ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA UTILITIES CORPORATION INC. FOR AUTHORITY TO CHANGE ITS RATES, CHARGES, TARIFFS, RULES, AND REGULATIONS) **CAUSE NO. 45116**
) **APPROVED:** FEB 2 0 2019

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Brad J. Pope, Administrative Law Judge

On June 26, 2018, Indiana Utilities Corporation, Inc. ("Petitioner" or "Indiana Utilities"), filed its Petition with the Indiana Utility Regulatory Commission ("Commission") seeking authority to change its existing rates, charges, tariffs, rules, and regulations. In support of its Petition, Indiana Utilities prefiled the direct testimony of Nikki Albin, Frank Czeschin, Kerry A. Heid, Bonnie J. Mann, and Earl L. Ridlen, III. On June 27, 2018, Indiana Utilities prefiled certain Accounting Workpapers and its Corrected Petition, which adjusted the rate base cutoff date referenced in the Petition.

The Commission set a Prehearing Conference for August 6, 2018, at 10:00 a.m. in Room 222 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. On August 2, 2018, Indiana Utilities and the Indiana Office of Utility Consumer Counselor ("OUCC") (collectively, the "Parties") prefiled a Stipulation and Agreement in Lieu of Prehearing Conference ("Stipulation"). Based on the Stipulation, the Presiding Officers established the procedural schedule in this Cause by docket entry on August 6, 2018, and vacated the Prehearing Conference.

On September 25, 2018, the Parties filed a Partial Settlement Agreement regarding the return on equity that should be used in this proceeding. On October 24, 2018, the Parties filed a Notice of Settlement indicating that they had resolved all issues in this Cause. On November 26, 2018, Indiana Utilities filed the Settlement Testimony of witnesses Bonnie J. Mann and Kerry A. Heid, and the OUCC filed the Settlement Testimony of Amy E. Larsen. The Parties also submitted the Joint Stipulation and Settlement Agreement ("Settlement") on November 26, 2018.

An Evidentiary Hearing was held in this Cause on December 11, 2018, at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Indiana Utilities and the OUCC appeared and offered into evidence their respective prefiled testimony, exhibits, and the Parties' Settlement. The Parties waived cross-examination of all witnesses, and the prefiled evidence and exhibits were admitted into the record without objection.

The Commission, based on the applicable law and evidence of record, now finds:

1. **Notice and Jurisdiction.** Due, legal, and timely notice of this proceeding was given and published as required by law. Indiana Utilities is a public utility as defined in Ind. Code § 8-1-2-1. Indiana Utilities seeks authority to change its existing rates, charges, tariffs, rules, and regulations. The Commission has authority to approve rates and charges for utility service under

Ind. Code § 8-1-2-42. Therefore, the Commission has jurisdiction over Indiana Utilities and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Indiana Utilities is a public utility organized and existing under the laws of the State of Indiana. Indiana Utilities' principal office is located at 123 West Chestnut Street, Corydon, Indiana. Indiana Utilities has elected to be subject to the Commission's jurisdiction for purposes of its alternative regulatory plans pursuant to Ind. Code § 8-1-2.5-4. Indiana Utilities currently provides natural gas service to approximately 3,100 customers in Harrison and Floyd Counties in Indiana and owns, operates, manages, and controls plant and equipment for the distribution and furnishing of such service.

3. **Existing Rates, Test Year, and Relief Requested.** Indiana Utilities' current base rates were established by the Commission on September 5, 2012, in Cause No. 44062. These base rates were reduced through Phase 1 of the Commission's investigation in Cause No. 45032 S10. Based on the Corrected Petition and the Stipulation, the test year for this proceeding is September 30, 2017, as adjusted for changes fixed, known, and measurable and occurring within 12 months following the end of such test year. Indiana Utilities' cutoff date for determining the used and useful status of its utility plant in service, and the value of its rate base, is June 30, 2018. Based on the Corrected Petition and Indiana Utilities' case-in-chief, Indiana Utilities sought to increase its rates by 5.24% over the test year, inclusive of the cost of gas, or additional new revenue in the amount of $270,235 over pro-forma present rate revenue.

4. **Evidence of the Parties.**

A. **Petitioner's Case-in-Chief.** Indiana Utilities' case-in-chief was filed on June 26, 2018, and consisted of the direct testimony of Nikki Albin, Frank Czeschin, Kerry A. Heid, Bonnie J. Mann, and Earl L. Ridlen, III.

