by Anderson's proposed significant funding for capital improvements. However, she said this will take many years and substantial investment. She noted that preliminary estimates indicate Anderson can replace approximately 3,000 lineal feet per year of problematic water main and service lines with the proposed $1.5 million per year of capital improvements funding.

Ms. Young further testified that if Anderson were to instead pursue large scale water loss projects as suggested by the OUCC, the costs would likely be over $140 million, and funding for that large investment would need to be recovered over a series of additional rate cases. Assuming these projects span 20 years, Ms. Young testified the cost would be $7 million of annual capital improvement funding instead of Anderson's proposed $1.5 million. She stated these costs are significant when compared to Anderson's proposed $28 million for the South Side Plant and would leave Anderson without resilience and redundancy in water supply. She testified that the OUCC's

proposal to forego the South Side Plant is unrealistic, costly, and endangers Anderson's ability to provide adequate, resilient, and redundant water supply in the future.

Ms. Young disagreed with the OUCC that the expanded Lafayette Plant and Wellfield will meet Anderson's future water production needs. She testified that the actual firm capacity of the expanded Lafayette Plant and Wellfield will be 11.3 MGD and 13.1 MGD (peak) of maximum capacity, as limited by the wellfield capacity. Accordingly, she stated that the combined firm capacity of the Lafayette Plant and the proposed South Side Plant would equal 14.376 MGD firm capacity, and 19.104 MGD peak rated capacity. She also explained why the Lafayette Plant's capacity is greater than its wellfield capacity.

Ms. Young explained that Anderson is not proposing additional wells at the Lafayette Wellfield because a second water treatment plant to replace the Wheeler Plant and Wellfield has been a priority due to their age and condition, along with the PFAS contamination concern. She testified that a second water treatment plant and wellfield provide benefits to serve Anderson's large water distribution system from two points, as well as the benefit of two separate wellfield supplies. She stated redundancy is beneficial to allow segments of the Lafayette Plant to be shut down for major maintenance or services. It will also provide redundancy in the case of a raw water transmission main break in the Lafayette Wellfield. Ms. Young also noted that Anderson does not have any emergency water supply connections with neighboring utilities, and there are no other regional water providers with adequate capacity to provide Anderson an emergency connection.

Ms. Young testified that Anderson's current water production is a total of the production from both the Wheeler and Lafayette Wellfields. However, she noted there have been some changes impacting the well production since Anderson's 2022 IURC Annual Report. Ms. Young stated that although there are some discrepancies in projected demand calculations and assumptions between herself and Mr. Parks, that demand must be assessed against the current and projected water capacity of Anderson's existing water supply and treatment. She further testified that while historical data indicates a declining population, Anderson continues to receive proposals for new subdivision developments, along with inquiries for commercial and industrial developments. She also noted that Anderson has several existing subdivisions with residential wells that may request water service. Anderson is also located along the Interstate 69 corridor with two major interstate exits, and in close proximity to Indianapolis, Muncie, and Fort Wayne.

Ms. Young addressed Attachment JTP-3 of OUCC Exhibit 4 and provided Table LAY-R1 to show the required average day water loss reduction Anderson would need to achieve from current losses to accomplish various projected non-revenue percentages. She stated that the Lafayette Plant and Wellfield capacity is not sufficient to meet the average and peak day demands for the range of scenarios as evaluated by the OUCC. She said additional wells are aging and planned for retirement even as new hydrogeological investigations are underway.

Ms. Young testified that reliance on reduction of water loss alone is not a responsible plan for Anderson's long-term water supply and reduction of water loss does not allow Anderson to achieve its desired redundancy or resiliency. She stated that Table LAY-R1 shows that under Mr. Parks' water loss scenarios, Anderson would need to reduce water loss by anywhere from 1.14 MGD to 2.09 MGD. However, she said, if Anderson were to solely depend on the Lafayette Plant for all its water supply, water loss would need to be reduced to 20% with zero growth.

Ms. Young testified that it is not reasonably possible for Anderson to reduce water loss from 39% to 20.6% by April 2029, which would be necessary to serve Anderson's existing customers without the Wheeler Plant. She further noted that Anderson's proposed water main and service line replacement projects will only replace 20% of the two-inch galvanized steel water mains in the distribution system. She stated it is not feasible to reduce water loss by 3.11 MGD, which is equal to 64.8% of current losses, in this short period of time.

Ms. Young testified that the proposed South Side Plant and Wellfield will provide water supply to meet the demand that cannot be supported with the Lafayette Plant and Wellfield. She provided Table LAY-R2, which provides an analysis of the production capacity of the Lafayette Plant and South Side Plant in comparison to Mr. Parks' projections. She explained why the South Side Plant is needed to provide an adequate water supply now to meet the current and long-term needs of Anderson. She testified that even if Anderson were able to significantly reduce its water loss and there is no growth, Anderson would have no margin for error if it followed Mr. Parks' proposal to rely on the Lafayette Plant and Wellfield as its sole source of supply.

Ms. Young also testified that Anderson will not know the results of its water loss reduction efforts before the PFAS water quality requirements become effective in April 2029, the proposed water main and service line replacement projects will not be complete until approximately 2029. She stated that the earliest the effectiveness of the water loss reduction could be evaluated would be 12 months after completion of the project to provide a year of comparison data.

Ms. Young disagreed with Mr. Parks' claims that the Wheeler Plant can provide additional supply at lower production volumes if Anderson only pumped raw water from wells without PFAS. She stated that the Wheeler Wellfield is contaminated with PFAS, the wells are all in the same aquifer, and the three Ranney wells have been detected with PFAS. She testified that Anderson has taken Ranney well 4 offline to minimize PFAS in the public water supply. She also noted that since the 2022 PER, the Norton wells have failed and been retired from service. Ms. Young testified that the PFAS plume will likely spread to the Elder wells after taking Ranney well 4 offline.

