ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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| **PETITION OF CWA AUTHORITY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WASTEWATER UTILITY SERVICE IN THREE PHASES AND APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO; (2) APPROVAL OF A LOW-INCOME CUSTOMER ASSISTANCE PROGRAM; AND (3) APPROVAL OF CERTAIN CHANGES TO ITS GENERAL TERMS AND CONDITIONS FOR WASTEWATER SERVICE.** | **CAUSE NO. 45151**<br>**APPROVED:** JUL 29 2019 |

## ORDER OF THE COMMISSION

**Presiding Officers:**
**James F. Huston, Chair**
**David L. Ober, Commissioner**
**Lora L. Manion, Administrative Law Judge**

On October 12, 2018, CWA Authority, Inc. ("Petitioner" or "CWA") filed its Verified Petition ("Petition") in this Cause. CWA also filed the direct testimony and attachments of the following witnesses:

- Jeffrey A. Harrison, President and Chief Executive Officer for CWA and the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis d/b/a Citizens Energy Group ("CEG" or the "Board");
- John R. Brehm, Senior Vice President and Chief Financial Officer for CWA and CEG;
- Eric P. Rothstein, Utility Management Consultant, Galardi Rothstein Group;
- Jeffrey A. Willman, Vice President of Water Operations for CWA and CEG;
- Mark C. Jacob, Vice President of Capital Programs & Engineering and Quality for CWA and CEG;
- Sabine E. Karner, Vice President and Controller for CWA and CEG;
- Jodi L. Whitney, Vice President, Human Resources and Chief Diversity Officer for CWA and CEG;
- David J. Wathen, Senior Director, Willis Towers Watson;
- Prabha N. Kumar, Director, Black & Veatch Management Consulting LLC; and
- Korlon L. Kilpatrick II, Director of Regulatory Affairs for CWA and CEG.

On October 22, 2018, the Citizens Action Coalition of Indiana, Inc. ("CAC") filed a Petition to Intervene, which the Presiding Officers granted by Docket Entry dated November 2, 2018.

In accordance with 170 IAC 1-1.1-15, the Indiana Utility Regulatory Commission

("Commission") held a Prehearing Conference on November 14, 2018, commencing at 1:00 p.m. in Hearing Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. CWA, the Indiana Office of Utility Consumer Counselor ("OUCC"), and the CAC appeared and participated in the Prehearing Conference. On November 28, 2018, the Presiding Officers issued a Prehearing Conference Order establishing a procedural schedule based on the agreement of the parties at the Prehearing Conference.

On November 29, 2018, CWA Authority Industrial Group ("Industrial Group"), an ad hoc group of CWA's industrial customers consisting of Indiana University, IU Health, and Vertellus Agriculture & Nutrition Specialties, Inc., filed a Petition to Intervene, which was granted by Docket Entry dated December 14, 2018.

On December 26, 2018, Indiana Community Action Association, Inc. ("INCAA") filed a Petition to Intervene, which was granted by Docket Entry dated January 8, 2019.

On January 7, 2019, the Commission held a public field hearing commencing at 6:00 p.m. at University of Indianapolis, Schwitzer Hall, Schwitzer Center, 1400 E. Hanna Avenue, Indianapolis, Indiana. One member of the general public testified at the field hearing. The OUCC sponsored written comments from the public, which the Commission admitted into evidence. On January 17, 2019, the Commission held a second public field hearing commencing at 6:00 p.m. at New Augusta Public Academy, North Auditorium, 6450 Rodebaugh Road, Indianapolis, Indiana. A state representative and four members of the general public testified. All oral and written comments received at the field hearing were admitted into the record of this Cause.

On January 22, 2019, CWA filed its Notice of Corrections to CWA's Direct Testimony and Exhibits and its Notice of Corrections to Working Papers.

On January 25, 2019, the OUCC filed Consumer Comments and the direct testimony and attachments of the following witnesses:

- Margaret A. Stull, Chief Technical Advisor in the Water/Wastewater Division;
- Richard J. Corey, Utility Analyst in the Water/Wastewater Division;
- Edward R. Kaufman, Assistant Director of the Water/Wastewater Division;
- James T. Parks, P.E., Utility Analyst II in the Water/Wastewater Division;
- Scott A. Bell, Director of the Water/Wastewater Division; and
- Jerome D. Mierzwa, Principal and Vice President of Exeter Associates, Inc.

On the same date, the Industrial Group filed the direct testimony and attachments of Jessica A. York, Senior Consultant with the firm of Brubaker & Associates, Inc., and Michael P. Gorman, Managing Principal with the firm of Brubaker & Associates, Inc. Additionally, CAC and INCAA jointly filed the direct testimony and attachments of Kerwin L. Olson, Executive Director of CAC.

On February 18, 2019, CWA filed its Motion for Protective Order with Respect to Detailed Project Information and Consultant Pricing Information. The Presiding Officers granted the motion and found the information should be treated as confidential on a preliminary basis by

Docket Entry dated February 20, 2019. On February 21, 2019, CWA filed its Motion for Protective Order with Respect to Confidential and Proprietary Information. The Presiding Officers also granted that motion and found the information should be treated as confidential on a preliminary basis by Docket Entry dated February 22, 2019.

On February 21, 2019, CWA submitted the rebuttal testimony and attachments of all of its witnesses except Jeffrey A. Willman. Also on February 21, 2019, the OUCC filed the cross-answering testimony of Jerome D. Mierzwa.

On February 25, 2019, the OUCC filed Additional Consumer Comments.

On March 7, 2019, the OUCC filed an Objection and Motion to Strike Portions of the Rebuttal Testimony of CWA witnesses John Brehm and Mark Jacob ("Motion to Strike").

On March 15, 2019, CWA, the OUCC, the Industrial Group, CAC, and INCAA (collectively, the "Settling Parties") advised the Commission that a settlement on less than all issues was expected to be reached in this Cause. Accordingly, the Settling Parties requested by motion that the Commission should continue the Evidentiary Hearing. The OUCC withdrew its Motion to Strike. The Presiding Officers granted the Settling Parties' motion by Docket Entry dated March 15, 2019 and further directed the Settling Parties to file a proposed procedural schedule for the remainder of the proceeding and outline any remaining unsettled issues.

On March 19, 2019, the Settling Parties filed a Submission of Proposed Procedural Schedule and Outline of Unsettled Issues (the "Submission"). The Submission indicated that the Settling Parties anticipated the unsettled issue in this Cause to consist of the OUCC's recommendations that CWA retain ownership and use its maintenance staff to provide emergency response and repairs for the grinder pumps and on-going replacements when they reach the end of their service lives (the "grinder pump issue"). On March 21, 2019, the Presiding Officers issued a Docket Entry establishing a procedural schedule for the consideration of the settled issues and the unsettled grinder pump issue.

On April 12, 2019, the Settling Parties filed a Stipulation and Settlement Agreement on Less than All Issues ("Settlement Agreement"). The Settlement Agreement resolved each of the issues raised in the Petition and CWA's pre-filed testimony and exhibits in this Cause, aside from the grinder pump issue.

On April 17, 2019, CWA and the OUCC filed the following testimony and exhibits in support of the Settlement Agreement: CWA filed the supplemental testimony and attachments of Jeffrey A. Harrison and Korlon L. Kilpatrick II; and the OUCC filed the settlement testimony of Margaret A. Stull and Jerome D. Mierzwa.

On May 2, 2019 and May 6, 2019, the Presiding Officers issued Docket Entries requesting that CWA respond to certain requests for additional information. CWA submitted responses on May 6, 2019 and May 8, 2019.

On May 9, 2019, the Commission held an Evidentiary Hearing on the Settlement

Agreement and grinder pump issue commencing at 9:30 a.m. in Hearing Room 224 of the PNC Center, 101 West Washington Street, Indianapolis Indiana. The Parties appeared and participated in the hearing.

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

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

CWA is an Indiana nonprofit corporation, a public subdivision, an instrumentality of the State of Indiana, and thus a "municipality" under 11 U.S.C. § 101(40), created pursuant to an Interlocal Cooperation Agreement entered into by the City of Indianapolis, the Sanitary District of the City of Indianapolis (the "Sanitary District"), and CEG in accordance with the Interlocal Cooperation Act (Indiana Code ch. 36-1-7). Through the Interlocal Cooperation Agreement, the Board vested CWA with its statutory powers to adopt rates and charges and terms and conditions for the provision of wastewater utility service under Indiana Code § 8-1-11.1-3(c)(9). Under that section, the Commission has jurisdiction over CWA's rules and rates for utility service. Therefore, the Commission has jurisdiction over CWA and the subject matter of this proceeding.

2. **CWA's Organization and Business.** CWA furnishes wastewater utility service to approximately 242,000 residential, commercial, industrial, and other types of customers in and around Marion County, Indiana. CWA provides such service by virtue of its acquisition of certain Wastewater System assets from the City of Indianapolis and the Sanitary District, acting by and through the Sanitary District, pursuant to an Asset Purchase Agreement approved by the Commission's July 13, 2011 Order in Cause No. 43936. CWA's principal office is at 2020 North Meridian Street, Indianapolis, Indiana.

Under Section 2.04 of the Asset Purchase Agreement, CWA assumed responsibility for performance of the City's and Sanitary District's obligations under the terms of a Consent Decree entered by the U.S. District Court for the Southern District of Indiana, on December 19, 2006, in *United States and State of Indiana v. City of Indpls.*, Cause No. 1:06-CV-1456-DFH-VSS, as amended (the "Consent Decree"). In general, the Consent Decree requires the construction and implementation of a number of specific remediation measures designed to reduce combined sewer overflows ("CSO") from the Wastewater System into the City's rivers and streams.

3. **Test Year.** The test year for determining CWA's actual and pro forma operating revenues, expenses, and operating income under present and proposed rates is the 12-month period ending May 31, 2018. We find that the May 31, 2018 test year, as adjusted for fixed, known, and measurable changes, is sufficiently representative of CWA's normal utility operations to provide reliable data for ratemaking purposes.

4. **Background and Original Relief Requested.** The Commission's July 18, 2016 Order in Cause No. 44685 authorized CWA to increase its rates and charges in two phases. CWA

implemented Phase 1 and 2 rates and charges on July 20, 2016 and August 1, 2017, respectively. CWA was required to file true-up reports and revised rate schedules based on the actual results of new debt issuances contemplated in Cause No. 44685. CWA made those compliance filings on October 21, 2016 and August 21, 2017, respectively. CWA's schedule of base rates and charges became effective September 1, 2017.

On September 28, 2017, CWA filed a Petition in Cause No. 44990 and sought approval to implement a System Integrity Adjustment ("SIA") pursuant to Indiana Code § 8-1-31.5-12, which the Commission approved on December 28, 2017. CWA implemented the approved SIA 1 rates effective January 1, 2018. On September 17, 2018, CWA filed a Petition seeking approval of SIA 2 rates to become effective on January 1, 2019, and the Petition was approved by the Commission on December 19, 2018.

In this Cause, CWA's Petition asserts that the current rates and charges for wastewater service result in the collection of revenues that do not meet the requirements of reasonable and just rates and charges set forth in Indiana Code § 8-1.5-3-8. In its case-in-chief, CWA sought Commission approval of revised schedules of rates and charges to be implemented in three phases: (1) a Phase 1 increase, effective upon the Commission issuance of a Final Order, to generate additional annual operating revenues of approximately $39.5 million; (2) a Phase 2 increase, effective on August 1, 2020, to generate additional annual operating revenues of approximately $14.7 million; and (3) a Phase 3 increase, effective on August 1, 2021 to generate additional annual operating revenues of approximately $11.3 million. CWA proposed that its requested increases in operating revenues be recovered from customer classes based upon the results of a cost of service study prepared by Black & Veatch.

In its Petition, CWA also proposed revisions to its Terms and Conditions for Wastewater Service. In addition, CWA proposed to create a new Low-Income Customer Assistance Program ("LICAP") for residential customers. The proposed LICAP consists of two components: (1) a rate discount for eligible customers; and (2) an assistance fund to help eligible customers with, among other things, infrastructure improvements that have bill impacts, such as the replacement of leaking service lines or the installation of water-efficient plumbing fixtures.

**5. CWA's Case-in-Chief Evidence.** Jeffrey A. Harrison addressed a variety of topics in support of the relief requested in the Petition. Mr. Harrison first described the history of the transfer of the wastewater utility from the City of Indianapolis to CWA, including the Commission's approval of the transfer in Cause No. 43936. Mr. Harrison testified that a settlement agreement was reached in Cause No. 43936 in which the settling parties in that case recommended approval of the transfer of the City's water and wastewater utilities to CEG and CWA, respectively. Mr. Harrison emphasized that in its Order in Cause No. 43936 approving those transfers, the Commission took note of the challenges the wastewater utility faced and the need for it to be under the ownership and operational control of CWA and the CEG utility organization:

> Both systems require a significant amount of capital investment. This is particularly true with respect to the Wastewater utility, which must comply with the terms of the Consent Decree. Based upon the evidence presented in this proceeding, we find that transferring control of the Water and Wastewater Systems from the City to

> Citizens and [CWA] will provide many benefits to the City's water, wastewater, gas, and steam customers and is in the public interest. The Commission was presented with evidence demonstrating the significant challenges both the Water and Wastewater Systems face in the upcoming years, which underscores the need to ensure these critical assets are under the operational control of a qualified and experienced utility organization.

Pet. Ex. 1 at 13 and 17, quoting *Bd. of Directors for Utilities of the Dep't of Pub. Utilities of the City of Indpls.*, Cause No. 43936, 2011 WL 2908621, at 19 (IURC July 13, 2011).

Mr. Harrison discussed CWA's performance with respect to implementing the Consent Decree and other key wastewater initiatives. He testified that CWA achieved $400 million in Consent Decree savings and all elements of the Long-Term Control Plan are on or ahead of schedule. He also discussed CWA's achievement of efficiencies and cost effectiveness by in-sourcing critical management and operational functions that had previously been outsourced by the City, including CWA's termination of the contractual arrangement formerly in place with SUEZ North America ("SUEZ"), formerly United Water Services Indiana, LLC.

Mr. Harrison stated that this is the third rate case CWA has filed since the transfer of the wastewater utility from the City to CWA was approved by the Commission. He noted the prior two cases resulted in settlement agreements and Commission Orders consistent with the consensus reached in Cause No. 43936, which have allowed CWA to fulfill its Consent Decree obligations thus far in a fiscally and socially responsible manner. Mr. Harrison testified that if the Commission approves the three-step rate increase CWA seeks in this case, it would be the last increase of this size needed to complete the federally mandated Consent Decree, which is scheduled for completion in 2025. Mr. Harrison testified that it is critical to the success of CWA and the City to stay the course charted by the settling parties and Commission in Cause No. 43936, including continued recognition of CWA's need for funding to complete the Consent Decree and to invest in aging wastewater infrastructure as well as the need for the wastewater utility to be under the ownership and operational control of an organization staffed with an experienced, professional utility management team.

Mr. Harrison next addressed the various challenges and risks CWA faces. He testified that as with any large and complex business like CWA, there are many challenges, but he focused on the risks in completing the Consent Decree, aging infrastructure, and poverty and affordability issues in Marion County. Mr. Harrison discussed at a high level the challenges and risks of completion of the Consent Decree and of aging infrastructure, and he testified that other CWA witnesses would discuss these issues in more detail.

Mr. Harrison emphasized that the growing problems of poverty and affordability in Marion County are top of mind. He discussed steps CEG and CWA have taken and are taking to address the problems, including a continued commitment to remain focused on controlling costs. Mr. Harrison noted that subsequent to CWA's last rate case, the Indiana General Assembly passed and the Governor signed Senate Enrolled Act ("SEA") 416, which provides the Commission greater flexibility to approve revenue-funded customer assistance programs. He explained that in light of

SEA 416, CWA is proposing in this case a rate-funded customer assistance program, which includes bill discount and infrastructure fund proposals for qualified low-income customers.

Finally, Mr. Harrison discussed CWA's current rates and charges. He stated that the rates and charges approved in CWA's last rate case were designed to meet the utility's funding needs through July 2018. Mr. Harrison explained that because of efficiencies realized through prudent financial and operational management, CWA was able to delay the need for this rate case for over a year. He stated that CWA is now at a point that the rates and charges approved in the last rate case are insufficient to meet the utility's on-going needs. Mr. Harrison explained that as with CWA's first two rate cases, the request for relief in this case is driven largely by CWA's significant capital spending needs.

John R. Brehm sponsored CWA's pro forma adjustments for the revenue-funded portion of CWA's total extensions and replacements ("E&R") and for debt service. Mr. Brehm stated the annual revenue requirement and rates and charges currently in effect for CWA (including the applicable SIA) were designed to provide for the needs of the Wastewater System through July 31, 2018. He explained that CWA's proposal is to increase its rates and charges in three phases: (1) Phase 1 begins upon receiving an Order in this case on approximately August 1, 2019; (2) Phase 2 begins one year following implementation of Phase 1 or approximately August 1, 2020; and (3) Phase 3 begins one year following implementation of Phase 2 or approximately August 1, 2021.

Mr. Brehm testified that the reason for proposing to increase rates and charges in three phases is as follows: CWA's debt service obligations increase materially each year because a significant amount of new debt must be issued each year to finance the large E&R spending requirements of the Wastewater System driven largely by the Consent Decree. Mr. Brehm further explained that the revenue-funded amount of E&R must also increase in each of the three phases to sustain CWA's debt service coverage ("DSC") ratio in light of the annual increase in its debt service cost. In addition, Mr. Brehm stated CWA's Payments in Lieu of Taxes ("PILOT") obligation to the City of Indianapolis is increasing annually in accordance with the PILOT payment schedule that was approved by the Commission in Cause No. 43936.

Eric P. Rothstein provided testimony addressing primarily CWA's capital investment financing plan and affordability initiatives. Mr. Rothstein testified that CWA's proposed three-phase rate increase plan is a sensible way to navigate the fundamental need for CWA to implement annual rate increases that are characteristic of Consent Decree communities nationwide. He explained that CWA's paced, sustained rate increase program is entirely consistent with approaches used successfully to structure Consent Decree program financings within communities' financial capabilities (per Clean Water Act requirements and United States Environmental Protection Agency ("EPA") guidance).

Mr. Rothstein also addressed CWA's proposed LICAP, and he stated CWA's approach to water affordability represents a measured yet substantial initiative to execute on the policy adopted in SEA 416. Mr. Rothstein stated his belief that the rate-funded LICAP proposed by CWA, including both the bill discount and infrastructure fund, is in the public interest and should be approved.

Jeffrey A. Willman described CWA's on-going efforts to maintain the safety and reliability of the Wastewater System through effective management, operational oversight, system improvements, and cost control measures. Mr. Willman provided a brief overview of the collection and treatment facilities of the Wastewater System. As a part of that, he discussed the first ten miles of the Deep Rock Tunnel System along with the Tunnel Pump Station that were placed in service in December of 2017. Mr. Willman noted that portions of the CWA Wastewater System are over 100 years old and require significant investment to ensure the system continues to provide safe and reliable services in the future. Mr. Willman testified that many miles of the Collection System were constructed of brick and clay tile materials, which eventually need to be replaced or more often relined to reestablish the structural integrity of the piping systems. Accordingly, CWA plans to invest on average approximately $18 million annually to meet the priority needs of the Collection System during the three-year period beginning August 2019 and ending July 2022 ("Capital Investment Requirement Period" or "CIRP").

Mr. Willman discussed how that on January 1, 2017, CEG took over the direct day-to-day operation of the system when the longstanding SUEZ Agreement for the Operation and Maintenance of the Advanced Wastewater Treatment Facilities and Wastewater and Stormwater Collection System ("SUEZ Agreement") expired. According to Mr. Willman, the SUEZ Agreement was allowed to expire because direct operation and in-sourcing would allow CEG to reduce CWA's operating costs, improve system performance, and benefit CWA's customers long-term. Mr. Willman further testified that the in-sourcing has been successful and resulted in an overall reduction in operations and maintenance ("O&M") costs of approximately $4.2 million per year. Those cost savings were achieved in a variety of ways, including several process and efficiency improvements.

Mr. Willman described CEG's cross-functional planning process, including the role that Water Operations plays in that process. The process is used to establish and align strategic and operational objectives with capital plans and budgets. For the Wastewater System, the capital planning process is focused on providing safe, reliable, and efficient service for customers and ensuring that the collection, treatment, and discharge systems are in compliance with all applicable laws, regulations, and permits.

Mark C. Jacob sponsored the proposed E&R investment requirement of approximately $196.5 million on average per year during the CIRP, including approximately $152.2 million for Consent Decree projects and $44 million for non-Consent Decree Projects. Mr. Jacob stated that CWA's major infrastructure elements are: (1) Consent Decree projects; (2) Septic Tank Elimination Program ("STEP") projects, (3) Collection System improvement projects; and (4) treatment plant projects. CWA also has capital needs relating to fleet and facilities replacements, environmental support, technology replacements, and Corporate Support Services projects.

Mr. Jacob noted that spending on non-Consent Decree projects during the CIRP was reduced from test year levels, in part, to maintain affordability while Consent Decree investments are at their peak levels. He expressed his belief that the projected capital investment requirement level was necessary for the continued delivery of safe and reliable service. He explained that non-Consent Decree spending would need to increase in four to five years as Consent Decree spending

decreases significantly to address existing infrastructure needs and to minimize unplanned outages and emergency repairs.

Mr. Jacob testified that during the CIRP, the total capital investment requirements for CWA were estimated to be approximately $589.4 million. He referenced Attachment MCJ-6, the CWA Capital Report, which CWA agreed to file pursuant to Cause No. 44685. Mr. Jacob further noted that it is probable that some of the projects shown in Attachment MCJ-6 could change during the CIRP and the report should be viewed as a snapshot of a living document.