The testimony of Petitioner's Witness Czeschin described his role as Indiana Utilities' President. He described Indiana Utilities' existing rates, which were established following the Commission's Order in Cause No. 44062. He explained that Indiana Utilities has not earned its previously authorized net operating income for several years. He described Indiana Utilities' investment in its used and useful utility plant and explained that in this Cause, Indiana Utilities is seeking an increase in its monthly customer charge with the goal of recovering a reasonable amount of fixed costs through the charge.

In her testimony, Nikki Albin described her role as Indiana Utilities' Secretary and Treasurer. Ms. Albin stated that she regularly works with the other witnesses in this case and counsel of record. She described the customer count as of the test year and the notices of this base rate case that would be provided to Indiana Utilities' customers.

The testimony of Petitioner's Witness Bonnie J. Mann, a Certified Public Accountant specializing in public utility matters, explained each adjustment to Indiana Utilities' accounting test year information, the results of the adjustments, and the rate base cutoff date of June 30, 2018. She determined Petitioner's rates and charges should be increased by 5.24% over pro-forma present rate revenue including the cost of gas, or $270,235, as shown in Petitioner's Exhibit 3, Schedule C-2.

The testimony of Petitioner's Witness Earl L. Ridlen III described his work as a financial advisor analyzing current market conditions, unique factors associated with particular utilities, and his prior work with other small gas utilities. He stated that the overall economy of the United States, and specifically the State of Indiana, had improved since Indiana Utilities' last rate case where a return on equity of 10.10% was authorized by the Commission. Based on his analysis, Mr. Ridlen concluded 10.25% was the appropriate return on equity for Indiana Utilities in this case.

Petitioner's Witness Kerry A. Heid, an engineer and independent rate consultant, explained his 40 years of experience in analyzing and presenting cost of service studies to the Commission. He explained the purpose of his cost of service study was to allocate the pro-forma revenue requirement to the rate classes of Indiana Utilities' customers based on the investment that Indiana Utilities made in plant and the operating costs associated with these customer classes. He began by explaining the objectives that guided his cost of service study: (1) ensuring a reasonable relationship between rate blocks in the subject rate schedule; (2) mitigating rate shock within the customer class; (3) ensuring a reasonable relationship between rate blocks in adjacent rate schedules; and (4) creating sales and transportation rate schedules that are margin neutral to Petitioner.

Mr. Heid next explained that he developed rates and charges that both meet those objectives and provide Indiana Utilities with sufficient revenue. He directed his testimony to Petitioner's Exhibit 5, Exhibit KAH-6, which provides a comparison between proposed rates and current rates. He then described the proposed changes in the monthly customer charge, including increasing the charge for residential customers and small commercial customers under Rate 1R and Rate 1G, respectively, from $11.67 per meter to $15.00 per meter. Mr. Heid stated that the proposed increase in the customer charge would recover 37% of allocated fixed costs. Next, Mr. Heid stated that Rate 2 is used to provide service to large commercial customers. He explained that Petitioner proposed an increase in the Rate 2 monthly customer charge from $67.00 per meter to $72.00 per meter and that the increase would recover 14% of the allocated fixed costs. He further explained that the monthly customer charge for Rate 3, used by industrial customers, would increase from $489.00 per meter to $525.00 per meter, representing 36% of allocated fixed costs. Mr. Heid stated that Rate 4 is a general gas transportation rate, and the monthly customer charge would be changed from $489.00 per meter to $525.00 per meter, representing 6% of allocated fixed costs. He stated that the monthly customer charge for Rate 5, used by large volume gas transportation customers, would be increased from $925.00 per meter to $1,000.00 per meter. Mr. Heid testified that this would allow Indiana Utilities to recover 10% of the allocated fixed costs. Rate 6 is the school transportation tariff. Mr. Heid noted Indiana Utilities currently has no customers using this rate, but Indiana Utilities believes the rate should be increased on its tariff by the same percentage margin used for Rate 2. The result is a monthly customer charge of $138.00 per meter. Mr. Heid explained all of the proposed tariff changes are described in his testimony and exhibits. He also testified that updated National Ocean and Atmospheric Administration data would be included in the compliance tariff following the Commission's Order in this Cause.

