

OFFICIAL
BOOK 11-413

FILED
October 15, 2018
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE INDIANA UTILITY)
REGULATORY COMMISSION'S)
INVESTIGATION INTO THE IMPACTS OF)
THE TAX CUTS AND JOBS ACT OF 2017 AND)
POSSIBLE RATE IMPLICATIONS UNDER)
PHASE 2 FOR SOUTH HAVEN SEWER)
WORKS, INC.)

CAUSE NO. 45032 ISRC
JOINT

EXHIBIT No. 1

10-31-18 DATE REPORTER AT

STIPULATION AND SETTLEMENT AGREEMENT

Respondent, South Haven Sewer Works, Inc. ("Respondent") and the Indiana Office of Utility Consumer Counselor ("OUCC") (collectively, the "Settling Parties"), solely for purposes of compromise and settlement and to reduce controversy and avoid protracted litigation and having been duly advised by their respective staff, experts and counsel, stipulate and agree that the terms and conditions set forth below represent a fair, just and reasonable resolution of all matters pending before the Indiana Utility Regulatory Commission ("Commission") in this subdocket in the Commission's investigation into the effects of the Tax Cuts and Jobs Act of 2017 (the "Act") on utility rates in Cause No. 45032, subject to their incorporation by the Commission into a final, non-appealable order ("Final Order") without modification for further condition that may be unacceptable to any Settling Party. If the Commission does not approve this Stipulation and Settlement Agreement ("Settlement Agreement") in its entirety, the entire Settlement Agreement shall be null and void and deemed withdrawn, unless otherwise agree to in writing by the Settling Parties.

I. TERMS AND CONDITIONS

- A. The Settling Parties agree that as of December 31, 2017, Respondent's protected excess accumulated deferred income tax ("ADIT") balance (before application of a gross up factor) totals \$693,376, and Respondent's unprotected ADIT balance

(before application of a gross up factor) totals (\$9,041). See Settlement Agreement Attachment A, Schedule 2.

- B. The Settling Parties agree that the protected excess ADIT balance should be amortized in accordance with the application of the average rate assumption method (“ARAM”). See Settlement Agreement Attachment A, Schedule 2. This results in an annual revenue reduction of \$26,021 for the protected ADIT balance. See Settlement Agreement Attachment A, Schedule 1.
- C. The Settling Parties agree that the unprotected excess ADIT balance, which is an asset, should be amortized over a 3-year period. See Settlement Agreement Attachment A, Schedule 2. This results in an annual revenue increase of \$3,014 for the unprotected excess ADIT balance, which partially offsets the annual revenue reduction generated by the excess protected amortization. See Settlement Agreement Attachment A, Schedule 1.
- D. The Settling Parties agree that the regulatory liability amount resulting from the change in the federal income tax rate for the period of January 1, 2018 through up to and including May 15, 2018 totals \$66,641. See Settlement Agreement Attachment A, Schedule 7.
- E. The Settling Parties agree that Respondent will apply a surcharge credit (*i.e.*, negative surcharge) to customers’ bills as a means to return protected excess ADIT, unprotected excess ADIT, and the regulatory liability. Settlement Agreement Attachment A, Schedule 1. The surcharge credit in 2019 (Year One) will reflect a credit for the regulatory liability, which shall be returned to customers over 12

months, amortization of excess protected ADIT, and amortization of excess unprotected ADIT. In 2020 and 2021 (Years Two and Three), the surcharge credit will reflect the return of only excess protected and unprotected ADIT. By 2022 (Year Four), the surcharge credit will reflect the return of only excess protected ADIT. As such, consistent with the above description, the Settling Parties agree there shall be three surcharge credit changes over the course of four years. The Settling Parties agree that in Year One, the surcharge credit shall be 2.56%.