Mr. Jacob testified that Consent Decree projects are the largest driver of the capital needs. As previously mentioned, CWA estimates investing approximately $152.2 million annually on Consent Decree projects during the CIRP. Mr. Jacob testified that most Consent Decree projects have been completed and CWA is on schedule to meet the prescribed final completion date of December 31, 2025. Mr. Jacob stated that the Consent Decree described the major CSO control measures to be commenced, completed, constructed, or continued during this period.

Mr. Jacob testified CWA would invest approximately $6.3 million annually on STEP projects to connect more than 300 homes per year, which is approximately half the level approved in CWA's last rate case, due to a reduction in the cost per home of STEP projects, the number of homes to be provided access to new sewers, and also the fact that Consent Decree investments during the CIRP are at their highest level. Mr. Jacob testified that through 2017 approximately 13,500 homes were given access to connect to CWA's sewer system. During the Evidentiary Hearing, Mr. Jacob indicated that low-pressure sewer systems ("LPSS") were installed to almost 1,000 homes by May 2019. Tr. at 110. He stated CWA designated approximately 3,000 additional homes as high priority locations to be completed. Mr. Jacob stated CWA would like to complete the prioritized STEP projects by 2025. This schedule will coincide with the completion of the Consent Decree projects as contemplated by the Long-Term Control Plan.

Mr. Jacob explained that through the use of value engineering, CWA changed its construction practices of STEP projects from primarily gravity systems to predominantly LPSS. Mr. Jacob testified that the costs for a gravity sewer STEP project over the past several years have varied, averaging approximately $32,000 per home for the period from 2005 through 2016. CWA estimates the LPSS approach reduced STEP project costs by approximately 30% to 40% of traditional gravity sewer construction methods (although many factors can impact this differential). Mr. Jacob testified as a result, the average cost per home of a STEP project during the CIRP is approximately $18,800 (down from approximately $32,000 for gravity sewers). Mr. Jacob indicated that connection rates with LPSS have increased from historical levels of approximately 50% to over 95%. Mr. Jacob testified that the increase in connection rates was driven by a number of factors including: significantly lower costs, ease of construction, and ease of connectivity. Mr. Jacob testified that it is the Marion County Health Department, and not CWA, that has the authority to require property owners to abandon their septic systems and connect to the sanitary sewer system.

Mr. Jacob said CWA needs to invest on average approximately $13.8 million annually to meet the priority needs of CWA's treatment plants. The projects to be completed during the CIRP include internal site drainage controls, odor control, instrumentation and control upgrades, pump

repairs, equipment replacements, projects addressing sludge production, and chemical process improvements. Mr. Jacob identified certain major treatment plant improvements expected to be under construction during the CIRP, including a new consolidated control room at the Belmont Advanced Wastewater Treatment Plant. He stated that this project would replace three existing console rooms that are outdated and present fire safety and security access risks.

Mr. Jacob stated that CWA also plans to invest on average approximately $18.3 million annually to meet the priority needs of the Collection System. Mr. Jacob testified that large parts of the Collection System are very old and need significant and continuous investment. Mr. Jacob testified due to the age of the system, CWA experiences an average of approximately 80 failures in its 3,200-mile Collection System each year. Some components of the Collection System were installed in the 1800s, and Indianapolis has 71 miles of brick sewer. The majority of the activity in the Collection System category involves the following: (1) improvements to the overall collection network, including planning, design, and construction of new interceptor works; (2) relocations; (3) small and large diameter sewer rehabilitations, including manholes and structures; and (4) investments in several lift station replacements and improvements. He noted that the Sanitary Sewer Master Plan identifies approximately $74 million of priority expansion needs in the Collection System in the next five years.

Mr. Jacob testified that as Consent Decree Projects approach completion in 2025, E&R needs will begin to trend down, but non-Consent Decree E&R will need to increase beyond the current level of non-Consent Decree E&R currently projected within the CIRP. Mr. Jacob estimated that the need for total E&R for the Collection System would decrease from current levels to approximately $89 million after the CIRP. He further explained that currently CWA is investing closer to the bottom quartile of utilities as measured by an American Water Works Association study with respect to non-Consent Decree E&R due to the significant investment needs to complete Consent Decree projects. However, Mr. Jacob stated this level of reinvestment in the Collection System is not prudent over the long term and could have negative consequences such as some form of infrastructure failure, capacity issue, or environmental violation, and higher reactive repair costs as evidenced by the sewer failures that occurred downtown in the summer of 2018. Mr. Jacob concluded his testimony by recommending that the Commission approve the proposed capital investment level during the CIRP and authorize CWA to continue STEP through at least 2022 and possibly long enough to complete the prioritized STEP locations.

Sabine E. Karner sponsored the test year financial statements for CWA, the pro forma adjustments related to certain operating expenses, the test year allocation of Shared Services costs to CWA, and the amount of other income. Ms. Karner testified that CWA's Shared Services allocator increased from 23.13% in the test year to 24.69% based on the use of an overall allocation factor established for fiscal year 2019. Ms. Karner explained that the use of the fiscal year 2019 budgeted allocation factor is more representative of on-going costs than the test year allocation factor because CWA's Shared Services costs will continue to increase annually as CWA's revenues increase. She also explained that the use of the fiscal year 2019 budgeted allocation factor, which is based on 2017 actual revenues, was reasonable because it represented a lower cost alternative than other pro forma allocation factors, which use more current revenues and would have yielded higher Shared Services allocations.

Jodi L. Whitney sponsored the September 27, 2017 Board Resolution establishing the executive compensation programs and level of compensation for CEG's officers during fiscal year 2018 along with the attached Executive Compensation Benchmarking Analysis for fiscal year 2018. Ms. Whitney said she believes the current compensation structure and resulting level of compensation reflected in the Board's Resolution are necessary, appropriate, and satisfy the need of CEG to provide a competitive level of compensation for its officers. She explained why she believes that the results of the updated municipal-only compensation study, prepared by David J. Wathen of Willis Towers Watson and filed in compliance with the Commission's directive in Cause No. 44685, is not the appropriate measure of executive compensation for CEG.

Ms. Whitney addressed the Board's authority to determine the level of compensation of managers and employees and the necessary experience and expertise the officers of CEG must have to manage and operate seven different utilities. Ms. Whitney testified that according to the work papers prepared by Ms. Karner, pro forma senior executive compensation (base pay plus short-term at-risk compensation) allocated to CWA totals $1,349,642. Executive compensation represents less than 0.50% of the total pro forma revenue of $333,924,357 presented in this case.

David J. Wathen provided an updated compensation study that examined only municipal and public power utility compensation in response to the Commission's directive in Cause No. 44685. Mr. Wathen testified that large municipal and public power utilities include investor-owned utilities in their executive compensation benchmarking peer groups. He explained his belief that executives in these utilities have the requisite experience and expertise needed to manage large complex organizations covering vertically integrated operations, multiple business/operating units, and support functions necessary to provide safe, reliable, and cost effective services to customers.

Mr. Wathen indicated that the results of the competitive benchmarking compensation study of the 24 peer group companies demonstrates that the target total cash compensation (base salary and short-term at-risk compensation) provided to the 12 listed CEG executives aligns with the Board's stated executive compensation philosophy. He further testified the compensation was reasonable relative to the competitive market for executive talent for similar industry positions. In aggregate, Mr. Wathen noted CEG's executive pay falls within a competitive range of the market for base salary and target total cash compensation, but falls well below the competitive range when compared to the Board's targeted market position of the 50$^{th}$ percentile of target total direct compensation. This is due to below market target short-term at-risk opportunities for selected positions within CEG and the lack of long-term, at-risk compensation due to the elimination of that plan in 2014.

Prabha N. Kumar presented the results of the cost of service study filed in this proceeding by CWA and discussed the underlying methodology she used to conduct the cost of service study. Ms. Kumar stated the study incorporated the cost of service methodology stipulations agreed upon in Cause No. 44685 S1 regarding Sewer Rate No. 6. She further explained how the satellite Customer Subsidy was applied. Ms. Kumar also explained CWA's proposed design of rates and charges. CWA provided Black & Veatch with a few primary objectives to achieve during the rate design portion of the study. One of those objectives was to retain the existing rate structure. Another objective was to balance rates among the retail customer classes to facilitate a gradual transition to cost of service rates and to mitigate the monthly bill impact. Ms. Kumar stated that

based on those objectives, Black & Veatch designed the rates and charges to enable a gradual transition to cost of service, while assuring recovery of the overall system revenue requirements.

Korlon L. Kilpatrick II presented CWA's proposed LICAP, comprised of a monthly bill discount and a fund for wastewater infrastructure repair and replacement assistance for eligible and qualifying low-income customers. According to Mr. Kilpatrick, the purpose of LICAP is to mitigate the impacts that increasing sewer rates, driven by a federally mandated Consent Decree and aging infrastructure, will have on those who will be disproportionately affected and are already struggling to get by. Mr. Kilpatrick explained that the program is needed given the widespread poverty among CWA's customer base where 47% of households are unable to meet their basic needs and approximately 42,000 customers have been identified by CWA as at-risk of being unable to pay their bills. Mr. Kilpatrick discussed the recently passed SEA 416. He testified that, in his opinion, CWA's LICAP meets the policy and public interest requirements of that legislation through the benefits it provides to both participating and non-participating wastewater customers, including the protection of public health and the support of inclusive economic growth and development. Finally, Mr. Kilpatrick described certain details regarding the mechanics and administration of LICAP, including how the initial $0.79 per bill charge was determined and to the extent a funding deficit exists at the conclusion of any given year, the charge would be modified for reconciliation purposes.

Mr. Kilpatrick explained that balanced billing is a consistent monthly sewer bill during the seven-month period of May through November. In compliance with the Commission's directive in Cause No. 44685, Mr. Kilpatrick addressed the issue of the "lower of" adjustment, which would bill customers based on the lower of their actual usage or their average winter usage ("Base Average Usage") during the summer months. According to Mr. Kilpatrick, the "lower of" adjustment would result in a reduction of 1,032,307 centum cubic feet ("CCF") or the equivalent of removing $5,507,368 from pro forma revenue at current rates. Mr. Kilpatrick explained that CWA decided against the "lower of" adjustment because in CWA's view, the costs still outweigh the benefits in terms of overall rate impact and impact on individual customer classes.

Mr. Kilpatrick next discussed the impact that SIA revenues had on this proceeding based on the remaining revenues from SIA 1 to be collected, the amount requested in SIA 2, and the estimated revenue shortfall that would be the basis for SIA 3. Mr. Kilpatrick stated that those revenues, which total $22,263,316, lowered the amount of debt to be issued and the debt service to be included in rates proposed in this proceeding. Further, Mr. Kilpatrick described the proposed true-up process for the debt service costs in the event the principal amount of the bonds, the financing term, or the actual interest rate on the bonds varies from the estimated terms used in developing the debt service costs reflected in CWA's case-in-chief.

Finally, Mr. Kilpatrick sponsored CWA's overall revenue requirements, including several of the underlying adjustments to the financial results for the test year ended May 31, 2018. Mr. Kilpatrick also sponsored CWA's Terms and Conditions for Wastewater Service, rate schedules, and appendices, including the proposed changes. Mr. Kilpatrick testified that CWA proposed to increase the monthly base charge for the non-industrial rate class from $18.75 to $21.95, $22.99, and $23.74 in Phases 1, 2, and 3, respectively. Mr. Kilpatrick described in his testimony each of the proposed changes to CWA's Terms and Conditions for Wastewater Service and rate schedules.

## 6. OUCC's and Intervenors' Cases-in-Chief Evidence.

**A. OUCC's Evidence.** Margaret A. Stull presented the OUCC's analysis of CWA's proposed overall revenue increase of 24.44%, which CWA proposed to be implemented over three phases. Ms. Stull testified that the OUCC's analysis yields a proposed overall revenue increase of 16.27% to produce a total increase in wastewater revenues of $45,253,805 per year.

Ms. Stull recommended that CWA modify its balanced billing mechanism to bill a customer's average winter consumption or actual consumption, whichever is lower. Alternatively, Ms. Stull indicated that customers should be allowed to opt out of balanced billing. Ms. Stull stated that as currently implemented by CWA, during the summer months, many customers are charged for sewer services their water meters show they are not using. Ms. Stull noted that in any month, nearly one-third of CWA's customers have actual consumption that is less than their average winter or base water consumption.

Ms. Stull next set forth the OUCC's recommended operating revenues, expressly stating its disagreement with CWA's elimination of all SIA revenues. Ms. Stull recommended currently authorized SIA revenues be included as a component of pro forma operating revenues and that the remaining SIA 1 revenues be included as an offset to the amount of debt to be incurred to fund capital projects. Ms. Stull stated that eliminating SIA revenues from pro forma operating revenues overstates the percentage revenue increase calculated by CWA because it does not consider all revenues currently collected from ratepayers. Ms. Stull also disagreed with CWA's position with respect to filing an SIA 3 and stated that she believes the current SIA statute is clear that a utility must stop collecting SIA revenues once an order is issued in its next general rate case. Ms. Stull also stated that she believes CWA's assertion that CWA should be allowed to include the results of the period August 2018 - July 2019 in a reconciliation filing is contrary to the current SIA statute.

With regard to O&M expense, Ms. Stull indicated the OUCC's disagreement with CWA's: (1) proposed allocation of executive compensation; (2) inclusion of reimbursable or non-recurring storm sewer repairs; and (3) inclusion of what Ms. Stull described as excessive membership and rate case expenses. Table 6 in Ms. Stull's testimony detailed the OUCC's $873,767 of aggregated proposed adjustments to CWA's operating expenses.

Ms. Stull discussed the 24.69% allocation of CEG's total executive compensation to CWA, asserting that Citizens' executives are paid, on average, a 73% premium over median market salaries for comparable positions at municipal utilities. She recommended a $569,503 reduction to CWA's operating expenses based on the results of the updated municipal-only compensation study, ordered by the Commission in prior CEG rate cases. Ms. Stull noted her testimony did not address whether the level of CEG's executive compensation is reasonable or necessary. She only recommended that the amount of executive compensation allocated to CWA should be based on comparable municipal-based executive compensation as ordered by the Commission in prior Citizens' rate cases.

Finally, Ms. Stull discussed the need for customer bills to contain more detailed information, rather than a summary of usage and charges. Ms. Stull testified that the OUCC

considers that CEG's billings do not contain enough information for a customer to make informed decisions regarding their water and wastewater consumption. Ms. Stull stated that while detailed billing information is available to CWA's customers, the default is to provide summary billing information unless the customer changes their billing preferences and requests a detailed billing. Ms. Stull recommended that CWA provide a detailed billing to customers unless the customer requests a summary bill.

Richard J. Corey provided testimony regarding the OUCC proposed adjustments for various CWA O&M expenses. Mr. Corey stated that during the test year, CWA paid a $7,000 fine to the Indiana Department of Environmental Management ("IDEM") related to a violation of certain emissions standards. Mr. Corey testified that fines and penalties a utility pays to the government for the violation of any regulation or law should not be included as an operating expense for ratemaking purposes. Mr. Corey also stated that CWA incurred $104,619 of net stormwater repair costs, which he indicated should be reimbursed by the Indianapolis Department of Public Works ("DPW") or be considered as non-recurring since DPW owns the stormwater system. Mr. Corey also noted that CWA paid for three memberships to the National Association of Clean Water Agencies and stated that CWA can glean the benefit of membership to this association through the purchase of a single membership for the entire utility.

Edward R. Kaufman responded to CWA's proposed allocation of its anticipated capital expenditures. Mr. Kaufman argued that CWA understated its DSC ratio, explaining it does not need its proposed E&R level to achieve a 1.50 DSC ratio. Mr. Kaufman recommended reducing CWA's requested E&R to $202 million ($64 million in Phase 1, $68 million in Phase 2, and $70 million in Phase 3), which, combined with other OUCC adjustments, produces DSC ratios well in excess of CWA's desired 1.50 DSC ratio. Mr. Kaufman also disagreed with CWA's proposal to set the revenue requirements to achieve a desired DSC ratio of at least 1.50 and with CWA's argument that it needs to establish a date certain when it will be authorized to have its revenue requirements based on 100% funding of its capital projects through E&R.

Mr. Kaufman recommended several adjustments to CWA's proposed debt issuances. Mr. Kaufman's adjustments included additions of $8.0 million, $8.0 million, and $10.0 million respectively to CWA's proposed 2019, 2020, and 2021 debt issuances to offset the reduction he proposed to E&R. Additionally, Mr. Kaufman decreased the amount of CWA's proposed 2019 debt issuance by $14,715,343 and its 2020 and 2021 issuances by $5,410,000 based on recommendations by OUCC witness Parks.

Mr. Kaufman also eliminated SIA 2 and SIA 3 revenues as an offset to CWA's 2019 debt issuance based on OUCC witness Stull's recommendations. These adjustments increased CWA's 2019 debt issuance by $19,810,431 ($9,949,843 + $9,860,588). Mr. Kaufman's proposed annual loan amounts include additional funds for debt service reserve, issuance costs, and rounding. Based on the OUCC proposed adjustments, Mr. Kaufman concluded that CWA would issue 2019 debt of $233,640,000, 2020 debt of $145,405,000, and 2021 debt of $111,280,000.

Mr. Kaufman also modified CWA's proposed interest rates for debt issuances from 4.80% to 4.40% for Phase 1 debt issuance, 4.60% for 2020 debt, and 4.80% for 2021 debt. He proposed an annual debt service of $14,217,092 for CWA's 2019A debt issuance based on a 30-year term at 4.4% and a $234,330,000 debt issuance. His calculation reduced the interest rate by 40 basis

points, but increased the amount of debt by $15,406,172. He proposed an annual debt service of $8,981,632 for CWA's 2020A debt issuance based on a 30-year term at 4.6% and a $149,081,902 debt issuance. His calculation reduced the interest rate by 20 basis points, but increased the amount of debt by $1,989,498. He proposed an annual debt service of $7,023,234 for CWA's 2021A debt issuance based on a 30-year term at 4.8% and a $110,470,000 debt issuance. His calculation used the same interest rate, but increased the amount of debt by $4,174,924. Mr. Kaufman stated that using an interest rate more reflective of current rates reduces the annual debt service on CWA's proposed debt issuances. Mr. Kaufman provided revised amortization schedules for CWA's debt.

Mr. Kaufman next addressed several aspects of CWA's other long-term debt issues, and this included proposing mechanisms to address timing issues related to the debt issuance. Mr. Kaufman addressed the gap between the time CWA receives an order in this Cause and when its proposed debt would be issued. He recommended CWA be ordered to reserve any funds collected in rates for its 2019 debt issuances and use those funds to offset the amount it needs to borrow. He stated that the purpose of this recommendation is to match revenues collected for CWA's proposed bonds with its actual bond expense.

Mr. Kaufman also proposed the filing of a true-up within 30 days of closing on any long-term debt issuance and other debt reporting requirements. Mr. Kaufman stated that within 30 days of closing on any long-term debt issuance, CWA should file a report with the Commission and serve a copy on the OUCC. Mr. Kaufman stated that if the change is immaterial, the Settling Parties should be permitted to agree to avoid the expense of the utility changing rates to little effect. However, Mr. Kaufman stated that the Commission, in its sole discretion, should have the authority to order CWA to file revised rates notwithstanding either the OUCC's or CWA's decision that a prospective change is immaterial.

Mr. Kaufman also rejected CWA's request to include $89,888 for interest paid on customer deposits of $5,992,540 to calculate its annual total debt service. Mr. Kaufman stated that the customer deposit fund would earn interest, which should more than offset the costs it incurs from holding customer deposits. In addition, he stated that Indiana utilities are not required to pay interest on customer deposits held for less than one year, so CWA will not owe interest to customers on the entire $5,992,540.

James T. Parks testified regarding engineering issues related to CWA's rate request. For several non-Consent Decree capital additions CWA proposes to make through July 2022, Mr. Parks testified that CWA has not shown that these projects are reasonably necessary, that the proposed projects were the most cost-effective approach, or that CWA's estimated costs were reasonable and adequately supported. He testified CWA had not met its burden of proof, and he recommended excluding $25,514,264 of project costs from CWA's revenue requirement associated with its capital spending for 11 specific projects. Mr. Parks stated that the capital project descriptions provided as part of CWA's exhibits were inadequate, providing no useable or reviewable information about what CWA proposes to build. Accordingly, Mr. Parks recommended that the Commission direct CWA to provide more detailed project information, including information establishing the need for the project, in its next rate case.

Mr. Parks discussed CWA's STEP, and he included with his testimony several CWA documents that explain STEP and the benefits to water quality of eliminating septic tanks.

According to Virginia A. Caine, M.D., director, Marion County Public Health Department, "Eliminating raw sewage from backyards, ditches and streams is a tremendous public health benefit that extends beyond the boundaries of the neighborhood receiving the sewers." Pub. Ex. 4, JTP-5 at 2. Mr. Parks recommended that CWA submit specific additional information in its annual STEP project reports. Mr. Parks also recommended in coordination with the Marion County Health Department, CWA should investigate ways it can better achieve STEP's stated goal (preventing water contamination of area streams through removal of septic tanks and connection of homes to the sewer system) and identify additional costs needed to make that goal. CWA should then report to the Commission and the OUCC the results of the completed investigation. Mr. Parks also recommended that CWA bear more of the costs currently paid by customers with LPSS as explained below.

Mr. Parks discussed the costs that are borne by STEP customers with gravity systems as compared to customers with LPSS that use a grinder pump at each house to move wastewater to CWA's Collection System. Mr. Parks noted CWA reported average costs for a gravity sewer installation during 2005-2016 of $25,000 paid by CWA and $6,766 paid by the homeowner for a total cost of $31,766. Mr. Parks testified that CWA reported its cost for LPSS installed in 2016 to present of $16,000 paid by CWA and $2,766 paid by the homeowner, not including the homeowner's on-going costs, for a total initial cost of $18,766. Pub. Ex. 4 at 39 and JTP-4 at 7. The on-going costs paid by homeowners with LPSS include the following: (1) annual grinder pump costs, estimated by CWA at $12 for electrical power and $50 for pump maintenance, based on the manufacturer's information; and (2) emergency repairs and grinder pump replacement, estimated at $2,500 for a grinder pump with a 20-year life.