Ms. Young explained why the Wheeler Plant and Wellfield must be retired and a replacement water supply must be in operation by April 2029 to meet EPA's enforcement schedule for compliance with PFAS regulations. She stated the Wheeler Wellfield is located within an area of known aquifer contamination and the water requires additional treatment steps and a 24-hour per day licensed operator at the water plant. She explained the PFAS contamination discovered in some of the wells and explained why the other non-PFAS contaminated wells are insufficient for reliable production. Ms. Young also indicated that it was unlikely that additional wells could be drilled in an area of known contamination.

Ms. Young explained the benefits of having two water treatment plants through the addition of the South Side Plant. She said the South Side Plant will provide greater resiliency during drought conditions and natural disasters. It will also provide redundancy because Anderson does not have any emergency water connections with other utilities. She further testified that reliance on one water treatment plant makes shutdowns for maintenance more complex and even short shutdowns can cause stress, risk, and additional burdens to meet service requirements. She

also stated that the South Side Wells will provide additional reliable groundwater production while simultaneously reducing reliance on the Lafayette Plant and Wellfield.

Regarding the OUCC's concerns for a life cycle cost-benefit analysis, Ms. Young testified that after final test well drilling, sampling, and determination of the locations for the South Side Plant and Wells, further design and cost estimates will be developed. Once data is available, she said more detailed preliminary design and cost estimates, including a life-cycle cost-benefit analysis and comparison of alternatives, will be performed. She noted that the proposed rate increase includes funding flexibility to evaluate multiple treatment options for the most cost-effective option.

3. Jennifer Z. Wilson. Ms. Wilson testified that she accepted the OUCC's operating expense adjustments, including the annualized salaries increase, union wage increase, non-union water increase, incidental payments reduction, tank maintenance reduction, and liability insurance reduction. She also accepted the OUCC's adjustments to pension expense and payroll taxes for current employees. She also included a table summarizing the accepted adjustments, resulting in a total operating expense adjustment of $1,042,098.

Ms. Wilson disagreed with the OUCC's recommendation to reduce rate case amortization to three years. She testified that Ms. Sullivan's recommendation is based on single-issue ratemaking rather than a holistic review of Anderson's rates.

Regarding Anderson's calculation of extensions and replacements, Ms. Wilson explained that Anderson developed the revenue requirements and the phased-in rate increases so that the compounded amount of the Phase I and Phase II rate increases was approximately 30%, with the Phase III increase adding another 32.5%, and Phase IV adding another 31.3%. She testified that Anderson proposes that for each reduction made by the OUCC in another revenue requirement, the extension and replacement amount in Phases I through IV be increased by a commensurate amount. She said this will keep the Phase I through IV rate increases at the levels proposed by Anderson with any overall revenue requirement decreases to occur in Phase V. She noted that because Anderson agreed with the OUCC's operating expense reduction of $190,534, the corresponding extensions and replacements for Phase I through IV will increase by $190,534.

Ms. Wilson disagreed with the OUCC's rejection of Anderson's proposed operating fund build-up and recommendation to use the 45-day method. She testified that working capital under the 45-day method was determined so that a utility using a utility-basis approach to rate making can include working capital as part of rate base and should not apply to a utility utilizing the cash-needs approach to rate making. She noted that working capital is not defined in Ind. Code § 8-1.5-3-8 but it is defined in 170 IAC 1-5-12 in relation to rate base for a utility-basis approach. She also noted that Ind Code 8-1.5-3-8 does not limit the working capital calculation to 45 days and Anderson's Bond Ordinances requires an operating fund balance of 60 days. She stated that the 60-day working capital requirement is an established standard for municipal utilities and required by the SRF Program. She said that not including a 60-day operating fund build-up will decrease Anderson's ability to fund capital projects since the operating fund has first priority to the revenues.

Ms. Wilson also disagreed with the OUCC's inclusion of customer deposits as a component of cash on hand because the customer deposit fund is restricted and should be equal to the liability that is owed to customers. She noted that customer deposits are not revenues for Anderson to freely spend. Given Anderson's acceptance of other OUCC adjustments, Ms. Wilson proposed an annual operating fund build-up of $163,955. She also accepted the OUCC's adjustment to non-recurring charges for bad checks and both of the overtime hour charges.

Regarding Anderson's proposed SDC, Ms. Wilson disagreed with the OUCC's recommended rejection of the combined cost approach. She testified that because increased capacity is only part of the need for the new plant, she applied the average of the two methods. She explained a new customer paying the SDC will pay for the existing plant in service through the buy-in method and a portion of the new plant in the incremental cost method by averaging the two methods calculations.

Ms. Wilson disagreed with the OUCC's recommendation to shift lead service line funding from a standard borrowing to the SRF Program's subsidized loan program with the option to true-up if the funding is not actualized. She reiterated that Anderson will not know if it will receive any amount of subsidized loan funding from the SRF Program until early July. She noted that the lead service line funding Mr. Dellinger described was funding available for July 2024 to June 2025, and because the IFA reevaluates the grant funding amount annually, there is no guarantee of available funding. She explained that rather than reducing the debt service revenue requirement and reserve funding for potential funding that may not materialize, Anderson proposed to reduce rates through a true-up.

Ms. Wilson also disagreed that additional restrictions on Anderson's debt service reserve were necessary, noting they would be duplicative of the Bond Ordinance, which already requires a restricted account. She reiterated that Anderson would agree to a true-up of debt service.

Ms. Wilson also explained certain inaccuracies in the OUCC's overall revenue requirement and phase-in revenue requirement. She testified that Anderson's current annual debt service is $1,306,190, and its current annual lease payment is $150,000, totaling $1,456,190. She noted the OUCC did not include the current annual lease payment in its summary of the phased-in revenue requirements or explain its exclusion. She noted that the OUCC also omitted the current annual lease payment of $73,826 in Phase II without explanation. Additionally, Ms. Wilson testified that the OUCC, without explanation, included a revenue requirements offset of $65,119 for interest income and $2,285 for other income and increased the adjustable operating revenues by $87,671.

