ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER COMPANY, INC. FOR APPROVAL OF (A) A NEW DISTRIBUTION SYSTEM IMPROVEMENT CHARGE ("DSIC") PURSUANT TO IND. CODE CHAP. 8-1-31; (B) A NEW RATE SCHEDULE REFLECTING THE DSIC; AND (C) INCLUSION OF THE COST OF ELIGIBLE DISTRIBUTION SYSTEM IMPROVEMENTS IN ITS DSIC	)	CAUSE NO. 42351 DSIC 9
	)	APPROVED: MAY 04 2016

ORDER OF THE COMMISSION

Presiding Officers:
James F. Huston, Commissioner
Gregory R. Ellis, Administrative Law Judge

On January 14, 2016, Indiana-American Water Company, Inc. ("Indiana-American" or "Petitioner") filed its Petition for approval of a new distribution system improvement charge ("DSIC") pursuant to Ind. Code ch. 8-1-31 and 170 IAC 6-1.1-1. Along with its Petition, Indiana-American filed testimony and exhibits constituting its case-in-chief. In conjunction with its case-in-chief, Petitioner requested the Commission take administrative notice of Attachment SSH-1 to Administrative Notice Exhibit 1, which illustrates the types of projects included in Petitioner's prior DSIC proceeding.[1] On February 2, 2016, the City of Crown Point, Indiana ("Crown Point") filed its Petition to Intervene in this Cause, which was granted by the Presiding Officers' in a docket entry on February 9, 2016. Indiana-American submitted corrections to its exhibits on February 11, 2016. The Indiana Office of Utility Consumer Counselor ("OUCC") and Crown Point filed their respective cases-in-chief on February 15, 2016. Indiana-American filed its rebuttal testimony and exhibits on February 22, 2016. On February 24, 2016, Indiana-American filed its response to the Presiding Officers' docket entry question of the same date.

The Indiana Utility Regulatory Commission ("Commission") held an evidentiary hearing in this Cause at 1:30 p.m. on February 25, 2016, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Indiana-American, Crown Point, and the OUCC were present and participated. The testimony and exhibits of Indiana-American, Crown Point, and the OUCC were offered and admitted into the record without objection. Administrative notice of Administrative Notice Exhibit 1 was also granted at the evidentiary hearing without objection. No members of the general public appeared or participated at the evidentiary hearing.

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

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[1] Attachment SSH-1 to Administrative Notice Exhibit 1 was filed as an attachment to the Direct Testimony of Stacy S. Hoffman in Cause No. 42351 DSIC 8.

1. **Statutory Notice and Commission Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner also provided notice of its filing in this Cause to its wholesale customers pursuant to 170 IAC 6-1.1-4. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code ch. 8-1-31, the Commission has authority to review a utility's DSIC request. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is an Indiana corporation engaged in the business of rendering water utility service to customers in numerous municipalities and counties throughout the State of Indiana for residential, commercial, industrial, public authority, sale for resale and public and private fire protection purposes. Petitioner also provides sewer utility service in Wabash and Delaware Counties.

3. **Relief Requested.** Indiana-American seeks approval of a DSIC pursuant to Ind. Code ch. 8-1-31, a new rate schedule reflecting the DSIC, and approval of the costs of the eligible Distribution System Improvements ("Improvements") in its DSIC. The Commission issued an Order in Cause No. 42315 DSIC 7 (the "DSIC 7 Order") on December 27, 2012 and an Order in Cause No. 42315 DSIC 8 (the "DSIC 8 Order") on December 18, 2013. In accordance with the Commission's rules, Petitioner filed its Reconciliation Report for 42315 DSIC 7 and 42315 DSIC 8 on April 27, 2015. The Reconciliation Report reconciled the following periods: (1) December 19, 2013 to January 26, 2014; (2) January 27, 2014 to January 26, 2015 and (3) January 27, 2015 to January 28, 2015, which was the date of the Commission's Order (the "2015 Rate Order") in Petitioner's most recent general rate case (Cause No. 44450). That report showed Indiana-American experienced an under-recovery in the amount of $483,247. Pursuant to Ind. Code § 8-1-31-14 and 170 IAC 6-1.1-8(a), Indiana-American proposes to include the under-recovery from Cause No. 42315 DSIC 7 and Cause No. 42315 DSIC 8 for the period December 19, 2013 to January 28, 2015 in the DSIC surcharge calculation in this Cause.

The DSIC surcharge that was approved in the DSIC 8 Order was reset to zero as of January 28, 2015, with the approval of new base rates as approved in the 2015 Rate Order. On December 30, 2015, Petitioner filed a Step Two True-Up to update rate base as set forth in the Stipulation and Settlement Agreement approved by the 2015 Rate Order. The rate base as updated by that December 30 true-up is referred to as the "2015 Rate Order Rate Base." Petitioner proposes to include in this DSIC non-revenue producing projects placed in service between December 1, 2014, and November 30, 2015, that were not included in the 2015 Rate Order Rate Base. Petitioner's proposed DSIC percentage rate of 1.95% would produce total annual DSIC revenues of $3,480,049.

4. **Petitioner's Direct Evidence.** Petitioner presented the testimony and exhibits of Gary M. VerDouw, Senior Manager of Rates for Indiana-American and Michigan-American Water Company, and Stacy S. Hoffman, Director of Engineering for Indiana-American.

A. Calculation of DSIC 9. Mr. VerDouw testified regarding the filing requirements and methodology for calculating the DSIC. Mr. VerDouw provided evidence concerning the calculation of the proposed DSIC and sponsored Petitioner's proposed rate schedules reflecting the DSIC in the same format as the existing tariff on file with the Commission.

He explained that Petitioner is proposing to treat the DSIC as per the Commission's April 2, 2008 Order in Cause No. 42351 DSIC 4, in that the rate would be a percentage that would be applied to both the consumer's volumetric and metered service charge revenues. He further explained that, as per the Commission's April 30, 2010 Order in Cause No. 43680, Petitioner calculated the DSIC as a single percentage of bills that will be the same for all rate groups.

Mr. VerDouw testified that Petitioner proposes to include only non-revenue producing projects placed in service between December 1, 2014 and November 30, 2015 that were not included in rate base in the 2015 Rate Order Rate Base. Mr. VerDouw then discussed how Petitioner calculated the Net Investor Supplied DSIC Additions. He stated that Petitioner started with DSIC Improvements of $24,822,870 which he reduced by the amount of related plant retirements ($2,760,223), consistent with the DSIC 8 Order. The actual amount of the cost of removal, net of salvage in the amount of $3,785,627 was then added. Mr. VerDouw stated that there were total reimbursements from the Indiana Department of Transportation ("INDOT") and others in the amount of $165,593. These reimbursements were removed from the DSIC Improvements, resulting in Net Investor Supplied DSIC Additions of $25,682,681.