Regarding comparative costs, Mr. Parks noted that CWA reported its cost of installing LPSS is a 40% reduction from the cost of installing gravity systems under the Barrett Law program. Mr. Parks provided the present values of the various costs. Mr. Parks noted that CWA's estimated $50 per year maintenance cost was based on a more expensive E/One 2000 Series grinder pump and not the Extreme Series grinder pump that CWA is actually installing.

Mr. Parks agreed that homeowners with LPSS should pay the extra electrical costs to operate their grinder pumps. However, he recommended that the Commission order CWA to retain grinder pump ownership and be responsible for repairs, maintenance, and replacements of grinder pumps at the end of their service lives. Mr. Parks testified at the Evidentiary Hearing that several other utilities retain operational and financial responsibility for emergency breakdowns and replacements of grinder pumps, and he clarified this testimony at the Evidentiary Hearing. He noted that while CWA can leverage its buying power to obtain lower pump costs for initial installation, individual homeowners do not have this same buying power and can expect to pay substantially more to remove their old pumps and purchase and install replacement grinder pumps, especially under unplanned outages.

Mr. Parks testified that many homeowners might be unable to afford to pay unexpected and unplanned high bills to rehabilitate or replace their grinder pumps. Mr. Parks recommended increasing CWA's annual revenue requirement $50 per year per new installation for annual grinder pump maintenance, based on the manufacturer's information, and the recommended amounts are $15,000 for 2019, $30,000 for 2020, and $45,000 for 2021. Regarding affordability of LPSS, Mr. Parks's testimony includes Attachment JTP-5, CWA's STEP Frequently Asked Questions

document, explaining CWA's STEP Financial Assistance Plan. Homeowners who commit to connecting during the planning/designing stages are offered two payment options: a one-time lump sum payment of $2,766 per connection or a 60-month, no interest payment plan. The installment payment plan allows a qualified resident with a gross income at or below $46,050 to pay $50 per month toward his connection and general administrative fees over 60 months with no interest. Pub. Ex. 4, Attach. JTP-4 at 6.

Mr. Parks recommended that CWA's request for funding of the Sludge Line Replacement project not be included in CWA's capital spending requirement because CWA already completed Phases, 1, 3, and 4 and CWA did not provide justification for its funding request over the 2013-2026 period. Regarding STEP Project AB92SP, Mr. Parks testified that while CWA did state the funding was in case the need arose, CWA did not provide information to document why it was necessary. Mr. Parks testified that CWA did not provide any detail on the North College Avenue-West South Street project in its case-in-chief. In total, Mr. Parks recommended that $25,514,264 of project costs be removed from CWA's revenue requirement associated with CWA's capital spending for 11 specific capital projects and 19 lift station replacement projects.

Finally, Mr. Parks recommended that CWA utilize open competitive bidding. Mr. Parks testified that as a municipality, DPW was required to bid projects valued at over $150,000 in an open competitive bidding process defined by Indiana Code § 4-13.6-5. Mr. Parks testified that this procurement process, known as design-bid-build, included preparation of plans and specifications by a professional engineer to define the work for which DPW was seeking contractor bids. The design documents form the basis for record drawings after project completion. Mr. Parks explained that in response to OUCC discovery asking what steps CWA takes to follow public bidding law in Indiana to select the lowest responsive and responsible bidder to construct its capital projects, CWA indicated it does not have to follow public bidding because it is an Indiana not-for profit corporation governed by Indiana Code § 8-1-11.1. Mr. Parks explained CWA stated it follows a best value and competitive proposal process and CWA included a one-page example to illustrate its final selection process. Mr. Parks testified that CWA's ratepayers would benefit from lower project costs if CWA utilized the public bidding process for at least some of its projects.

Scott A. Bell testified regarding CWA's request to implement LICAP to be funded by a $0.79 per bill charge. Mr. Bell reviewed the details of the proposed LICAP. He testified that while the OUCC does not oppose the approval of LICAP, the OUCC had some concerns. Mr. Bell explained that the program should not be funded entirely with compulsory charges imposed on CWA's ratepayers. Mr. Bell testified that CEG operates as a Public Charitable Trust engaged in a variety of businesses. He also explained that CEG's operations extend into many regulated and non-regulated business operations that may provide sources of funding for LICAP. Mr. Bell recommended that CWA fund its proposed LICAP from one or more of CEG's business entities.

Mr. Bell also recommended that CWA annually report on the success of LICAP. Mr. Bell stated that if the Commission were to approve LICAP's implementation, specific metrics or measures should be established to gauge the program's success. In addition, CWA should be required to report annually to the Commission and the OUCC the measurement results, including participation levels. Mr. Bell recommended that CWA be ordered to work with the OUCC and other parties to establish performance metrics that evaluate the program's success.

Jerome D. Mierzwa addressed CWA's class cost of service study and rate design proposals. Mr. Mierzwa testified that the cost of service study was reasonable. Mr. Mierzwa also stated that CWA's proposed distribution of increases over three phases is reasonable. He recommended that to the extent the increases authorized by the Commission are less than those requested by CWA, the increases proposed for the non-industrial, self-reporter, and satellite-tariff classes, as well as the extra-strength surcharges, be scaled back proportionately.

Mr. Mierzwa said that he did not agree with CWA's proposed increase to the monthly customer charge of non-industrial customers. Mr. Mierzwa testified that CWA calculated this increase based almost completely on inflow and infiltration ("I/I") related costs. Mr. Mierzwa stated that he believes the customer charge should only reflect the direct costs that are incurred to connect a customer to the system and to provide the customer with a bill each month. Mr. Mierzwa stated that I/I costs are not incurred because a new account is added to the system. Mr. Mierzwa recommended that CWA's existing non-industrial monthly customer charge be maintained and that any increase assigned to the non-industrial class be recovered through proportional increases to the current volume charges.

**B. Industrial Group's Evidence.** Michael P. Gorman provided testimony on behalf of the Industrial Group. Mr. Gorman stated that CWA's proposed three-year increase in annual revenue should be reduced by at least $14.8 million and should be reflected in a reduction to the Phase 1 revenue increase. Mr. Gorman recommended adjustments to CWA's proposed E&R budgeting and funding, labor expense, and allocation of Shared Services Group costs. Mr. Gorman advocated the Commission approve E&R funding ratios for CWA's program in a similar fashion as in CWA's last rate case. Mr. Gorman objected to the use of a 3% pay increase escalator for non-union employees when projected inflation outlooks are around 2%. Mr. Gorman objected to LICAP and to CWA's proposal to increase the Shared Services allocator from 23.13% in the test year to 24.69%. Mr. Gorman said the test year allocation of 23.13% should continue to be applied. Mr. Gorman recommended the Commission require CWA to make assertive efforts to keep its prices for wastewater service as low as possible, while meeting all its quality of service and Consent Decree obligations at the lowest cost possible.

Jessica A. York also testified on behalf of the Industrial Group. She responded to CWA's cost of service study. Ms. York stated that the cost of service study uses capacity allocation factors that do not reasonably reflect peak load characteristics of individual customer classes. The study instead assumes all retail customers have the same capacity factor and that satellite customers have a higher capacity factor. She recommended that CWA be directed to conduct a detailed study calculating class-specific capacity factors for use in its next cost of service study.

Ms. York also addressed CWA's proposed allocation of I/I volumes and strengths based on 75% customer and 25% volume. Ms. York noted that while this allocation improves the accuracy of the cost of service study as compared to the allocation used in Cause No. 44685, a more appropriate allocation of I/I volumes is a 90% customer to 10% volume basis. Finally, Ms. York asserted it would be more appropriate for CWA to allocate bad debt expense on the number of customers because bad debt expense is largely attributable to non-industrial customers.

**C. CAC/INCAA's Evidence.** Kerwin L. Olson supported CWA's request to implement LICAP. He testified that programs like CWA's proposed LICAP with the laudable goal

of creating affordable monthly bills for low-income households would not be sustainable and would likely not succeed absent the certainty of a dedicated stream of ratepayer funding. Mr. Olson asserted that a $0.79 flat monthly charge is a small price to pay to help ensure all customers have access to affordable, essential human services. He also testified that CWA's proposed LICAP has statutory authority per Indiana Code 8-1-2-46(c) and comports with the policy of the State of Indiana as well as Indianapolis Mayor Hogsett. Mr. Olson recommended the Commission approve CWA's proposed LICAP.

Mr. Olson sponsored Attachment KLO-2, a jointly signed letter from leaders of the Indiana Coalition for Human Services, Marion County Commission on Youth Inc., Sacred Heart Catholic Church, and St. Patrick Catholic Church in support of CWA's proposed LICAP. The letter noted that a Connect2Help211 Report from October 1, 2017 through September 30, 2018 concluded that the overwhelming reason people called was for utility assistance. The letter concluded that CWA's proposed low-income program, if approved, would provide much needed relief to customers trying to get by on low or fixed incomes, including the 47% of households in Marion County who are struggling to meet their basic needs.

**D. Customer Comments.** At the Evidentiary Hearing, the OUCC offered prefiled comments from customers. In prefiled comments or orally at the public field hearing, some customers asked the Commission to deny the requested increase, and several customers opposed the balanced billing mechanism. At least one customer opposed the utility's proposed LICAP, noting the difficulty customers have paying their own expenses. One customer made written comments and spoke at the public field hearings regarding the on-going costs, including maintenance, associated with LPSS.

**7. Rebuttal and Cross-Answering Evidence.**

**A. CWA's Rebuttal Evidence.** Mr. Harrison reiterated the importance of the relief requested in the Petition. He stated that neither the CWA Board nor management takes this or any request for a rate increase lightly. He testified that after much analysis and consideration, it is the judgment of the CWA Board and management that the rate relief requested in the Petition is necessary to fund the capital investments required to complete projects mandated by the federal Consent Decree, as well as investments in the Wastewater System's aging infrastructure. Mr. Harrison also stated that, in light of the almost $2 billion of debt CWA amassed (almost $7,600 per customer) and the additional half-billion dollars of new debt that will be issued during the next three years, it is the judgment of CWA management that the utility should gradually increase the amount of revenue-funded E&R in three phases.

Mr. Harrison reiterated his belief that CWA's proposed LICAP is in the public interest. He stated that Indianapolis has a greater number of households (nearly 70,000) living at or below the federal poverty level than any other community in Indiana. He also noted that of Indiana's five largest counties, Marion County has the greatest number of households as well as the largest percentage of households living in poverty. Mr. Harrison testified that those realities combined with the fact that CWA is completing a federally mandated $2.4 billion capital improvement project create an affordability dilemma that can and should be addressed.

Finally, Mr. Harrison addressed the OUCC proposed disallowance of executive compensation expense that was allocated to CWA and included in the revenue requirement in this case. He encouraged the Commission to reject that proposed disallowance, as it would undermine the Board's decision to use a peer group that includes a blend of investor-owned and municipal and public power utilities to benchmark executive compensation. He noted the evidence documenting the benefits achieved as a result of replacing the City's former staffing and outsourcing model with the CEG professional utility management model. Based on that evidence, Mr. Harrison encouraged the Commission to reaffirm the conclusions it reached in Cause No. 43936 when it approved the transfer of the wastewater utility to CWA and CEG.

Mr. Brehm responded to arguments presented by the OUCC and the Industrial Group regarding revenue-funded vs. debt-funded E&R and certain other matters. Mr. Brehm stated that notwithstanding the amount of debt already issued (nearly $1.829 billion), he proposed in this case to issue an additional nearly half-billion dollars of new debt during the three proposed annual rate increase phases. He testified that those planned debt issuances combined with the amount of revenue-funded E&R would result in a DSC ratio that is 20% below the median industry benchmark. Mr. Brehm emphasized that CWA's strategy since acquiring the wastewater utility has been and remains anchored in trying to mitigate the effect of the necessary rate increases brought on customers by the extraordinary cost demands of the Consent Decree construction cycle while trying to preserve the financial integrity and flexibility of CWA so that it has the financial wherewithal to serve customers in both the short- and the long-term. Consistent with that strategy, Mr. Brehm expressed his opposition to the OUCC's and Industrial Group's proposals to reduce the amount of revenue-funded E&R proposed by CWA in this case.

Mr. Brehm also addressed the treatment of interest on customer deposits. Mr. Brehm rejected Mr. Kaufman's proposal that interest on customer deposits be excluded from the determination of revenue requirements for CWA. Mr. Brehm explained that, although Mr. Kaufman argued that interest income is earned on customer deposits, which serves to offset interest paid on customer deposits, Mr. Kaufman failed to mention that Mr. Kilpatrick's calculation includes interest income as an offset to the revenue requirements. Mr. Brehm stated that Mr. Kaufman failed to mention that interest paid on customer deposits was included by the Commission in the determination of the revenue requirements for utilities with customer deposits in every rate case subject to Indiana Code § 8-1.5-3-8 of CEG's and CWA's dating, to CWA's knowledge, back to at least 1991.

Mr. Rothstein addressed the OUCC's and Intervenors' testimony regarding CWA's capital program, financing strategy, and proposed LICAP. Mr. Rothstein stated that in some instances, it appeared that arguments have centered on less fundamental issues, definitions of terms, and second-guessing of CWA management decisions while losing sight of larger policy questions. He testified that, in his professional opinion, judgments about expense recovery or exclusion should be swayed, in part, by CWA's demonstrated success to date, its highly qualified staff, and its daily engagement in the complexities of capital program management and financing. Mr. Rothstein also reiterated his support for CWA's proposed rate-funded LICAP. He testified that Commission approval of CWA's proposal would be in alignment with numerous federal, state, and local efforts to provide for stable, sustained funding for programs similar to CWA's proposed LICAP.

Mr. Jacob responded to the recommendations made by Mr. Parks, and he requested that the Commission reject each one of them. First, Mr. Jacob took issue with Mr. Parks's removal of approximately $25 million in project costs from the revenue requirement because his approach was based on a misunderstanding of the on-going needs of the system. Mr. Jacob provided testimony that explained the magnitude of the system needs and the project needs and how, if listed projects were reduced or eliminated, then other projects would be moved forward. Mr. Jacob also explained the negative consequences that could occur if Mr. Parks's reductions to non-Consent Decree spending were adopted because spending on those types of projects is already at a minimal level and lower than levels deemed to be reasonable in prior rate cases. Mr. Jacob reaffirmed the need for the projects reviewed by Mr. Parks.

Mr. Jacob pointed out that, with respect to the Sludge Line Replacement project, the OUCC's adjustment was based on the incorrect assumption that CWA included $10,423,304 in its revenue requirement for completion of the project. Regarding STEP Project AB92SP, Mr. Jacob stated the OUCC proposed adjustment erroneously eliminated needed funding for a portion of STEP in 2022 despite the OUCC's support for the program. Mr. Jacob testified that the OUCC proposed adjustment to the North College Avenue-West South Street large diameter sewer project would remove the estimated cost to refurbish an approximately 100-year old brick sewer that is under a heavy traffic area. Mr. Jacob identified additional issues with Mr. Parks's analysis in Appendices A through J. Mr. Jacob reiterated that each proposed project needed to be completed and not implementing them would represent an unsafe approach to managing aged infrastructure.

Next, Mr. Jacob responded to Mr. Parks's recommendations regarding STEP. Mr. Jacob testified that CWA was not requesting approval to switch to LPSS with grinder pumps in this proceeding. Mr. Jacob noted that he testified in Cause No. 44685 that CWA was switching to use LPSS. Mr. Jacob sponsored the Septic Tank Elimination Program Whitepaper. It documents that STEP was discussed at various points during the Long-Term Control Plan negotiations with IDEM and EPA, and all parties acknowledged the positive impacts STEP has on water quality in nearby waterways. It specifically references STEP as one of the non-CSO improvements that the Utility would consider at their sole discretion to "maximize the benefits to water quality, stream aesthetics, and human health." Pet. Ex. 14, Attach. MCJ-4, page 4. The Septic Tank Elimination Program Whitepaper states that compared to traditional gravity systems, LPSS are typically less expensive to construct due to the small diameter and shallow mainline installations and that the construction of LPSS are less evasive and disruptive and require less site restoration.

Mr. Jacob testified that although Mr. Parks indicates he believes that gravity sewers remain the most reliable long-term option for sewage disposal, Mr. Parks does not oppose CWA's decision to utilize LPSS, and he acknowledges the cost savings associated with using LPSS. Mr. Jacob discussed Mr. Parks's recommendations that CWA be responsible for emergency repairs, maintenance, and replacement of grinder pumps. Mr. Jacob acknowledged that customers with LPSS each pay about $12 per year in electricity costs and about $50 per year for maintenance related to grinder pumps. He compared the costs of sewer connection incurred by past customers to those of customers with LPSS. From 2005 to 2016, under STEP, the total cost to each homeowner averaged almost $7,000, including lateral connection to the main line sewer, abandoning the existing septic system, and the connection fee. Starting in 2016, homeowners with LPSS paid the $2,766 connection fee, provided they connect within 60 days, and CWA assumed

responsibility for the other costs. Pet. Ex. 5 at 36. Mr. Jacob stated that even assuming a customer must pay for a grinder pump replacement in 20 years at a cost of $3,000, the typical homeowners with LPSS pay significantly less than most customers who paid for sewer connections.

Mr. Jacob discussed the measures in place to protect customers from the potential consequences of a grinder pump failure. In terms of the grinder pumps themselves, he stated that they are equipped with the following: (1) valves that keep backflow from entering the home; (2) sensors that trigger an alarm; (3) extra storage capacity for continued use during power outages; and (4) a receptacle to allow for generator connection during extended outages. He stated that grinder pump customer service representatives are available 24 hours a day and seven days a week, based in Indianapolis, and committed to responding in less than four hours. Mr. Jacob also noted that grinder pumps come with a standard two-year warranty with an option to purchase additional service protections. During the Evidentiary Hearing, Mr. Jacob testified that at this time, no homeowner has needed to replace a grinder pump. Tr. at 95.

Further, Mr. Jacob testified that the LPSS program has been in place for quite some time and it is not appropriate to change the terms of the program mid-stream. He expressed concern that implementation of Mr. Parks's recommendations would do the following: (1) create two or more customer classes; and (2) expose CWA to cost liabilities, including maintenance of previously installed grinder pumps and repairs due to improper grinder pump maintenance by homeowners.

Mr. Jacob also testified that after CWA completes the high priority STEP construction (planned to occur by 2025), CWA does not plan to approach septic tank eliminations in the same manner. Therefore, while CWA currently has staff proficient in installing and replacing grinder pumps, that may not be the case upon completion of the current program. Additionally, Mr. Jacob suggested rejection of Mr. Parks's recommendation to revise STEP reporting requirements to provide additional information.

Finally, Mr. Jacob responded to Mr. Parks's suggestion that CWA publicly bid projects using DPW's process. Mr. Jacob testified he has seen and used a number of vendor selection techniques and processes. Mr. Jacob testified that he believes that CWA's current process in which select contractors are asked to respond to a request for proposals is better in providing: (1) long-term value; (2) more qualified vendor selection; (3) better cost structure; and (4) the ability to further negotiate proposals after selection. He explained that CWA's process still uses competitive pricing as the main selection criteria. He said that under the municipal approach, the owner typically cannot prequalify vendors as CWA does and instead must accept all responsible and responsive vendors. Mr. Jacobs testified CWA's process allows CWA to efficiently and quickly negotiate even after a best value competitive selection process, through an open process. However, he explained that under the municipal model, the only mechanism to change project scope is through a board-approved change order process, and even then that process has certain limitations. In conclusion, Mr. Jacob testified that prequalification and the ability to negotiate with the selected vendors provides CWA flexibility to quickly and efficiently reduce costs beyond any capabilities the municipal model provides or allows for and to select vendors with known performance and quality histories.

Ms. Karner recommended rejection of Mr. Gorman's proposed decreases to Shared Services allocations and salary pay increases. Contrary to Mr. Gorman's assertions, Ms. Karner explained that the trust administration driver is still an appropriate method of allocating costs that cannot otherwise be assigned because: (1) the Commission ordered Citizens to use it; and (2) it is more cost effective for CWA than another well-known alternative to assigning otherwise unassignable costs. Further, Mr. Gorman's approach would result in the subsidization of CWA by the other regulated utilities served by Shared Services. Ms. Karner also testified that Mr. Gorman's proposal of a 2% pay increase based upon the projected growth in the Consumer Price Index ("CPI") is off base because it is not in line with the 3% pay increase projections made by a variety of sources and CPI has no apparent correlation to the amount of pay increase awarded historically.

Ms. Karner responded to three of Mr. Corey's proposed adjustments to operating expenses. Ms. Karner said that the membership dues adjustment should be rejected because the dues in question represented one single dues membership that was charged to three different cost centers, and not three memberships as suggested by Mr. Corey. While Ms. Karner agreed with Mr. Corey that the City and not CWA is responsible for stormwater expenses, she stated that Mr. Corey missed certain offsetting transactions, which bring the true net for stormwater costs to a credit to expense. Ms. Karner also agreed that the IDEM fine is an expense that would not normally be included in operating expenses. However, when the small amount of the IDEM fine is combined with the correct net adjustment for stormwater expense, the result would be a de minimis increase to operating expenses. As such, Ms. Karner recommended that no adjustments for these items be made.

Ms. Whitney disagreed with Ms. Stull's recommendation to reduce CWA's revenue requirement for executive compensation. Ms. Whitney testified that Ms. Stull's testimony did not mention the alternative executive compensation study CWA filed in this case or any of the supporting testimony of CWA's three witnesses on the subject of executive compensation. She noted that Ms. Stull provided no evidence to support her position that the amount of adjusted executive compensation in the OUCC's revenue requirement for CWA was reasonable and necessary. Instead, Ms. Stull recommended that the amount of executive compensation allocated to CWA should be based on comparable municipal-based executive compensation, which Ms. Stull contended was ordered by the Commission in prior Citizens' rate cases. In rebuttal, Ms. Whitney testified there was no such Commission Order, finding, or directive pertaining to CWA or Citizens Water.

