Commissioner	Yes	No	Not Participating
Huston	√		
Bennett	√		
Freeman	√		
Veleta	√		
Ziegner	√		

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF EASTERN HEIGHTS UTILITIES, INC. FOR AUTHORITY TO INCREASE RATES AND CHARGES THROUGH THE SMALL UTILITY PROCEDURE PURSUANT TO IND. CODE § 8-1-2-61.5 AND 170 IAC 14-1-1 ET SEQ.	)	**CAUSE NO. 46084 U** **APPROVED: FEB 03 2025**

ORDER OF THE COMMISSION

Presiding Officers:
Sarah E. Freeman, Commissioner
Kristin E. Kresge, Administrative Law Judge

On June 6, 2024, Eastern Heights Utilities, Inc. ("Eastern Heights" or "Applicant") filed a Small Utility Rate Application ("Application") with the Indiana Utility Regulatory Commission ("Commission") under Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. On June 18, 2024, Eastern Heights filed its proof of publication. On June 20, 2024, Eastern Heights filed a copy of its notice to customers as required by 170 IAC 14-1-2(b). The Commission's Water and Wastewater Division issued a memorandum stating that the Application was complete on June 20, 2024.

On September 18, 2024, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its Report in this matter, including the testimony of Thomas W. Malan, Kristen Willoughby, and Shawn Dellinger. Eastern Heights filed a response to the OUCC's Report on October 16, 2024, including the direct testimony of Gary VerDouw. On November 12, 2024, the Commission issued a docket entry requesting additional information. On November 18, 2024, Eastern Heights responded to the Commission's docket entry.

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

1. <u>Commission Jurisdiction and Notice</u>. Eastern Heights is a public utility as defined in Ind. Code § 8-1-2-1(a) and qualifies for treatment as a small utility under Ind. Code § 8-1-2-61.5. Eastern Heights published legal notice of the filing of this small utility rate case as required by 170 IAC 14-1-2(b). The Application satisfied all the requirements of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. Therefore, the Commission has jurisdiction over Eastern Heights and the subject matter of this proceeding and may issue an order in this Cause based upon the information filed, pursuant to 170 IAC 14-1-6.

2. <u>Field Hearing</u>. Under Ind. Code § 8-1-2-61.5, a formal public hearing is not required in rate cases involving small utilities with fewer than 8,000 customers unless a hearing is requested by at least ten customers, a public or municipal corporation, or by the OUCC. However, due to the number of customer comments received by the Commission and the OUCC, the Commission held a public field hearing in this matter on September 5, 2024 at 6 p.m. in the Bloomfield Middle and High School Cafeteria, 501 West Spring Street, Bloomfield, IN. Due, legal, and timely notice of the field hearing was given and published as required by law.

3. Applicant's Characteristics. Eastern Heights is a not-for-profit rural water utility organized and existing under Indiana law, with its principal office located at 316 N. Washington Street, P.O. Box 8, Bloomfield, Indiana. Applicant owns, operates, manages, and controls plant, property, and equipment used and useful to provide water utility service to approximately 7,500 customers in portions of Greene, Owen, Monroe, Lawrence, Martin, and Daviess Counties.

4. Test Period. The test period selected for determining revenues and expenses reasonably incurred in providing water utility services to customers is the 12 months ended December 31, 2023. With adjustments for changes that are fixed, known, and measurable, the Commission finds that this test period is sufficiently representative of Eastern Heights' normal operations to provide reliable data for ratemaking purposes.

5. Background and Relief Requested. Eastern Heights' rates were last approved in Cause No. 45435 U. The Commission's April 7, 2021 order resulted in a net revenue requirement of $2,598,081.

In this Cause, Eastern Heights requested a new schedule of rates and charges for water service that would result in a 59.4% rate increase, or $1,586,892 of additional revenues for operational costs and capital improvements. Applicant also seeks financing authority of $1,000,000 to fund capital improvements for booster station and SCADA system upgrades. The revenue requirements include proposed extensions and replacements ("E&R") of $792,483, operating expenses of $2,785,308, taxes other than income of $64,326, working capital of $107,079, debt service of $515,141, and debt service reserve of $63,403, resulting in total revenue requirements of $4,327,740. After deducting $26,626 in interest income, Applicant's proposed net revenue requirement would result in an increase of Eastern Heights' operating revenue from $2,714,221 to $4,301,114.