Mr. VerDouw also explained that the rate of return used in this proceeding is Petitioner's weighted average cost of capital computed from Petitioner's capital structure as of November 2014. He testified that Petitioner used the embedded debt cost rate from the 2015 Rate Order to determine the long-term debt cost rate. The common equity cost rate of 9.75% was also determined in the 2015 Rate Order, as was the weighted cost of capital of 6.60%. The pre-tax rate of return of 9.41%, was derived as shown on Schedule 4 of Attachment GMV-3 to Petitioner's Exhibit 1. Mr. VerDouw stated the pre-tax rate of return was calculated using a gross revenue conversion factor of 169.1029%, calculated using Utilities Receipts Tax of 1.3207%, State Corporate Adjusted Gross Income Tax of 6.79% and Federal Income Tax of 35%. Mr. VerDouw stated that the resulting pre-tax return is $2,416,740 when the pre-tax overall rate of return is multiplied by the net investor-supplied original cost of the DSIC Improvements.

Mr. VerDouw stated that Petitioner determined its depreciation expense of $580,062 by using the annual depreciation rates by primary plant account previously approved by the Commission, multiplied by the Improvements, net of related retirements.

Mr. VerDouw testified and provided exhibits showing that the proposed DSIC Revenues do not exceed 10% of Petitioner's base revenue level.

B. Description of DSIC Improvements. Petitioner's witness Stacy S. Hoffman sponsored Attachment SSH-1 to Petitioner's Exhibit 2, which provides a summary of costs for non-blanket and blanket project categories, and Attachments SSH-2 and SSH-3 to Petitioner's Exhibit 2, which provide the list of projects included in this DSIC. Attachment SSH-2 lists non-blanket projects individually by project number, with project description, the date placed in service, the project purpose, the resulting benefits, the applicability of easements, the range of age of plant retired, pipe diameters, pipe length, and the total costs incurred. Petitioner's Attachment SSH-3 lists blanket projects by project number, with project description, district location, the project purpose, the resulting benefits, the range of age of plant retired, and the total costs incurred. That attachment also lists quantities of blanket project assets replaced in each

district, the account number assigned to each project based on accounting standards found in the National Association of Regulatory Utility Commissioners Uniform System of Accounts for Class A Water Utilities ("USoA"), and Petitioner's Operation area where each project exists.

Mr. Hoffman indicated that some of the projects were replacing distribution system facilities that were in poor physical condition. Other projects included distribution system facilities that were replaced because they were located in right-of-ways and had to be moved because of road or other projects. Because these were in the right-of-way, they had to be removed at Petitioner's cost and as such, had no remaining life. Mr. Hoffman stated that Petitioner has invoices and other cost support for all projects listed in Attachments SSH-2 and SSH-3.

Mr. Hoffman stated that all of the Improvements are replacement infrastructure, and no reinforcement projects are included in this Cause. He explained that replacement infrastructure includes water mains, tanks, tank coating systems, valves, hydrants, service lines and meters. He testified that all of the retirements associated with the new infrastructure had been completed as of the date of Petitioner's filing. He also testified that no costs of removals were estimated. Mr. Hoffman explained that all of the projects listed individually in Attachments SSH-2 and SSH-3 represented eligible DSIC projects, including the blanket categories. He explained the presentation of the blanket projects, noting that blanket categories are used for common, similar activities like replacement meters, service lines, hydrants, and unscheduled main replacements. He specifically described the project work in the mass asset category labeled "Mains Unscheduled" in Petitioner's Attachment SSH-3, which includes budgeted and planned work for replacing segments of pipes that fail. Mr. Hoffman stated the Mains Unscheduled work is budgeted and planned each year because Indiana-American knows from operating experience that pipes that are not initially scheduled for replacement will fail during the year and will require replacement of segments of those pipes to enable continuing service to customers. Mr. Hoffman distinguished this category of pipe replacements from repair work, stating that the former includes replacements of segments of pipe from as small as a few feet in length to a hundred feet or more in length for pipes that were not previously scheduled for replacement but have failed in a manner that cannot be effectively or reliably returned to service with installation of a repair clamp. He further explained that the installation of new pipe segments to replace existing pipe are accounted for as capital work because the work physically replaces an old asset with a new, capital asset. Mr. Hoffman noted that installation of a repair clamp on an existing pipe is accounted for as an operating expense because a capital asset is not being replaced. Distribution work that is not capitalized, such as repair expenses using repair clamps, is not included in Petitioner's proposed DSIC.

Mr. Hoffman also testified about Indiana-American's comprehensive capital improvement planning studies for each of the Indiana-American operations. He explained that the studies include a thorough evaluation of demand projections, regulatory requirements, asset service reliability and quality, replacement of poor condition infrastructure, asset impacts on safety and efficiency, public fire protection, and environmental sustainability. He testified that Indiana-American performs an evaluation used for long-term distribution system asset investment planning modeled on a multi-decade forward projection of pipeline asset replacement needs based on distribution pipe materials and the decades of installation of the pipe materials. Another evaluation is used for near-term distribution system asset investment planning, which is a detailed modeling of the distribution systems, identifying service risks associated with pipeline failure risks for all

pipes in Indiana-American's distribution system. Mr. Hoffman described the key inputs to Indiana-American's five-year capital investment plan as including a multi-decade forward projection of pipeline asset replacement needs, prioritization modeling of its 4,800 miles of distribution pipe, customer rates, and service reliability and impacts. He indicated that the multi-decade forward projection of pipeline asset replacement needs utilizes the American Water Works Association ("AWWA") software analytics tool, "Buried No Longer Pipe Replacement Modeling Tool." Mr. Hoffman stated this modeling projects that pipe replacement needs range from a current projected need of a near 1% annual replacement rate to an annual rate of near 1.5% by the decade of 2030. He testified that the significant gap between the current projected annual pipeline replacement rate need of near 1% and Indiana-American's current actual seven-year annual average pipe replacement rate of only 0.22% without including relocations, and 0.37% including relocations translates to a need to increase Indiana-American's annual pipe replacements. He explained that this gap translates to an unrealistic pipe life expectancy of nearly 300 years, as compared to a more realistic pipe life expectancy of 50 to 100 years. He stated that many pipes in Indiana-American's system that were installed from 50 years ago to over 100 years ago are at or nearing the end of their expected useful life. He indicated Indiana-American is planning to approach the 1% replacement threshold within a few years.

Mr. Hoffman described the tidal wave effect on the future cost to customers caused by deferral of pipe replacements year by year. He explained that to the extent pipe replacement needs are deferred further into the future, service quality will suffer from increasing numbers of pipe breaks, service disruptions, health risks from potential drinking water contamination exposure during pipe breaks, property damages, and related community opportunity costs related to community health and economic development. He referred to recent AWWA and Water Research Foundation reports highlighting the challenge of aging infrastructure for utilities, customers and regulators, as well as, a report by the American Society of Civil Engineers that calculated estimates of economic impacts of failing to invest in water infrastructure across the country. Mr. Hoffman discussed the various challenges to closing the current gap in main replacement rates, including the challenge of effectively educating all stakeholders about (1) buried pipe infrastructure and its function in providing reliable water service, (2) the cost of replacing poor condition pipes and the link to the cost of providing water service, and (3) the consequences of delaying replacement of poor condition pipes. He also noted the challenge of attracting reasonable cost capital.