- F. The Settling Parties agree that Respondent will true-up annually the amount actually returned to customers pursuant to the surcharge credit as compared to amount reflected on the row entitled "Total amount to return to customers" on Settlement Agreement Attachment A, Schedule 1. The amount of the true-up amount will be used in calculation of the next year's surcharge credit.
- G. Due to the different amounts to be returned over different time periods, as well as the necessity for the true-up as described in the preceding section, the amount of the surcharge credit will differ from year to year. The Settling Parties agree that Respondent will file a revised tariff sheet reflecting the amount of the surcharge credit percentage for each year. The first revised tariff sheet will be reflected in the first full billing month following a Final Order approving the Settlement Agreement. The Settling Parties agree that the revised tariff sheet for year 1, attached as Settlement Agreement Attachment B, properly implements the surcharge credit to be applied. Because of the potential for reconciliations as set forth in Section 1.F, the Settling Parties agreed that South Haven shall have until April 1 of the following year to

submit the tariff for such the next twelve-month period. By March 1 of each year, Respondent agrees to provide the OUCC with its proposed tariff for the next twelve-month period, as well as any reconciliations and supporting workpapers for the OUCC's review and input.

- H. The Settling Parties recognize that the Commission, in its April 29, 2015 Order in Cause No. 44533, authorized South Haven to merge into Aqua Indiana, Inc., subject to the satisfaction of certain conditions. The Settling Parties agree that, upon the consummation of the merger of South Haven into Aqua Indiana, Inc., the obligations of South Haven as set forth in this Settlement Agreement shall transfer to Aqua Indiana, Inc.
- I. The Settling Parties agree that this Settlement Agreement fully addresses the impact of the Act on Respondent's rates and charges.

II. PRESENTATION OF THE SETTLEMENT TO THE COMMISSION

- A. The Settling Parties shall support this Settlement Agreement before the Commission and request that the Commission accept and approve the Settlement Agreement. The concurrence of the Settling Parties with the terms of this Settlement Agreement is expressly predicated upon the Commission's approval of the Settlement Agreement in its entirety without any modification or any condition that may be unacceptable by any Settling Party. If the Commission does not approve the Settlement Agreement in its entirety and without change, the Settlement Agreement shall be null and void and deemed withdrawn, upon notice in writing by any Settling Party within fifteen (15)

days after the date of the Final Order that any modifications made by the Commission are unacceptable to it.

- B. The Settling Parties shall jointly file this Settlement Agreement and supporting evidence. The Settling Parties will file testimony specifically supporting the settlement. The Settling Parties will work collaboratively in the preparation of the testimony supporting the settlement agreement. Such evidence together with the evidence previously prefiled by Respondent in this Cause will be offered into evidence without objection and the Parties hereby waive cross-examination of each other's witnesses. The Settling Parties propose to submit this Settlement Agreement and evidence conditionally, and that, if the Commission fails to approve this Settlement Agreement in its entirety without any change or with condition(s) unacceptable to any Settling Party, the Settlement and supporting evidence shall be withdrawn and the Commission will continue to hear this Cause with the proceedings resuming at the point they were suspended by the filing of this Settlement Agreement.
- C. The Settling Parties shall jointly agree on the form, wording and timing of public/media announcement (if any) of this Settlement Agreement and the terms thereof. No Settling Party will release any information to the public or media prior to the aforementioned announcement. The Settling Parties may respond individually without prior approval of the other Settling Parties to questions from the public or media, provided that such responses are consistent with such announcement and do not disparage any of the Settling Parties. Nothing in this Settlement Agreement shall

limit or restrict the Commission's ability to publicly comment regarding this Settlement Agreement or any Order affecting this Settlement Agreement.