Ms. Whitney provided her opinion that the $1,349,642 annual revenue requirement attributable to the portion of executive compensation allocable to CWA in this rate case is necessary and appropriate based on the need of CEG to attract, retain, and motivate qualified and capable officers. She said CEG does not recruit and hire officers using only a market consisting of municipally-owned utilities, but often employs officers who have experience working for investor-owned utilities and in general industry.

Mr. Wathen provided rebuttal to Ms. Stull's recommendation that CEG use a municipal only peer group for benchmarking executive pay. He testified that the municipal-only benchmarking analysis Ms. Stull relies on is not aligned with CEG's applicable market for talent. Mr. Wathen said the Board indicated the primary market for executive talent is broader than just

municipal and public power utilities, but should also include investor-owned utilities. He noted the market for executive talent is spelled out in the executive compensation philosophy, which the Board reviews and approves every year.

Mr. Kilpatrick testified that contrary to Mr. Bell's assertions regarding LICAP, the fact that the modest monthly LICAP charge of $0.79 applies to all customers in and of itself should not be a sufficient basis to reject the program as proposed. Finally, Mr. Kilpatrick testified that CWA was willing to agree to certain initial reporting requirements as recommended by Mr. Bell to measure the success of LICAP.

Mr. Kilpatrick stated that Ms. Stull's treatment of SIA 2 revenues as operating revenues should be rejected because SIA adjustment revenues by statute are temporary and not a general increase in basic rates and charges. He maintained that the SIA 2 and the estimated SIA 3 revenues should be treated as an offset to debt service like the remaining SIA 1 revenues. If CWA were not allowed to recover the SIA 3 revenues as suggested by Ms. Stull, Mr. Kilpatrick testified that CWA would need to issue more debt and adjust the revenue requirement accordingly.

Mr. Kilpatrick disagreed with Ms. Stull's recommendation to implement the "lower of" adjustment to its balanced billing mechanism because the increase in retail rates associated with making such a change outweighs the benefits that would be realized by about 68,000 customers. He also disagreed with her alternative recommendation that customers be allowed to opt out of balanced billing. Nonetheless, Mr. Kilpatrick provided that if the Commission directs CWA to implement the "lower of" balanced billing mechanism, a corresponding adjustment to revenue should be made as provided in Attachment KLK-R3.

Finally, Mr. Kilpatrick explained that Ms. Stull's recommendation regarding additional bill detail is unnecessary because CEG's current bill presentation was driven by customer feedback. He testified that less than 1% of CWA's customer base is exercising their already available option to request more bill detail.

Ms. Kumar responded to Mr. Mierzwa's recommendation that the non-industrial monthly base charge be maintained and not increased as proposed by CWA. Ms. Kumar stated that in the cost of service study, Black & Veatch allocated appropriate costs including metering, billing and collection costs, a portion of general and administrative costs, and the customer connection-related I/I costs to the base charge component. Black & Veatch also defined the base charge to fairly recover all of the customer related service charge costs.

Ms. Kumar also responded to Ms. York's recommendations that: (1) bad debt expense be allocated based on the number of customers in each customer class; (2) CWA be directed to conduct a detailed study calculating class-specific capacity factors for use in its next cost of service study; and (3) I/I be allocated on a 90% customer and 10% volume basis, instead of using an allocation based on 75% customer and 25% volume.

**B. <u>OUCC's Cross-Answering Testimony</u>.** Mr. Mierzwa provided cross-answering testimony responding to the direct testimony of Ms. York. Mr. Mierzwa stated that Ms. York's claim that the self-reporter (industrial) customers are paying a higher rate than indicated in

CWA's cost of service study to subsidize the non-industrial and satellite customers is not entirely accurate. Mr. Mierzwa argued against Ms. York's proposed I/I allocation. Mr. Mierzwa recommended that Ms. York's revised cost of service study, which reflects her recommended changes in I/I and bad debt allocation, should not be used.

**8. The Settlement Agreement.** On April 12, 2019, the Settling Parties filed a Settlement Agreement that resolved each of the issues raised in CWA's Petition and pre-filed testimony and exhibits in this Cause, aside from the grinder pump issue. The following summarizes the terms of the Settlement Agreement:

**A. Base Rate Relief.** As shown in Revised Attachment A to the Settlement Agreement, the Settling Parties agreed CWA's total pro forma operating revenues at present rates are $268,338,030. The Settling Parties agreed upon the Commission's issuance of a Final Order approving the Settlement Agreement, CWA should be authorized to increase its rates and charges in Phase 1 to generate additional revenues of $31,869,740 to arrive at total operating revenues of $300,207,770. Thereafter, the Settling Parties agreed that once CWA has released its Official Statement ("OS") for its 2020 bonds and any State Revolving Fund pre-closing documents, if applicable, and notified the Commission, CWA should be authorized to increase its Phase 2 rates and charges to generate additional revenues in the amount of $13,931,090 to arrive at total operating revenues of $314,138,860. Once CWA has released its OS for its 2021 bonds and any State Revolving Fund pre-closing documents, if applicable, and notified the Commission, the Settling Parties agreed CWA should be authorized to further increase its rates and charges to generate additional revenues of $11,974,903 to arrive at total operating revenues of $326,113,763.

As shown in Revised Attachment A, the Settling Parties' agreement with respect to CWA's annual revenue requirements in Phases 1, 2, and 3 is summarized below: [1]

| | Phase 1 | Phase 2 | Phase 3 |
|---|---|---|---|
| Operation and Maintenance Expense | $77,247,013 | $77,460,540 | $77,553,878 |
| Tax Expense | 28,510,841 | 30,056,856 | 30,678,849 |
| Extensions and Replacements | 66,000,000 | 70,000,000 | 75,000,000 |
| Debt Service | 138,537,726 | 146,829,463 | 153,102,141 |
| Total Revenue Requirement | 310,295,580 | 324,346,859 | 336,334,868 |
| | | | |
| Less: Other Income, net | 2,180,249 | 2,180,249 | 2,180,249 |
| Connection Fee Offset | 8,121,088 | 8,121,088 | 8,121,088 |
| Subtotal | (10,301,337) | (10,301,337) | (10,301,337) |
| Plus: Incremental Net Write Off | 213,527 | 93,338 | 80,232 |
| | | | |
| Net Revenue Requirement | 300,207,770 | 314,138,860 | 326,113,763 |
| Less: Revenues Subject to Increase | 268,338,030 | 300,207,770 | 314,138,860 |
| Net Revenue Increase Required | $31,869,740 | $13,931,090 | $11,974,903 |
| % Increase in Revenues | 11.88% | 4.64% | 3.81% |
| % Increase in Revenues Subject to Increase | 11.98% | 4.68% | 3.84% |

[1] We note there are $1 - $2 differences between the testimony and the data in Revised Attachment A shown here.

**B. System Integrity Adjustment.** CWA agreed it would not seek to recover Cause No. 44990 SIA 2 revenues uncollected as of the issuance of the Final Order in this Cause. CWA also agreed it would not seek to recover any revenue shortfall for the period August 2018 through July 2019 either through the filing of a new SIA petition (SIA 3) or through the final reconciliation of the SIA approved in Cause No. 44990.

We note that comparing the initial testimony of Mr. Brehm, including attachments, to the Notice of Corrections to Attachment A, including Revised Attachment A and supporting work papers, the total amount of SIA revenues CWA agreed not to recover was $13,963,883 ($22,263,316 - $8,299,433). The amount CWA agreed not to recover though the SIA was divided into an increase in debt issuance and an increase in E&R. The increase in debt issuance was generated through an increase in the line of credit outstanding at 7/31/2019 ("line of credit") of $13,514,233 ($85,563,031 – $72,048,798). The increase in the line of credit directly translates to an increase in CWA's debt issuance of $13,514,233. The portion of the SIA that was not recovered through the increase in the line of credit was recovered though an increase in E&R of $449,650 ($48,311,376 - $47,861,726).

**C. Balanced Billing Mechanism.** The Settling Parties agreed the Balanced Billing Mechanism would be replaced with a "lower of" mechanism in which residential customers will be billed for wastewater service based on their monthly average winter use or actual consumption for that month, whichever is lower. The Settling Parties agreed that the "lower of" mechanism would not apply to multifamily customers, who will be billed based on their actual consumption on a monthly basis.

The Settlement Agreement provides that as a result of the implementation of the "lower of" mechanism and resulting reduction in billed revenues by Sewer Rate No. 1 customers, a reduction of 680,000 CCF (626,182 CCF from Tier 1 and 53,818 from Tier 2) should be made to the pro forma billing determinants of the non-industrial class to design the rates that will be used to implement the agreed upon revenue requirement.

**D. Low-Income Customer Assistance Program.** The Settling Parties agreed the Commission should authorize CWA to implement LICAP as set forth in paragraphs 16 through 18 of the Settlement Agreement. Customers will be eligible for the bill credit component of LICAP if the customer has applied for and is eligible for assistance from the State's Energy Assistance Program. Ratepayer funding will be accomplished through a fixed monthly charge of $0.45 per bill from customers receiving service under Sewer Rate Nos. 1, 2, and 5. The charge is designed to produce $1,300,000 annually. CWA agreed to an annual payment to LICAP of an additional $200,000 for a total funding of $1,500,000 per year.

Under the terms of the Settlement Agreement, customers participating in LICAP will receive a bill credit depending on their level of need. Available bill credits will be designed to make wastewater bills more manageable for CWA's low-income customers commensurate with their income level. In addition to the bill credits, $400,000 of LICAP funding will be allocated to a wastewater infrastructure fund to be used to help low-income customers keep their bills lower in the long-run through infrastructure investment assistance. Eligible and qualifying low-income

customers may receive infrastructure investment assistance for: (1) water conservation, such as for water saving appliances; and (2) water- and sewer-related infrastructure repairs, such as leaking service lines. In addition, the Frequently Asked Questions section on customer bills will include the following question and answer:

Q. Does my bill for wastewater service include a charge to fund the Low-Income Customer Assistance Program?

A. Yes. As part of your sewer charges, each month you pay 45 cents to fund the Low-Income Customer Assistance Program. The Low-Income Customer Assistance Program ("LICAP") provides a credit on wastewater service to qualified customers. LICAP also provides qualifying customers with water-saving appliances and repairs. More information about our program can be found at: [insert web address here]

The wastewater infrastructure fund will be administered in the same manner and using the same guidelines for infrastructure-related assistance that is available to low-income gas, water, and wastewater customers through the Citizens Warm Heart Warm Home Foundation; however, LICAP will be limited to wastewater customers. The guidelines include: (1) the customer's gross household income must be at or below 70% of State Median Income; (2) the customer's account must be designated as residential wastewater service; (3) the customer must reside at the service address; and (4) the customer must own the home at the service address. The Settling Parties agreed that unspent funds, if any, would be used for LICAP in subsequent years. CWA also agreed that, during the term LICAP remains in effect, CWA would file a report with the Commission on or before August 31 of each year with regard to the prior year. The report will contain the following, summarized here: (1) the number of customers who participated; (2) the dollar amount of assistance provided directly to customers; (3) the number of customers who requested and received assistance through LICAP and the number of customers who requested, but were unable to receive LICAP assistance; and (4) the total value of accounts in arrears for customers considered low-income.

**E. <u>Revenue Allocation, Cost of Service, and Rate Design</u>.** The Settlement Agreement provides that the agreed annual revenue requirement in Phases 1, 2, and 3 should be allocated among the customer classes as set forth in the tables in the Settlement Agreement. The Settling Parties further agreed that the monthly base charge for the non-industrial rate class would be set at $21.25 for Phases 1, 2, and 3, with the volume charge designed to recover the remaining class revenue allocation. The rates for unmetered non-industrial customers are designed on the basis of CWA's case-in-chief, modified as necessary to reflect the agreed-upon revenue requirement and associated class allocations. Fats, Oils, and Grease Charges (Sewer Rate No. 3) and Grease Hauler charges (Sewer Rate No. 4) remain the same as approved in Cause No. 44685.

The Settling Parties agreed that the revenue allocations and resulting rates are the result of a compromise. The Settling Parties reserved all rights to present evidence and advocate positions with respect to cost of service, cost allocation, and rate design issues different from those set forth in this Settlement Agreement in all other proceedings, including future CWA proceedings.

CWA agreed that, as part of its next rate case proceeding, it would present a cost of service study reflecting an allocation of I/I costs by customer class and wastewater volumes attributable to each class weighted at a minimum of 75% by the number of customer accounts, either as its proposed cost study or as an alternative to its proposal if it proposes an allocation less than 75/25 for I/I costs.

**F. Capital Improvements.** In future rate cases, CWA agreed that for those costs that make up the capital program portion of its revenue requirement, whether funded through rate revenue or debt, CWA will provide information, as summarized here: (1) project name; (2) project number; (3) a brief description of the project; (4) any prioritization ranking of the project; (5) a brief description of alternatives considered; (6) whether the project addresses new or existing infrastructure; (7) identification of the project name and number of the latest, or most applicable, engineering report of the project, if applicable; (8) estimated project start date; (9) estimated completion date; (10) the total project cost estimate class; (11) estimated total project cost estimate at completion; (12) an explanation of how the estimated total project cost was determined; and (13) the amount of project cost included in the annual revenue requirement.

To the extent the OUCC has asked for copies or access to reports or studies that exist and are voluminous or difficult to access, CWA will communicate that fact as soon as possible so the Settling Parties may work together to find reasonable solutions to avoid unnecessary burden to CWA, while affording reasonable access without undue delay. Additionally, in CWA's next rate case, CWA agreed not to object to data request(s) seeking information regarding certain specified projects as set forth in the Settlement Agreement, but reserved the right to make its data request response(s) subject to appropriate confidentiality protection. The Settling Parties agreed that nothing in the Settlement Agreement constitutes a limitation on the scope of discovery in any future CWA proceeding.

**G. Septic Tank Elimination Program Reporting.** As part of the annual STEP report that CWA files with the Commission pursuant to the Order in Cause No. 44305, in which the Commission directed CWA to submit a detailed, prioritized list of planned STEP projects, CWA agreed to provide the following information: (1) how many homes could be served by each STEP project; (2) how many homeowners CWA actually connects; (3) how many septic systems CWA permanently closes; (4) total amount invested in each STEP project; and (5) the cumulative amount invested in all STEP projects.

**H. Debt Service True-up and Other Matters.** CWA agreed to file with the Commission a true-up report and revised rate schedules within 30 days of the debt issuance contemplated in each Phase as a part of this rate case that provides the following details: (1) the terms of the debt issuance, including whether there is a debt service reserve, the interest rate, and annualized amount of debt service; (2) revised rate schedules; and (3) to the extent necessary, tariffs reflecting the actual terms of the debt issuance. The Settling Parties agreed revised rates need not be implemented following issuance of debt, if both the OUCC and CWA agree in writing that the rate change need not be implemented due to the immateriality of the change. The Settling Parties noted that the Commission, in its sole discretion, may order CWA to implement revised rates notwithstanding the agreement of CWA and the OUCC.

CWA anticipates issuing open market debt in August 2019 and Indiana State Revolving Fund ("SRF") debt thereafter. The Settling Parties agreed not to seek any mechanism to address potential over-collection between the implementation of the Phase 1 rates and initial borrowing(s), so long as the Phase 1 SRF debt is issued on or before November 1, 2019. If the Phase 1 SRF debt issuance is not completed on or before November 1, 2019, CWA will use its revenues attributable to the Phase 1 SRF debt as an offset to the funds borrowed in connection with the Phase 1 SRF debt issuance.

**I. Changes to Terms and Conditions for Service.** The Settling Parties agreed that the miscellaneous revisions to CWA's General Terms and Conditions for Wastewater Service set forth in CWA's Attachments KLK-2 and KLK-3 and described in the direct testimony of Mr. Kilpatrick are nondiscriminatory, reasonable, and just and should be approved by the Commission.

**J. Detailed Billing Information.** CWA agreed to add a question and answer to the Frequently Asked Questions section on customer bills describing how a customer can obtain a more detailed list of the charges on his bill, and the agreed to language is provided in the Settlement Agreement. In addition, once per year, CWA has agreed to include in customer bills an explanation of how customers may request the detailed billing option and a sample of a detailed bill.

**9. Evidence Supporting Settlement Agreement.**

**A. CWA's Evidence.** Mr. Harrison testified in support of the Settlement Agreement. He stated that he and other members of CWA's senior management team provided CWA's negotiating team with the overall parameters they believed would be a reasonable and acceptable outcome. After review and consideration of the Settlement Agreement in principle, Mr. Harrison authorized CWA's negotiating team to accept it.

Mr. Harrison emphasized that the Settlement Agreement addresses both CWA's funding needs for infrastructure investment as well as the affordability challenges the community faces in a reasonable way. He testified that the Settlement Agreement would ensure CWA has the funds needed to continue the federally mandated Consent Decree projects and to make needed investments in CWA's other infrastructure, including its aging Collection System. Mr. Harrison testified the Settlement Agreement would further allow CWA to increase gradually the amount of revenue funding for those capital investments over three phased-in increases.

Mr. Harrison testified that the Settlement Agreement's authorization of a $0.45 monthly charge per bill, designed to generate approximately $1.3 million annually for LICAP, is a fair and reasonable step toward establishing a meaningful and sustainable program to help low-income customers. Mr. Harrison noted CWA's commitment in the Settlement Agreement to contribute $200,000 annually to LICAP.

Mr. Kilpatrick described the increases in operating revenues from rates and charges agreed upon for each of the three phases. Mr. Kilpatrick said that the Settling Parties agreed to reduce CWA's proposed annual revenue requirement for operating expenses by $650,000 to $77,247,012.

The agreed-upon amount of Phase 1 O&M expense of $77,247,012 represents a decrease of $665,000 from CWA's Phase 1 pro forma operating expenses of $77,912,012.

The reduction is based on the following adjustments: (1) a $7,000 decrease to remove a fine paid to IDEM; (2) a $69,980 decrease to pro forma labor expense; (3) a $558,631 decrease for Short Term Incentive Plan ("STIP") payout applicable to all employees; and (4) a $14,389 decrease for rate case expenses. Mr. Kilpatrick noted that the Settling Parties agreed to no adjustment to the pro forma amount of executive compensation, as the Settling Parties agreed the amount of executive compensation allocated to CWA was reasonable for ratemaking purposes.

Mr. Kilpatrick testified he believed there is sufficient evidence to support the overall agreed upon increases in operating revenues in Phases 1, 2, and 3. The overall increase in CWA's revenue requirement is less than CWA's case-in-chief proposal, but more than the increases proposed by the OUCC and the Industrial Group. Mr. Kilpatrick emphasized amounts agreed to by the Settling Parties include adjustments to some components upon which there were disagreements, including the following: (1) revenue-funded E&R; (2) pro forma debt service costs; (3) labor expense; and (4) handling of SIA 2 and 3 revenues. Mr. Kilpatrick noted the overall agreed increase in the revenue requirement is within the range of potential determinations the Commission could have made regarding these issues based on the evidence presented without a settlement. Mr. Kilpatrick also stated his belief that the agreed increases for Phases 1, 2, and 3 rates would result in operating revenues and rates and charges that are just and reasonable.

Mr. Kilpatrick explained the agreement with respect to the SIA. The Settling Parties agreed that CWA will not seek to recover Cause No. 44990 SIA 2 revenues uncollected as of the issuance of the Final Order in this Cause and CWA also will not seek to recover any revenue shortfall for the period from August 2018 through July 2019 through the filing of a new SIA petition (SIA 3) or through the final reconciliation of the SIA approved in Cause No. 44990.

Mr. Kilpatrick also explained the agreement with respect to the "lower of" mechanism. Mr. Kilpatrick explained this agreement addresses concerns regarding balanced billing identified in Cause No. 44685. Mr. Kilpatrick stated that the agreement would result in reduced billed volumes by Sewer Rate 1 customers. Mr. Kilpatrick highlighted the Settling Parties' agreement that a reduction of 680,000 CCF should be made to the pro forma billing determinants of the non-industrial class and that multifamily customers will no longer be subject to this billing mechanism.

Mr. Kilpatrick then explained the agreement regarding LICAP. Mr. Kilpatrick noted that bill credits would be $6.00, $10.75, or $15.00 depending on need. Mr. Kilpatrick surmised that this approach should increase the number of customers assisted as compared to providing one fixed credit without regard to the level of need. Mr. Kilpatrick testified he believes LICAP, as set forth in the Settlement Agreement, is consistent with the policy of SEA 416, in the public interest, and he recommended approval by the Commission.

Mr. Kilpatrick testified that the allocations of the annual revenue requirement to the customer classes in Phases 1, 2, and 3 reflected in the tables included in the Settlement Agreement were the result of compromise. Mr. Kilpatrick also described the Settling Parties' agreements as to other issues raised during the proceeding, including required information for capital projects,

STEP reporting, debt service true-ups, terms and conditions for service, and detailed billing information. Mr. Kilpatrick testified he believes the agreements on all of the issues set forth in the Settlement Agreement are reasonable and in the public interest. Mr. Kilpatrick recommended the Commission approve the Settlement Agreement in its entirety as consistent with the public interest and authorize CWA to implement the Settlement Agreement.

**B. OUCC's Evidence.** Ms. Stull testified that the Settlement Agreement represents a settlement on all matters in dispute except the grinder pump issue. Ms. Stull testified that in her opinion, the Settlement Agreement contains a number of customer benefits, including a reduction in the amount of the rate increase imposed on customers, as well as LICAP, an improved balanced billing mechanism, and an understanding that upon issuance of a Final Order, the existing SIA will terminate. Ms. Stull stated the Settlement Agreement is a product of arms-length negotiations, requiring all parties to compromise their positions, and strikes a balance between the interests of ratepayers and of CWA, while also achieving numerous customer benefits. Ms. Stull concluded that the Settlement Agreement establishes a reasonable result, is supported by the evidence, and should be approved.