Mr. Hoffman also testified about Indiana-American's prioritization model for identifying pipeline replacement investment needs. He stated that in July 2015, Indiana-American met with the Commission's technical staff, as well as, representatives of the OUCC, the City of Crown Point, and the Town of Schererville, to review details of the Indiana-American's pipeline prioritization model and process. He testified about the long term benefits that can result from using these models to develop a more systematic approach to replacing poor condition pipes. He stated prioritization models are excellent tools for a prudent asset management approach.

Mr. Hoffman testified about the inclusion of tank-related projects in Petitioner's proposed DSIC, referring to the DSIC 7 Order in which the Commission authorized DSIC recovery on tank-related projects consisting of foundation rehabilitations, a paint rehabilitation, a tank roof replacement and some distribution pump work to enable Indiana-American to take the tanks offline. He testified that the tank-related projects included in this DSIC are similar to those

included in DSIC 7 insofar as they consist of capital rehabilitation work on existing tanks and not construction of new tanks. He described the tank-related projects in this DSIC as consisting of replacement of tank coating systems and structural steel, along with other structural rehabilitation work. He noted that these projects are recorded in the USoA distribution accounts, do not increase water storage capacity, and otherwise meet the statutory criteria to qualify as eligible distribution system improvements.

Mr. Hoffman described two categories of meter replacements included in this DSIC: meters replaced as part of Indiana-American's length of service ("LOS") plan, and meters replaced under Indiana-American's accelerated automated meter reading ("AAMR") plan that were or would have been 10 years old or older as of November 30, 2015. He described the LOS plan, which consists of replacing meters at the LOS age approved by the Commission in Petitioner's 30-Day Filing No. 2610 approved on January 20, 2010, and of replacing broken meters regardless of age. He then described the AAMR category of meters, citing the DSIC 7 Order as support for inclusion of meters that were or would have been 10 years old or older as of November 30, 2015. He stated additions and costs of removals for the AAMR meters 10 years old and older were calculated from the actual material and installation costs for these meters. He stated retirement values for the 10 year old and older meters were calculated at gross original cost and computed using the Handy-Whitman index to trend back current day costs to original costs because the Indiana-American's financial system for these mass assets does not show original cost for this specific subset of 10 year old and older meters.

Mr. Hoffman testified that all Improvements listed in Petitioner's Attachment SSH-1 meet the DSIC statutory requirements. He testified that none of the projects increase revenues by connecting the distribution system to new customers; all of the projects are in service; none of the projects were previously included in rate base; all necessary local, state and federal permits, approvals and authorizations have been obtained; and there was no affiliate involvement in any of the transactions. Mr. Hoffman explained that as Director of Engineering he has familiarity with these projects through regular communication with Indiana-American Engineering staff during the planning, design and construction phases of these projects. Indiana-American project managers also confirm projects are in service through a physical inspection and then enter in-service dates for completed projects in the Indiana-American accounting software system. He testified that he verified that none of the project costs identified in this Cause were included in rate base in any prior Causes including Cause No. 44450.

Indiana-American provided a listing of DSIC eligible projects in its filing in this Cause, as well as in Cause No. 44450, to demonstrate the projects were not included in Cause No. 44450. Mr. Hoffman explained that two of the projects were split between Cause No. 44450 and this Cause because a portion of those projects costs were included in Cause No. 44450 to satisfy the stipulation in the Order in that Cause that $13.8 million of DSIC eligible project utility plant placed in service between December 1, 2014 and November 30, 2015, be included in that Cause. The remainder of the costs for those projects were included in this DSIC. Mr. Hoffman also explained that some of the project costs included in this DSIC are for projects that were placed in service prior to December 1, 2014, but were not previously included in rate base in any prior case, because the costs were incurred subsequent to the most recent rate base cutoff or because Indiana-American had not completed all accounting for these costs by the most recent rate base cutoff, and elected

to include these DSIC project costs in this Cause, rather than in Cause No. 44450.

Mr. Hoffman noted that, pursuant to the settlement and Order in Cause No. 44584, Indiana-American has not included in this DSIC any DSIC eligible meter or service line replacements completed in Russiaville as a result of transitioning Russiaville customers to Indiana-American immediately following the acquisition of the Russiaville system. Mr. Hoffman also testified regarding the funding of the Improvements. He stated that projects included in this DSIC were funded by Indiana-American or were reimbursed by INDOT or others, as noted in Mr. VerDouw's testimony.

Mr. Hoffman stated Petitioner has a five-year Strategic Capital Expenditure Plan that provides for budgeted amounts of approximately $286,100,000 for replacement mains, reinforcement mains, DSIC tank related work, hydrants, services and meters for the period 2016-2020. He testified that included in this amount is approximately $31,000,000 budgeted over the same period for water main replacements required by state and local governments as a result of road improvements and other projects. The five-year Strategic Capital Expenditure Plan was provided in response to the Presiding Officers' docket entry question and was admitted into the record.

5. **OUCC's Case-in-Chief.** The OUCC presented testimony of Greg A. Foster and James T. Parks, both are Utility Analysts in the Water/Wastewater Division.

A. State Income Tax Rate. Mr. Foster described his review of Petitioner's application for DSIC and recommended a DSIC rate increase of 1.87% based on: (1) Mr. Parks' recommendations to exclude amounts for the cost of removal for service line replacements and amounts for Mains Unscheduled and (2) Mr. Foster's recommendation that the current Indiana State Income Tax rate of 6.5% be applied to yield a Pre-Tax Rate of Return of 9.39%. Mr. Foster explained that Indiana-American used a State Income Tax Rate of 6.79%, but beginning in 2012 the Indiana State Tax Rate was reduced 0.5% each year until it reached 6.5% in July 2015. Mr. Foster updated the tax rate and produced a Pre-Tax Rate of Return of 9.39% instead of Indiana-American's proposed 9.41%. Mr. Foster also explained how he calculated the OUCC's proposed DSIC percentage rate by adding (1) the OUCC's Pre-Tax Return on Additions in the amount of $2,279,062, (2) Depreciation on those DSIC Additions (From Petitioner's Exhibit 1, Attachment GMV-3, Schedule 2) in the amount of $580,062 and (3) the Reconciliation of Variance from Cause Nos. 43251 DSIC 7 and DSIC 8 in the amount of $483,247. Together these produced Total DSIC Revenues for Cause No. 42351 DSIC 9 of $3,342,371. Dividing the Total DSIC Revenues by the Volumetric and Metered Revenue as per Cause No. 44450 ($178,638,648) yields a DSIC Percentage Rate of 1.87%.

B. Emergency Main Repairs and Mains Unscheduled. Mr. Parks testified in support of the OUCC's proposed DSIC calculation. He testified that he does not consider emergency repairs of water mains to be planned replacement of distribution system. He explained that all water utilities need to make emergency repairs of water mains. Generally, such repairs return the water main back to operation but do not replace much of the underlying buried asset. Such repairs are done after the water main has broken, usually under emergency or expedited

conditions and were unplanned. Such repairs are purely reactive in nature and do not include engineering analysis, project planning, or prior scheduling.