D. <u>Docket Entry Response</u>. In response to a May 16, 2025 Docket Entry, Anderson indicated that of the eight vacant positions, only the pipefitter helper was partially filled during the 2023 test year and the salaries and wages expense incurred was $52,242.

E. <u>Supplemental Evidence</u>. Anderson provided correspondence with IFA addressing Anderson's eligibility for grant funding through the SRF Program for lead service line replacements and the design and planning of the South Side Plant and Wells. Anderson also provided subsequent IFA correspondence that set forth the SRF proposed award details, which included: (1) Traditional SRF Loan of $10,000,000, (2) SRF Pooled Loan of $17,611,000, (3) IIJA Disadvantaged Community Forgivable BAN of $5,000,000, (4) IIJA Emerging Contaminates

Forgivable BAN of $2,500,000, (5) IIJA Lead Service Line Replacement Forgivable BAN of $5,000,000, and (6) IIJA Lead Service Line Replacement 0% Loan of $5,000,000. The letter from IFA stated the grant funding from the IIJA programs for lead service lines and emerging contaminants are a result of the federal law enacted in 2021. He further indicated the funding source was a five-year program that will be expiring next year.

The OUCC also provided Anderson's responses to OUCC discovery related to Anderson's correspondence with the IFA concerning potential funding awards.

6. Commission Discussion and Findings. Ind. Code § 8-1.5-3-8(a) and (b) require that a municipally owned water utility furnishes reasonably adequate services and facilities and that the utility's rates and charges be nondiscriminatory, reasonable, and just. Section 8(c) further identifies the revenue requirements to be considered in establishing reasonable and just rates and charges, including: (1) all legal and other expenses incident to the utility's operation; (2) a sinking fund for the liquidation of bonds or other obligations; (3) debt service reserve; (4) working capital; (5) extensions and replacements to the extent not provided for through depreciation; and (6) taxes. A municipal utility's rates and charges for water service are subject to Commission approval. Ind. Code § 8-1.5-3-8(f).

Anderson initially sought to adjust its rates and charges by approximately 121% over five phases. In addition to requesting an adjustment to its rates, Anderson requested authority to issue up to $130 million in water utility revenue bonds. In its rebuttal filing, Anderson accepted certain adjustments proposed by the OUCC, which modified the requested rate increase over five phases to 119.8%. The OUCC, on the other hand, recommended an overall rate increase of 75.63% over five phases. The largest dispute between Anderson and the OUCC in this Cause centers around Anderson's proposed South Side Plant and Wellfield, which the OUCC recommends that the Commission deny, along with its associated rate recovery and financing authority.

A. Financing Authority. In this case, Anderson seeks financing authority of up to $130 million to finance necessary extensions, replacements, and improvements to its water system. However, because the OUCC contends that Petitioner has not shown the South Side Plant and Wellfield are necessary to provide adequate water service, it recommends the Commission grant Anderson authority to borrow up to $101,839,000. In determining whether to approve a municipal utility's request to issue long-term debt to fund capital improvement projects, the Commission has generally considered whether "the proposed improvements are reasonable and necessary for Petitioner to provide adequate and efficient water service." *City of Evansville, Indiana*, Cause No. 45545 at 13 (March 2, 2022).

1. South Side Water Treatment Plant. The Commission has previously set forth factors to be considered when determining the appropriate level of capacity of public water utilities. Those factors include the following:

(1) The prudence of the decision to construct the new plant;
(2) The reasonableness of the demand forecasts;
(3) Whether there were changed circumstances during construction necessitating a reevaluation of the decision to continue with construction;
(4) The lead time to construct new facilities;

(5) The necessity to provide adequate and reliable utility service;
(6) The utility's need for a margin of safety or reserve;
(7) The financial impact on the utility of a finding of excess capacity and the long-term effect on the ratepayers;
(8) The risk that changes in demand projections will impact the utility's reserves and ability to serve its customers; and
(9) The utility's need to comply with the requirements of environmental agencies.

City of Evansville, Indiana, Cause No. 45545 at 13-14 (March 2, 2022); *Indiana-Am. Water Co., Inc.*, Cause No. 40703 at 15-16 (Dec. 11, 1997).

Anderson proposes construction of the South Side Plant and Wellfield to replace the Wheeler Plant and Wellfield, which were constructed in 1947 and are past their useful life. Ms. Young explained that the Wheeler Plant was originally rated to produce and treat 9.7 MGD of water but now only produces and treats a maximum of 4.8 MGD. Both witnesses McKee and Young stated that the Ranney wells have lost 70% of their capacity, and the Norton wells, constructed in 1910, have been shut down as uneconomical. In addition, the Ranney wells are now a public health concern based on recent PFAS testing showing levels exceeding EPA's MCL, which will require installation of remedial measures or finding a new source of water supply by 2029. The Ranney wells also have VOC contamination and the area was added to EPA's list of Superfund Sites. As a result, Anderson has been required to implement special treatment (air strippers) for VOC removal, which is also aging and will require additional maintenance or replacement, and employ a 24-hour per day on-site licensed operator.

The OUCC did not take issue with the current condition or environmental issues presented by the Wheeler Plant and Wellfield. Rather, the OUCC argues that Anderson's future 20-year water demand projections are overstated and unsupported and Anderson should instead focus on reducing its 39% water loss. Mr. Parks noted that Anderson's water sales have not increased over the last 15 years, but have remained relatively flat except for the addition of Nestle. He also identified multiple errors made in the PER concerning Anderson's forecasted water demands. The OUCC asserted that any increase in water demand is the result of Anderson's increased water loss over the past 10 years, which Mr. Seals testified has ranged from a low of 22.9% in 2017 to a high of 39.4% in 2022. The OUCC suggests that with the Lafayette Plant and Wellfield expansion from 8 MGD to 14 MGD and increased efforts to reduce its lost water, including its proposed water main and service line replacement projects, Anderson can meet its water supply needs without the construction of the South Side Plant and Wells.