6. OUCC's Report. The OUCC proposed a rate increase of 43.02%, or $1,164,636 of additional revenue for Eastern Heights, $422,256 less than the proposal in the Application.

The OUCC accepted Eastern Heights proposed commercial water sales adjustments to normalize customer growth during the test year, the increase to rental income, adjustments to insurance expenses, employee related expense, postage expense, and debt service.

The OUCC did not agree with Eastern Heights' proposed $10,991 decrease to normalize residential water sales due to a purported decrease in test year residential customer count. The OUCC recommends a $15,058 increase to test year residential operating revenues to reflect customer growth during the test year. The OUCC also proposed a post-test year residential growth increase of $9,542 based on customer account information provided by Applicant through July 2024, less customer count as of December 31, 2023.

The OUCC did not agree with Eastern Heights' adjustments to salaries and wages expense, payroll tax expense, employee benefits expenses, system delivery expense, rate case expense, periodic maintenance expense, E&R, working capital revenue requirement, and debt service reserve. The OUCC explains that system delivery expenses capture the variable operating expenses, which include purchased power, chemicals, and postage, related to increases or decreases in the amount of water sold to customers. The OUCC also rejected Applicant's salaries and wage adjustment based on an estimated 6% increase because it was based on a wage increase that was not yet approved by Applicant's Board. The OUCC also recommends a decrease to Applicant's proposed periodic maintenance to remove a tank included in Applicant's proposed tank painting and maintenance program. Regarding E&R, the OUCC disagrees with Applicant's inclusion of an asset management plan ("AMP") and SCADA upgrades. The OUCC believes the AMP is an expense that should be recovered over five years and given the remainder of the SCADA upgrade was financed, recovery through E&R is unnecessary. The OUCC proposed two additional adjustments to test year contractual - legal fees. The OUCC also explained why it believed Applicant's proposed rate case expense is unreasonable and why additional revenues for working capital and debt service reserve were not needed.

7. <u>Applicant's Reply</u>. In its response to the OUCC's Report, Eastern Heights agreed to accept the OUCC's adjustment for residential normalization, an adjustment to residential post-test year customer growth, but presented a different methodology, and additional adjustments to operation and maintenance ("O&M") expenses for system delivery expenses, periodic maintenance, and one of the OUCC's two adjustment for legal fees. Eastern Heights also agreed with the OUCC that debt service reserve is not necessary. Applicant explained why it proposed a revised revenue increase of $1,471,688, which is a 54.48% rate increase.

8. <u>Consumer Comments</u>. Both the Commission and the OUCC received several consumer comments, which generally opposed Eastern Heights' proposed rate increase, citing, among other things, the proximity to the last rate increase, the amount of the rate increase, inflation, and the resulting financial strain on customers.

9. <u>Commission Docket Entries</u>. On October 18, 2024, the Presiding Officers tendered to the record responses Applicant provided to Commission staff regarding rate case expense, financing authority, non-utility income, periodic maintenance, payroll, as well as affordability and quality concerns raised in consumer comments. After Applicant's reply, on November 12, 2024, the Commission issued a docket entry requesting information on non-utility income, legal expenses, and periodic maintenance expenses. The Commission also requested information on the significant increases for materials and supplies and contractual services – engineering. On November 18, 2024, Applicant responded to the docket entry issued.