B. <u>Settlement and Settlement Testimony</u>. Prior to the filing of the OUCC's testimony in this Cause, the Parties filed their Notice of Settlement on October 24, 2018. On November 26, 2018, the Parties prefiled their Settlement with the Commission. The Settlement indicates that the Parties resolved all issues raised in this Cause and agreed to flow through the Commission's tax decision in Cause No. 45032 S10 regarding Indiana Utilities' excess deferred income tax balance once a Final Order is issued in that Cause.

In support of the Settlement, Indiana Utilities offered the testimony of its Witnesses Mann and Heid. Ms. Mann explained that Indiana Utilities and the OUCC had reached agreement on all accounting issues, all issues related to the capital structure, and all issues related to Indiana Utilities' rate base. Ms. Mann provided the accounting results of the Settlement through Petitioner's Exhibit 7, Exhibit BJM-1S and indicated that, other than deferred income taxes, the Parties reached a compromise on all issues affecting the revenue requirement of Indiana Utilities. She offered her opinion that the Settlement reached was a reasonable compromise to the positions originally taken by Indiana Utilities and the OUCC, and she recommended that the Commission accept the Settlement in this Cause.

Mr. Heid offered testimony in support of the Settlement and provided the Commission with Petitioner's Exhibit 8, Exhibit KAH-1S, which reflected the allocation of the compromised revenue requirement to the rates and charges of Indiana Utilities' customer classes. Mr. Heid also opined the Settlement was a reasonable compromise between positions of the Parties in this Cause.

OUCC Witness Amy Larsen offered testimony in support of the Settlement, which described the issues that originally separated Indiana Utilities and the OUCC in this Cause. Ms. Larsen concluded that Indiana Utilities and the OUCC had made material concessions by entering into the Settlement. She stated the terms of the Settlement demonstrate the give and take of settlement negotiations in resolving multiple contested issues in a manner acceptable to the Parties. She testified the negotiated results in the Settlement are reasonable and a fair balance of the utility's interest and the ratepayer's interest. She also stated the Settlement reduces the risk and expense of litigation of multiple issues. She concluded that the Settlement is in the public interest and should be approved by the Commission in this proceeding.

5. <u>Discussions and Findings</u>. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied, rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition*, 664 N.E.2d at 406. Furthermore, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *United States Gypsum, Inc.*, 735 N.E.2d at 795 (quoting *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's own procedural rules require that settlements be supported by probative evidence. Therefore, before the Commission can approve the Settlement, we must determine whether the evidence in this Cause sufficiently supports the conclusions, and that the Settlement is reasonable, just, and consistent with the purpose of Ind. Code ch. 8-1-2. We must also consider whether such settlement serves the public interest.

The Parties, through their respective prefiled testimony and exhibits, have provided this Commission with substantial evidence supporting their original positions, and the compromise outlined in the Settlement. The evidence offered recognizes the appropriateness of adjusting Indiana Utilities' operating revenues and expenses for purposes of eliminating revenues recovered through the GCA, reducing Indiana Utilities' gas costs for the appropriate unaccounted for gas, adjusting Indiana Utilities' payroll net of any payroll capitalized, adjusting Indiana Utilities' pensions, providing for the recovery of reasonable rate case expense, adjusting Indiana Utilities' revenue requirement to recognize bad debt, reducing Indiana Utilities' revenue requirement to reduce the energy efficiency expense associated with Indiana Utilities' Normal Temperature Adjustment, an increase for the IURC fee, a decrease to miscellaneous expenses, an increase in depreciation due to the actual investment in utility plant in service as of June 30, 2018, and an adjustment of various taxes related to Federal Insurance Contributions Act taxes, property taxes, utility receipts tax, state income tax, and federal income tax. The evidence also reveals the Parties are in agreement on Indiana Utilities' capital structure and rate base. This agreement includes a return on equity of 10.10% and is further outlined in the Settlement.

The Parties have also agreed to flow through the effect on Petitioner's excess deferred income tax balance in accordance with the Commission's Order in Cause No. 45032 S10, which was issued on January 16, 2019. Therefore, in accordance with the parties' agreement in Paragraphs 17 and 18 of the Settlement, Petitioner's tariff filing in this Cause shall include the effect of the Commission's decision on Petitioner's excess deferred income tax balance in Cause No. 45032 S10.

The Parties have further agreed that following five full years from the Order in this Cause, if Indiana Utilities has not filed for a new base rate case, it will file for a change in its tariff to remove the element associated with rate case expense recovery in its revenue requirement.