Mr. Parks noted that Indiana-American does not use the term "emergency repairs" to describe such costs but called them Mains Unscheduled. He testified that he does not consider Mains Unscheduled to be planned. He explained that the water main and service line repairs are budgeted by Indiana-American because they know each year they will experience water main breaks and service line leaks that have to be repaired to restore service and prevent additional damage to its water distribution system and adjacent property. The particular projects are not planned in advance of their occurring and segments of main are replaced because of the immediate need to address a leak or break. Emergency water main and service line repairs are motivated by the emergent need to stop water from gushing, minimize property damage, minimize the risk of water contamination, and restore service to customers. Mr. Parks added that because of the need to pay a premium to expedite the repair, emergency repairs are more costly per linear foot than planned and engineered distribution system projects.

Mr. Parks noted that in 2014 Indiana-American reported 720 water main breaks. He indicated that for the repaired water main breaks Indiana-American included in Mains Unscheduled in this DSIC, the contractors repaired water main leaks by replacing short sections of the water main with new pipe. He also noted there was no indication that Indiana-American's contractors used repair clamps to repair Mains Unscheduled. Indiana-American reported that water main breaks, which were repaired with the more common use of pipe repair clamps, were expensed and are not included in this DSIC. Indiana-American included the cost of addressing only 12 water main breaks in this DSIC. After reducing for retirements and contributions in aid of construction ("CIAC"), Indiana American is requesting $52,221 for Mains Unscheduled in this DSIC. Mr. Parks suggested that the cost of addressing the other water main breaks Petitioner reported for 2014 were either expensed or included in Indiana-American's $13.8 million rate base true-up in Cause No. 44450, which it filed on December 30, 2015. He recommends the Commission exclude the $52,221 in emergency water main repairs, which are listed as Mains Unscheduled in this DSIC.

C. Service Line Replacements. Mr. Parks described a service line as a necessary part of the customer's connection to the water main. He explained that a customer's connection to the water main is generally composed of three parts: 1) the meter and meter installation, 2) that part of the service line that is owned and maintained by the Utility and 3) the service line from the meter to the customer's home, which is owned and maintained by the customer. He noted that Indiana-American is seeking to include $2,767,794 for the cost of replacing that part of the service lines it owns and maintains.

Mr. Parks testified that Indiana-American has included $2,974,807 for service line replacements consisting of $1,615,505 for Additions and $1,359,302 associated with Cost of Removal. He indicated this level of cost makes the average cost of the 1,073 service lines replaced $2,773, before consideration of salvage, retirements and CIAC. Mr. Parks explained he had concerns with the Service Line Replacement cost figures included in this DSIC. The average cost per service line replacement appears to be very high. The information provided by Indiana-American does not appear to support the total cost and specifically did not support the Cost of

Removal component. He noted that the USoA, which defines "Cost of Removal" as "the cost of demolishing, dismantling, tearing down or otherwise removing utility plant, including the cost of transportation and handling incidental thereto."

Mr. Parks testified that due to the limited time available to review the filing, he focused on the service line replacement costs in only three of Indiana-American's districts: Newburgh, Seymour and Shelbyville. The OUCC also conducted discovery to obtain invoices and cost documentation that would allow him to determine the average service line replacement cost for "Additions" and "Cost of Removal." He stated that the representative sample indicated a cost of only about $1,100 per service line replacement compared to the $2,773 average indicated by Indiana-American's DSIC request. Additionally, none of the invoices documented Cost of Removal or items that would fall within that category. He noted that Indiana-American's DSIC does not address Cost of Removal of service lines as an actual cost incurred. Mr. Parks explained that in his experience service line components are not actually removed during service line replacements. The service line components are typically abandoned in place. Thus, the actual cost of removals are minimal and limited primarily to proper closure, capping, or removal of the tap on the water main.

With respect to service line replacements, Mr. Parks indicated that neither the Cost of Removals for Service Line Retirements at $727,265 nor the $632,037 Cost of Removals for Service Line Replacements is supported by any invoices. The contractor's standard charges should be an all-inclusive price for replacement and proper retirement/removal of the services. Contractor invoices would reflect replacement and removal together. Mr. Parks also commented on the subcategory of service line replacements referred to by Petitioner as "service line retirements only." He recommended the Commission order Indiana-American to provide an inventory of abandoned service lines that have not yet been properly retired or removed. He also recommended that the Commission order Indiana-American to develop a plan to properly close abandoned service lines under an agreed upon schedule and that after implementing the plan to properly close old services, any future distribution system leak attributable to legacy abandoned service lines should simply be repaired as a water main break with repair costs handled as a maintenance expense. To the extent "service line retirements only" refers only to an accounting allocation of a cost, Mr. Parks recommended that it be disallowed as not being properly justified in this proceeding.

Mr. Parks concluded his testimony by recommending that the Commission allow the cost of "Additions" in the amount of $1,615,505, but disallow the entire $1,359,302 identified by Indiana-American as the Cost of Removals for service line replacements.

6. Crown Point's Case-in-Chief. Gregory T. Guerrettaz, President of Financial Solutions Group, Inc. offered testimony on behalf of Crown Point. Mr. Guerrettaz testified that he had concerns regarding whether any of Indiana American's DSIC projects will result in the connection of additional customers and generate additional revenue. He testified that in his experience, main relocation and main replacement may include upsizing of those replaced lines in a growth area to take into account current flows, future projected flow from customer growth and future fire flows. Upsizing lines to accommodate future needs including customer growth will result in increased connections and revenue to the utility in the future. He opined that in addition

to the DSIC statutory mandate that the new plant may not result in increased revenues from the connection of new customers; there are very visible simple matters of ratemaking/regulatory fairness that should not be ignored. He noted that depreciation expense is intended to provide for the cost of wear and tear and obsolescence of assets by allowing for recovery of the asset's cost plus removal cost, less salvage value. Petitioner charges rates that recover these replacement and removal costs through depreciation expense. The cost of preventive maintenance and curative repairs is also a ratemaking revenue requirement that is and has been recovered in rates. Ratepayers have already at least in part paid these expenses over time and are now requested to pay a tracked return and depreciation costs through a DSIC.

Mr. Guerrettaz noted that instead of having to work within the confines of revenue requirements set in Indiana-American's most recent rate case and within a corporate annual budget with revenue set via a future test year, the DSIC allows Indiana-American to also augment its cash flow. This additional cash flow improves its operations and profits. Additional DSIC revenue could potentially decrease Indiana-American's need for borrowing for capital improvements. Less debt in turn promotes a higher equity component in the capital structure, and may result in a higher authorized net operating income. DSIC promotes additional profits while replacing older plant.