III. EFFECT AND USE OF THE SETTLEMENT

- A. It is understood that this Settlement Agreement is reflective of a negotiated settlement and neither the making of this Settlement Agreement nor any of its provisions shall constitute an admission by any Settling Party to this Settlement Agreement in this or any other litigation or proceeding. It is also understood that each and every term of this Settlement Agreement is in consideration and support of each and every other term.
- B. This Settlement Agreement shall not constitute and shall not be used as precedent by any person in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce the terms of this Settlement Agreement.
- C. This Settlement Agreement is solely the result of compromise in the settlement process and except as provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Settling Parties may take with respect to any or all of the items resolved here and in any future regulatory or other proceedings.
- D. The Settling Parties agree that the evidence in support of this Settlement Agreement and the previously prefiled evidence constitute substantial evidence sufficient to support this Settlement Agreement and provide an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of this Settlement Agreement, as filed. If requested by the

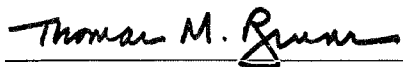
Commission, the Settling Parties shall prepare and file an agreed proposed order with the Commission.

- E. The communications and discussions during the negotiations and conferences and any materials produced and exchanged concerning this Settlement Agreement all relate to offers of settlement and shall be privileged and confidential, without prejudice to the position of any Settling Party, and are not to be used in any manner in connection with any other proceeding or otherwise.
- F. The undersigned Settling Parties have represented and agreed that they are fully authorized to execute the Settlement Agreement on behalf of their designated clients, and their successors and assigns, who will be bound thereby.
- G. The Settling Parties shall not appeal or seek rehearing, reconsideration or a stay of the Final Order approving this Settlement Agreement in its entirety and without change or condition(s) unacceptable to any Settling Party (or related orders to the extent such orders are specifically implementing the provisions of this Settlement Agreement). The Settling Parties shall support or not oppose this Settlement Agreement in the event of any appeal or a request for a stay by a person not a party to this Settlement Agreement or if this Settlement Agreement is the subject matter of any other state or federal proceeding.
- H. The provisions of this Settlement Agreement shall be enforceable by any Settling Party before the Commission and thereafter in any state court of competent jurisdiction as necessary.

- I. This Settlement Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.


ACCEPTED and AGREED as of the 15th day of October, 2018.

SOUTH HAVEN SEWER WORKS, INC.

A handwritten signature in black ink, appearing to read "Thomas M. Bruns", is written over a horizontal line.

Thomas M. Bruns
President

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

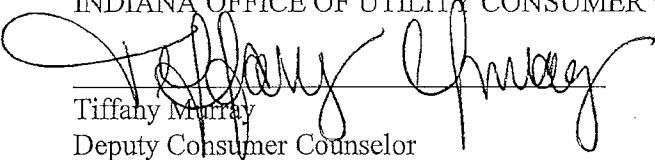
A horizontal line is drawn above the name and title.
Tiffany Murray
Deputy Consumer Counselor

ACCEPTED and AGREED as of the 15th day of October, 2018.

SOUTH HAVEN SEWER WORKS, INC.

Thomas M. Bruns
President

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR



Tiffany Murray
Deputy Consumer Counselor

SOUTH HAVEN SEWER WORKS, INC.

IURC CAUSE NO. 45032-S18

ATTACHMENT A - SCHEDULES OF BOBBY D. ESTEP

FILED
October 15, 2018
INDIANA UTILITY
REGULATORY COMMISSION

South Haven Sewer Works, Inc.
Proposed rate deduction calculation
Cause No. 45032 Subdocket 18

Attachment A
Schedule 1 Page 1 of 1

	South Haven Year 1	South Haven Year 2 & 3	South Haven Year 4 & after
Excess deferred taxes (ARAM)	26,021	26,021	26,021
Unprotected excess deferred taxes - amortization	<u>(3,014)</u>	<u>(3,014)</u>	<u></u>
	23,007	23,007	26,021
Gross up factor	<u>1.428</u>	<u>1.428</u>	<u>1.428</u>
	32,857	32,857	37,161
Regulatory Liabilities - change in tax rate (TCJA)	<u>66,641</u>	<u>-</u>	<u>-</u>
Total amount to return to customers	99,499	32,857	37,161
Revenues allowed in cause no. 43974 (less hauled waste)	3,885,970	3,885,970	3,885,970
% reduction in revenue	2.56%	0.85%	0.96%
Proposed surcharge credit from TCJA	2.56%	0.85%	0.96%