Based on the evidence presented and for the reasons discussed further below, we find Anderson's decision to replace the Wheeler Plant and Wellfield with the proposed South Side Plant and Wells to be reasonable. The evidence demonstrates that much of the infrastructure associated with the Wheeler Plant is at the end of its useful life and that the Wellfield has substantial water contamination concerns, from both VOCs and PFAS, which either require or will require in the near future additional investment to address and meet environmental and water quality requirements. Thus, Anderson is faced with making additional investment in a 75-year old water treatment plant and trying to develop additional wells in a contaminated aquifer or constructing a new water treatment plant and wells on the south side of Anderson in an area

identified in its hydrogeological study as free from PFAS contamination and adjacent to Anderson's proposed extended service area.

While we find the evidence supports Anderson's decision to pursue the South Side Plant and Wells, we agree with the OUCC that a life cycle cost-benefit analysis would have provided additional evidentiary support to justify its decision. We have previously explained that a life cycle-cost benefit analysis is "a reasonable and appropriate first step" in determining whether to undertake such a significant project "because it can readily provide the necessary evidentiary support that the chosen project is reasonable, and that cost recovery should be authorized." *Indiana-American Water Co., Inc.*, Cause No. 45870 at 13 (IURC Feb. 14, 2024). Ms. Young testified generally about the alternatives to constructing a new water treatment plant that Anderson considered and explained that a life cycle cost-benefit analysis would be performed once more data is available. While we agree that a life cycle cost-benefit analysis of alternative water treatment plants is appropriate and will be beneficial, we strongly encourage Anderson to consider performing its life cycle cost-benefit analysis earlier in the process to ensure all available alternatives to a proposed project (and not just alternative designs) are fully evaluated at a meaningful point in the planning process.

As for Anderson's projected future water demands, we agree with the OUCC that Anderson's forecasted analysis contained many errors. However, when considering the entirety of the evidence, we do not find Anderson's demand forecast to be unreasonable. We have previously recognized that projecting population growth and water demands are not an exact science and that a reasonable allowance should be included for both reasonably anticipated and unforeseen growth. *See City of Evansville, Ind.*, Cause No. 45545 at 14 (IURC March 2, 2022). The evidence demonstrates that although Anderson's population has experienced historical declines and its water demands have remained relatively flat, Anderson continues to receive inquiries for residential and commercial developments, is located along Interstate 69 with opportunities for potential growth (such as within the Flagship Industrial Park), and is seeking to expand its water service territory.[1]

The OUCC also took issue with Anderson's inclusion of its 39% water loss when projecting future water demand, particularly given Anderson's proposed $71 million water main and service line replacement projects, which Ms. Young testified will serve to reduce water loss. *See* Pet. Ex. 2 at 9. While we agree with the OUCC that it is unreasonable to assume no reduction in water loss will occur as a result of the proposed projects, we also recognize that Anderson's lost water has been an issue for over 50 years and is a result of aging infrastructure and lack of necessary maintenance and investment. Anderson's proposal includes replacement of only 20% of its lines needing replacement and its other lines will continue to age and leak. Just as Anderson's lost water issue did not occur overnight, neither will the issue be resolved in the near term without substantial investment in infrastructure. While we are encouraged by the steps that Anderson is taking to address it lost water issue and expect such efforts will result in reduced lost water, we also agree with Anderson that meaningful reductions in lost water will likely take years to achieve.

[1] We note that the Commission approved Anderson's water territory regulated ordinance in Cause No. 46147 on September 30, 2025.

We also share the OUCC's concerns that Anderson's forecasted demands may be overstated, but we find the evidence does not support the OUCC's recommendation that Anderson rely solely on its Lafayette Plant and Wellfields to supply its water treatment needs. Anderson's capacity following the current expansion project will be essentially equal to Anderson's current maximum day. Ms. Young testified the actual firm capacity of the Lafayette Plant and Wellfield will be 11.3 MGD and 13.1 MGD (peak) of maximum capacity, as limited by the wellfield capacity. Pet. Ex. 2-R at 10. And Anderson's maximum day during the most recent five-year period is 13.1 MGD. OUCC Ex. 2 at 7. The evidence also demonstrates that although additional wells could increase production capacity at the Lafayette Plant, the current use of the Lafayette Wellfield (without the addition of the Fuller wells) is straining the aquifer to the north of Anderson. However, the combined capacity of the Lafayette Plant and South Side Plant would be 14.4 MGD firm capacity and 19.1 MGD peak capacity, which would provide Anderson with a reasonable margin of safety and reserve and allow for reasonably anticipated and unknown growth.

The addition of the South Side Plant and Wells will also provide Anderson with continued system redundancy and resiliency. Anderson provided examples of how having two separate water treatment plants and wellfields have benefited customers in the past during system failures due to storms, water main breaks, and drought conditions. Anderson also does not have any emergency water connections with other utilities or other regional providers with sufficient additional capacity, so its water wells are its only source of supply.

Based on the evidence presented, we approve Anderson's request to incur $28,161,000 in debt to finance the construction of the South Side Plant and Wells. The addition of the South Side Plant and Wells will allow Anderson to retire the Wheeler Plant and Wellfields without having to incur substantial investment in a water treatment plant that has reached the end of its useful life and a contaminated aquifer. It will also provide Anderson with continued system redundancy and resiliency while it works to address its lost water issue (which we discuss further below) and the ability to meet future demand and support economic development.

2. <u>Water Main and Service Line Replacement Projects</u>. The OUCC recommended that we approve Anderson's requested $71 million to perform water main and service line replacement projects, as set forth in the PER. These projects will target water main and service lines with a history of leaks, lead service line replacement needs, and elimination of a portion of Petitioner's two-inch galvanized water mains. They will also serve to help reduce Petitioner's water loss. Accordingly, we find that the evidence supports Anderson's request to incur $71 million in debt to finance the water main and service line replacement projects set forth in the PER because they are necessary for Anderson to provide reasonably adequate water service.