Based on the evidence of record, including the Settlement, and the Settlement testimony provided by Indiana Utilities and the OUCC, we find Indiana Utilities' current rates and charges are insufficient and should be increased. We further find Indiana Utilities should be authorized to increase its rates and charges in order to produce additional annual operating revenue, exclusive of the cost of gas, by $221,425. This increase in annual operating revenue represents an increase of approximately 4.29% over the adjusted test year operating revenues and will permit Indiana Utilities to earn a net operating income of $675,418. The following tables detail the calculations for the Parties' agreed upon original cost rate base, rate of return, and capital structure.

Original Cost Rate Base	
Description	**Amount**
Utility Plant in Service as of September 30, 2017	$13,681,655
Plus Additional Utility Plant in Service through June 30, 2018	$589,223
Less: Accumulated Depreciation	($6,624,551)
Less: Accumulated Depreciation through June 30, 2018	($373,269)
Net Utility Plant in Service	$7,273,058
Plus: Working Capital	$159,668
Plus: Materials and Supplies	$38,711
Total Original Cost Rate Base	$7,471,437

Capital Structure As of June 30, 2018				
Description	**Amount**	**Percent of Total**	**Cost**	**Weighted Cost**
Common Equity	$11,177,668	89.34%	10.10%	9.02%
Customer Deposits	$43,270	0.35%	6.00%	0.02%
Deferred Tax	$1,290,744	10.32%	0.00%	0.00%
Total	$12,511,682	100.00%		9.04%

Revenue Requirement	
Description	**Amount**
Total Original Cost Rate Base	$7,471,437
Rate of Return	9.04%
Authorized Net Operating Income	$675,418
Pro-Forma Net Operating Income at Present Rates	$513,458
Required Operating Revenue Increase	$161,960
Gross Revenue Conversion Factor	1.36716
Adjusted Operating Revenue Increase	$221,425

We note the Parties are in agreement regarding the allocation of this revenue requirement to increase both monthly customer charges and volumetric rates as described in the Settlement and the Settlement testimony. The Parties have agreed that the monthly customer charge for the Rate 1 residential and small general sales service shall be increased to $13.50. The Parties have also agreed that the monthly customer charges for the remaining classes, including Rate 2, Rate 3, Rate 4, Rate 5, and Rate 6, shall be as Indiana Utilities originally proposed in its testimony. We find these allocations reasonable, and Indiana Utilities shall use these allocations when it files compliance tariffs in this Cause.

Finally, we recognize the Parties are in agreement that the Settlement should not be used as precedent in any other proceeding, or for any other purpose, except to the extent necessary to implement or enforce the terms of this Settlement. Consequently, with regard to future citation of our Order or this Settlement, we find our approval herein should be construed in a manner consistent with our findings in *Richmond Power & Light*, Cause No. 40434, March 19, 1997.

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

1. The attached Stipulation and Settlement Agreement is approved and incorporated into this Order.

2. Prior to placing into effect the rates and charges approved by this Order, Indiana Utilities shall file a new tariff under this Cause in keeping with our findings above and the Commission's Order in Cause No. 45032 S10 as agreed upon in the Settlement Agreement. The new tariff, when filed and approved by the Commission's Energy Division, shall cancel all present tariffs.

3. If Indiana Utilities has not filed a new base rate case five full years from the Order in this Cause, it shall file for a change in its tariff to remove the element associated with rate case expense recovery in its revenue requirement.

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

HUSTON, FREEMAN, KREVDA, OBER, AND ZIEGNER CONCUR:

APPROVED: FEB 2 0 2019

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

Mary M Becerra

Mary M. Becerra
Secretary of the Commission

FILED
November 26, 2018
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA UTILITIES CORPORATION	)	
FOR AUTHORITY TO CHANGE ITS RATES,	)	
CHARGES, TARIFFS, RULES, AND REGULATIONS	)	**CAUSE NO. 45116**
	)	

<u>STIPULATION AND SETTLEMENT AGREEMENT</u>

Comes now Indiana Utilities Corporation (Petitioner), by counsel and on behalf of the Petitioner and the Office of Utility Consumer Counselor (OUCC), collectively (the Parties) files the attached Stipulation and Settlement Agreement.