South Haven Sewer Works, Inc.
Summary of Excess Deferred Taxes
Cause No. 45032 Subdocket 18

Attachment A
Schedule 2 Page 1 of 1

12.31.2017

Note 1 Note 2

	<u>Excess Defd</u>	<u>Protected</u>	<u>(UnProtected)</u>	<u>Combined</u>	<u>Allocated Protected</u>	<u>Allocated (UnProtected)</u>	<u>Allocated Combined</u>	<u>Annual Amortization of Unprotected</u>
South Haven	(627,919)	(632,359)	4,440	(627,919)	(693,376)	9,041	(684,335)	3,014
Indiana Shared	(282,218)	(305,233)	23,015	(282,218)	Allocated to South Haven above and to Aqua Indiana Divisions subdocket 19			
TOTAL	(910,137)	(937,592)	27,455	(910,137)	(693,376)	9,041	(684,335)	3,014

Note 1 - Excess Deferred Taxes that are protected as defined by regulations in TCJA legislation.
The Excess Deferred Taxes will be reversed using the Average Rate Assumption method .

Note 2 - Excess Deferred Taxes are not Protected under the regulations provided in TCJA legislation.
The UnProtected Excess or Deficient Deferred Taxes will be restored over a three year amortization period.

South Haven Sewer Works, Inc.

Inventory of Deferred Taxes 12.31.2017

Cause No. 45032 Subdocket 18

Attachment A

Schedule 3 Page 1 of 1

	South Haven	South Haven	South Haven	Indiana Shared	Indiana Shared	Indiana Shared
	<u>Reform</u>	<u>Pre Tax Reform</u>	<u>Difference</u>	<u>Reform</u>	<u>Reform</u>	<u>Difference</u>
C- Plant Book vs Tax Depr	(1,147,784)	(1,780,143)	632,359	(543,881)	(849,114)	305,233
Regulated 282XXX	(1,147,784)	(1,780,143)	632,359	(543,881)	(849,114)	305,233
Total 282XXX	<u>(1,147,784)</u>	<u>(1,780,143)</u>	<u>632,359</u>	<u>(543,881)</u>	<u>(849,114)</u>	<u>305,233</u>
E- Regulatory Asset Amortizations	0	0	0	(234)	(360)	126
F- Bad Debt	8983	13792	(4,809)			0
G- Employee Benefit Related	0	0	0	44,224	67,538	(23,314)
H- Other	1385	1016	369	(147)	(320)	173
Total 283XXX	<u>10,368</u>	<u>14,808</u>	<u>(4,440)</u>	<u>43,843</u>	<u>66,858</u>	<u>(23,015)</u>
Grand Total	<u>(1,137,416)</u>	<u>(1,765,335)</u>	<u>627,919</u>	<u>(500,038)</u>	<u>(782,256)</u>	<u>282,218</u>

Excess Deferred Taxes at 12.31.2017 from Tax Reform

Plant Related	(632,359)	(305,233)
Non Plant	<u>4,440</u>	<u>23,015</u>
Combined- Regulated Excess Defd Tax- In Reg Liability)	<u>(627,919)</u>	<u>(282,218)</u>
Plant Non Regulated Excess Defd Tax		
Total Excess Defd Taxes	<u>(627,919)</u>	<u>(282,218)</u>

South Haven Sewer Works, Inc.
 Analysis of Excess Deferred Tax Reversals in 2018
 Cause No. 45032 Subdocket 18