3. <u>Conclusion on Financing Request</u>. Anderson requested $130 million in borrowing authority to complete the projects set forth in its CIP. Anderson's requested borrowing authority includes project cost support of $113,442,000 and $16,558,000 for additional project contingency if project bids come in higher than expected. Ms. Wilson explained it will also allow Anderson to leverage bonding capacity for additional projects if Anderson is able to issue bonds with the SRF Program at a subsidized rate. The OUCC agreed with Anderson's request for the additional borrowing authority but recommended that its use be limited to accessing additional subsidized funding for lead service lines, PFAS, or cost increases on approved projects.

As discussed above, we find Anderson's proposed projects to be reasonably necessary in its provision of water service. Anderson's supplemental evidence listed several forgivable BANs. Pet. Ex. 6. We also recognize that there is no guarantee that future subsidized funding for lead service lines or other programs will be available. Accordingly, we approve Anderson's request to issue $130 million of debt to fund the projects set forth by Anderson in this case, with the additional borrowing authority limited to use for lead service lines (regardless of the availability of subsidized funding), PFAS, or cost increases on the CIP approved projects.

We agree with the OUCC's recommendation that Anderson's financing authority should expire on December 31, 2030, which is three years after Anderson's last proposed debt issuance.

Finally, in accordance with Ind. Code § 8-1.5-2-19(b), we also find that the evidence demonstrates that the rates and charges approved herein will provide sufficient funds for the operation, maintenance, and depreciation of the utility, and to pay the principal and interest of the Proposed Bonds, together with a surplus or margin of at least 10% in excess.

B. Revenue Requirement. Indiana law requires that a municipal utility's rates and charges for service are nondiscriminatory, reasonable, and just. Ind. Code § 8-1.5-3-8(b). Reasonable and just rates are those which produce sufficient revenue to:

> (1) pay all the legal and other necessary expenses incident to the operation of the utility, including:
> (A) maintenance costs;
> (B) operating charges;
> (C) upkeep;
> (D) repairs;
> (E) depreciation;
> (F) interest charges on bonds or other obligations, including leases; and
> (G) costs associated with the acquisition of utility property under [Ind. Code § 8-1.5-2;
> (2) provide a sinking fund for the liquidation of bonds or other obligations, including leases;
> (3) provide a debt service reserve for bonds or other obligations, including leases, in an amount established by the municipality, not to exceed the maximum annual debt service on the bonds or obligations or the maximum annual lease rentals;
> (4) provide adequate money for working capital;
> (5) provide adequate money for making extensions and replacements to the extent not provided for through depreciation in subdivision (1); and
> (6) provide money for the payment of any taxes that may be assessed against the utility.

Anderson proposed 14 adjustments to its test year operating expenses. As set forth in the rebuttal testimony of Ms. Wilson, Anderson proposed a 119.8% total increase based on the acceptance of certain operating expense adjustments of the OUCC. Anderson accepted the OUCC's recommended annualized salaries increase, union wage increase, non-union water

increase, incidental payments reduction, tank maintenance reduction, and liability insurance reduction. Anderson also accepted the OUCC's adjustments to pension expense and payroll taxes for current employees. Having reviewed the parties' agreed upon revenue requirement adjustments, we find them to be reasonable.

Anderson and the OUCC, however, disagreed about certain other revenue requirement adjustments and calculations, which we address below.

1. Debt Service and Debt Service Reserve. The OUCC recommended eliminating Anderson's funding for the South Side Plant and Wells from Anderson's debt service and debt service reserve. However, having determined that the South Side Plant and Wells are reasonable and necessary for Anderson's provision of reasonably adequate water service, we also find that the debt service and debt service reserve to pay for those facilities should be recovered as part of Anderson's revenue requirement.

The OUCC also recommended shifting the lead service line funding from standard borrowing to the SRF subsidized loan program, which involves removing $5 million from the 2026 bond issuance and $13.5 million from the 2027 bond issuance and then reallocating the $20 million to four separate $5 million bond issuances in 2026, 2027, 2028, and 2029.[2] He also recommended that Anderson's debt service be placed in a restricted account.

On rebuttal, Ms. Wilson explained the uncertainty of subsidized funding from the SRF Program and testified that rather than reducing the debt service revenue requirement and reserve funding for potential funding that may not materialize, Anderson would adjust its rates through a true-up as is standard practice. Ms. Wilson also disagreed with the need for additional restrictions on Anderson's debt service reserve because they are duplicative of the Bond Ordinance, which already requires a restricted account.

Anderson's supplemental evidence listed several forgivable BANs. However, given the uncertainty of Anderson receiving future subsidized funding for its lead service lines or other programs, which we fully expect it will pursue, we decline to assume that Anderson will actually receive such funding. Consistent with standard practice, Anderson shall true up its rates as discussed further below to reflect its actual debt service and debt service reserve. We also find the imposition of any additional restrictions on Anderson's debt service reserve to be unnecessary as similar restrictions are imposed by the Bond Ordinance and additional restrictions will apply if the debt is issued through the SRF Program. Accordingly, we approve Anderson's proposed debt service and debt service reserve.

2. Vacant Positions. Anderson proposed an upward adjustment to its revenue requirements for $515,898 of salaries and wages expense, $179,432 of health insurance expense, $57,781 of pension expense, and $39,466 of payroll tax expense for eight full-time employee positions that it claimed were vacant but needed positions to improve its system. Anderson asserted the positions were not filled because it did not have the funds to fill them. Mr. McKee testified that the positions are needed to assist in, among other things, Anderson's lost

[2] The OUCC position reduced the amount of borrowing by a total of $18,481,493 but incorporated a slightly higher $20 million total borrowing to reflect Anderson's ability to borrow SRF's current maximum annual bond of $5 million for lead line programs.

water efforts, valve operation and maintenance, water quality compliance sampling, and asset management.

The OUCC recommended denying Anderson's entire $792,577 adjustment for vacant positions. The OUCC argued that its recommended annualized payroll adjustment provides enough revenue to cover employee positions that were filled during any part of the test year.