He also indicated that main relocation and replacements may include upsizing of those replaced lines in a growth area to take into account current flows, future projected flow from customer growth and future fire flows. Upsizing lines to accommodate future needs including customer growth will result in increased connections and revenue to Indiana-American in the future. He noted that Indiana-American does not state anywhere that none of its main replacement and relocation projects included upsizing the lines to in part accommodate future customer connections and demands. Nor does it state what main relocation and replacement projects it excluded from this DSIC because they were upsized to accommodate additional customer demand. Indiana-American has in some cases substantially upsized the diameter of replacement lines. Mr. Guerrettaz concluded that it would seem incredible that no main replacements or relocations are excluded by Indiana-American because they were upsized to accommodate future customers. He questioned how Indiana-American can serve such a vast area and upsize so many lines but not size those lines for future customer additions. Those replacements and relocations that are upsized even in part to accommodate customer additions should be clearly described and shown as having been excluded from the DSIC. He indicated that he does not believe Indiana-American has adequately demonstrated compliance with the statutory requirement that the plant not result in customer additions.

Mr. Guerrettaz indicated that relocation projects should not be included in the DSIC. He pointed out that Mr. Hoffman testified a portion of the replacement infrastructure is associated with right-of-way improvement projects within the location of Indiana American infrastructure directly conflicting with other public infrastructure. Mr. Guerrettaz opined those projects have not been proven to be required as the replacement of aged or poor condition infrastructure and go beyond what can be included in the DSIC. These relocation projects broaden the DSIC-eligible projects beyond aged plant replacement to include any piping that is taken out of service for any reason. Indiana-American is given a financial opportunity by the DSIC process to replace its aged plant while growing its earnings. He concluded that it seems inappropriate to stretch beyond the DSIC purpose of replacing aged plant and thereby further increase DSIC costs to customers.

Mr. Guerrettaz also indicated his concern regarding Indiana-American's cost of plant removal. He testified that it is his understanding through Indiana-American's exhibits and responses to data requests that it uses a percentage based on a historic level of cost of removals and this percentage escalates the cost of each project to the point that removal costs are higher than retirement costs. A percentage, based on historical cost of removal, is still an estimate. He concluded that it is hard to understand why removal costs are not done on a specific identification basis as opposed to an estimated percentage.

Mr. Guerrettaz testified regarding his concern of Indiana-American's treatment of repair work in this DSIC. He disagreed that a few feet or short section of pipe is a capital item, as opposed to a repair. Water line repairs encompass more than just instances where a clamp will stop the leak and return the line to service. By limiting its definition of a repair to the installation of just a line clamp, Indiana-American has cast an unduly broad DSIC recovery net that captures what should be normal non-DSIC repairs. He noted that 170 IAC 6-1.1 does not set forth guidelines as to what is a repair and what is a capital item. He recommended the Commission find that to be considered a DSIC eligible item, there should be a standard repair versus replacement criteria for Indiana-American that anything less than 25 feet would be a repair and anything greater than 25 feet would be considered a capital improvement. He testified that normal pro forma repairs are part of an investor-owned water utility's revenue requirement and included in base rates. They should not also be included in the DSIC process. Also, a repair does not necessarily mean the pipe in question was aged. Main breaks may be caused by many reasons other than deterioration of the pipe. Indiana-American's request makes no such differentiation. Finally, including the repair of a short section of pipe only makes the already compressed voluminous DSIC filing that much more complicated. There should be a materiality point below which DSIC inclusion is unwarranted. Crown Point was not able to make an adjustment due to time constraints in the Cause in order to discern how many improvements fall under this classification. He also expressed concern that the DSIC should not be a tracker for small, relatively simple, unscheduled repair projects or generalized small "blanket projects."

Finally, Mr. Guerrettaz expressed concern that the state income tax rate used in Petitioner's case in chief was incorrect. He testified that Petitioner used an Indiana State Income Tax rate of 6.79% versus the current State tax rate of 6.5%, which is more applicable to the period of time DSIC 9 will be charged.

7. Petitioner's Rebuttal.

A. Unscheduled Main Replacements. Mr. Hoffman offered testimony to respond to Mr. Parks' suggestion that Petitioner's main replacements identified as Mains Unscheduled should not be allowed to be included in the DSIC. He explained that the main replacements Mr. Parks seeks to exclude from the DSIC are not emergency repair expenses, but rather distribution asset replacements in accordance with USoA. He testified that the use of the term "repair" to refer to these main replacements is inaccurate. Indiana-American's main replacement work identified as Mains Unscheduled replaces lengths of pipe that were not previously scheduled for replacements but that failed in a manner that could not be effectively or reliably returned to service with installation of a repair clamp. He testified that it is not the case

that this main replacement work repairs the old segment of pipe that is removed, but instead replaces old segments of pipe with new segments of pipe. Mr. Hoffman also noted that this main replacement work has been included in each of the Indiana-American's DSIC filings since the inception of the DSIC.

Mr. Hoffman testified that he looked to the Commission's Order on Rehearing and Reconsideration in Cause No. 42743 DSIC 3 to conclude that this main replacement work is "planned" within the meaning of the Commission's Order in that Cause and that Indiana-American has met the planning directive of the Commission related to DSIC by reviewing all of its assets and creating a plan for what types of projects need to be undertaken and why these types of projects are necessary. Mr. Hoffman pointed to statements made in his direct testimony that the Indiana-American's planning includes a recognition that asset failures will occur, although the timing of when specific assets fail cannot be specifically identified in advance. He testified that is why Indiana-American reviews all of its assets and understands and plans for the types of projects that are needed, and prioritizes those projects. He stated that the precise timing of a future failure of an asset is not known with certainty does not, by correlation, mean that the replacement of those failed assets is not planned. He testified that Indiana-American has created, planned and developed activities from budgets to management and administration practices, and operation field practices to enable it to schedule and replace these failed assets when they occur so as to improve the distribution system. He concluded that replacement of these assets should not be ineligible for the DSIC just because the timing of their failure is not known with precision in advance or because the need to address the failure is immediate.

Mr. Hoffman testified on rebuttal that Indiana-American's main replacement work identified as Mains Unscheduled also fits within Mr. Parks' own description of what constitutes planned replacement projects, except that the projects are not necessarily developed through engineering planning and scheduling. Mr. Hoffman stated the unscheduled main replacement work becomes scheduled and is performed precisely because the failed asset has reached the end of its useful life. In most cases, the work is undertaken because the asset to be replaced has experienced frequent leaks requiring repairs, it has been damaged and cannot be cost effectively repaired, it is functionally obsolete, or a distribution system deficiency needs to be corrected to improve the distribution system's operation. Sometimes it is also undertaken because the asset must be relocated because of other projects. Mr. Hoffman explained that in many instances, several of the considerations apply. Mr. Hoffman disagreed with Mr. Parks' statement that a distribution project is necessarily one developed through engineering planning and scheduling. He noted a number of examples of distribution system improvements where that is not the case, including meter, valve, hydrant and service line replacements.

Mr. VerDouw offered rebuttal testimony to address Mr. Guerrettaz's recommendation that the Commission set a standard for DSIC eligibility in which any pipe replacement less than 25 feet would be considered a repair and any pipe replacement greater than 25 feet be considered a capital improvement. He explained that Indiana-American is required to follow the USoA, which states that, unless the capital asset has a value of less than $750 or is of a short life, it should be capitalized. Consistent with this accounting treatment, any water main that is repaired – e.g., via the installation of a pipe clamp – is reflected as a maintenance expense for that pipe. If a repair will not suffice, and lengths of the pipe must be replaced, the replacement of that pipe is properly

capitalized in conformance with USoA. He explained the new pipe section increases the life of the pipe and improves the distribution system, which fits within the definition of a DSIC eligible project. He stated Mr. Guerrettaz's suggestion is inconsistent with the requirements established by the legislature for implementing a DSIC.