Attachment A
 Schedule 4
 Page 1 of 1

2018 Excess Deferred Tax Reversal

	<u>Federal</u>	<u>State</u>	<u>FBOS</u>	<u>Total</u>	<u>Adjust</u>	<u>Final Protected</u> <u>ARAM</u>	<u>Allocation</u> <u>of Shared</u> <u>IT Asset</u>	<u>Final</u> <u>Allocated</u> <u>Protected</u> <u>ARAM</u>
South Haven	20,691	5,915	(3,698)	22,908		22,908	3,113	26,021
	<u>20,691</u>	<u>5,915</u>	<u>(3,698)</u>	<u>22,908</u>	<u>-</u>	<u>22,908</u>	<u>3,113</u>	<u>26,021</u>
<u>Allocable across other Divisions</u>								
Shared IT Assets	<u>\$12,455</u>	<u>\$5,417</u>	<u>(\$2,301)</u>	<u>15,571</u>	<u>-</u>	<u>15,571</u>	<u>(3,113)</u>	<u>18,684</u> *

Note 1 - Basis Differences, expensed for tax in year 1 are in the unprotected group and amortized over three years.

* To be allocated to Aqua Indiana Divisions in Subdocket 18

South Haven Sewer Works, Inc.
Gross up factor calculation
Cause No. 45032 Subdocket 18

Attachment A
Schedule 5
Page 1 of 1

Gross up Factor

Gross Up Factor	142.81368%
-----------------	------------

South Haven Sewer Works, Inc.

Customer Count - Allocation

Cause No. 45032 Subdocket 18

Attachment A

Schedule 6

Page 1 of 1

Aqua Indiana, Inc. Division	5/31/2018 Customer Count	Allocation Factor %
Aboite - Wastewater	13,915	67.47%
Darlington	298	1.44%
Heir (Southern Hills)	107	0.52%
Lake - Water	686	3.33%
Lake - Sewer	685	3.32%
South Haven	4,123	19.99%
Wildwood	94	0.46%
Wymberly	717	3.48%
TOTAL	20,625	100%

South Haven Sewer Works, Inc.

South Haven Sewer Works

Regulatory Liability - TCJA 2017

Revenue Reserve for change in Federal Income Tax Rate

Cause No. 45032 - Subdocket 18

Attachment A

Schedule 7

Page 1 of 1

	January FY18	February FY18	March FY18	April FY18	May FY18	Total 2018
SW-Flat Rate Rev-Residential	316,248	268,062	334,860	313,114	318,338	1,550,622
SW-Measured Rev-Residential	9,367	9,203	10,615	9,007	9,866	48,057
SW-Measured Rev-Commercial	12,988	14,027	13,122	13,296	13,772	67,205
SW-Measured Rev-Pub Authority	1,456	1,973	1,961	1,492	2,325	9,208
SW-Forfeited Discounts	2,694	2,306	2,153	2,112	2,205	11,471
Operating Revenue Sewer	342,753	295,571	362,712	339,022	346,506	1,686,563
Approved rate reduction %	-4.42%	-4.42%	-4.42%	-4.42%	-4.42%	
Revenue reduction to be returned to customer	(15,150)	(13,064)	(16,032)	(14,985)	(15,316)	(74,546)
Number of days in month					31	
IURC approved rate reduction effective May 16, 2018					15	
Regulatory Liability (Revenue to be returned to customer)	(15,150)	(13,064)	(16,032)	(14,985)	(7,411)	(66,641)

Attachment B

South Haven Sewer Works, Inc., d/b/a Aqua Indiana, Inc.
 (Approved October 19, 2011 – Cause No. 43974)

A) GENERAL SERVICE RATES

Flat Rate – Per Month

Single family residence per month \$72.77

B) METERED COMMERCIAL RATES – PER MONTH

Metered Rates – Per Month

All other users except Hauled-In Wastestreams – (based upon water usage) Rate Per 1,000 Gallons:

First	5,600 gallons	\$12.184
Next	9,400 gallons	\$10.845
All over	15,000 gallons	\$8.442

All other users, except Hauled-In Wastestreams users, shall pay a minimum rate in accordance with the following applicable size water meter installed, for which the user will be entitled to sewerage service based upon the above schedule of metered water usage, with minimum as set forth below.