In response to a question from the Presiding Officers, Anderson reported that one of the eight vacant positions listed in its adjustment was filled for a portion of the 2023 test year. The test year expense for this position totaled $52,242. However, the utility further explained this amount should be reduced for supplemental income, stand-by flat utility pay, and a retroactive adjustment resulting in a total amount of test year expense of $41,138. Therefore, Anderson's modified vacant position adjustment is $474,760 ($515,898 - $41,138). The employee who occupied the position did not elect to receive health insurance. Therefore, the $179,432 health insurance adjustment does not need to be modified.

The OUCC disagreed with Anderson's adjustment because it assumes those eight positions were vacant during the 2023 test year, an assumption the OUCC contends is unwarranted. OUCC witness Sullivan further stated, "Under my methodology, a position would need to be vacant for the entire year before an adjustment would be required to account for any vacant positions." OUCC Ex. 1 at 14. In recommending denial of Anderson's vacant position adjustment, it appears that the OUCC believed the vacant positions being requested were filled at some point during the 2023 test year. However, Anderson's docket entry response shows that only one of the eight positions was partially filled during the test year. As such, and as stated by the OUCC, an adjustment is required to account for positions that were vacant for the entirety of the 2023 test year. Further, the OUCC did not provide evidence suggesting the vacant positions were not necessary. Accordingly, the Commission finds that Anderson's modified vacant position adjustment in the amount of $474,760 should be approved as well as $179,432 of health insurance expense, $63,613 of pension expense, and $50,594 of payroll tax expense.

3. <u>Rate Case Expense Amortization</u>. Anderson requests recovery of the rate case expense it incurred in the amount of $299,500, amortizing it over four years through an annual revenue requirement of $74,875.

The OUCC did not dispute the amount of rate case expense. However, the OUCC recommended the expense be amortized over three years so that once the expense was fully recovered, the revenue requirement would be removed from Petitioner's last phase of rate increases (i.e., Phase V).

Anderson disagreed with the OUCC's recommendation, asserting that the OUCC's recommendation to remove the revenue requirement constitutes single-issue ratemaking and creates pressure for a future rate case based on a single declining cost item, rather than a holistic review of Anderson's rates.

Contrary to Petitioner's assertions, the OUCC's recommendation is not prohibited single-issue ratemaking. Single-issue ratemaking is a concept that is typically applied to proceedings between rate cases. This is a rate proceeding in which all of Anderson's revenues and expenses

are being reviewed and considered. Anderson did not request (or attempt to justify) an ongoing or prospective amount for rate case and other legal expense. Instead, Anderson seeks to recover a one-time expense amount of $299,500 that it incurred to bring this rate case. The recovery of rate case expense is an accepted exception to the principle that past expenses may not be recovered through rates. Allowing Anderson to recover an annual rate case expense after the amount has been fully amortized would result in the utility's over-recovery of its expense. Accordingly, we find that Anderson is authorized to recover $299,500 in rate case expense. However, because we find four years to be a more reasonable amortization period, we find the amount should be amortized over four years. At the end of the amortization period, Anderson shall file amended tariffs removing the annual rate case expense of $74,875.

4. Extensions and Replacements. The OUCC accepted Anderson's proposal to increase the extensions and replacements revenue requirement from $1,000,000 in Phases I through IV to the full amount of $2,842,400 in Phase V. We find Anderson's extensions and replacements proposal to be reasonable and approve it.

5. Operating Fund Balance Build-Up/Working Capital. Anderson proposed to include $185,126 in its revenue requirement for Phases II, III, and IV to fund the deficit in its operating fund that is needed for the utility to comply with all its Bond Ordinances. Ms. Wilson testified that Anderson's Bond Ordinances require an operating fund balance of two months (or 60 days). She also noted that a 60-day working capital is required by the SRF Program, and that the SRF Program reviewed and approved the draft of the Bond Ordinance prior to the approval of the Bond Ordinance by the City Council.

The OUCC recommended that the Commission deny Anderson's proposed operating fund build-up revenue requirement. Ms. Sullivan testified that although Ind. Code § 8-1.5-3-8(c)(4) allows working capital to be included in a revenue requirement, it does not authorize an operating fund build-up. Because no lead/lag study was conducted, the OUCC recommended using the FERC 45-day method to calculate an appropriate amount of working capital.

Based on the facts presented in this case, we find it appropriate to approve Anderson's proposal to include, as a revenue requirement, an amount to increase its operating fund so as to maintain 60 days of operation and maintenance expense in compliance with its Bond Ordinances. While we recognize that an appropriate working capital amount is typically determined through a lead/lag study or the FERC 45-day method, neither is specifically required by statute. However, Anderson is not requesting a working capital revenue requirement. The proposed operating fund build-up may be akin to, or address, a utility's working capital, but it is also a proposed revenue requirement needed to ensure compliance with the Bond Ordinances, which are incidental to operation of the utility. The OUCC did not raise any objections to the Bond Ordinances or their reasonableness to obtain the utility's financing. Accordingly, we find the public interest is served by Anderson maintaining compliance with its Bond Ordinances, which is also beneficial to Anderson's ratepayers.

While we are approving Anderson's proposal, we find that in any future rate and/or financing cases in which Anderson seeks approval to maintain a fund of more than 45 days of operation and maintenance expense, it shall explain the reasonableness and necessity for such a requirement.

6. System Development Charge. Anderson proposed an SDC of $900, calculated based on the average of the incremental cost method and equity buy-in method.

The OUCC argued Anderson's use of the incremental cost method was inappropriate because the proposed projects included in the calculation will be fully funded by debt or constructed with contributions. Thus, the OUCC recommended that Anderson's SDC be $518 as calculated using the equity buy-in method.