B. Service Line Replacements – Cost of Removal. Mr. Hoffman also addressed Mr. Parks' recommendation that the Commission disallow $1,359,302 identified by Indiana-American as the cost of removal for service line replacements. He disagreed with a number of Mr. Parks' assertions about average service line replacement costs, cost support included in Indiana-American's case, and the nature of the "Service Line Retirements Only" category of those costs. He began by noting that Mr. Parks' calculation of average service line replacement cost uses the wrong inputs. He explained that the cost of $2,247,267 provided by Indiana-American as the total cost for service line replacements related only to the 1,073 service lines actually replaced. Costs of $727,540 related to a separate number of 653 service lines that were retired and not replaced. As a result, the average service line replacement cost aggregated across Petitioner's service areas as calculated in Mr. Hoffman's rebuttal is $2,093. Mr. Hoffman disagreed with Mr. Parks' statement that the average service line replacement cost appeared very high, because Mr. Parks provided no basis for or evidence supporting that conclusion. Mr. Hoffman indicated that Mr. Parks' calculation and comparison of the average service line replacement cost for the Seymour district with the average service line replacement cost across all of the Indiana-American's service areas were incorrect. He described the reasons the average service line replacement cost for that district differs from the average service line replacement cost across all of the Indiana-American's service areas.

In response to Mr. Parks' assertions about the cost support for service line replacement cost of removal, Mr. Hoffman explained that when service lines are replaced, a total cost of the work is incurred that includes work activities necessary for both installing the new service materials and for performing the retirement of the old service, i.e. the removals, because the work usually occurs in the same excavation hole. As a result, the total cost of these work activities must be split between additions and cost of removal. He explained this allocation is appropriately made by Indiana-American, not the contractor, given Indiana-American's greater familiarity with issues related to utility plant accounting which make the allocation between additions and cost of removal necessary in the first place. For that reason, it is not practical to expect a separate line item in contractor invoices for cost of removal. Mr. Hoffman described the method by which Indiana-American determines the appropriate allocation of total cost between additions and removals. He stated the cost of removal guideline for service line replacements is 31% of total cost, with retirement-only work being allocated 100% to cost of removal. Mr. Hoffman disagreed with Mr. Guerrettaz's testimony that the allocation of a portion of total cost to cost of removal is an estimate. He noted that the determination is not an estimate but rather an allocation of total actual costs for service line replacement work.

Mr. Hoffman described the circumstances causing the "Service Line Retirements Only" cost of removal. He stated the cost of this work as reflected in Petitioner's case is the actual cost incurred for actual service line work performed and not an accounting allocation of a cost as suggested by Mr. Parks. Mr. Hoffman explained that service line retirements are not unusual in certain communities and Indiana-American is sometimes requested to retire these services in

connection with city plans to demolish certain structures. Mr. Hoffman testified that Indiana-American removes and retires service lines when appropriate and the OUCC has presented no evidence to the contrary. He concluded that the OUCC's recommendation that the Commission should require Indiana-American to develop a plan to retire service lines that Mr. Parks speculates might be abandoned is misinformed and unwarranted.

C. Upsizing and Relocations. Both Mr. Hoffman and Mr. VerDouw addressed Mr. Guerrettaz's testimony that some of the main replacement projects included in this DSIC involve upsized replacement lines and, as such, should not be included. Mr. VerDouw referred to the Commission's finding in Indiana-American's DSIC 8 Order, which stated, "We find that while new customers may eventually connect to replacement or reinforcement mains once they have been installed, the possibility that such connections may occur in the future does not change the initial eligibility for DSIC inclusion." He noted that no infrastructure projects required to tap a main and provide a service line, meter pit, and meter to serve a new customer are included in this or any other DSIC filing Indiana-American has made. Mr. Hoffman testified that Indiana-American provided detailed pipe diameter information for retired and replacement pipes for all projects in Attachment SSH-2. Mr. Hoffman also noted that there were nine projects for which the pipe diameter provided included steel casing pipes instead of the actual water main diameters. Mr. Hoffman provided the correct maximum diameter of the replacement water main for those nine projects in his Attachment SSH-2R.

With respect to relocation projects, Mr. Hoffman responded to Mr. Guerrettaz's recommendation that such projects be excluded from DSIC unless proven to replace aged or poor condition plant. He stated that pipe that is relocated because of a roadway project, by definition, has reached the end of its useful life. He noted that relocation projects have been included in the Indiana-American's DSIC filings, and approved for DSIC recovery, since DSIC 1. Mr. Hoffman stated that replacements of pipe through relocation are replacements of pipe that have reached the end of its useful life and thus eligible for DSIC recovery. He indicated the DSIC statute does not contain the limitation that relocation projects be shown to be replacing aged or poor condition plant to be eligible for the DSIC. He concluded that these projects improve the distribution system by enabling continuing service to customers who would otherwise be without service if the mains were not relocated.

D. State Income Tax Rate. In his rebuttal testimony, Mr. VerDouw explained that his calculation of a Pre-Tax Rate of Return of 9.41% was made using the Tax Gross-Up Calculation as agreed to in the settlement approved in Cause No. 44450, which included a "blended" Indiana State Tax rate of 6.79%. He agreed with Mr. Foster and Mr. Guerrettaz that the state income tax rate has changed and therefore agreed with their recommendation to use the new state income tax rate of 6.5% for purposes of this DSIC.

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

A. DSIC Requirements. Ind. Code ch. 8-1-31 authorizes the Commission to approve a DSIC to allow a water utility to adjust its basic rates and charges to recover a pre-tax return and depreciation expense on eligible distribution system improvements. Ind. Code § 8-1-31-5 defines eligible distribution system improvements as new used and useful water utility plant

projects that:

(1) do not increase revenues by connecting to new customers; and
(2) either:
(A) for a public utility:
(i) are in service; and
(ii) were not included in the public utility's rate base in its most recent general rate case; or
(B) for a municipally owned or not-for-profit utility:
(i) were put in service or approved by the commission for funding after the utility's pro forma test year in its most recent general rate case; and
(ii) are not subject to another rate adjustment mechanism.

Under Ind. Code § 8-1-31-6, the rate of return allowed on eligible distribution system improvements is equal to the public utility's weighted cost of capital. Unless the Commission finds that such determination is no longer representative of current conditions, Ind. Code § 8-1-31-12 provides that the cost of common equity to be used in determining the weighted cost of capital shall be the most recent determination by the Commission in a general rate proceeding of the public utility.

Indiana Code § 8-1-31-17 granted the Commission the authority to adopt rules to establish procedures not inconsistent with the Chapter that are necessary to administer a DSIC. 170 IAC 6-1.1 contains the Commission's rules on DSIC. The rules requires water utilities that are subject to the jurisdiction of the Commission file rate schedules establishing a DSIC that will allow the automatic adjustment of the utility's basic rates and charges to provide for recovery of DSIC costs. The supporting documentation that a utility is required to submit includes a description of the DSIC and a five-year plan generally outlining what distribution infrastructure the utility plans to replace.