Respectfully submitted,

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Indiana Utilities Corporation

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA UTILITIES CORPORATION	)	
FOR AUTHORITY TO CHANGE ITS RATES,	)	
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	)	

<u>STIPULATION AND SETTLEMENT AGREEMENT</u>

Indiana Utilities Corporation, (hereafter "Petitioner') and the Indiana Office of Utility Consumer Counselor (hereinafter "OUCC") have, through their respective representatives, discussed the evidence of record and the potential for compromise of all issues in this cause. Subject to a final order in Cause No. 45032 S10, Petitioner's pending tax sub docket, the result of these discussions between Petitioner and the OUCC (hereinafter collectively the "Parties") is a settlement on all issues raised in this Cause.

The Parties believe the evidence of record supports the terms of this Stipulation and Settlement Agreement (hereinafter the "Settlement"). The Parties acknowledge the terms and conditions of this Settlement are a result of negotiation and compromise between the Parties relative to the position each has taken or would take in further proceedings in this Cause. In the interest of efficiency, saving the limited resources of the regulatory bodies involved, and recognizing the reasonableness of the results produced by this Settlement, the Parties herein stipulate and agree as follows:

1. **<u>Rate Increase</u>**. Based on the test year ending September 30, 2017, as adjusted for matters that are fixed, known, and measurable, and occurring within 12 months of the test year; and in recognition of a rate base cut-off of June 30, 2018; Petitioner initially proposed in its direct case that its operating revenue should be increased, exclusive of the cost of gas, by

$270,235. Prior to the date the OUCC filed testimony, following its review of Petitioner's books and records and data request responses, the OUCC proposed operating revenue be increased by $160,325, exclusive of the cost of gas. The Parties now agree Petitioner should be authorized to increase its base rates for the provision of natural gas service to its various customers sufficient to produce additional annual operating revenue, exclusive of the cost of gas, by $221,425. This represents an increase of approximately 4.29% over adjusted test year operating revenue.

2. **Pro forma Adjustments**. Petitioner proposed in its direct case various adjustments to its test year operating results as set forth numerically in Petitioner's Exhibit BJM-1, Exhibit C, and accompanying schedules. The pro forma adjustments were further described in the pre-filed testimony of Petitioner's witnesses Mann and Ridlen. The proposed pro forma adjustments related to operating revenue and operating expense included: adjustments to eliminate revenues recovered from gas commodity costs, and to adjust operating revenue based on the most recent NOAA data; an adjustment to reduce gas costs for unaccounted for gas; an adjustment in payroll, net of amount capitalized; an adjustment for pensions; recovery of estimated rate case expense; reduction of expenses to remove shareholder contributions used for energy efficiency initiatives associated with NTA; changes in the IURC fee; adjustment for bad debt expense; increase in depreciation relative to increased utility plant in service; adjustment for FICA taxes; adjustment for property taxes; recovery of various other taxes that are associated with and flow from Petitioner's proposed increased revenue, including: utility receipts tax, state income tax, and federal income tax; and amortization of deferred income tax. Petitioner also sought to establish the value of its rate base and the costs associated with its capital structure.

During the negotiations of this Settlement, the OUCC accepted some of Petitioner's adjustments, but also suggested different adjustments. The OUCC's adjustments related to:

original cost rate base; the date for determination of the capital structure; operating revenue based on the most recent NOAA data; natural gas purchased; outside services for pension expense of former employees; estimated rate case expense; amortization of excess deferred income taxes; various miscellaneous expenses; depreciation expense; and property tax. The OUCC also proposed a different return on equity for Petitioner's capital structure. The OUCC also agreed with the methodology used to calculate various flow through fees and taxes, such as the IURC fee, utility receipts tax, state income tax, and federal income tax, but calculated different amounts from Petitioner due to the impact of the OUCC's other proposed accounting adjustments.

Now, based on extensive negotiation and compromise on the issues raised in this base rate case, the Parties have agreed as follows:

1. **<u>Revenue Adjustment for GCA Revenue</u>.** In its Operating Revenue Adjustment, Petitioner proposed to remove ($1,235,442) in gas commodity costs based on GCA revenue in the test year and new NOAA data. The Parties have agreed an adjustment is appropriate, and are in agreement the application of new NOAA data will result in an adjustment of ($1,233,581).

2. **<u>Natural Gas Purchased</u>.** Petitioner proposed an adjustment based on test year sales with the application of an unaccounted for gas percentage of 2.72% flowing from Petitioner's test year. The Parties agreed to apply a more current unaccounted for gas percentage of 1.45%. The Parties have now agreed a natural gas purchase adjustment of ($1,216,914) is appropriate.