Based on the evidence presented, we agree with Anderson that a weighted average of the incremental cost and equity buy-in methods appropriately addresses the types of system developments to be recovered in this Cause and is supported by the AWWA M1 Manual. *See* OUCC Ex. CX-5 (pages 329-337 of Chapter VII.2). The incremental cost method focuses on the value or cost to expand existing capacity, whereas the equity buy-in method focuses on the value of the existing system's capacity. *Id.* As Ms. Wilson explained, Anderson applied a weighted average of the two methods because the increased capacity is only part of the need for the South Side Plant and Wells. Thus, a new customer paying the SDC will pay for the existing plant in service through the buy-in method and a portion of the new plant in the incremental cost method by averaging the two methods.

In its proposed order, the OUCC asserts that Anderson's arguments on rebuttal regarding the incremental portion of Anderson's SDC calculation was not appropriate. The OUCC notes that the SDC Revenue (Debt) Credits section of the M1 Manual states, "SDC calculations should consider the applicability of credits for capital costs that are embedded in system revenue requirements (e.g., outstanding debt) and will be recovered through user rates." OUCC Ex. CX-5 (page 340 of Chapter VII.2). The OUCC notes that the M1 Manual prescribes these credits to avoid double recovery by collecting capital costs through the SDC and then again through water rates. However, the M1 Manual continues by stating, "As noted previously, determination of SDCs differs significantly from user rate development because of the prevalence of enabling legislation, which in many states is prescriptive. . . . Accordingly, it is important to review applicable legislation and recognize that what is appropriate in one state or province may be invalid in another." *Id.* In Indiana, there are no statutes applicable to SDC calculations that require SDC Revenue Credits. A SDC is a one-time charge paid by a new water customer for system capacity. The incremental cost method is based on the value or cost to expand the existing system's capacity. The construction cost of Anderson's new water treatment plant is a reasonable representation of the cost for the utility's system capacity. Therefore, we find the approach used by Anderson is reasonable and we approve Anderson's SDC in the amount of $900.

7. Non-Recurring Charges. The OUCC accepted some of Anderson's proposed non-recurring charges but also recommended other adjustments from Anderson's proposal. Ms. Sullivan testified that she accepted all of Anderson's non-recurring charges except the bad check fee and both overtime hours charges. She explained that she recommended a $14 bad check charge based on the actual bank charges incurred for bad checks. As for Anderson's proposed charges for overtime service calls and reconnections, she recommended an after-hours service call or connection charge of $116. Ms. Wilson testified that Anderson accepted the OUCC's adjustment to non-recurring charges for bad checks and both the overtime hour charges.

Based on the evidence, we find Anderson's proposed non-recurring charges should be approved, with the exception of the bad check charge and the overtime service call charge. We find that a bad check charge of $14 and an after-hours service call or connection charge of $116 shall be approved.

8. Other Revenue Requirement Issues. The OUCC recommended certain other reductions in Anderson's revenue requirement. First, the OUCC recommended including a revenue requirements offset of $65,119 for interest income and $2,285 for other income. Anderson witness Wilson objected to these revenue requirement reductions stating that interest income and other income may not necessarily remain at the test year levels. We note that it is reasonable to deduct interest income and other income from the revenue requirements and Petitioner did not provide a better estimate than the historical value proposed by the OUCC. As such, we accept the OUCC's pro forma interest income of $65,119 and other income of $2,285.

Second, the OUCC proposed to increase the adjustable operating revenues by $87,671, which resulted from shifting late payment fees of $57,115, rents from water property of $21,522, and miscellaneous service revenues of $9,034 from non-adjustable operating revenues to adjustable operating revenues. We agree that late payment fees increase as operating revenues increase, but disagree that rents from water property or miscellaneous service revenues related to non-recurring charges do. As such, we classify rents from water property, miscellaneous service revenues, and other water revenues of $113,737 as non-adjustable operating revenues, which total $144,293.

9. Conclusion on Revenue Requirement. Based on the foregoing analysis, we find the following revenue requirement is necessary to pay all the legal and other necessary expenses incident to the operation of the water utility, consistent with Ind. Code § 8-1.5-3-8(c) and should be approved:

Overall Revenue Requirement

Line		IURC
1	Operating Expenses	$ 10,403,154
2	Payment in Lieu of Taxes	592,692
3	Extension and Replacements	2,842,400
4	Debt Service	8,662,890
5	Debt Service Reserve	1,546,040
6	O&M Expense Build Up Operating Fund	-
7	Total Revenue Requirements	24,047,176
8	Less Revenue Requirement Offsets:	
9	Interest Income	(65,119)
10	Other Income	(2,285)
11	Net Revenue Requirement	23, 979,772
12	Revenues at Current Rates Subject to Increase	(10,930,575)
13	Other Revenues Not Subject to Increase	(144,293)
14	Recommended Increase	$ 12,904,904
15	Recommended Percentage Increase	118.6%

Line	IURC Phased-In Revenue Requirement	Phase I	Phase II	Phase III	Phase IV	Phase V
1	Operating Expenses	$10,328,279	$10,403,154	$10,403,154	$10,403,154	$10,403,154
2	Payment in Lieu of Taxes	592,692	592,692	592,692	592,692	592,692
3	Extension and Replacements	1,000,000	1,000,000	1,000,000	1,000,000	2,842,400
4	Current Annual Lease Payment	150,000	73,826			
5	Current Debt Service	1,306,190	1,315,090	937,680	940,890	937,140
6	Proposed Debt Service		1,000	3,304,213	6,369,067	7,725,750
7	Debt Service Reserve		582,950	1,207,550	1,546,040	1,546,040
8	O&M Expense Build Up Operating Fund		167,665	167,665	167,665	0
9	Total Revenue Requirements	13,377,161	14,136,377	17,612,954	21,019,508	$24,047,176
10	Less Revenue Requirement Offsets:					
11	Interest Income	(65,119)	(65,119)	(65,119)	(65,119)	(65,119)
12	Other Income	(2,285)	(2,285)	(2,285)	(2,285)	(2,285)
13	Net Revenue Requirement	13,309,757	14,068,973	17,545,550	$20,952,104	$23,979,772
14	Less Current Revenues:					
15	Revenues Subject to Increase	(10,930,575)	(13,165,464)	(13,924,680)	(17,401,257)	(20,807,811)
16	Other Revenues Not Subject to Increase	(144,293)	(144,293)	(144,293)	(144,293)	(144,293)
17	Recommended Increase	$2,234,889	$759,216	$3,476,577	$3,406,554	$3,027,668
18	Recommended Percentage Increase	20.45%	5.77%	24.97%	19.58%	14.55%