B. Approval of Proposed DSIC.

i. Unscheduled Main Replacements. Indiana-American is seeking to recover the costs of a category of blanket projects described as Mains Unscheduled in the amount of $52,221, which includes budgeted and planned work for replacing segments of pipes that fail. The OUCC recommended the Commission disallow Indiana-American's main replacements identified as Mains Unscheduled because such work constitutes emergency water main repairs and is thus not planned replacement of distribution system eligible for DSIC recovery. Crown Point recommended emergency unscheduled main replacements and generalized blanket repairs should be excluded from Indiana-American's DSIC because they are small, relatively simple, nonspecific, generalized, unscheduled projects that are the type of minor repairs for which an ongoing revenue requirement is already provided for in base rates. Crown Point does not believe the DSIC was intended to cover generalized repairs happening in a future period or small repairs already covered in base rates.

Petitioner has provided evidence that it completed a comprehensive review of its assets and has developed a plan for improving the distribution system with a general overview of what types

of projects need to be undertaken, and why these types of projects are necessary. Petitioner clearly identifies this type of main replacement work in its strategic capital expenditure plan. Indiana-American has provided evidence that it reviewed all of its assets to create its plan, its plan provides an overview of what types of projects need to be undertaken and why those types of projects are necessary, and it has submitted supporting evidence for the projects for which it is seeking recovery. Although we understand both the OUCC's and Crown Point's concerns, we note that Indiana-American's evidence demonstrates that Mains Unscheduled includes replacements of pipe segments that range from a few feet to a hundred feet or more for pipes that were not previously scheduled for replacement and cannot be effectively or reliably returned to service with the installation of a repair clamp. In such circumstances, the replacement of pipe is scheduled, completed, and accounted for as a capital improvement, because an old asset has been replaced with a new asset. In cases where a pipe can be effectively and reliably returned to service with a repair clamp, a repair clamp is installed and the work is accounted for as an operating expense, because a capital asset has not been replaced. In accordance with 170 IAC 6-1.1-5, we find that Mains Unscheduled are not repairs of existing pipe, but are replacements of pipe that fit into Indiana-American's general outline of plans to replace other distribution infrastructure in the next five years.

Further, Petitioner cited two recent orders of the Commission addressing the issue of DSIC planning. Both were Orders on Reconsideration and both held that the projects at issue in those cases were not eligible distribution system improvements as set forth in 170 IAC 6-1.1-1(g) because they were not made as part of a planned process in order to improve the distribution system. Both cases are distinguishable from the facts of this case.

In our February 10, 2016 Order on Reconsideration in Cause No. 44646 regarding the request by Twin Lakes Utilities, Inc. for a DSIC, we found:

> Going forward, Petitioner should provide evidence that it reviewed all of its assets to create its plan. Petitioner's plan should provide a general overview of what types of projects need to be undertaken, and why these types of projects are necessary. Furthermore, Petitioner should submit supporting evidence for the projects for which it is seeking recovery.

On the same day, we made the same finding in our Order on Reconsideration in Cause No. 42743 DSIC 3 regarding the request of Indiana Water Service, Inc.'s for approval of its DSIC. In making our decision in those cases, we relied on the Commission's previous findings regarding DSIC planning as stated in Cause No. 42416 DSIC 1:

> Since the rationale of the DSIC is to promote the improvement of distribution infrastructure it is logical that utilities should have a plan as to how and when they intend to improve distribution infrastructure. Such a plan will help to verify that a utility seeking a DSIC is adequately improving its system in a proactive manner.

The current DSIC request differs from the facts in Cause No. 44646 and Cause No. 42743 DSIC 3. As discussed above, we find that Indiana-American has provided sufficient evidence that it has undertaken the kind of planning required by in 170 IAC 6-1.1 and directed by the Commission in our previous orders. It is for this reason that we have approved the inclusion of the unscheduled main replacement work in this Cause, just as we have in Indiana-American's prior DSIC cases. Administrative Notice Exhibit 1 reveals that Petitioner included unscheduled main replacements using precisely the same description as presented here.

We further find the evidence of record demonstrates that the main replacements identified as Mains Unscheduled are planned within the meaning of our DSIC rules. The common definition of "plan" is "*a.* a method for achieving an end; *b.* an often customary method of doing something: procedure; *c*: a detailed formulation of a program of action; *d.* goal, aim." http://www.merriam-webster.com/dictionary/plan. Indiana-American's Mains-Unscheduled are part of its method, procedure, program, or goal to improve its distribution system. This was demonstrated by the presence of planned expenditures for Mains Unscheduled in each of the five years of Petitioner's Strategic Capital Expenditure Plan provided in response to our docket entry of February 24, 2016, requesting additional information in this Cause. The fact that the precise moment of the failure of an asset is unknown during the budgeting and planning stages does not mean that such failures are not taken into account during such planning or that the replacement of those assets is not planned. The planning requirements of 170 IAC 6-1.1 as they relate to DSIC do not equate to a static list of projects in order for those projects to be eligible for DSIC.

We note the evidence of record indicates that the projects included in Indiana-American's DSIC are completed and in-service, and it has provided information about these projects and their DSIC eligibility as required by 170 IAC 6-1.1-5(a). As such, Indiana-American has satisfied the requirements of 170 IAC 6-1.1-5(b) and made a prima facie case for the eligibility of the improvements and the reasonableness of the charges included in its DSIC. Accordingly, we find it appropriate to allow DSIC recovery on these main replacements that Indiana-American has categorized as Mains Unscheduled

We further find it unnecessary to impose a materiality threshold for DSIC eligibility as was recommended by Crown Point. No such threshold was established by the legislature when it enacted and later expanded the DSIC statute. The Commission has previously indicated that, "The Commission possesses only those powers conferred on it by statute." *Indiana-American Water Co.,* Cause No. 44450 S1, Order on Reconsideration (IURC 3/25/2015), at 4 (citing *Micronet, Inc. v. Ind. Util. Regulatory Comm'n*, 866 N.E.2d 278, 294 (Ind. Ct. App. 2007)). "Unless a grant of power can be found in the statute, we must conclude that there is none, and any doubt about the existence of authority must be resolved against a finding of authority." *Id.* We find that the DSIC statute and rules governing DSIC do not impose such a limitation.

ii. Service Line Replacement - Cost of Removal. The OUCC recommended the Commission disallow recovery of Petitioner's cost of removal for service line replacements in the amount of $1,359,302. The OUCC's witness testified that Indiana-American's average service line replacement costs appear very high, noted service lines are not normally removed, and asserted it has not provided adequate support for those costs. Crown Point argued

that Indiana-American's removal costs were estimated and they should be based on a specific identification as opposed to an estimated percentage.