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

A. <u>Rates and Revenue Requirements</u>. Under Ind. Code § 8-1-2-125, rates for a not-for-profit utility are calculated by first determining the amount of the adjusted net operating expenses based on the utility's current rates. The adjustment amounts are based on known recurring expenses, updated to include changes that are fixed, known, measurable, and expected to occur within 12 months of the end of the test year. A comparison of Eastern Heights' and the OUCC's proposed revenue requirements, as well as the Commission's approved revenue requirements is shown in the chart below:

	Per Applicant	Per OUCC	Per Applicant Reply	Per IURC
Operating Expenses	$ 2,775,257	$2,671,167	$2,754,773	$ 2,673,027
Taxes other than Income (Payroll Taxes)	64,326	56,585	64,326	64,326
Extensions and Replacements	792,483	697,250	792,483	697,250
Working Capital	107,079	-	106,118	-
Debt Service	515,141	515,541	515,541	515,541
Debt Service Reserve	63,403	-	-	-
Total Revenue Requirements	4,317,689	3,940,543	4,233,242	3,950,144
Less: Interest Income	(26,626)	(26,626)	(26,626)	(26,626)
Other Income				(38,947)
Non-Utility Income	-	(7,023)	-	(4,616)
Net Revenue Requirements	4,291,063	3,906,894	4,206,616	3,879,955
Less: Revenues at current rates subject to increase	(2,671,325)	(2,706,916)	(2,701,353)	(2,706,082)
Other revenues at current rates	(42,896)	(42,896)	(42,896)	(38,572)
Net Revenue Increase Required	1,576,842	1,157,082	1,462,368	1,135,301
Add: Additional IURC Fees	2,318	1,739	2,149	1,706
Additional Bad Debt Expense	7,733	5,815	7,171	5,705
Recommended Increase	$ 1,586,892	$1,164,636	$1,471,688	$ 1,142,712
Recommended Percentage Increase	59.40%	43.02%	54.48%	42.23%

In its Application, Applicant requested a new schedule of rates and charges for water service resulting in a 59.4% rate increase or $1,586,892 of additional revenues associated with increased operational costs and capital improvements. The OUCC, in its Report, recommended a 43.02% rate increase or a $1,164,636 increase in operating revenues on an across-the-board basis. Eastern Heights revised its request after review of the OUCC's Report; Applicant requested a 54.48% rate increase, resulting in a revenue increase of $1,471,688.

Based on the evidence of record and as discussed further below, we find that an across-the-board rate increase of 42.23% for an annual revenue increase of $1,142,712 is reasonable and in the public interest, and therefore, is approved.

B. <u>Pro Forma Present Rate Revenue and Revenue Requirement Offsets</u>.

a. <u>Test Year Revenue Normalization</u>. OUCC witness Malan accepted Applicant's pro forma revenue adjustment to normalize test year commercial customer growth. Corrections were made to monthly counts in its test year residential revenue normalization adjustment. In Eastern Heights' reply, Applicant agreed with the OUCC's adjustment. However, Mr. VerDouw explained that the OUCC did not update its Commercial counts. We accept Applicant's revenue increase of $3,081.

b. Residential – Post-Test Year Growth. The OUCC proposed a post-test year growth adjustment based on customer account information provided by Eastern Heights through July 2024 less customer count as of December 31, 2023, and then multiplied by 12 months to yield the number of additional residential billings times the average residential bill of $27.42, which yields a pro forma test year revenue increase of $9,542. In its reply, Eastern Heights stated that it disagrees with the OUCC's proposed methodology. Eastern Heights proposes the method recommended in the Commission's Small-U filing forms adjustment for actual residential customer counts for the months of January through July 2024 resulting in an increase of revenues of $4,299.

Based on the evidence presented, the Commission finds post-test year growth should be calculated using a hybrid of the parties' methodologies. The Commission partially accepts Eastern Heights' methodology. However, because the adjustment made by Applicant does not account for a full 12 months of revenue from the increase in residential customers, the Commission multiplied the 35 additional customers by five months to capture the annual pro forma revenues Eastern Heights should expect. This calculation results in a pro forma revenue increase of $9,031.

c. Other Revenues and Revenue Requirement Offsets. Eastern Heights reflects $38,572 of test year revenue in account 471, Other Revenues. Applicant proposed two adjustments: a decrease of $8,436 for house rent and an increase of $12,760 to reflect crop rental payments for a total amount of $42,896, which Applicant used to offset revenue requirements. The OUCC accepted these adjustments and reduced revenue requirements by the same amount. However, Applicant has another revenue account, account 413, Income from Utility Plant Leased to Others for which it is more appropriate to apply Applicant's two revenue adjustments. Thus, the Commission reflects the test year amount of $38,572 as Other revenues at current rates. The income lease account will be discussed in more detail below.