10. Anderson's Lost Water. As discussed extensively by the parties, Anderson's lost water has been an issue for decades and has significantly increased over the last decade. Anderson's approximate 39% water loss is unacceptable as it significantly exceeds the Commission's recommended maximum target water loss rate of 15% and IDEM's 25% standard for determining significant deficiencies. Anderson's lost water issue must be addressed. While we believe the proposed water main and service line replacements and the hiring of additional employees to assist in more frequent leak detection activities is a step in the right direction, more must be done to ensure these efforts are sustained and successful.

The OUCC recommended Anderson undertake a long-term continuous program to identify, reduce, and manage it water losses to an acceptable level. More specifically, the OUCC recommended Anderson develop and implement an ongoing and properly funded Water Loss Action Plan within two years to address the high water losses. The plan should establish a program for finding and fixing water leaks, locating and fixing or replacing inoperable distribution valves, and creating a long-term plan to replace aged and leaking water mains. We agree with the OUCC and find that Anderson shall develop and implement a Water Loss Action Plan within two years of the date of this Order.

11. True-Up Report. Petitioner shall file a true-up report to adjust its rates to reflect the actual debt service after closing on the Proposed Bonds. Accordingly, Anderson should file a report within 30 days of closing on each of its long-term debt issuances authorized herein, explaining the terms of the new loan and the amount of debt service reserve. The report should include an itemized account of issuance costs, a revised tariff, amortization schedule, and rate impact. The OUCC shall have 21 days after service of the true-up report to challenge the proposed true-up, and Anderson shall have 21 days to respond to the OUCC's response.

12. Compliance with the 2015 Rate Order. Anderson's witnesses testified about the work Anderson has undertaken to improve its operations and comply with the requirements of the settlement agreement approved by the 2015 Rate Order. One of those requirements is that Anderson "establish an asset management team to develop a written asset management plan. . ." within 18 months of the 2015 Rate Order. OUCC Ex. CX-3, page 6 of the Settlement Agreement.

OUCC witness Parks testified that Anderson has not presented an asset management plan. While Mr. McKee acknowledged at the evidentiary hearing that Anderson did not have a single written document labeled as an asset management plan, he disagreed with the OUCC that Anderson has not established an asset management plan. Tr. at A-37. Mr. McKee testified that Anderson has a list of assets and ages, a ticket management work order system, GIS mapping, and other documents that comprise its asset management plan. Tr. at A-30 -31, 37; Pet. Ex. 1-R, Attach. NLM-2R. Mr. McKee further testified that Anderson used EPA's template to create an asset management plan. Tr. at A-77.

We disagree with Anderson's argument in its proposed order that receipt of funding from IFA is evidence, or otherwise determinative, of the fact that Anderson has an asset management plan. The SRF Program application merely requires the utility to certify to IFA that it has an asset management plan, which IFA then relies upon to determine eligibility for funding. No asset management plan is submitted for IFA review or approval.

We also do not agree with the OUCC's suggestion that Anderson does not have an asset management plan simply because it does not have a document that is titled as an asset management plan. However, we do find that to comply with the 2015 Rate Order, Anderson should create a written document that, at a minimum, identifies the documents, systems, and/or processes that comprise its asset management plan and where the information can be located. Anderson should do this within six months of this Order.

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

1. Petitioner is authorized to increase its rates and charges for water service in five Phases with the increase for Phase I constituting a 20.5% increase, effective upon issuance of this Order; Phase II constituting a 5.8% increase, effective on January 1, 2026; Phase III constituting a 25% increase, effective on January 1, 2027; Phase IV constituting a 19.6% increase, effective on January 1, 2028; and a 14.6% increase, effective on January 1, 2029.

2. Prior to implementing each phase of approved rates, Petitioner shall file the tariff and applicable rate schedules under this Cause for approval by the Commission's Water/Wastewater Division.

3. Petitioner is granted authority to issue additional long-term debt in one or more issues to the SRF Program, pursuant to competitive sale, or private placement at or below competitive market rates and in principle amount not to exceed $130,000,000 and a 7% interest rate, as approved herein. This authority shall expire on December 31, 2030.

4. Petitioner shall develop and implement a Water Loss Action Plan within two years of the date of this Order. Upon development and implementation, Anderson shall file a certification of compliance under this Cause.

5. Within six months of this Order, Petitioner shall create a written document that, at a minimum, identifies the documents, systems, and/or processes that comprise its asset management plan and where the information can be located.

6. In accordance with Ind. Code § 8-1-2-70, Petitioner shall pay the following itemized charges within 20 days from the date of the Order into the state general fund described in Ind. Code § 8-1-6-2(b), through the Secretary of the Commission, as well as any additional costs that were incurred in connection with this Cause:

Commission Charges:	$ 9,400.43
OUCC Charges:	$ 49,929.74
Legal Advertising Charges:	$ 207.97
Total:	$ 59,538.14

7. In accordance with Ind. Code § 8-1-2-85, Petitioner shall pay a fee equal to $0.25 for each $100 of utility revenue bonds issued, to the Secretary of the Commission, within 30 days of the receipt of the financing proceeds authorized herein. The fees collected by the Secretary shall be paid into the state treasury and deposited in the state general fund under Ind. Code § 8-1-6-2(b), as if they were collected under Ind. Code ch. 8-1-6.

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

HUSTON, VELETA, AND ZIEGNER CONCUR:

APPROVED: NOV 05 2025

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

Dana Kosco Digitally signed by Dana Kosco Date: 2025.11.05 10:13:04 -05'00'

Dana Kosco
Secretary of the Commission