3. **<u>Estimated Rate Case Expense</u>.** Petitioner initially estimated rate case expense at $260,000. The Parties have now agreed to estimated rate case expense of $137,500 to be amortized over five years resulting in an annual adjustment of $27,500. The Parties have further agreed Petitioner will refile its compliance tariff in this Cause to remove the amortization of rate case expense if Petitioner has not filed a new base rate case within five years from the date of the Final Order in this Cause.

4. **IURC Fee.** The Parties are in agreement an adjustment for the IURC fee is appropriate based on agreed estimated revenues at present rates, less bad debt, resulting in an IURC fee adjustment of $1,425.

5. **Bad Debt.** Petitioner proposed a bad debt adjustment based on the average annual bad debt experienced by Petitioner over the past five years. The Parties agree Petitioner's adjustment of $1,378 is reasonable and should be included in Petitioner's revenue requirement.

6. **Energy Efficiency Expense Related to NTA**. Petitioner proposed to remove ($7,600) from test year operating expenses in reference to the initiatives associated with Petitioner's NTA. The Parties are in agreement such an adjustment is appropriate in this Cause.

7. **Payroll**. Petitioner proposed to increase its operating expenses to recognize increases in its payroll, less the amount capitalized, by way of an adjustment of $4,508. The Parties are now in agreement such an adjustment to Petitioner's test year payroll is appropriate.

8. **Pension**. Petitioner proposed to increase its operating expense to cover retirement costs based on its pension contribution and its pro forma payroll. Petitioner proposed an adjustment of $17,483. The Parties are now in agreement such an adjustment is appropriate.

9. **Outside Services**. In settlement, the OUCC proposed to reduce outside services by $6,600. This amount represents pension expenses paid for former employees. The Parties are in agreement such an adjustment is appropriate.

10. **Miscellaneous Expenses**. In settlement, the OUCC proposed to reduce miscellaneous expenses by $8,406. This amount represents amounts paid for charitable contributions, Christmas gifts to employees, and a first responders meeting. The Parties are in agreement such an adjustment is appropriate.

11. **Depreciation**. Petitioner proposed depreciation expense based on its estimated utility plant through the June 30, 2018 cut-off date. Petitioner proposed an adjustment of $3,168. Based on actual utility plant, less fully depreciated plant as of the cut-off date, the Parties are now in agreement an adjustment of $1,210 is appropriate for Petitioner's revenue requirement.

12. **Taxes**. The Parties are in agreement as to the methodology to be used to calculate taxes that are impacted by Petitioner's revenue requirement. Based on the agreed revenue requirement, the Parties are now in agreement as to the following adjustments to the test year for such taxes:

(a) **FICA Taxes**. – $489

(b) **Property Tax.** – ($1,837)

(c) **Utility Receipts Tax.** – ($17,352)

(d) **State Income Tax.** – $4,075

(e) **Federal Income Tax.** – ($103,311)

13. **Proposed Rate Adjustments**. Based on the agreed revenue requirement, the Parties agree that additional pro forma adjustments will be required. These include an increase to the IURC fee of $266; an increase to bad debt expense of $354; an increase to the utility receipts tax of $3,095; an increase in state income tax of $12,696; and an increase in federal income tax of $43,053.

14. **Capital Structure**. Petitioner initially proposed a capital structure at December 31, 2017 with a return on equity of 10.25% as reflected by the following table:

Description	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	$10,891,851	91.08%	10.25%	9.34%
Customer Deposits	$46,500	0.39%	6.00%	0.02%
Deferred Tax	$1,020,821	8.54%	0.00%	0.00%

Petitioner's proposed capital structure resulted in a weighted cost of capital for Petitioner of 9.36%. Based on a discussion of the Parties to change the date of the capital structure to the June 30, 2018 cut-off date of Petitioner's utility plant, and the Parties' agreement on a 10.1% return on equity, the Parties have now agreed to the following capital structure:

Description	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	$11,177,668	89.34%	10.10%	9.02%
Customer Deposits	$43,270	0.35%	6.00%	0.02%
Deferred Tax	$1,290,744	10.32%	0.00%	0.00%

Based on this agreement, the Parties now acknowledge an overall weighted cost of capital of 9.04% is appropriate in light of the Parties' settlement.