Neither party offset the revenue requirement by the $34,623 revenue amount recorded in account 413 Income from Utility Plant Leased to Others. In its November 18, 2024 docket entry response, Applicant indicated that upon further review, income reflected from account 413 should be used to offset Eastern Heights' revenue requirement. Also, as indicated above, the Commission believes it is more appropriate to apply Applicant's two revenue adjustments, $8,436 decrease for house rent and $12,760 increase for crop rent to account 413. Thus, the Commission finds that $38,947 ($34,623-$8,436+$12,760) should be reflected as Other Income.

The OUCC offset its proposed revenue requirement by $7,023 Non-Utility Income. Eastern Heights did not reply to this adjustment. However, in its November 18, 2024 docket entry response, Applicant agreed that $7,023 of Non-Utility Income and $2,407 of expense in account 426 should be used as a net offset to Eastern Heights' revenue requirement. Therefore, the Commission accepts the OUCC's $7,023 adjustment and reduces this amount by Miscellaneous Non-Utility Expense of $2,407, resulting in a net offset of $4,616 reflected as Non-Utility Income.

C. **<u>Operating Expenses</u>.** A comparison of Applicant's proposed pro forma total operating expenses, OUCC's proposed pro forma total operating expenses, and the Commission's decisions on operating expenses is shown in the chart below:

Description	Applicant	OUCC	Applicant's Reply	IURC
Operating Expenses - Test Year	$ 2,490,053	$2,490,053	$2,490,053	$ 2,490,053
Adjustments:				
Salaries & Wages	101,204	64,457	101,204	101,204
Employee Benefits	59,296	59,296	59,296	59,296
Empl. Benefits - PERF/Pensions	4,865	2,109	4,865	4,865
Purchased Power	5,965	8,957	8,544	8,941
Chemicals	192	1,208	1,069	1,208
Periodic Maintenance Expense	133,059	108,526	108,526	28,793
Amortization Expense - AMP		12,600		12,600
Contractual Services - Legal		(18,891)	(15,600)	(15,600)
		(5,502)		
Insurance	(17,225)	(17,225)	(17,225)	(17,225)
Rate Case Expese	48,333	15,000	48,333	48,333
Miscellaneous Expense	(230)		321	
Payroll Related	3,277	3,277	3,277	3,277
Postage Expense	2,583	2,583	2,583	2,583
Add'l Postage Expense		686	42	674
IURC Fee	192	340	192	332
Payroll Taxes	8,019	278	8,019	8,019
Pro forma Operating Expense Adjs.	349,530	237,699	313,447	247,300
Total Pro forma Operating Expense	$ 2,839,583	$2,727,752	$2,803,500	$ 2,737,353

The OUCC agrees with Eastern Heights' adjustments for insurance, payroll related and postage expenses. The following expense adjustments were disputed:

a. **<u>System Delivery Adjustment</u>.** OUCC witness Malan testified that a system delivery adjustment captures the increase or decrease in variable operating expenses related to an increase or decrease in the amount of water sold or processed and the number of customer billings. Variable costs for Eastern Heights consists of purchased power, chemicals, and postage. As discussed earlier, the Commission has used a hybrid approach of Applicant's and the OUCC's methodologies to capture the revenue from customer growth. Using the Commission's customer growth, we find the purchased power expense is $2,132, the chemical expenses is $729, and the postage expense is $674.

b. **<u>Salaries & Wages</u>.** Eastern Heights calculated its pro forma salaries and wages at $776,418, which is an increase of $101,204. The OUCC rejected the proposed adjustment because it was based on an estimated 6% increase for each employee, which would not be implemented before the end of 2024. In its reply, Eastern Heights stated that on October 10, 2024, its Board approved a resolution to increase each employee's salary by 6% to be effective the second week of November 2024. Based on the evidence presented, the Commission approves Eastern Heights' pro forma salaries and wages – employees expense adjustment of $101,204.