Water Meter Size	Rate	Minimum Gallons
5/8 Inch	\$68.232	5,600
3/4 Inch	\$68.232	5,600
1 Inch	\$119.850	10,360
1 1/4 Inch	\$171.267	15,130
1 1/2 Inch	\$231.039	22,210
2 Inch	\$384.687	40,410
3 Inch	\$811.696	90,990
4 Inch	\$1,366.770	156,740
6 Inch	\$3,074.464	359,020

C) Hauled-in Waste Not to fall below \$61.59
 Hauled-in Waste based on per total gallons from Job Tickets for month

Re-Connection Fee – To restore service following disconnection for failure to pay bill in accordance with IURC rules for utility:

Re-Connection requiring installation of interceptor mechanism	\$400.00
Re-Connection not requiring installation of interceptor mechanism	\$100.00
Connection Charge (Tap Fee) – for connection at lot line per residence	\$400.00

System Development Charge pursuant to Cause No. 42985 \$820.00

Collection and Late Payment Charge – All bills for sewage not paid within 17 days from the billing date thereof, as stated in such bills, shall be subject to the collection or deferred payment charge of 10% on the first \$3.00, and 3% on the excess over \$3.00.

Returned Check Charge – All checks or other negotiable instruments returned for insufficient funds from a financial institution shall be assessed a fee of \$20.00.

I.U.R.C. No. S-3
2nd Replacement Sheet No. 2

<u>TCJA Surcharge Credit</u>	<u>2.56%</u>
------------------------------	--------------

South Haven Sewer Works, Inc., d/b/a Aqua Indiana, Inc.
(Approved October 19, 2011 – Cause No. 43974)

A) GENERAL SERVICE RATES

Flat Rate – Per Month

Single family residence per month \$72.77

B) METERED COMMERCIAL RATES – PER MONTH

Metered Rates – Per Month

All other users except Hauled-In Wastestreams – (based upon water usage) Rate Per 1,000 Gallons:

First	5,600 gallons	\$12.184
Next	9,400 gallons	\$10.845
All over	15,000 gallons	\$8.442

All other users, except Hauled-In Wastestreams users, shall pay a minimum rate in accordance with the following applicable size water meter installed, for which the user will be entitled to sewerage service based upon the above schedule of metered water usage, with minimum as set forth below.

Water Meter Size	Rate	Minimum Gallons
5/8 Inch	\$68.232	5,600
3/4 Inch	\$68.232	5,600
1 Inch	\$119.850	10,360
1 1/4 Inch	\$171.267	15,130
1 1/2 Inch	\$231.039	22,210
2 Inch	\$384.687	40,410
3 Inch	\$811.696	90,990
4 Inch	\$1,366.770	156,740
6 Inch	\$3,074.464	359,020

C) Hauled-in Waste Not to fall below \$61.59
Hauled-in Waste based on per total gallons from Job Tickets for month

Re-Connection Fee – To restore service following disconnection for failure to pay bill in accordance with IURC rules for utility:

Re-Connection requiring installation of interceptor mechanism	\$400.00
Re-Connection not requiring installation of interceptor mechanism	\$100.00
Connection Charge (Tap Fee) – for connection at lot line per residence	\$400.00

System Development Charge pursuant to Cause No. 42985 \$820.00

Collection and Late Payment Charge – All bills for sewage not paid within 17 days from the billing date thereof, as stated in such bills, shall be subject to the collection or deferred payment charge of 10% on the first \$3.00, and 3% on the excess over \$3.00.

Returned Check Charge – All checks or other negotiable instruments returned for insufficient funds from a financial institution shall be assessed a fee of \$20.00.

TCJA Surcharge Credit

2.56%