Ms. Stull testified that the Settling Parties agreed to a total revenue requirement, after all three phases have been implemented, of $326,113,762. As to O&M expenses, the Settling Parties agreed to $77,460,540 in Phase 1, $77,553,878 in Phase 2, and $77,634,110 in Phase 3. This represents an overall reduction of $702,332 from CWA's case-in-chief position, another customer benefit contained in the Settlement Agreement.

Ms. Stull stated that CWA also agreed to reduce the amount of its proposed pro forma revenue-funded E&R in each of the three phases of its proposed revenue increase. In Phase 1, CWA reduced its proposed E&R from $72 million to $66 million; in Phase 2, CWA reduced its proposed E&R from $76 million to $70 million; and in Phase 3, CWA agreed to reduce its proposed E&R from $80 million to $75 million. In total, Ms. Stull noted that CWA agreed to reduce its annual revenue-funded E&R by $17 million over the course of its proposed three phase rate increase, with such reduction to revenue-funded E&R being added to the amount funded through debt financing. Ms. Stull testified these Settlement terms represent a substantial compromise among the Settling Parties, balancing CWA's desire to reduce its reliance on debt financing while tempering the impact of the proposed rate increase on customers.

Ms. Stull explained the Settling Parties also compromised on the issue of debt service revenue requirement, which anticipates the issuance of both open market financing as well as SRF financing in Phase 1, including associated reduced interest rates. The agreed debt service revenue requirement also incorporates additional borrowing due to the agreed reductions to revenue-funded E&R as well as CWA's agreement to forgo seeking certain SIA revenues. Ms. Stull noted that the Settlement Agreement requires CWA to file a true-up report, along with revised rate schedules, within 30 days of the issuance of debt in each phase. Ms. Stull explained the debt service terms represent a significant compromise among the Settling Parties and provide customer benefits by incorporating a reduced interest rate. Ms. Stull testified the Settling Parties agreed upon the following rate assumptions, subject to true-up: 3.55% in Phase 1; 3.80% in Phase 2%; and 4.05% in Phase 3. Ms. Stull stated the Settlement Agreement represents a reduction in the debt service

revenue requirement as follows: $970,890 in Phase 1; $1,748,681 in Phase 2; and $2,108,264 in Phase 3.

Ms. Stull stated that the Settling Parties reached compromise on a number of other issues. For example, CWA agreed to update its balanced billing mechanism to bill residential customers their winter average consumption or their actual consumption, whichever is lower. Ms. Stull testified that due to the changes in the balanced billing mechanism, customers would no longer be billed for consumption they did not actually use.

Ms. Stull stated that Settling Parties agreed the total program cost for LICAP would be funded by both ratepayers and CWA, with CWA contributing $200,000 annually to the program while a $0.45 charge will be established to provide $1,300,000 to the program from customers. This compromise addresses the OUCC's concern that the program not be funded solely by ratepayers. Ms. Stull testified that CWA's commitment to contribute $200,000 annually to the program resulting in $1,500,000 annually for LICAP is a fair and reasonable step toward that end.

Ms. Stull noted that the Settlement Agreement also provides that in future rate cases, for those costs that make up the capital program portion of its revenue requirement, whether funded through rate revenue or through the issuance of debt, CWA will provide certain information in its case-in-chief. Ms. Stull testified that the Settlement Agreement adds clarity to the level of support CWA will provide for its capital projects in future cases and the public interest is served when the consumer parties receive meaningful support for capital expenditures as early in the review process as possible.

Ms. Stull concluded that the Settlement Agreement represents a fair compromise of disputed issues that reasonably protect consumer interests. Ms. Stull noted that the Settlement represents a compromise that the OUCC and other Settling Parties support as fair, reasonable, and beneficial to both CWA and customers. The Settling Parties also value the certainty and speed of implementing negotiated outcomes such as this. Therefore, according to Ms. Stull, the Settlement Agreement is in the public interest, supported by the evidence, and should be approved.

Mr. Mierzwa addressed the cost allocation and rate design aspects of the Settlement Agreement. Mr. Mierzwa stated that the Settlement Agreement resolves all issues related to cost allocation and rate design. Mr. Mierzwa noted that the Settlement Agreement is the result of arms-length bargaining, and his testimony provides the present rates and settlement rates. Mr. Mierzwa testified that while each party presenting cost allocation and rate design testimony and exhibits strongly believed in its respective position, the Settling Parties were able to put aside those differences and agree upon a resolution of these issues that avoids litigation, generally moves the revenues from each class toward the allocated cost of service as determined in CWA's case-in-chief, and falls within the range of potential outcomes proposed by the Settling Parties, if the case had been litigated. Mr. Mierzwa believes the Settlement Agreement provides for a distribution of the revenue increase in a manner that could have resulted from the various positions of the Settling Parties, yet all moved from their respective litigation positions to arrive at a compromise. Accordingly, Mr. Mierzwa believes the Settlement Agreement is in the public interest.

**10. Commission Discussion and Findings on Settlement Agreement.** The Settlement Agreement represents the Settling Parties' proposed resolution of the issues in this Cause. As the Commission has previously discussed, settlements presented to the Commission are not ordinary contracts between private parties. *U.S. Gypsum, Inc. v. Indiana Gas Co.,* 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coal. v. PSI Energy, Inc.,* 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coal.,* 664 N.E.2d at 406.

Further, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *U.S. Gypsum,* 735 N.E.2d at 795 (citing *Citizens Action Coal. v. Public Service Co.,* 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Before the Commission can approve the Settlement Agreement, the Commission must determine whether the evidence in this Cause sufficiently supports the conclusion that the Settlement Agreement is reasonable, just, and consistent with the purpose of Indiana Code ch. 8-1-2 and that such agreement serves the public interest. When making this determination, the Commission strives to advance the public interest by ensuring reliable service at reasonable rates as opposed to inter-party tranquility by accepting parties' settlements without scrutiny; consequently, it is imperative the Commission be provided with substantive evidentiary support for settlements.

The Commission has before it substantial evidence from which to determine the reasonableness of the Settlement Agreement's terms, including: (1) the Settling Parties' agreement on CWA's base rates; (2) the methodology to be used in determining CWA's rate increase; (3) the agreed allocation of the increase; (4) agreed rate design; and (5) the adjustments to determine CWA's adjusted financial results at present and settlement rates. We find all of the terms are supported by the settlement testimony. The agreed pro forma adjustments are also supported by Revised Attachment A to the Settlement Agreement; therefore, we have substantive information from which to discern the basis for the components of the increase in CWA's base rates and charges under the Settlement Agreement. We find the evidence supports that they are reasonable.

In so finding, we note the revenue increase will be significantly less than what CWA originally sought. OUCC witness Stull testified that the Settlement Agreement contains a number of customer benefits, including a reduction in the amount of the rate increase imposed on customers, as well as funding of LICAP, an improved balanced billing mechanism, and an understanding that upon issuance of a Final Order, the existing SIA will terminate. In supporting approval of the Settlement Agreement, Ms. Stull testified that the Settling Parties agreed to a total revenue requirement after all three phases have been implemented of $326,113,762. As to O&M expenses, the Settling Parties agreed to $77,460,540 in Phase 1, $77,553,878 in Phase 2, and $77,634,110 in Phase 3. This represents an overall reduction of $702,332 from CWA's case-in-chief position, another customer benefit contained in the Settlement. Ms. Stull testified the Settlement Agreement provides for a reasonable increase, and it resolves the Settling Parties' dispute regarding what information CWA should provide in its case-in-chief in future cases to support its capital program. She concluded that the Settlement Agreement represents a compromise

that the OUCC and other Settling Parties support as fair, reasonable, and beneficial to the utility and its customers. It is in the public interest and should be approved.

Below, the Commission will review and address specific components of the Settlement Agreement.

**A. Base Rate Relief.** In this case, the Commission has before it a large body of evidence from which to judge the reasonableness of the terms of the Settlement Agreement, including the Settling Parties' agreement as to the level of annual operating revenues in Phases 1, 2, and 3 necessary to satisfy the "reasonable and just rates and charges for services" standard of Indiana Code § 8-1.5-3-8. CWA offered evidence supporting its originally proposed $39,542,033 increase in pro forma operating revenues in Phase 1 and $14,714,128 and $11,330,166 increases in pro forma operating revenues in Phases 2 and 3. The OUCC recommended Phases 1, 2, and 3 pro forma operating revenue increases of $20,940,290, $14,679,536, and $9,633,979, respectively. The Industrial Group recommended that CWA's proposed three-year increase in annual operating revenue of $65.5 million should be reduced by at least $14.8 million.

In the Settlement Agreement, the Settling Parties agreed upon a $31,869,740 increase in pro forma operating revenues in Phase 1 and $13,931,090 and $11,974,903 increases in pro forma operating revenues in Phases 2 and 3, respectively. The Settlement Agreement provides for rate relief, which is less than that originally proposed by CWA, but more than that proposed by the OUCC and the Industrial Group. But both CWA witnesses Harrison and Kilpatrick, as well as OUCC witness Stull, testified the level of rate relief agreed upon is reasonable and in the public interest. The revenue requirement elements constituting the agreed-to annual operating revenue amount were addressed in the Settling Parties' prefiled testimony and exhibits or in the Settlement Agreement and its exhibits. Therefore, the Commission has been able to examine the basis for all of the components of the total revenue requirement.

The record includes substantial evidence supporting CWA's O&M expense revenue requirement element. The OUCC proposed reductions to CWA's pro forma operating expenses in the categories of rate case expense, executive compensation, payroll taxes, labor costs, and other specified expenses including membership dues, stormwater costs, and an IDEM fine. The Industrial Group proposed reductions to CWA's pro forma labor costs based on the following: (1) lower projected annual pay increases; and (2) a reduced allocation of labor costs. The agreed-upon amount of Phase 1 O&M expense of $77,247,012 represents a decrease of $665,000 from CWA's Phase 1 pro forma operating expenses of $77,912,012.

The Settlement Agreement indicates the agreed-upon adjustments to CWA's O&M expense were: (1) a $7,000 decrease reflecting removal of a fine paid to IDEM; (2) a $69,980 decrease to pro forma labor costs reflecting a compromise between CWA's proposed 3% pay increase and the Industrial Group's proposed 2% pay increase; (3) a $558,631 decrease to pro forma labor costs reflecting a reduction to a STIP payout applicable to all employees; and (4) a $14,389 decrease to the amount of pro forma rate case expenses. The Settlement Agreement establishes that by agreement no adjustment was made to the pro forma amount of executive compensation included in CWA's case-in-chief and that the Settling Parties agree for purposes of settlement that the total amount of executive compensation allocated to CWA is reasonable for

ratemaking purposes and should be included in CWA's revenue requirement in this Cause. The Settling Parties' agreements with respect to CWA's O&M expenses are supported by the evidence of record and are approved.

As discussed in the Order in CWA's previous rate case, Cause No. 44685, in previous cases involving the utilities of CEG, the Commission has repeatedly questioned the level of executive compensation, and specifically the use of a compensation study that includes both municipal and investor-owned for-profit utilities. Because of the unique characteristics of the utilities of CEG, the Commission will continue to monitor executive compensation. In its next rate case, CWA shall include with its case-in-chief an updated compensation study of executive salaries that includes distinct municipal utilities. This requirement also extends to CEG's other regulated utilities.

CWA's significant capital requirement is the driver behind CWA's need for rate relief. As summarized by CWA witness Harrison: "[t]he rate relief we have requested in this case is critically important to provide the funding CWA needs to continue to make the investments necessary to comply with the Consent Decree, address its aging Collection System infrastructure and treatment plants and make sewer service available to additional homes in Marion County currently relying on septic tanks for sewage disposal." Pet. Ex. 1 at 34. The evidence reflects that the agreed-upon E&R and debt service are necessary to address CWA's significant capital needs.

Mr. Harrison stated that the vast majority of capital investments in the proposed E&R program are necessary to comply with the Consent Decree. In this case, as well as prior rate proceedings involving CWA, we have been provided a substantial amount of evidence regarding the nature of capital improvement projects that must be completed in order for CWA to comply with the Consent Decree. CWA witness Jacob described the specific CSO control measures that will be underway during the CIRP.

In addition to the CSO control measures required under the Consent Decree, CWA's testimony indicates that the Wastewater System has substantial additional capital needs. In this proceeding, CWA provided evidence supporting approximately $44 million of capital investment per year (on average) for non-Consent Decree projects – which is less than the $50 million invested during the test year on non-Consent Decree projects.

CWA witnesses Jacob and Willman provided testimony supporting CWA's need to invest in its treatment plants and Collection System. In particular, CWA witness Jacob stated that treatment plant projects generally are driven by environmental regulatory requirements, more efficient technologies, condition, age, and expansion needs. Mr. Jacob testified that large parts of the Collection System are very old and need significant and continuous investment. Due to the age of the system, CWA experiences an average of approximately 80 failures in its 3,200 mile Collection System each year. Mr. Jacob testified some components of the Collection System were installed in the 1800s, and Indianapolis has 71 miles of brick sewer. Accordingly, CWA plans to invest approximately $18.3 million annually on Collection System improvements during the CIRP.

In addition, CWA provided evidence in its case-in-chief and rebuttal regarding STEP, and the evidence included CWA's 13-page Septic Tank Elimination Program Whitepaper. During the Evidentiary Hearing, Mr. Jacob provided additional testimony regarding the history of STEP and

the costs and responsibilities of homeowners with LPSS. CWA proposed to spend approximately $6.3 million annually for STEP projects. No party opposed funding of STEP. The Settling Parties agreed to this level of funding of STEP in the Settlement Agreement. In CWA's last rate case, Cause No. 44685, we approved CWA's proposal to spend approximately $12 million annually for STEP projects. We noted that we had approved funding for STEP in CWA's prior rate case and found that although STEP replaces septic systems at individual locations, the cumulative effects of the program provide benefits for CWA's customers and for the residents of the City in general. In this case, Mr. Jacob testified that the continuation of the STEP projects allows for environmental improvements as well as providing a higher quality of life in Central Indiana. We find that continued funding of STEP as agreed to in the Settlement Agreement is reasonable and is in the public interest because STEP's cumulative effects benefit customers at a moderate rate impact.

The most significant difference among the Settling Parties with respect to CWA's revenue requirements was the amount of E&R to be funded through revenues, as opposed to being financed. The testimony provided by the Settling Parties in this Cause presents diverse and opposing opinions as to the appropriate level of CWA's rate revenue-funded and debt-funded capital improvements. In the Settlement Agreement, CWA agreed to reduce the amount of its proposed pro forma revenue-funded E&R from $72 million in Phase 1, $76 million in Phase 2, and $80 million in Phase 3, as proposed in CWA's case-in-chief, to $66 million in Phase 1, $70 million in Phase 2, and $75 million in Phase 3. In addition, the Settling Parties agreed to reduce pro forma debt service cost by an aggregate $3 million during the CIRP to reflect a $1 million reduction in capital spending annually. OUCC witness Stull testified that the settlement terms represent a substantial compromise among the Settling Parties, balancing CWA's desire to reduce its reliance on debt financing while tempering the impact of the proposed rate increase to customers. CWA witness Harrison testified that the Settlement will ensure CWA has the funds needed to continue the federally mandated Consent Decree projects and to make needed investments in CWA's other infrastructure, including its aging Collection System, and allow CWA to gradually increase the amount of revenue funding for those capital investments over three phased-in increases. We find these to be reasonable compromises of the Settling Parties' respective positions and in the public interest because they balance a reduction in debt financing and temper the impact of rate increases.

The Settling Parties agreed upon certain changes that impact CWA's proposed pro forma debt service costs, including interest rate assumptions using the following rates, subject to true-up: Phase 1 – 3.55%; Phase 2 – 3.80%; and Phase 3 – 4.05%. The Settling Parties also agreed to an increase in debt to be issued related to CWA's agreement to forgo seeking certain SIA revenues and an increase in CWA's line of credit. OUCC witness Stull testified that the debt service terms represent a significant compromise among the Settling Parties and provide customer benefits by incorporating a reduced interest rate to reflect CWA's intention to issue SRF debt in addition to open market debt.

As discussed above, we find that the funding of E&R through revenue and debt as provided in the Settlement Agreement is sufficient to support CWA's significant capital needs for the Consent Decree, aging infrastructure, and STEP. We find that the Settling Parties agreed to debt service costs that are sufficient to support the investments and the debt service costs incorporate reduced interest rates that benefit customers. We further find the terms of the Settlement Agreement with respect to the timing of the revenue increases in Phases 1, 2, and 3 to be reasonable

because the timing produces income in each phase to maintain the utility property and to comply with the Consent Decree while moderating the rate impact on customers. Therefore, based on the evidence presented and as discussed above, we find that the provisions of the Settlement Agreement regarding CWA's base rates are reasonable and just and sufficiently supported by the evidence of record.

**B. Cost of Service, Revenue Allocation, and Rate Design.** In the Settlement Agreement, the Settling Parties agreed to an allocation of the agreed upon revenue requirement and resulting rates and charges for each customer class. As reflected in their respective testimony in support of the Settlement Agreement, the Settling Parties have divergent views with respect to the proper allocation of the costs of providing wastewater service, rate design, and the revenue requirement increase among CWA's customer classes. However, the Settling Parties were able to put aside those differences and ultimately agree upon allocations of the revenue increases to each class that fall within the range of increases that may be supported by their respective cost of service studies. OUCC witness Mierzwa testified that the Settlement Agreement provides for a distribution of the revenue increase in a manner that could have resulted from the various positions of the Settling Parties. All of the parties, however, moved from their respective litigation positions to arrive at a compromise. We find the agreed allocation of the revenue requirement among customer classes to be appropriate and the allocations to be in the public interest because the allocations distribute the costs of service without discrimination to support the revenue requirement.

In its case-in-chief, CWA proposed to increase the monthly base charge for the non-industrial rate class from $18.75 to $21.95, $22.99, and $23.74 in Phases 1, 2, and 3, respectively. In settlement, CWA agreed the monthly base charge for the non-industrial rate class should be $21.25 for Phases 1, 2, and 3. Under the Settlement Agreement, the volume charge is designed to recover the remaining class revenue allocation. The rates for unmetered non-industrial customers are designed based on CWA's case-in-chief, modified as necessary to reflect the reduced revenue requirement and agreed upon class allocations. CWA has made and continues to make significant investments in the Wastewater System and incurs substantial debt and operating costs to be prepared to serve customers and rate classes. We find the Settling Parties' agreement with respect to the monthly base charges for each customer class to be reasonable because it fairly allocates the base charges and adequately supports the required system investments.

Rates reflecting the Settling Parties' agreements with respect to cost of service and rate design are in Attachment B to Pet. Ex. 21. Based on the Settling Parties' agreement and evidence presented, we find that the rates and charges, attached to the Settlement Agreement as Attachment B, are non-discriminatory, reasonable, and just, and the rates are charges are approved.

**C. Low-Income Customer Assistance Program.** Mr. Harrison noted that subsequent to CWA's last rate case, the Indiana General Assembly passed and the Governor signed SEA 416, which provides the Commission greater flexibility to approve revenue-funded customer assistance programs. He explained that CWA is proposing a rate-funded customer assistance program, which includes bill discount and infrastructure fund proposals for qualified low-income customers. CWA proposed that LICAP would be funded with a $0.79 per bill charge. Mr. Bell, on behalf of the OUCC, recommended that CWA fund LICAP from one or more of its CEG business entities and that CWA annually report on the success of LICAP with specific metrics or measures

to gauge the program's success. Mr. Gorman, on behalf of the Industrial Group, testified in opposition to LICAP. Mr. Olson, on behalf of CAC and INCAA, supported CWA's request to implement LICAP. He testified that programs like CWA's proposed LICAP with the laudable goal of creating affordable monthly bills for low-income households would not be sustainable and would likely not succeed absent the certainty of a dedicated stream of ratepayer funding. Mr. Olson sponsored Attachment KLO-2, a jointly signed letter from leaders of the Indiana Coalition for Human Services, Marion County Commission on Youth Inc., Sacred Heart Catholic Church, and St. Patrick Catholic Church in support of LICAP.

In settlement, the Settling Parties agreed that until a Final Order is issued in CWA's next rate case, CWA would supply $200,000 annually to CWA's LICAP. Ratepayer funding is designed to be $1,300,000 annually and will be recovered via a fixed monthly charge of $0.45 per bill, based on CWA's current bill count. Customers participating in LICAP will receive a bill credit depending on their level of need. In addition to the bill credits, $400,000 of LICAP funding will be allocated to a wastewater infrastructure fund to be used to help low-income customers keep their bills lower in the long-run through infrastructure investment assistance. CWA agreed to file a report with the Commission each year with information regarding various metrics and to include information about LICAP in the Frequently Asked Questions section of customer bills.

We note that the Settlement Agreement provides that each year CWA will supply an additional $200,000 to LICAP, but the Settlement Agreement does not specify CWA's source of funding for the $200,000. In the OUCC's case-in-chief, Mr. Bell testified that CEG operates as a Public Charitable Trust engaged in a variety of businesses and CEG's operations extend into many regulated and non-regulated business operations that may provide sources of funding for LICAP. Mr. Bell recommended that CWA fund LICAP from one or more of CEG's business entities. During the settlement negotiations, the Settling Parties agreed that $200,000 would be funded by CWA and the balance would be funded by customer rates. Because CWA did not request a corresponding increase in rates of $200,000 and taking into consideration the pre-settlement positions of the parties, we conclude that CWA's $200,000 will be funded through one or more of CEG's business entities. Upon our consideration of the evidence, we find that it is reasonable that CWA should annually supply $200,000 of funding for LICAP and CWA's source of funding would be one or more of CEG's business entities and not customer rates.