c. Payroll Taxes. Applicant and the OUCC used the same methodology to compute the proposed test year payroll tax increase. Applicant calculated payroll tax of $8,019 and the OUCC calculated a payroll tax of $278. The differences in the parties' calculations was due to the amount of proposed salaries and wages multiplied by the Federal Insurance Contributions Act's tax rate. Since the Commission accepts Applicant's salaries and wages adjustment, the Commission approves Eastern Heights' payroll tax calculation.

d. Employee Benefits. Eastern Heights proposed a $64,161 test year increase to employee benefits, which included $59,296 related to health, dental, and life insurance and $4,865 associated with retirement benefits. The OUCC accepted Applicant's proposed increase to health, dental, and life insurance. The OUCC's adjustment for retirement benefits was $2,109, which was due to the different pro forma salaries and wage expense proposal. Since the Commission accepts Applicant's salaries and wages adjustment, the Commission approves Eastern Heights' retirement benefit adjustment.

e. Periodic Maintenance. Periodic Maintenance adjustments allow utilities to accrue funds for periodic system maintenance that do not occur annually. Applicant requested a periodic maintenance expense of $408,151, while the OUCC recommended a periodic maintenance expense of $383,617. The difference relates to the Bloomfield tank, which the OUCC recommends be removed from periodic maintenance and be taken out of service. In its reply, Eastern Heights agreed the Bloomfield tank should be removed from the periodic maintenance expenses but disagreed that it should be taken out of service. Applicant stated that taking the Bloomfield tank out of service prior to demolition created a liability for Eastern Heights.

In its periodic maintenance expense adjustment, Applicant requested that the amortization period for their tanks be 15 years. However, based on Eastern Heights' 2023 Annual Report, the average life of tank paintings was determined to be 25 years. The Presiding Officers requested Applicant justify its 15-year amortization schedule when the average life is 25 years. In its response, Eastern Heights explained that according to its engineer, tank coating systems can last 20 years, but the lifecycle is heavily dependent on the installation quality. Applicant also claimed it had insufficient revenue available to maintain a 15-year tank painting cycle and that the Commission's forms default to an amortization of 15 years.

Based on the evidence presented concerning the average life of tank paintings, the Commission determines that the amortization period of 20 years is reasonable. The quality of tank painting systems have improved over the past 20 years and it appears that Applicant has had funds on hand to paint a tank when needed. Moreover, as noted in the Commission's form instructions, the default amortization period may not be representative of a utility's needs. Therefore, we find the periodic maintenance expenses adjustment is set at $303,884. The Commission also agrees with Eastern Heights that the Bloomfield tank should not be taken out of service, because it is in service, provides a service, and the cost of demolition is not being considered in this matter. Finally, due to the high level of periodic maintenance expenses, the Commission finds that the funds for periodic maintenance expenses should be placed in a restricted, interest-bearing account.

This account is to be used strictly for periodic maintenance expenses and an accounting of this account should be provided with the utility's annual report.

f. **Amortization Expense.** As explained below, Applicant has proposed recovery of $63,000 for its AMP to be recovered through E&R over the proposed life of Eastern Heights' rates. The OUCC recommends the $63,000 for AMP be removed from E&R due to the AMP's completion in June 2024 and due to it not being a capital investment. The OUCC further recommends the $63,000 be amortized as an expense over five years.