15. **Rate Base**. Based on the update of Petitioner's utility plant in service to actual costs versus estimated costs, and recognizing an update of the accumulated depreciation through June 30, 2018; the Parties are in agreement Petitioner's net utility plant in service based on original costs is $7,273,058. To this net utility plant in service, the Parties are in agreement working capital of $159,668 and materials/supplies of $38,711 should be added. The Parties acknowledge the total original cost rate base for Petitioner as of June 30, 2018 is $7,471,437 applying the weighted cost of capital to Petitioner's investment indicates Petitioner's net operating income to be authorized is $675,418.

16. **Revenue Requirement**. Based on Petitioner's test year end of September 30, 2017, and a cut-off of rate base of June 30, 2018, Petitioner's current rates and charges must be increased by $221,425 in order to permit Petitioner to earn net operating income of $675,418.

17. **Tax Sub Docket**. The Parties agree to flow through the effect on Petitioner's excess deferred income tax balance pursuant to a final order being issued by the Commission in Indiana Utilities' tax sub docket in Cause No. 45032-S10. As such, no credit for excess deferred income taxes has been included in the settlement revenue requirement schedules.

18. **Rates and Charges**. Petitioner proposed to increase its rates and charges based on a cost of service study prepared by its Witness Heid. Petitioner originally proposed to increase its monthly customer charge for all customer classes, including its residential class. Petitioner's proposed monthly customer charge for its residential customer class was $15. Based on the agreement of the Parties, such monthly customer charge for the Rate 1 residential and small general sales service shall be increased to $13.50. The monthly customer charges for the remaining classes, including Rate 2, Rate 3, Rate 4, Rate 5, and Rate 6 shall be as Petitioner originally proposed. The Parties have also agreed Petitioner's Witness Heid will prepare a new exhibit representing the resulting rates and charges including the resulting volumetric rates based on the agreed revenue requirement and any impact of the Commission's decision in 45032-S10.

19. **Request for Prompt Approval by the Commission**. The Parties acknowledge a significant motivation for Petitioner to enter into this Settlement is the expectation that a final order will be issued promptly by the Commission authorizing increases in its rates and charges as reflected by this Settlement and the accepted positions of the Parties as reflected by the evidence in this Cause. The Parties have spent significant time and effort to resolve the issues raised in this case. However, the Parties also recognize the insufficiency of Petitioner's current rates.

Under these circumstances, Petitioner requests prompt approval of this Settlement by way of a final order of the Commission.

20. **Sufficiency of the Evidence**. The Parties believe Petitioner's direct testimony and exhibits, the Parties' settlement testimony and exhibits, along with this Settlement, constitute substantial evidence sufficient to support this Settlement and provide an adequate evidentiary basis upon which the Commission may make findings of fact and conclusions of law necessary to issue a final order adopting and approving this Settlement.

21. **Settlement Effect, Scope, and Approval**. The Parties acknowledge and agree as follows:

(a) The Settlement is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without change or condition that is unacceptable to either Petitioner or the OUCC. Each term of the Settlement is in consideration and support of each and every other term.

(b) The Settlement is the result of compromise by the Parties within the settlement process. Neither the making of this Settlement nor any of the individual provisions or stipulations herein shall constitute an admission or waiver by any Party in any other proceeding; nor shall they constitute an admission or waiver in this proceeding if the Settlement is not accepted by the Commission. The Parties hereto shall not use this Stipulation or the Order provided by this Stipulation as precedent or offer the same as an admission in any other proceeding or for any other purpose except to the extent necessary to implement or enforce its terms. In the event this Stipulation or resulting Order is offered for any purpose prohibited by this Agreement, the Parties agree that objections by the non-offering party are proper.

(c) The communications and discussions among the Parties, along with the materials produced and exchanged during the negotiation of this Settlement, relate to offers of settlement and compromise, and as such, all are privileged and confidential. Such material cannot be used in this or any other proceeding without the agreement of the Parties herein.

(d) The undersigned represent and agree that they are fully authorized to execute this Settlement on behalf of their designated clients who will thereafter be bound by this Settlement.

(e) The Parties hereto will either support; or not oppose on rehearing, reconsideration, and/or appeal; an IURC order accepting and approving this Settlement in accordance with its terms.

Accepted and agreed this 26th day of November, 2018.

INDIANA UTILITIES CORPORATION

By: ______________________
Its Counsel of ~~Record~~

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

By: ______________________
Its Counsel of Record

13602993v1

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served upon the following counsel of record by electronic delivery the 26th day of November, 2018:

Tiffany Murray
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DMS 13602899v1