The Commission finds the provisions regarding LICAP in the Settlement Agreement are permitted by Indiana Code §§ 8-1-2-46(b)-(c) and 8-1-2-0.5, are reasonable, and in the public interest. Therefore, LICAP is approved. It is important CWA develop well-defined metrics that will be useful in evaluating LICAP and that CWA is transparent concerning the information learned. CWA shall file a report with the Commission on or before August 31 of each year during the term LICAP remains in effect with regard to the prior year. CWA shall report the following at a minimum: (1) the number of customers who participated in LICAP that year for each locale; (2) the total dollar amount, regardless of funding source, that was disbursed directly to customers that year as a result of LICAP via (a) a bill credit or (b) alternative credit (identifying this alternative); (3) the total dollar amount, regardless of funding source, that was expended during the prior year on LICAP; (4) the number of CWA customers (a) who requested and received assistance and (b) the number of customers who requested but were declined assistance; (5) the estimated dollar impact LICAP had on CWA's average bad debt amount; (6) the estimated impact LICAP had on

disconnections; (7) the administrative costs associated with LICAP that year; (8) the total value of accounts in arrears for customers considered low income; (9) the average dollar amount benefit to LICAP participants; (10) a business investment analysis (ex: cost-benefit analysis) of all projects underwritten by the LICAP wastewater infrastructure fund; (11) copies of program communication to potential participants (ex: explanatory text on web page and brochures); and (12) any other factors or analysis CWA has developed to assess LICAP's effectiveness.

By January 31, 2022, CWA shall file a report with the Commission that includes the foregoing information (1) through (12) for the period since its last annual report and also provide a full analysis of LICAP, including all the factors CWA used to assess whether this program should continue in its current form after CWA's next general rate case and its analysis of these factors, as well as what modifications, if any, CWA recommends making to the program prospectively.

**D. Balanced Billing Mechanism.** The Settlement Agreement provides that CWA's balanced billing mechanism will be replaced with a "lower of" mechanism in which residential customers will be billed for wastewater service based on their monthly average winter use or actual consumption for that month, whichever is lower. The "lower of" mechanism will not apply to multifamily customers, who will be billed based on their actual consumption on a monthly basis. In Cause No. 44685, CWA proposed to bill residential and multifamily customers the lower of their actual usage in the summer months or their Base Average Usage billed during the months of December through March, but withdrew that proposal based upon an agreement with the OUCC and the Industrial Group. While the Commission accepted CWA's withdrawal of the proposal in Cause No. 44685, we expressed concern that under the current billing mechanism, CWA was billing for volume that it was not treating during the summer months. *CWA Authority, Inc.*, Cause No. 44685, 2016 WL 3996435, at 22 (IURC July 18, 2016). The Settlement Agreement resolves the concern this Commission raised in Cause No. 44685. Ms. Stull testified that due to the changes in the balanced billing mechanism, customers would no longer be billed for consumption they did not actually use. Accordingly, we approve the terms of the Settlement Agreement relating to the implementation of the "lower of" mechanism.

**E. Additional Terms.**

**1. Required Information for Capital Projects.** To assist the OUCC's review, analysis, and determination of the reasonableness of capital projects undertaken, CWA agreed that in future rate cases for those costs that make up the capital program portion of its revenue requirement, whether funded through rate revenues or debt, CWA would provide certain specified information in its case-in-chief. CWA also agreed to provide additional information about certain specific projects discussed in OUCC witness Parks's testimony. We find the foregoing terms to be reasonable and consistent with the public interest because the required information is needed to consider the validity of capital projects.

**2. System Integrity Adjustment.** In the Settlement Agreement, CWA agreed it would not seek to recover Cause No. 44990 SIA 2 revenues uncollected as of the issuance of the Final Order in this Cause. CWA also agreed to not seek to recover any revenue shortfall for the period from August 2018 through July 2019 (SIA 3) through the filing of a new SIA Petition or through the final reconciliation of the SIA approved in Cause No. 44990. As a result of the foregoing agreement, the Settling Parties agreed to CWA's increased debt issuance. We note that

the explanation in Section IV in the Settlement Agreement is incomplete because it indicates CWA will not recover the SIA revenues and the Settling Parties agreed to CWA's increased debt issuance. It should also indicate the SIA revenues shortfall was made up in its entirety by the increased debt issuance and also an increase to E&R, which is recovered through rates. Upon our consideration of these issues and of the underlying SIA statutes, we find that these provisions of the Settlement Agreement are reasonable.

3. **Debt Service True-up.** The actual cost of CWA's proposed debt service will not be known precisely until after CWA issues its proposed bond issuances. Accordingly, CWA has agreed that within 30 days of closing on the debt issuance contemplated as a part of this rate case, it will file a true-up report with the Commission setting forth certain information and implement revised rates under certain terms agreed upon by the Settling Parties. We note that under the Settlement Agreement, the Commission in its sole discretion may order CWA to implement revised rates following the filing of the true-up report. The Settlement Agreement also includes a mechanism to deal with any lag in the issuance of CWA's Phase 1 SRF debt issuance. We find the terms set forth in the Settlement Agreement with respect to the debt service true-up report are reasonable because they require CWA to provide sufficient reporting for us to determine if revised rates are needed, and the terms are approved.

4. **Terms and Conditions for Service.** The Parties agreed that the miscellaneous revisions to CWA's General Terms and Conditions for Wastewater Service set forth in the direct testimony of Mr. Kilpatrick and Attachments KLK-2 and KLK-3 are nondiscriminatory, reasonable, and just and should be approved by the Commission. CWA witness Kilpatrick described the need for each of CWA's proposed changes to its Terms and Conditions for Wastewater Service. We find the miscellaneous revisions to CWA's Terms and Conditions for Wastewater Service as modified by the Settlement Agreement are reasonable and are approved.

5. **Other Miscellaneous Terms.** CWA agreed that as part of its next rate case proceeding, it would present a cost of service study reflecting an allocation of I/I costs by customer class and wastewater volumes attributable to each class weighted at a minimum of 75% by the number of customer accounts, either as its proposed cost study or as an alternative to its proposal if it proposes an allocation less than 75/25 for I/I costs. CWA also agreed to include a question in the Frequently Asked Questions section of customer bills describing how customers can obtain a detailed bill. Once per year, CWA will include in customer bills an explanation of how customers may request the detailed billing option and a sample of a detailed bill. In the context of a negotiated resolution of such issues on which there were clearly divergent views, we find these terms to be reasonable and in the public interest because the study will provide useful rate design data and the additional information on customer bills will be helpful to customers.

11. **Conclusion Regarding Settlement Agreement.** For all of the foregoing reasons, we find that the Settlement Agreement is reasonable, supported by the evidence of record, and in the public interest. The Settlement Agreement is approved in its entirety. An average residential monthly wastewater bill with 6.67 CCF of usage will increase from $55.30 currently as follows: (1) $61.90 in Phase 1; (2) $64.33 in Phase 2; and (3) $66.32 in Phase 3, and this is a total increase of $11.02 as compared to the current rate ($66.32 – $55.30). The bill amounts listed for Phases 1, 2, and 3 include a monthly LICAP charge of $0.45. We further find that the revised Terms and

Conditions for Wastewater Service, attached to the direct testimony of Mr. Kilpatrick in Attachment KLK-3, and the tariffs, filed as Attachment B to Mr. Kilpatrick's supplemental testimony, set forth terms and conditions and rates and charges for service that are nondiscriminatory, reasonable, and just and therefore are approved.

With regard to future citation of the Settlement Agreement, we find the agreement and our approval thereof should be treated in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 WL 34880849, at 7-8 (IURC March 19, 1997) and the terms of the agreement regarding its non-precedential effect. The Settlement Agreement shall not constitute an admission or a waiver of any position that any of the Settling Parties may take with respect to any or all of the items and issues resolved therein in any future regulatory or other proceedings, except to the extent necessary to enforce its terms.

**12. Ownership, Maintenance, and Replacement of Grinder Pumps installed in the Septic Tank Elimination Program.** In the Settlement Agreement, the Settling Parties agreed to fund STEP projects during Phases 1, 2, and 3. However, they did not agree on whether the homeowners or CWA should own, maintain, and replace grinder pumps installed as part of LPSS. This was the only issue the Settling Parties did not settle, and it is now our task to consider: (A) the positions of CWA and the OUCC; (B) the history of STEP; (C) the requirements of the Indiana Administrative Code and CWA's Terms and Conditions; (D) the impact of increased costs to connection rates and ultimately to human health; and (E) the fairness of shifting the risks and costs of LPSS to ratepayers, and to decide this contested issue.

**A. Positions of CWA and the OUCC.** CWA proposed to decrease the annual funding for STEP projects included in its capital investment requirement from approximately $12 million to approximately $6.3 million. Mr. Jacob attributed much of the approximately $5.7 million reduction in needed annual STEP funding to the fact that CWA had changed the construction practices of STEP projects from primarily gravity systems to predominantly LPSS, which reduced STEP construction costs by approximately 30% to 40% of the cost of gravity systems (from approximately $32,000 for gravity to $18,800 for LPSS). CWA in its case-in-chief did not introduce any changes to the manner in which it would complete STEP projects in this proceeding.

Since 2016, CWA has utilized LPSS to connect almost 1,000 homes, installing grinder pumps as part of the LPSS. Under the terms of its Enrollment Agreement for LPSS, CWA agrees to have its contractor install the grinder pump and lateral and abandon the homeowner's septic tank in exchange for the homeowner paying a $2,766 connection fee. Customers can pay the $2,766 over a 60-month period, interest free. Homeowners do not have to participate in CWA's construction program because they have the option to hire a contractor to install their connections once service is available. Mr. Jacob testified homeowners do not have to connect to the sewer line unless ordered to do so by the Marion County Health Department.

Currently, when CWA's contractor installs grinder pumps as part of LPSS, CWA provides the homeowners with information regarding the maintenance and replacement of the grinder pumps. In addition, CWA's contractor provides a grinder pump warranty upon installation. According to the Enrollment Agreement for LPSS, homeowners agree that they are responsible

for maintaining the grinder pump in accordance with the terms of the manufacturer's warranty. During the Evidentiary Hearing, Mr. Jacob testified that at this time, no homeowner has needed to replace a grinder pump. Tr. at 95.

The OUCC recommended in its case-in-chief that the Commission require CWA to retain ownership, maintenance, and replacement responsibilities for the almost 1,000 grinder pumps installed as part of the LPSS and for future LPSS installments. Tr. at 110. The OUCC suggested that LPSS homeowners should pay only the initial hook-up cost and electrical costs to operate their grinder pump systems. Mr. Parks testified at the Evidentiary Hearing that several other utilities retain operational and financial responsibilities for emergency breakdowns and replacements of grinder pumps. He advised at those utilities, the grinder pump maintenance, repair, and replacement costs are recovered through service fees charged to the customers with LPSS and through customer rates. Tr. at 117-119. During the Evidentiary Hearing, Mr. Parks clarified that one of the utility examples he provided was information from a request for proposal and not the utility's policy. Tr. at 122.

**B. <u>The History of STEP</u>.** In 2010, CWA committed to continue certain specified STEP projects in the Asset Purchase Agreement entered into with the City of Indianapolis. The Asset Purchase Agreement was presented to the Commission for approval in Cause No. 43936. In the settlement filed in Cause No. 43936, CWA agreed to complete additional STEP projects on an on-going basis subject to the adequacy of rates and charges to fund the cost of such projects. On July 13, 2011, the Commission approved the terms of the Asset Purchase Agreement and settlement agreement and authorized CWA to continue the City's STEP. In CWA's first rate case, Cause No. 44305, the Commission in 2014 authorized CWA to include $24 million of annual funding in CWA's capital program for STEP. The Commission found that the cumulative effects of the program provide benefits for CWA's customers and for the residents of Indianapolis in general.

CWA's next rate case was Cause No. 44685. CWA submitted evidence in Cause No. 44685 that to improve cost-effectiveness of STEP projects, it was moving to use of LPSS that use a pump located at each house to move wastewater to CWA's Collection System. We approved the terms of the settlement agreement in Cause No. 44685, which included approximately $12 million of annual funding for STEP projects. We cited Mr. Jacob's testimony regarding cost-effectiveness as support for our authorizing CWA to continue STEP:

> Mr. Jacob also described methods CWA is implementing to reduce the costs of STEP projects that will allow CWA to address more of the approximately 8,400 remaining priority areas in the upcoming years. Currently, Mr. Jacob expects that CWA's proposed investment of approximately $12 million per year in STEP projects will allow CWA to connect approximately 800 homes to the Wastewater System per year on average.

*CWA Authority, Inc.*, 2016 WL 3996435, at 22.

We note that Cause No. 44685 was settled and no party submitted evidence opposing CWA's move to installing LPSS rather than gravity systems.

**C. Indiana Administrative Code and CWA's Terms and Conditions.** According to the Indiana Administrative Code, a customer is responsible for the costs to install and maintain the service pipe from the end of the company's portion into the premises served, and it is the customer's responsibility to maintain the service pipe and appurtenances such as a grinder pump as follows:

> (b) Customer's Service Pipe. The customer shall install and maintain that portion of the service pipe from the end of the company's portion into the premises served.
>
> (c) Requirements for Customer's Service Pipe. . . . It shall be the customer's responsibility to maintain his service pipe and appurtenances in good operating condition.

170 IAC 8.5-3-7(b) and (c).

We note that the parties did not testify regarding the requirements of the Indiana Administrative Code as it pertains to the grinder pump issue. The allocation of responsibilities in the Indiana Administrative Code strikes a reasonable and non-discriminatory balance in allocating financial responsibilities between individual homeowners and ratepayers as a whole. The OUCC's recommendations would alter the allocation of responsibilities and are in conflict with the Indiana Administrative Code. We note that no party proposed changes to the Commission's regulations to make it the utility's responsibility to maintain LPSS and the appurtenances.

Additionally, according to CWA's Sewage Disposal Tariff Rates, Terms and Conditions for Sewage Disposal Service ("Rates, Terms, and Conditions"), it is the responsibility of the property owner to bear the cost of all necessary repairs and replacements for a service line and any accessories such as a grinder pump, and we take administrative notice of that document to the extent necessary. The pertinent rules with emphasis are provided below:

> Rule 11.3 It shall be the responsibility of the property owner(s) whose property is benefited to provide for, install and make private connections for the use of their Premises to an existing Public or Building Sewer. As further provided in Rule 21 of these Terms and Conditions for Sewage Disposal Service, it shall be the responsibility of the [property] owner to make all necessary repairs, extensions, relocations, changes or replacements thereof, and of any accessories thereto.
>
> Rule 21.3 The Customer shall not allow the Customer's portion of the Building Sewer to become broken, obstructed, inferior, defective, leaky or imperfect so that sewage or drainage escapes into surrounding soil, adjacent Premises, ground or surface water or other matter enters the Sewage Disposal System. . . . Such replacements or repairs shall be made by, and at the expense of the Customer or Applicant.

We note that Rules 11.3 and 21.3 of CWA's Rates, Terms, and Conditions are consistent with the Commission's regulations. However, the OUCC did not acknowledge in its testimony that its

recommendations are in conflict with CWA's Rates, Terms, and Conditions.

The evidence reflects that CWA's current policy accomplishes the objective of striking a reasonable and non-discriminatory balance in allocating financial responsibilities between individual homeowners and ratepayers as a whole. Therefore, we decline to require revisions to CWA's Rates, Terms, and Conditions to accommodate the OUCC's recommendations on the grinder pump issue.

**D. Impact of Increased Costs to Connections and Ultimately to Public Health.** CWA presented evidence that the use of LPSS have achieved a significant amount of savings for homeowners in STEP areas and ratepayers alike. Using LPSS, the total cost to connect one home to the Wastewater System decreased from approximately $32,000 for a gravity system to $18,800 currently for LPSS. Additionally, a homeowner's initial cost decreased from $6,766 with a gravity system during 2005-2016 to $2,766 currently with LPSS. As noted in the Septic Tank Elimination Program Whitepaper, gravity systems are typically more expensive to construct than LPSS.

Homeowner connection rates have risen from historical levels of approximately 50% to over 95%. Mr. Jacob testified that the increase in the connection rate was driven by significantly lower costs, ease of construction, and ease of connectivity. Based upon our consideration of the evidence, we note that it is reasonable that homeowner connections have increased as costs have fallen and construction and connectivity are easier. Despite the improved connection rates with LPSS, the OUCC implied that if CWA does not take ownership of the grinder pumps, then LPSS should not be installed, leaving the remaining alternative that CWA should install gravity systems which are more expensive to construct.

Mr. Jacob discussed the Septic Tank Elimination Program Whitepaper. In it, the Long-Term Control Plan references STEP as one of the non-CSO improvements that CWA would consider at their sole discretion to "maximize the benefits to water quality, stream aesthetics, and human health." Pet. Ex. 14, Attach. MCJ-R3. Dr. Caine, Director of the Marion County Public Health Department, stated, "Eliminating raw sewage from backyards, ditches and streams is a tremendous public health benefit that extends beyond the boundaries of the neighborhood receiving the sewers." Pub. Ex. 4, JTP-5 at 2. Therefore, based on our review of the evidence presented, we find that installing gravity systems at a higher cost than the currently priced LPSS would tend to decrease homeowner connection rates, and decreased connections would not be beneficial to water quality, stream aesthetics, and human health.

**E. Fairness of Shifting the Risks and Costs of LPSS to Ratepayers.** The OUCC's recommendations, if implemented, would shift risks and costs from homeowners with LPSS to ratepayers. Mr. Parks testified that the annual maintenance cost would be approximately $50 per year, according to information from the manufacturer. Mr. Parks recommended increasing CWA's annual revenue requirement $50 per year per new installation for annual grinder pump maintenance, and his recommended amounts are $15,000 for 2019, $30,000 for 2020, and $45,000 for 2021. However, the OUCC's recommendations do not consider the maintenance of the approximately 1,000 grinder pumps that were installed already. At the suggested rate of $50 per year, the total cost of maintenance for the approximately 1,000 installed grinder pumps and the

300 new installations per year would be $65,000 for 2019, $80,000 for 2020, and $95,000 for 2021. Additionally, the OUCC suggested during the Evidentiary Hearing that CWA would need to keep a workforce to maintain the grinder pumps in perpetuity, which Mr. Jacob indicated was not CWA's plan.

We note that the OUCC's recommendations are incomplete because they do not include: (1) the estimated CWA annual workforce costs; (2) the estimated number of and projected costs of annual grinder pump replacements; and (3) the cost for CWA to retain ownership of all grinder pumps. Pub. Ex. 4 at 48. Additionally, we note that no financial plan was presented that explained how the LPSS program could be changed fairly mid-course for new participants when current participants with LPSS have been responsible for their costs of annual maintenance.

Upon our review of the evidence, we find that although the OUCC recommended shifting the risks and costs of ownership, maintenance, and replacement of grinder pumps from homeowners to CWA and thereby all ratepayers, the OUCC did not provide complete recommendations regarding CWA's annual revenue requirements to accommodate the shift and explain how shifting the risks and costs mid-course would be fair. We are unable to determine that the shift is fair and reasonable.

The OUCC raised the issue that it may be difficult for some homeowners to afford to pay the costs to maintain and replace their grinder pumps. The Commission is sensitive to this issue. We note that we are approving an infrastructure replacement fund in this Commission Order as part of CWA's LICAP. Funds could be available to qualifying low-income homeowners with LPSS for grinder pump maintenance and replacements. As discussed below, it is important that homeowners fully understand their costs of LPSS so that they can budget appropriately for those costs as they do for other home maintenance costs.

Based upon our review of the testimony of the Settling Parties and the oral and written customer comments, we note that it is important that homeowners fully understand the costs to maintain, repair, and replace grinder pumps. However, CWA's explanation regarding homeowner responsibilities in the Enrollment Agreement for LPSS is overly brief. It is important that CWA provide homeowners with more detailed information in the Enrollment Agreement for LPSS and that CWA operate with transparency. Therefore, CWA shall provide homeowners eligible to obtain LPSS with detailed information so that they can decide whether to participate. CWA must provide transparency in the Enrollment Agreement for LPSS, fact sheets, and pertinent CWA web pages as follows: (1) Provide clear explanations regarding the roles and responsibilities of homeowners to maintain, repair, and replace grinder pumps; (2) furnish clear explanations and accurate estimates regarding life-cycle costs; (3) provide contact information for service professionals and any CWA negotiated pricing for those professionals to maintain, repair, and replace grinder pumps; and (4) file copies of these documents and pertinent web pages demonstrating CWA's compliance with these requirements within 90 days of the Final Order in this Cause.

Additionally, to increase transparency regarding to what extent CWA is installing LPSS and gravity systems, as part of the annual STEP report that CWA files with the Commission pursuant to the Order in Cause No. 44305, CWA shall provide the following information: (1) the installation type (LPSS or gravity); and (2) the date of substantial construction project completion.

This reporting is in addition to the STEP reporting agreed upon by the Settling Parties in the Settlement Agreement.

For all the foregoing reasons, we find that CWA's LPSS policies are consistent with 170 IAC 8.5-3-7(b) and (c) and Rules 11.3 and 21.3 of CWA's Rates, Terms, and Conditions. Based upon our consideration of the evidence presented, we find that installing gravity systems at a higher cost than the currently priced LPSS would be likely to decrease homeowner connections, tending to negatively effect water quality, stream aesthetics, and human health. We find that sufficient evidence was not provided to convince us that shifting the risk and cost responsibility for ownership, maintenance, and replacement of grinder pumps from the homeowners with LPSS to all ratepayers is fair, reasonable, or warranted. We find that CWA's policies in this regard are supported by substantial evidence of record and are reasonable. Therefore, we reject the OUCC's recommendations. As discussed herein, CWA shall provide transparency to homeowners regarding the costs and responsibilities associated with installations of LPSS.