Based on the evidence, the Commission finds that an AMP is an operating expense and not a capital asset. The Commission accepts the OUCC's adjustment to amortize Eastern Heights' costs for its AMP over a five-year period. However, we find the OUCC's recommendation to direct Applicant to submit a compliance filing within 30-days of full recovery of the costs associated with AMP is unnecessary and decline to require such a filing.

g. **Contractual Services – Legal.** Applicant requested recovery of $56,016 of legal expenses. The OUCC recommended two adjustments to Eastern Heights' test year legal expenses: 1) an $18,891 reduction for 58.125 hours of legal services appearing on the Todd R. Corn invoice dated April 30, 2023 that were incurred before the test year, and 2) a $5,502 reduction associated with a non-recurring special project. In its reply, Applicant explains that the $5,502 legal expense is for an ongoing item for which Eastern Heights needs legal guidance. Eastern Heights accepted the OUCC's adjustment concerning Mr. Corn's work less 10.125 hours that were worked during December 2022 at $325 an hour for a total of $3,291, noting that had Mr. Corn's billing practices been to bill monthly, this work would have been billed during the test year.

Based on the evidence, the Commission accepts Applicant's adjustment to decrease the test year legal expenses by $15,600. Further, the Commission accepts Applicant's $5,502 recurring expense concerning a special project.

h. **Rate Case Expense.** Applicant requested recovery of $145,000 for rate case expense, which includes accounting fees of $75,000, engineering fees of $5,000, and attorney fees of $65,000, amortized over the three-year life of Eastern Heights' rates or $48,333 annually. The OUCC recommended the Commission limit Applicant to recovery of $45,000, or $15,000 annually since a small utility filing is a simplified rate case process and is designed to not require the utility to hire an attorney or a rate consultant to prepare case-in-chief testimony. In its reply, Eastern Heights states that the OUCC was relying on a generalization that rate case expenses should not exceed $45,000. Applicant further stated Eastern Heights was dissatisfied with the outcome of the last rate case and believed its staff lacked expertise and resources to manage the Small U process. Applicant stated that for this reason, Eastern Heights sought expertise for this filing. Eastern Heights also provided invoices for attorney and accounting fees over $92,000.

Based on the evidence provided, the Commission finds that Eastern Heights should be authorized to recover its rate case expenses of $145,000 over the three-year life of rates, or $48,333 annually. However, as discussed further below regarding contractual expenses, we recognize the significance of rate case expense on a small utility and encourage Applicant to explore all reasonable opportunities for reducing these expenses. The Commission directs Eastern Heights to file a compliance filing to adjust rates downward within 30 days of fully recovering its estimated rate case expense.

i. **<u>Commission Fee</u>.** The Commission fee shall be the current Commission fee rate of $.0015 multiplied by pro forma present revenues of $2,744,654 found above resulting in a $332 increase over test year expense of $3,785. An additional proposed increase of $1,706 is associated with the overall 42.23% rate increase approved herein.

j. **<u>Contractual Services – Engineering and Reliance on Consultants</u>.** The Commission questioned the reasonableness of allowing the level of test year increases regarding materials and supplies and contractual services – engineering in rates. Applicant responded that engineering fees for 2024 will likely be higher than already reflected in the test period. We calculated a 168% increase in contractual engineering fees reflected in the test year.

Additionally, we would be remiss if we did not speak to the significant consultants' fees incurred by Eastern Heights in this case. The proposed periodic maintenance expenses appear to be driven by engineering estimates that assume worse-case scenarios for each tank, rather than historical experience. We remind Applicant that it bears the responsibility for actively managing its consultants to ensure fees are reasonable and the services rendered are necessary.

While rate consultants are sometimes retained for small utility filings, we note that hiring a utility attorney is often unnecessary in these cases. As a not-for-profit entity, denying Eastern Heights recovery of these consultant costs would require the utility to reallocate funds intended for other necessary expenses, which would not serve the public interest.

We are mindful of concerns raised by Eastern Heights' customers regarding affordability, particularly in light of Eastern Heights' most recent rate increase of 28.11%, approved only a few years ago. It is imperative that Eastern Heights manages its consultants responsibly, ensuring that their involvement aligns with the utility's and its customers' best interest.