Indiana-American's witness provided rebuttal testimony that indicated Indiana-American's actual overall Service Line Replacements category costs requested in this DSIC total $2,974,807. The total for the Service Line Replacements account consists of 1) Service Line Replacements ($2,247,267 associated with 1,073 service lines company-wide) and 2) Service Line Retirements ($727,540 associated with 653 separate service lines company-wide). He indicated that an average service line replacement cost is derived by dividing the subcategory Service Line Replacements of $2,247,267 by 1,073. Doing so yields the average company-wide service line replacement cost of $2,093. We note that the Commission's rules require that the costs be supported by invoices and other cost support. The evidence in this Cause reflects that in addition to the invoices, Indiana-American provided its explanation of how removal costs are allocated as a percentage of total costs and, with respect to service line replacements. In addition, Indiana-American provided evidence that service line retirements are not unusual and most commonly result when buildings that once had service lines are demolished. This work is not an accounting allocation but is actual service line work performed. All costs for service line retirements are allocated 100% to cost of removal. We find that Petitioner adequately supported the removal costs for the service line replacements and retirements and the lack of a dedicated line item in the contractor invoices is not a sufficient basis for the disallowance proposed by the OUCC. The OUCC did not provide cost comparison information or other evidentiary support that demonstrated the resulting service line replacement costs are too high.

Regarding Crown Point's concern that the allocation of a percentage of the total cost to cost of removal where work activities relate to both additions and removals is an estimate, we find Indiana-American adequately explained the accounting for cost of removal. Petitioner's evidence indicated that when service lines are replaced a portion of the work incurred includes activities that are necessary for both the installation of the new service line and the retirement or removal of the old service (e.g., excavations). Therefore, the total cost of these work activities must be split between additions and the cost of removal. Indiana-American's evidence demonstrates that what it has included are the actual costs incurred for projects. The evidence shows compliance with the rules and no basis to disallow Petitioner's cost of removal for service line replacements.

For all of the reasons discussed above, we approve Indiana-American's proposed cost of removal for service line replacements and retirements in the amount of $1,359,302.

iii. Upsizing and Relocations. Crown Point noted that Indiana-American has upsized the diameter of many replacement lines, yet has not explicitly stated that any of the replacement or relocation projects were done in part to accommodate future customer connections and demands. Crown Point further noted that Indiana-American did not identify any projects that were excluded from this DSIC request due to upsizing to accommodate additional customer demand. Crown Point expressed doubt that Indiana-American can serve such a vast area and upsize so many lines, and not size those lines for future customer additions. Crown Point argued that Indiana-American has not adequately demonstrated compliance with the statutory requirement that the plant not result in customer additions and therefore, recommended the Commission order Indiana-American to make very clear what DSIC projects include upsized lines

and show how the decision to upsize did not take into account future customer connections. We note that the Commission has previously dealt with this concern. In the DSIC 8 Order, we made clear that the possibility of new customers eventually connecting to replacement or reinforcement mains in the future does not impact whether those projects are initially eligible for DSIC recovery. Cause No. 42351 DSIC 8 Order, at 14; *see also* Order in Cause No. 42351 DSIC 7 Order, at 14 (IURC 12/27/2012), *citing* Order in Cause No. 42351 DSIC 1, at 20 (IURC 2/23/2003). The Commission's Order stated, "We find that while new customers may eventually connect to replacement or reinforcement mains once they have been installed, the possibility that such connections may occur in the future does not change the initial eligibility for DSIC inclusion." We further note that the DSIC is an abbreviated process and it does not lend itself to repeated re-litigation of the same issue. This is an issue that we consider to have been determined. Ind. Code § 8-1-31-5 requires that eligible infrastructure improvements not increase revenues by connecting to new customers. We find that the Petitioner has fulfilled this requirement here. Indiana-American's evidence in this Cause demonstrates that none of its projects connect the distribution system to new customers and thereby increase revenues.

Crown Point also recommended that we impose a new restriction on relocation projects to be included in a DSIC, requiring that those relocation projects be shown to replace aged or poor condition infrastructure. Relocation projects have been considered eligible DSIC projects in every one of Indiana-American's prior DSIC cases. These projects replace distribution system infrastructure that has reached the end of its useful life due to road construction or other projects. The DSIC rules set out in 170 IAC 6-1.1 contemplate that these types of projects are eligible for DSIC recovery considering that project costs for which recovery is sought must exclude transportation department reimbursements. Accordingly, we find it unnecessary to impose additional limitations beyond what is required by statute on eligibility of relocation projects for DSIC recovery.

iv. Projects and Amounts to Be Included as Distribution System Improvement Charges. Petitioner's direct evidence provides a detailed explanation of the methodology used to calculate the proposed DSIC revenue requirements, which, after giving effect to the change in the Indiana state income tax rate to 6.5%, amounts to $3,474,913. This adjustment does not change the DSIC Percentage to Apply to Bill of 1.95% as shown on Line 20 of Schedule 1 of Attachment GMV-3 to Petitioner's Exhibit 1. The total cost for the net investor supplied DSIC Additions is $25,682,681, and the evidence shows the pre-tax return associated with those additions, as calculated in accordance with Ind. Code ch. 8-1-31 is $2,411,604. The revenue requirement for depreciation on the Improvements is $580,062. Finally, with the inclusion of the DSIC-7 and DSIC-8 under-recovery reconciliation of $483,247, the total revenues to be recovered are $3,474,913. The total revenue requirement associated with the DSIC 9 Improvements is 1.45% of the revenues authorized in Petitioner's last rate case and thus is not subject to reduction under Ind. Code § 8-1-31-13.

Furthermore, the evidence shows that all of the projects reflected in the proposed DSIC are in service, planned, do not result in the addition of new customers to Petitioner's system, and fall into USoA for Water Utilities Accounts 330, 331, 333, 334, or 335. As such, they are eligible for inclusion in a DSIC. Based on the evidence presented, the Commission finds that Petitioner's request for a DSIC complies with the requirements of Ind. Code ch. 8-1-31 and 170 IAC 6-1.1.

Further, Petitioner's proposed DSIC is non-discriminatory, reasonable, and just. Petitioner is authorized to collect from each of its present and future water customers a DSIC of 1.95%. For a residential customer with an average monthly bill of $40.00, this DSIC results in a monthly increase of $0.78.

C. Reconciliation of Petitioner's DSIC. Petitioner should be prepared to reconcile the DSIC approved by this Order in the manner prescribed by Ind. Code § 8-1-31-14 and 170 IAC 6-1.1-8. Under Ind. Code § 8-1-31-14, at the end of each 12-month period a DSIC is in effect the difference between the revenues produced by the DSIC and the expenses and the pre-tax reflected in it should be reconciled and the difference refunded or recovered as the case may be through adjustment of the DSIC.

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

1. A DSIC of 1.95% calculated on a percentage-of-bill basis and designed to generate $3,474,913 in additional annual revenues is approved for Petitioner Indiana-American.

2. Prior to placing the above-authorized DSIC into effect, Indiana-American shall file an appendix to its schedule of rates and charges for water service with the Commission's Water/Wastewater Division under this Cause.

3. The above-authorized DSIC shall be subject to reconciliation as described in Finding No. 8.C. above.

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

STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED:

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

Mary M. Becerra
Secretary of the Commission