**13. Confidential Information.** On February 18, 2019, CWA filed a Motion for Protective Order with Respect to Detailed Project Information and Consultant Pricing Information in this Cause, which was supported by an affidavit from Ms. Karner. On February 21, 2019, Petitioner filed a Motion for Protection with Respect to Confidential and Proprietary Information in this Cause, which was supported by affidavits from Mr. Jacob and Mr. Kilpatrick. The affidavits showed that certain information to be submitted to the Commission was trade secret information as defined in Indiana Code § 24-2-3-2 and should be treated as confidential in accordance with Indiana Code §§ 5-14-3-4 and 8-1-2-29. The Presiding Officers issued Docket Entries on February 20, 2019 and on February 22, 2019, finding the information filed subsequent to the motions should be held confidential on a preliminary basis, after which the information was submitted under seal. Subsequently, Pet. Ex. 14, page 21 was agreed to be non-confidential and a public version was introduced into evidence at the Evidentiary Hearing. After review of the information and consideration of the affidavits, we find the information, excluding Pet. Ex. 14, page 21, is trade secret information as defined in Indiana Code § 24-2-3-2, is exempt from public access and disclosure pursuant to Indiana Code §§ 5-14-3-4 and 8-1-2-29, and shall be held confidential and protected from public access and disclosure by the Commission.

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

1. The Settlement Agreement entered into among CWA, the OUCC, the Industrial Group, and CAC/INCAA, a copy of which is attached to this Order, is approved in its entirety. The terms and conditions of the Settlement Agreement are incorporated as part of this Order.

2. CWA is authorized to increase its rates and charges for wastewater utility service so as to generate additional revenues of $31,869,740 in Phase 1 to arrive at total operating revenues of $300,207,770, representing a 11.88% overall increase in its pro forma operating revenues, or a 11.98% increase in revenues subject to increase.

3. Effective as soon as CWA has released the Official Statement for the 2020 bonds and any State Revolving Fund pre-closing documents, if applicable, CWA is authorized to further

increase its rates and charges for wastewater service in Phase 2 to generate additional revenues in the amount of $13,931,090 to arrive at total operating revenues of $314,138,860, representing an additional 4.64% overall increase in its pro forma operating revenues, or a 4.68% increase in revenues subject to increase.

4. Effective as soon as CWA has released the Official Statement for the 2021 bonds and any State Revolving Fund pre-closing documents, if applicable, CWA is authorized to further increase its rates and charges for wastewater utility service in Phase 3 to generate additional revenues in the amount of $11,974,903 to arrive at total operating revenues of $326,113,763, representing an additional 3.81% overall increase in its pro forma operating revenues, or a 3.84% increase in revenues subject to increase.

5. The proposed changes to CWA's Terms and Conditions of Wastewater Service, which were filed in this Cause as Pet. Ex. 10, Attachments KLK-2 and KLK-3 are approved as are the changes to CWA's tariffs necessary to implement the changes to the balanced billing mechanism agreed upon in the Settlement Agreement, as well as the rates approved herein.

6. CWA is authorized to implement a Low-Income Customer Assistance Program in accordance with the terms set forth in the Settlement Agreement and our expanded reporting requirements.

7. CWA shall file with the Water/Wastewater Division of the Commission, prior to placing into effect the schedule of rates and charges for Phases 1, 2, and 3 and Terms and Conditions for Wastewater Service authorized herein, tariff schedules set out in accordance with the Commission's rules for filing utility tariffs. Said tariff schedules, when filed by CWA, shall cancel all present and prior rates and charges concurrently when said rates and charges herein approved are placed into effect by CWA.

8. In its next rate case, CWA shall include with its case-in-chief an updated compensation study of executive salaries that includes distinct municipal utilities. This requirement also extends to CEG's other regulated utilities.

9. The information filed in this Cause pursuant to the Motions for Protection subject to Indiana Code § 5-14-3-4 is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

10. Regarding the responsibilities of homeowners with grinder pumps installed with low-pressure sewer systems, CWA shall provide transparency in documents as required herein so that homeowners fully understand the responsibilities and costs of connection and can make informed decisions. CWA shall file copies of the specified documents demonstrating CWA's compliance with these transparency requirements within 90 days of the Final Order in this Cause. CWA shall comply with the STEP annual reporting requirements indicated in the Settlement Agreement, and CWA shall comply with the additional STEP annual reporting requirements as discussed herein.

11. CWA shall pay the following itemized charges within 20 days of the date of this Order to the Secretary of this Commission:

| | |
|---|---|
| Commission charges: | $ 15,778.02 |
| OUCC charges: | $ 91,213.54 |
| Legal Advertising charges: | $ 250.97 |
| Total: | $ 107,242.53 |

CWA shall pay all charges prior to placing into effect the rates and charges approved herein.

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

**FREEMAN, OBER, AND ZIEGNER CONCUR; HUSTON AND KREVDA ABSENT:**

**APPROVED:** JUL 29 2019

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

Regina Kopper acting for Mary M. Becerra

**Mary M. Becerra**
**Secretary of the Commission**

**BEFORE THE**

**INDIANA UTILITY REGULATORY COMMISSION**

| | | |
|---|---|---|
| **PETITION OF CWA AUTHORITY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WASTEWATER UTILITY SERVICE IN THREE PHASES AND APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO; (2) APPROVAL OF A LOW-INCOME CUSTOMER ASSISTANCE PROGRAM; AND (3) APPROVAL OF CERTAIN CHANGES TO ITS GENERAL TERMS AND CONDITIONS FOR WASTEWATER SERVICE.** | ) | **CAUSE NO. 45151** |

# STIPULATION AND SETTLEMENT AGREEMENT ON LESS THAN ALL ISSUES

On October 12, 2018, CWA Authority, Inc. ("CWA" or "Petitioner"), filed with the Indiana Utility Regulatory Commission ("Commission") a Verified Petition requesting the relief set forth in the above-captioned proceeding along with its case-in-chief in support thereof. On October 22, 2018, Citizens Action Coalition of Indiana, Inc. ("CAC") filed a Petition to Intervene, which the Presiding Officers granted by Docket Entry dated October 26, 2018. On November 29, 2018, CWA Authority Industrial Group ("Industrial Group")[1] filed a Petition to Intervene, which the Presiding Officers granted by Docket Entry dated December 14, 2018. The Indiana Community Action Association, Inc. ("INCAA") filed a Petition to Intervene on December 26, 2018, which the Presiding Officers granted by Docket Entry dated January 8, 2019.

[1] The Industrial Group comprises the following CWA customers: Indiana University, IU Health and Vertellus Agriculture & Nutrition Specialties, Inc.

On January 25, 2019, the Indiana Office of Utility Consumer Counselor ("OUCC"), the Industrial Group and CAC/INCAA filed their respective cases-in-chief. CWA filed its rebuttal testimony and exhibits on February 21, 2019.

Following the filing of CWA's rebuttal testimony, CWA, the OUCC, the Industrial Group and CAC/INCAA (collectively the "Settling Parties") conducted face-to-face meetings and otherwise communicated with each other regarding resolution of the issues in this proceeding through a settlement, subject to the Commission's approval. On March 19, 2019, the Settling Parties notified the presiding Administrative Law Judge that a partial settlement in principle had been reached regarding all matters aside from the OUCC's recommendation that: "CWA retain ownership of the grinder pumps it has installed and use its maintenance staff to provide emergency response and repairs for the grinder pumps and ongoing pump replacements when they reach the end of their service lives" (OUCC witness Parks, Public's Exh. No. 4 at 48) and associated recommendations regarding potential additions to Petitioner's annual revenue requirement relating to such responsibilities (the "Grinder Pump Issue"). The Settling Parties requested that the Commission adopt a procedural schedule in this Cause designed to allow time for the Settling Parties to reduce their settlement in principle to writing and prepare and file supporting settlement testimony and exhibits and present the parties' respective positions with respect to the unsettled Grinder Pump Issue.

The Settling Parties' agreement with respect to all issues other than the Grinder Pump Issue is set forth in this Stipulation and Settlement Agreement on Less than All Issues ("Settlement Agreement"). The Settling Parties, solely for purposes of compromise and settlement and having been duly advised by their respective staff,

experts and counsel, stipulate and agree that the terms and conditions set forth in this Settlement Agreement represent a fair, just and reasonable resolution of all matters raised in this proceeding except for the contested Grinder Pump Issue, subject to incorporation by the Commission into a final, non-appealable order without modification or further condition that may be unacceptable to any Settling Party ("Final Order").

## I. Phase 1 Operating Revenues and Revenue Requirements

1. The Settling Parties agree that CWA's total *pro forma* annual operating revenues from present rates and charges are $268,338,030. Upon the Commission's adoption of a Final Order approving the terms and conditions of this Settlement Agreement, the Settling Parties agree CWA's *pro forma* annual operating revenues should be increased by $31,869,738 in order to arrive at agreed total annual operating revenues of $300,207,769 for the period referred to herein as "Phase 1."

2. The Settling Parties' agreement with respect to CWA's *pro forma* Phase 1 revenue requirement is reflected by line item in Column E of Attachment A, attached hereto and incorporated herein by reference.

3. The OUCC proposed reductions to CWA's *pro forma* operating expenses in the categories of rate case expense, executive compensation, payroll taxes, and other specified expenses including membership dues, storm water costs, and an Indiana Department of Environmental Management ("IDEM") fine. The Industrial Group proposed reductions to CWA's *pro forma* labor costs based on (i) lower projected annual pay increases; and (ii) a reduced allocation of shared services labor costs. Through compromise, the Settling Parties have agreed CWA's *pro forma* operating expenses shall be decreased by a total amount of $650,000. The Settling Parties have agreed to: (i) a

$7,000 decrease reflecting removal of a fine of that amount paid to IDEM; (ii) a $69,980 decrease to *pro forma* labor costs reflecting a compromise between CWA's proposed 3% pay increase and the Industrial Group's proposed 2% pay increase; (iii) a $558,631 decrease to *pro forma* labor costs reflecting a reduction to STIP payout applicable to all employees; and (iv) a $14,389 decrease to the amount of *pro forma* rate case expenses. No adjustment was made to the *pro forma* amount of executive compensation included in Petitioner's case-in-chief. The Settling Parties agree for purposes of settlement that the total amount of executive compensation allocated to CWA is reasonable for ratemaking purposes and should be included in CWA's revenue requirement in this Cause. The Settling Parties agree that, based on the foregoing stipulated adjustments, CWA's total *pro forma* operating expenses shall be $77,247,012.

4. As reflected in Attachment A to this Settlement Agreement, CWA has agreed to reduce the amount of its proposed *pro forma* revenue funded extensions and replacements ("E&R") included in the Phase 1 revenue requirement from $72 million, as proposed in CWA's case-in-chief and rebuttal, to $66 million.

5. Attachment A to this Settlement Agreement further reflects the following agreed upon changes that impact CWA's proposed *pro forma* debt service cost: (a) a $1 million annual reduction in capital spending funded through debt service during Phase 1, as well as Phases 2 and 3 (as respectively defined in paragraphs 7 and 10 hereof) along with the associated annual debt service cost; (b) interest rate assumptions based on the following rates, subject to true-up as described in paragraphs 29 and 30: Phase 1 – 3.55%; Phase 2 – 3.80%; and Phase 3 – 4.05%; and (c) an increase in debt issued related to CWA's agreement to forgo seeking certain System Integrity Adjustment revenues, as

further described in paragraph 12. The Settling Parties agree that, based on the foregoing stipulated adjustments, CWA's Phase 1 *pro forma* debt service shall be $138,537,726.

6. The Phase 1 rates and charges shall remain in effect until replaced by the Phase 2 rates and charges, as set forth in Section II, below.

## II. Phase 2 Operating Revenues and Revenue Requirements

7. The Settling Parties agree a Final Order approving this Settlement Agreement should authorize Petitioner to increase the agreed Phase 1 operating revenues to generate $13,931,090 of additional revenues to arrive at total annual operating revenues of $314,138,859 for the period referred to herein as "Phase 2." This increase is based on Petitioner's planned issuance of debt on approximately August 1, 2020, as described in the case-in-chief testimony of John R. Brehm, as well as an increase in the revenue funded E&R revenue requirement from Phase 1 of $66,000,000 to $70,000,000 per year and an increase in tax expense related to an increase in Payments in Lieu of Taxes ("PILT") from Phase 1 of $28,510,840 to $30,056,855. The Settling Parties' agreement with respect to CWA's *pro forma* Phase 2 revenue requirement is reflected by line item in Column G of Attachment A.

8. CWA will file a notice with the Commission in this Cause indicating it has released the Official Statement for its open-market 2020 bonds and, if applicable, has obtained State Revolving Fund pre-closing and closing documents. Once CWA has released the Official Statement for the 2020 bonds and any State Revolving Fund pre-closing documents, if applicable, CWA may implement the above-described Phase 2 rate increase pursuant to the Phase 2 rates and charges without further action by the Commission or the OUCC. CWA will file the true-up report in accordance with

paragraph 28.

9. The Phase 2 rates and charges shall remain in effect until replaced by the Phase 3 rates and charges as set forth in Section III, below.

## III. Phase 3 Operating Revenues and Revenue Requirements

10. The Settling Parties agree a Final Order approving this Settlement Agreement should authorize Petitioner to increase the agreed Phase 2 operating revenues to generate $11,974,903 of additional revenues to arrive at total operating revenues of $326,113,762 for the period referred to herein as "Phase 3." This increase is based on Petitioner's planned issuance of debt on approximately August 1, 2021, as described in the case-in-chief testimony of John R. Brehm, as well as an increase in the revenue funded E&R revenue requirement from Phase 2 of $70,000,000 to $75,000,000 per year and an increase in tax expense related to an increase in PILT from Phase 2 of $30,056,855 to $30,678,848. The Settling Parties' agreement with respect to CWA's *pro forma* Phase 3 revenue requirement is reflected by line item in Column I of Attachment A.

11. CWA will file a notice with the Commission in this Cause indicating it has released the Official Statement for its open-market 2021 bonds and, if applicable, State Revolving Fund pre-closing and closing documents. Once CWA has released the Official Statement for the 2021 bonds and any State Revolving Fund pre-closing documents, if applicable, CWA may implement the above-described Phase 3 rate increase pursuant to the Phase 3 rates and charges without further action by the Commission or the OUCC. Petitioner will file the true-up report in accordance with paragraph 28.

## IV. System Integrity Adjustment ("SIA")

12. CWA will not seek to recover Cause No. 44990 SIA 2 revenues uncollected as of the issuance of the Final Order in this Cause. CWA also will not seek to recover any revenue shortfall for the period from August 2018 through July 2019 (*i.e.*, SIA 3) either through the filing of a new SIA petition or through the final reconciliation of the SIA approved in Cause No. 44990. As a result of the foregoing agreement, the Settling Parties agreed to CWA's increased debt issuance, the cost of which is reflected in Attachment A.

## V. Balanced Billing Mechanism

13. The Settling Parties agree the balanced billing mechanism will be replaced with a "lower of" mechanism in which Residential customers will be billed for wastewater service based on their monthly average winter use or actual consumption for that month, whichever is lower. The "lower of" mechanism will not apply to multi-family customers, who will be billed based on their actual consumption on a monthly basis.[2] Accordingly, the Settling Parties agree CWA should incorporate the following language in its Sewer Rate No. 1:

> **BILLING FOR RESIDENTIAL CUSTOMERS FROM MAY THROUGH NOVEMBER:**
>
> In the case of Residential customers, the monthly billing for Sewage Disposal Service for the Months of May through November (which are billed June – December) shall be based upon the monthly average of the water billed during the previous Months of December through March *or* the Customer's actual usage, whichever is lower. In the event the monthly average of the water billed during such previous Months of December through March is less than 3,000 gallons (4 CCF), the Customer will pay the Monthly Minimum Charge reflected in the above table. This would

[2] Multi-family dwellings that are individually metered will continue to be considered residential customers and will be eligible for the "lower of" mechanism.

apply to new Residential customers that did not have usage billed in any or all of the Months of December through March. CCF refers to 100 cubic feet and is approximately equivalent to 750 gallons.

14. As a result of the implementation of the foregoing language and resulting reduction in billed volumes by Sewer Rate No. 1 customers, the Settling Parties agree a reduction of 680,000 CCF (626,182 CCF from Tier 1 and 53,818 from Tier 2) should be made to the *pro forma* billing determinants of the Non-Industrial class to design the rates that will be used to implement the approved revenue requirement. The foregoing revision has been included in the rate design set forth in Section VII, below.

## VI. Low-Income Customer Assistance Program

15. The Settling Parties agree Petitioner's Low-Income Customer Assistance Program is in the public interest. The Settling Parties agree the Commission should authorize CWA to implement a Low-Income Customer Assistance Program in accordance with paragraphs 16 through 18 of this Settlement Agreement.

16. Until a final order has been issued in CWA's next rate case, CWA will operate the Low-Income Customer Assistance Program in accordance with the following: (a) Low-income customers will be eligible for the bill credit component of Petitioner's Low-Income Customer Assistance Program if the customer has applied and is eligible for assistance from the State's Energy Assistance Program; (b) ratepayer funding is designed to be $1,300,000 annually and will be recovered via a fixed monthly charge of $0.45 per bill, based on CWA's current bill count; (c) such funding will be recovered from ratepayers receiving service under Sewer Rate Nos. 1, 2 and 5; (d) each year CWA will supply an additional $200,000 to Petitioner's Low-Income Customer Assistance Program; (e) assistance will be provided to low-income customers as described in

paragraph 17 below; and (f) the Frequently Asked Questions section on customer bills will include the following question and answer:

> **Q. Does my bill for wastewater service include a charge to fund the Low-Income Customer Assistance Program?**
>
> A. Yes. As part of your sewer charges, each month you pay 45 cents to fund the Low-Income Customer Assistance Program. The Low Income Customer Assistance Program ("LICAP") provides a credit on wastewater service to qualified customers. LICAP also provides qualifying customers assistance with water-saving appliances and repairs. More information about our program can be found at: [insert web address here].

17. Customers participating in the Low-Income Customer Assistance Program will receive a bill credit depending on their level of need. Available bill credits will be designed to make wastewater bills more manageable for Petitioner's low-income customers commensurate with their income level. In addition to the bill credits, $400,000 of Low-Income Customer Assistance Program funding will be allocated to a wastewater infrastructure fund to be used to help low-income customers keep their bills lower in the long run through infrastructure investment assistance. Eligible and qualifying low-income customers may receive infrastructure investment assistance for: (1) water conservation, such as for water saving appliances; and (2) water- and sewer-related infrastructure repairs, such as leaking service lines. The wastewater infrastructure fund will be administered in the same manner and using the same guidelines for infrastructure-related assistance that is available to low-income gas, water and wastewater customers through Citizens' Warm Heart Warm Home Foundation with the exception that it will be limited to wastewater customers. Those guidelines include: (a) the customer's gross household income must be at or below 70% of State Median Income; (b) the customer's account must be designated as residential wastewater service; (c) the customer must

reside at the service address; and (d) the customer must also own the home at the service address. The Settling Parties agree that unspent funds, if any, shall be set aside and used for the Program in subsequent years. Any such unspent funds shall be in addition to funding as described in paragraph 16.

18. During the term the Low-Income Customer Assistance Program remains in effect, CWA will file a report with the Commission on or before August 31 of each year, which includes information regarding the following metrics for the prior Program year (i.e., July 1 through June 30):

(a) Participation. The number of customers who participated in the Program during the Program year.

(b) Value of Assistance. The dollar amount of assistance that was disbursed directly to customers as a result of the program via: (1) the bill credit and (2) the infrastructure fund.

(c) Demand. The number of customers who requested and received assistance and the number of customers who requested but were unable to receive assistance.

(d) Money at Risk. The total value of accounts in arrears for customers considered low-income.