D. **<u>Financing Authority, Debt Service, and Debt Service Reserve</u>.** Eastern Heights requests authority for $1,000,000 of long-term debt creating a new debt service revenue requirement of $189,809, for a total debt service of $515,541, and a new debt service reserve revenue requirement of $63,403. The OUCC recommends the Commission reject the requested debt authorization because the transaction has already occurred, approve an increase to its debt service revenue requirement of $190,209, and reject Eastern Heights' request for a debt service reserve revenue requirement of $63,403 because Farmers and Merchants Bank does not have a debt service reserve requirement. In its reply, Eastern Heights agreed with the OUCC's debt service and debt service reserve. As for the debt authorization, Eastern Heights indicated its Board was unaware Commission approval was necessary and in Cause No. 39104 (approved January 20, 1993), financing was approved retroactively.

Based on the evidence, the Commission approves the $1,000,000 debt authority and approves annual debt service of $515,541 and no debt service reserve. We remind Eastern Heights that Ind. Code §§ 8-1-2-78, 79 requires a utility to secure authority for financing before the transaction is completed and we fully expect Eastern Heights to make every effort in the future to comply with this requirement.

E. **Extensions and Replacements.** Eastern Heights requests $792,483 in annual E&R. The OUCC recommends an E&R revenue requirement of $697,250 per year. The OUCC explained that the SCADA system and AMP included in E&R have already been completed and paid for, and therefore should not be included in E&R. The OUCC also reduced Applicant's proposed E&R by $50,000 annually to reflect the application of the $600,000 in funds Applicant has set aside for capital projects. In its response, Applicant explained that while an argument could be made to expense the cost of the AMP, this document was prepared as a requirement for the Indiana Department of Environmental Management and others and serves as a guide to future capital improvements. The Commission agrees with the OUCC that the SCADA system and AMP included in the E&R have already been completed and paid; thus are not to be included in the E&R. Similarly, the Commission agrees that the proposed E&R should further be reduced by $50,000 annually to reflect money set aside for capital projects. Based on the evidence presented, the Commission accepts the OUCC's recommendation; the E&R revenue requirement shall be $697,250 per year.

F. **Working Capital.** Eastern Heights requests $107,079 be included in its revenue requirement for working capital. The OUCC states that Applicant's working capital needs are $315,148 annually and that Applicant has current available cash of $405,997, leaving a working capital surplus. The OUCC recommends $0 for working capital due to Applicant's current available cash. In its reply, Eastern Heights explained it calculated working capital using the method recommended by the Application forms. Based on the evidence, we find Applicant's cash accounts are spread across multiple accounts and are greater than its requirement for working capital. Thus, the Commission finds that no additional funds should be provided for working capital.

G. **System Development Charge.** Eastern Heights does not currently have a system development charge ("SDC"). Applicant has stated that it will conduct an analysis and will pursue approval of a SDC with the Commission. The Commission finds that Eastern Heights shall file a request for approval of a SDC within 12 months of this final order. The Commission is currently conducting a rulemaking, RM 22-04[1], which would allow a utility to request approval of a SDC through the Commission's 30-day filing procedure rather than having to file a docketed proceeding. We encourage Eastern Height to consider using this procedure to seek approval of a SDC.

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

1. Eastern Heights is authorized to increase its monthly recurring rates and charges by 42.23% for an annual net revenue increase of $1,141,712.

2. Applicant is granted authority for the $1,000,000 loan.

[1] Governor Braun has signed RM 22-04 into law; it will take effect on February 23, 2024.

3. Prior to implementing the rates and charges authorized in this Order, Eastern Heights shall file new rate schedules under this Cause for approval by the Commission's Water and Wastewater Division. Such rates shall be effective on and after the Order date, subject to Division review and agreement with the amounts reflected.

4. Applicant shall file a compliance filing within 30 days of full recovery of the rate case expenses approved in this case for the rates to be reduced.

5. Applicant shall implement a filing for a SDC within 12 months of the date of this Order.

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

HUSTON, BENNETT, FREEMAN, VELETA, AND ZIEGNER CONCUR:

APPROVED: FEB 03 2025

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

Regina K. Joyner Digitally signed by Regina K. Joyner
Date: 2025.02.03 13:13:21 -05'00'

____ **on behalf of**

Dana Kosco
Secretary of the Commission