## VII. Revenue Allocation, Cost of Service and Rate Design

19. The Settling Parties agree the annual revenue requirement in Phase 1 of $300,207,769 shall be allocated between and among the customer classes as set forth below and that rates designed to recover the agreed upon allocated revenues consistent with the terms of the Settlement Agreement may be implemented upon the filing and

approval of the Phase 1 Compliance rates following the Commission's issuance of a Final Order approving the Settlement Agreement in its entirety without modification unacceptable to any Settling Party.

| CLASS | EXISTING REVENUE | AGREED ALLOCATION OF PHASE 1 SETTLEMENT REVENUES | PERCENTAGE CHANGE FROM EXISTING REVENUES |
|---|---|---|---|
| NON-INDUSTRIAL | $220,283,400 | $251,196,262 | 14.0 |
| SELF-REPORTER | $22,939,500 | $23,883,109 | 4.1 |
| SURCHARGES | | | |
| BOD | $12,192,100 | $10,778,659 | -11.6 |
| TSS | $2,285,900 | $2,310,847 | 1.1 |
| NH3-N | $280,600 | $234,592 | -16.4 |
| SEPTIC HAULERS | $152,600 | $152,600 | 0 |
| GREASE HAULERS | | | |
| COMMERCIAL FOG | $1,374,600 | $1,374,600 | 0 |
| SATELLITE-K | $5,769,900 | $7,045,100 | 22.1 |
| SATELLITE-T | $686,100 | $858,900 | 25.2 |
| SUBTOTAL | $265,964,700 | $297,834,669 | 12.0 |
| OTHER REVENUE | $2,373,100 | $2,373,100 | 0 |
| TOTAL | $268,337,800 | $300,207,769 | 11.9 |

20. The Settling Parties agree the rates and charges designed to recover the annual revenue requirement in Phase 2 of $314,138,859 shall be implemented upon the filing of the Official Statement for the open-market 2020 bonds and, if applicable, State Revolving Fund pre-closing and closing documents and allocated between and among the customer classes as set forth below:

| | AGREED PHASE 1 REVENUES | AGREED ALLOCATION OF PHASE 2 SETTLEMENT REVENUES | PERCENTAGE CHANGE FROM AGREED PHASE 1 REVENUES |
|---|---|---|---|
| NON-INDUSTRIAL | $251,196,262 | $262,665,381 | 4.6 |
| SELF-REPORTER | $23,883,109 | $24,851,080 | 4.1 |
| SURCHARGES | | | |
| BOD | $10,778,659 | $10,778,659 | |
| TSS | $2,310,847 | $2,310,847 | 0 |
| NH3-N | $234,592 | $234,592 | 0 |
| SEPTIC HAULERS | $152,600 | $152,600 | 0 |
| GREASE HAULERS | | | |
| COMMERCIAL FOG | $1,374,600 | $1,374,600 | 0 |
| SATELLITE-K | $7,045,100 | $8,497,200 | 20.6 |
| SATELLITE-T | $858,900 | $900,800 | 4.9 |
| SUBTOTAL | $297,834,669 | $311,765,759 | 4.7 |
| OTHER REVENUE | $2,373,100 | $2,373,100 | 0 |
| TOTAL | $300,207,769 | $314,138,859 | 4.6 |

21. The Settling Parties agree the rates and charges designed to recover the annual revenue requirement in Phase 3 of $326,113,762 shall be implemented upon the filing of the Official Statement for the open-market 2021 bonds and, if applicable, State Revolving Fund pre-closing documents and allocated between and among the customer classes as set forth below:

| CLASS | AGREED PHASE 2 REVENUES | AGREED ALLOCATION OF PHASE 3 SETTLEMENT REVENUES | PERCENTAGE CHANGE FROM AGREED PHASE 2 REVENUES |
|---|---|---|---|
| NON-INDUSTRIAL | $262,665,381 | $272,065,451 | 3.6 |
| SELF-REPORTER | $24,851,080 | $25,634,513 | 3.2 |
| SURCHARGES | | | |
| BOD | $10,778,659 | $10,778,659 | 0 |
| TSS | $2,310,847 | $2,310,847 | 0 |
| NH3-N | $234,592 | $234,592 | 0 |
| SEPTIC HAULERS | $152,600 | $152,600 | 0 |
| GREASE HAULERS | | | |
| COMMERCIAL FOG | $1,374,600 | $1,374,600 | 0 |
| SATELLITE-K | $8,497,200 | $10,256,700 | 20.7 |
| SATELLITE-T | $900,800 | $932,700 | 3.5 |
| SUBTOTAL | $311,765,759 | $323,740,662 | 3.8 |
| OTHER REVENUE | $2,373,100 | $2,373,100 | 0 |
| TOTAL | $314,138,859 | $326,113,762 | 3.8 |

22. The Settling Parties agree that the monthly base charge for the Non-Industrial rate class will be set at $21.25 for Phases 1, 2 and 3. The volume charge is designed to recover the remaining class revenue allocation. The rates for unmetered Non-Industrial customers will be designed on the basis of Petitioner's case-in-chief, modified as necessary to reflect the agreed upon revenue requirement and associated class allocations. The monthly Fats, Oils, and Grease Charge (Sewer Rate No. 3) and Grease Hauler charges (Sewer Rate No. 4) should remain the same as those approved by the Commission in Cause No. 44685.

23. The Settling Parties acknowledge and agree that the foregoing allocation of the revenue requirements among the customer classes and resulting rates are based on a compromise of the revenue requirements set forth in this Settlement Agreement. The Settling Parties agree that in light of the proposed and agreed upon rate design and allocation among customer classes, no specific cost of service model was adopted, and request that the Commission not issue any finding approving any particular cost of service study. Except as otherwise expressly stated in this Settlement Agreement, no Settling Party, by entering into the Settlement Agreement, has acquiesced in or waived any position with respect to the appropriate methodology for determining cost of service, cost allocation, or rate design in any other proceeding, including future CWA proceedings. The Settling Parties reserve all rights to present evidence and advocate positions with respect to cost of service, cost allocation, and rate design issues different from those set forth in this Settlement Agreement in all other proceedings, including future CWA proceedings. As part of its next rate case proceeding, CWA agrees to present a cost of service study reflecting an allocation of Inflow and Infiltration ("I/I") costs by customer class and wastewater volumes attributable to each class weighted at a minimum of 75% by the number of customer accounts, either as its proposed cost study or as an alternative to its proposal if it proposes an allocation less than 75/25 for I/I costs.

## VIII. Capital Improvements and the Septic Tank Elimination Program

24. In its future rate cases, CWA agrees that for those costs that make up the capital program portion of its revenue requirement, whether funded through rate revenue or through the issuance of debt, CWA will provide the following information in its case-in-chief, in a spreadsheet format: (a) project name; (b) project number; (c) a brief

description of the project including an explanation why the project is needed at this time; (d) any prioritization ranking of the project, if applicable; (e) a brief description of alternatives considered, if applicable; (f) whether the project addresses new or existing infrastructure; (g) identification of the project name and number latest, or most applicable, engineering report for the project, if available; (h) estimated project start date; (i) estimated completion date; (j) the total project cost estimate class; (k) estimated total project cost estimate at completion (broken down between construction cost and total non-construction cost (one value)), which will be provided confidentially; (l) a brief explanation of how the estimated total project cost was determined (*i.e.* historical costs; estimated cost from a detailed engineering report; estimate or opinion of typical cost; an assignable balance or budget number; a per unit cost, *etc.*); and (m) amount of project cost included in the annual revenue requirement. The narrative description, which may often times be repetitive due to the nature of the projects, is intended to be sufficient for the OUCC to understand why the project needs to be completed, without unduly burdening CWA in preparing its case-in-chief. Additionally, the listing of projects will be current as of filing CWA's case-in-chief. However, because of the nature and magnitude of capital projects undertaken by this utility, constantly changing needs of the utility, unplanned events and projects, public improvement impacts, etc., the listing of capital projects will be representative of the planned capital program at the time of filing but may not be the actual program that is constructed. An example of the information to be provided is set forth below*:

| (a) Project Name | (c) Project Description and Need | (d) Project Rank | (e) Alternatives Considered | (f) New or Existing Infrastructure | (g) Relevant Engineering Report | (k1) Construction Cost | (k2) Non-Constr. Cost | (l) Basis of Cost Estimate |
|---|---|---|---|---|---|---|---|---|
| Lift Station 522 | The Lift Station 522 Replacement Project, 92LS01969, will consist of a full replacement of the lift station due to corrosion of the metal dry well, non-standard equipment and insufficient capacity during wet weather. | 4.18 / 5 | The project scope considered a 1) do nothing alternative 2) combining this LS with LS 521 and increasing the capacity of the combined LS 3) rehabilitation of the existing LS as specified | Utilizes predominantly existing infrastructure | L 511 Evaluation Report / Basis of Design Memo Project No.: 20LS2112157 | $1,200,000 | $330,000 | Engineer's Report, 20LS2112157 |

**Agreed upon and simple, straight forward headings were left off for presentation purposes.*

25. CWA represents that due to the nature or repetitiveness of certain projects, engineering reports explaining the need for these specific projects may not have been developed. To the extent the OUCC has asked for copies of or access to reports or studies that exist and are voluminous or difficult to access, CWA will communicate that fact as soon as possible so CWA and the OUCC may work together to find reasonable solutions to avoid unnecessary burden to CWA, while affording reasonable access to the OUCC without undue delay. Nothing herein shall be construed as prohibiting the OUCC from specifically identifying and asking for more detail, documents or information other than what CWA has agreed to provide in this section, including other or historical reports previously completed.

26. In CWA's next rate case, CWA agrees not to object to data request(s) seeking: (1) the date the following projects were completed and the total project cost for: Project Nos. 92BE02095, 92BE02630, 92SO02062, WW-BE-10-001, 92MT01601, 92LS02673, 92LS02675 and 92RR02609; and (2) the amount spent during the Capital Investment Requirements Period (i.e., August 1, 2019 through July 31, 2022) on fleet purchases under 92FL03341. CWA reserves the right to make its data request

response(s) subject to appropriate confidentiality protection. Nothing herein constitutes a limitation on the scope of discovery in any future CWA proceeding.

27. As part of the annual Septic Tank Elimination Program ("STEP") report that CWA files with the Commission pursuant to Paragraph 10 of the final Order in Cause No. 44305, in which the Commission directed CWA to submit a detailed, prioritized list of planned STEP projects, CWA will provide the following information: (a) how many homes could be served by each STEP project, (b) how many homeowners CWA actually connects, (c) how many septic systems CWA permanently closes, (d) total amount invested in each STEP project; and (e) the cumulative amount invested in all STEP projects.

## IX. Debt Service True Up and Other Matters

28. Petitioner will file with the Commission true-up reports and revised rate schedules within 30 days of the issuance of debt contemplated in each Phase as a part of this rate case that provides the following details: the terms of the debt issuance, including whether there is a debt service reserve, the interest rate and annualized amount of debt service, as well as revised rate schedules and, to the extent necessary, tariffs reflecting the actual terms of the debt issuance. The Settling Parties agree that revised rates need not be implemented following the issuance of debt if both the OUCC and CWA agree in writing that the rate change need not be implemented due to the immateriality of the change. The Commission in its sole discretion may order CWA to implement revised rates notwithstanding the agreement of CWA and the OUCC.

29. CWA represents that for Phase 1 it anticipates issuing open market debt in August of 2019 and SRF debt thereafter. The Settling Parties agree not to seek any

mechanism to address potential over-collection between the implementation of the Phase 1 rates and initial borrowing(s), so long as the Phase 1 SRF debt is issued on or before November 1, 2019. If, however, the Phase 1 SRF debt issuance is not completed on or before November 1, 2019, CWA will use incremental revenues (incremental revenues defined as the revenues attributable to the Phase 1 SRF debt service) as a result of the Phase 1 increase authorized pursuant to this Settlement Agreement and realized between the date a Final Order is issued and the date the Phase 1 SRF debt issuance is closed as an offset to the funds borrowed in connection with the Phase 1 SRF debt issuance.

## X. Changes to Terms and Conditions for Service

30. The Settling Parties agree that the miscellaneous revisions to CWA's General Terms and Conditions for Wastewater Service set forth in Petitioner's Attachments KLK-2 and KLK-3 and described in the case-in-chief testimony of Korlon L. Kilpatrick II are "nondiscriminatory, reasonable, and just," and should be approved by the Commission.

## XI. Detailed Billing Information

31. CWA will add the following question and answer to the Frequently Asked Questions section on customer bills:

**Q: Can I obtain a more detailed list of the charges on my bill?**

A. Yes. Upon request, Citizens will provide monthly bills with more detail on specific charges. You can request a detailed bill by contacting a customer service representative at (317) 924-3311 or selecting the option on-line at https://www.citizensenergygroup.com/My-Account/My-Profile/Billing-Preferences. There is no additional charge for a detailed bill.

In addition, once per year, CWA will include in customer bills an explanation of how customers may request the detailed billing option and a sample of a detailed bill.

## XII. Settlement Agreement -- Scope and Approval

32. Neither the making of this Settlement Agreement nor any of its provisions shall constitute in any respect an admission by any Settling Party in this or any other litigation or proceeding. Neither the making of this Settlement Agreement, nor the provisions thereof, nor the entry by the Commission of a Final Order approving this Settlement Agreement, shall establish any principles or legal precedent applicable to Commission proceedings other than those resolved herein.

33. This Settlement Agreement shall not constitute nor be cited as precedent by any person or deemed an admission by any Settling Party in any other proceeding except as necessary to enforce its terms before the Commission, or any tribunal of competent jurisdiction. This Settlement Agreement is solely the result of compromise in the settlement process and, except as necessary to enforce its terms, is without prejudice to and shall not constitute an admission or waiver of any position any of the Settling Parties may take with respect to any or all issues resolved herein in any future regulatory or other proceedings.

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

35. The communications and discussions during the negotiations and conferences have been conducted based on the explicit understanding that said communications and discussions are or relate to offers of settlement and therefore are privileged and inadmissible. All prior drafts of this Settlement Agreement and any settlement proposals and counterproposals also are or relate to offers of settlement and are privileged and inadmissible.

36. This Settlement Agreement is conditioned upon and subject to Commission acceptance and approval of its terms in their entirety, without any change or condition that is unacceptable to any Settling Party.

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

38. The Settlement Agreement is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without any change or

condition that is unacceptable to any Settling Party. Each term of the Settlement Agreement is in consideration and support of each and every other term. If the Commission does not approve the Settlement Agreement in its entirety, or if the Commission makes modifications that are unacceptable to any Settling Party, the Settlement Agreement shall be null and void and shall be deemed withdrawn upon notice in writing by any party within fifteen (15) days after the date of the Final Order stating that a modification made by the Commission is unacceptable to the Settling Party.

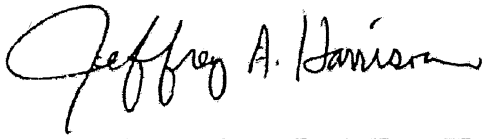
39. The Settling Parties will work together to prepare an agreed-upon proposed order to be submitted in this Cause. The Settling Parties will request that the Commission issue a Final Order promptly accepting and approving this Settlement Agreement in accordance with its terms. The Settling Parties also will coordinate and work cooperatively on news releases or other announcements to the public about this Settlement Agreement.

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

41. This Settlement Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which shall constitute the same instrument.

Accepted and Agreed on this 12th day of April, 2019.

CWA Authority, Inc.



Jeffrey A. Harrison
President and Chief Executive Officer
CWA Authority, Inc.

CWA Authority Industrial Group

An Attorney for the CWA Authority Industrial Group

Indiana Office of Utility Consumer Counselor

An Attorney for the Indiana Office of Utility Consumer Counselor

Citizens Action Coalition of Indiana, Inc. and Indiana Community Action Association, Inc.

An Attorney for Citizens Action Coalition of Indiana, Inc. and Indiana Community Action Association, Inc.

Accepted and Agreed on this 12th day of April, 2019.

| | |
|---|---|
| CWA Authority, Inc. | Indiana Office of Utility Consumer Counselor |
| Jeffrey A. Harrison<br>President and Chief Executive Officer<br>CWA Authority, Inc. | An Attorney for the Indiana Office of Utility Consumer Counselor |
| CWA Authority Industrial Group | Citizens Action Coalition of Indiana, Inc. and Indiana Community Action Association, Inc. |
| An Attorney for the CWA Authority Industrial Group | An Attorney for Citizens Action Coalition of Indiana, Inc. and Indiana Community Action Association, Inc. |

Accepted and Agreed on this 12th day of April, 2019.

CWA Authority, Inc.

Jeffrey A. Harrison
President and Chief Executive Officer
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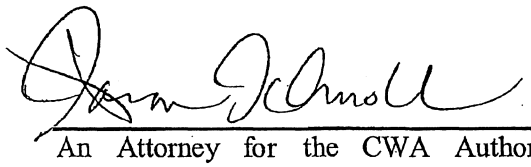
CWA Authority Industrial Group



An Attorney for the CWA Authority Industrial Group

Indiana Office of Utility Consumer Counselor

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CWA Authority
Summary of Pro Forma Revenue Requirement

| Line No. | Description | A<br>Actual per Books | B<br>Phase I Pro Forma Adjustments Increase (Decrease) | C<br>Phase I Pro forma Results Based on Current Rates | D<br>Phase I Pro Forma Adjustments Increase (Decrease) | E<br>Phase I Pro forma Results Based on Proposed Rates | F<br>Phase II Pro Forma Adjustments Increase (Decrease) | G<br>Phase II Pro forma Results Based on Proposed Rates | H<br>Phase III Pro Forma Adjustments Increase (Decrease) | I<br>Phase III Pro forma Results Based on Proposed Rates | J<br>Reference |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Operating Revenues** | | | | | | | | | | |
| 1 | Test Year Revenues | $277,912,032 | | | | | | | | | |
| 2 | Billing Exceptions | | $364,245 | | | | | | | | page 6 |
| 3 | Consumption Adjustment Redistribution | | (1,149,586) | | | | | | | | page 6 |
| 4 | STEP | | 159,800 | | | | | | | | page 6 |
| 5 | New/Departing Customers, Post Test Year (Non-Industrial) | | 278,805 | | | | | | | | page 6 |
| 6 | Test Year Customer Growth Adjustment (Non-Industrial) | | 171,267 | | | | | | | | page 6 |
| 7 | Lower Of | | 0 | | | | | | | | |
| 8 | Special Contract - Excessive Strength | | (235,597) | | | | | | | | page 6 |
| 9 | Self-reporter Minimum Volumes | | (24,076) | | | | | | | | page 6 |
| 10 | QSSD Adjustment | | (74,060) | | | | | | | | page 6 |
| 11 | Industrial Self-Reporter | | (160,720) | | | | | | | | page 6 |
| 12 | Rate Normalization | | 2,880,478 | | | | | | | | page 6 |
| 13 | Residential Flat Rate | | 770 | | | | | | | | page 6 |
| 14 | Miscellaneous Revenues | | (63,679) | | | | | | | | page 9 |
| 15 | Other Adjustments | | (11,731,651) | | | | | | | | page 8 |
| 16 | Increase in Satellite Special Contract Revenue | | | | $1,275,200 | | $1,452,100 | | $1,759,500 | | PNK |
| 17 | Decrease in Retail Customer Revenue | | | | (1,275,200) | | (1,452,100) | | (1,759,500) | | PNK |
| 18 | Revenue requirement increase | | | | $31,869,738 | | $13,931,090 | | $11,974,903 | | |
| 19 | Total Operating Revenues | $277,912,032 | ($9,574,002) | $268,338,030 | $31,869,738 | $300,207,769 | $13,931,090 | $314,138,859 | $11,974,903 | $326,113,762 | |
| | **Other Operating Expenses** | | | | | | | | | | |
| 20 | Test Year Other Operating Expense | $74,529,220 | | | | | | | | | |
| 21 | Salaries and Wages | | 1,032,693.41 | | | | | | | | SEK |
| 22 | Benefits | | 862,878 | | | | | | | | SEK |
| 23 | Purchased Power | | 467,693 | | | | | | | | SEK |
| 24 | Bad Debt Expense | | 767,833 | | $213,527 | | $93,338 | | $80,232 | | page 12, 14 & 16 |
| 25 | Chemicals | | (404,262) | | | | | | | | SEK |
| 26 | Normalize Expense | | (52,270) | | | | | | | | SEK |
| 27 | Out of Period Expense | | 240,220 | | | | | | | | SEK |
| 28 | Non-Recurring Expense | | (167,612) | | | | | | | | SEK |
| 29 | Non-Allowed Expense | | (28,211) | | | | | | | | SEK |
| 30 | Amortized Regulatory Expenses | | (1,169) | | | | | | | | w/p S640-2 |
| 31 | Total Other Operating Expenses | $74,529,220 | $2,717,793 | $77,247,012 | $213,527 | $77,460,540 | $93,338 | $77,553,878 | $80,232 | $77,634,110 | |
| | **Depreciation & Amortization** | | | | | | | | | | |
| 32 | Test year Depreciation & Amortization | $74,958,701 | | | | | | | | | |
| 33 | Depreciation adjustment | | (19,203,713) | | | | | | | | SEK |
| 34 | Amortization adjustment | | 302,656 | | | | | | | | SEK |
| 35 | Pro forma Depreciation & Amortization | $74,958,701 | ($18,901,057) | $56,057,645 | $0 | $56,057,645 | $0 | $56,057,645 | $0 | $56,057,645 | |
| | **Taxes** | | | | | | | | | | |
| 36 | Test Year Taxes other than PILOT | $1,628,965 | | | | | | | | | |
| 37 | Payroll Taxes | | $105,368 | | | | | | | | SEK |
| 38 | Non-Recurring Expense | | (1,205) | | | | | | | | SEK |
| 39 | Payments in Lieu of Taxes (PILOT) | 23,945,082 | | | | | | | | | |
| 40 | Pro forma change in PILOT | | 2,832,631 | | | | $1,546,015 | | $621,993 | | SEK |
| 41 | Pro forma Taxes | $25,574,047 | $2,936,793 | $28,510,840 | $0 | $28,510,840 | $1,546,015 | $30,056,855 | $621,993 | $30,678,848 | |
| 42 | **Operating Income** | $102,850,064 | $3,672,469 | $106,522,533 | $31,656,211 | $138,178,744 | $12,291,737 | $150,470,481 | $11,272,678 | $161,743,159 | |
| | **Other Income, Net** | | | | | | | | | | |
| 43 | Interest Income | ($2,069,372) | | ($2,069,372) | $0 | ($2,069,372) | | ($2,069,372) | | ($2,069,372) | SEK |
| 44 | Other Income, Net | (516,531) | $405,654 | (110,877) | 0 | (110,877) | | (110,877) | | (110,877) | SEK |
| 45 | Total Other Income, Net | ($2,585,903) | $405,654 | ($2,180,250) | $0 | ($2,180,250) | | ($2,180,250) | | ($2,180,250) | |
| | **Other Funds Requirements** | | | | | | | | | | |
| 46 | Long-Term Interest and Principal | | 138,537,726 | $138,537,726 | | $138,537,726 | $8,291,737 | $146,829,463 | $6,272,678 | $153,102,141 | JRB-2 |
| 47 | Debt Service | | $138,537,726 | $138,537,726 | $0 | $138,537,726 | $8,291,737 | $146,829,463 | $6,272,678 | $153,102,141 | |
| 48 | Extensions and Replacements | | $66,000,000 | $66,000,000 | $0 | $66,000,000 | $4,000,000 | $70,000,000 | $5,000,000 | $75,000,000 | JRB-2 |
| | **Cash Requirement Offsets** | | | | | | | | | | |
| 49 | Connection Fee Offset | | | ($8,121,088) | | ($8,121,088) | | ($8,121,088) | | ($8,121,088) | w/p S640-1 |
| 50 | Depreciation & Amortization | | | (56,057,645) | 0 | (56,057,645) | | (56,057,645) | | (56,057,645) | - ln 34 |
| 51 | Pro forma Revenue Requirement Increase Before Write-Off Increase | | | $31,656,211 | $31,656,211 | $0 | $0 | $0 | ($0) | ($0) | |
| 52 | **Percentage Increase/(Decrease) by Phase** | | | | 11.88% | | 4.64% | | 3.81% | 21.53% | |
| 53 | **Percentage Increase/(Decrease) by Phase, revenue subject to increase** | | | | 11.98% | | 4.68% | | 3.84% | 21.72% | |