

**STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF THE CITY OF)
MARTINSVILLE, INDIANA, FOR)
AUTHORITY TO ISSUE BONDS, NOTES,)
OR OTHER OBLIGATIONS, FOR)
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR WATER SERVICE,)
AND FOR APPROVAL OF NEW)
SCHEDULES OF WATER RATES AND)
CHARGES.)**

CAUSE NO. 45262

**FILED
December 03, 2019
INDIANA UTILITY
REGULATORY COMMISSION**

STIPULATION AND SETTLEMENT AGREEMENT

The City of Martinsville, Indiana (“Martinsville” or “City” or “Petitioner”) and the Indiana Office of Utility Consumer Counselor (“OUCC”) (collectively, the “Settling Parties”), by their respective counsel, respectfully request the Indiana Utility Regulatory Commission (“Commission”) to approve this Stipulation and Settlement Agreement (“Stipulation”). The Settling Parties agree that the terms and conditions set forth below represent a fair and reasonable resolution of the issues described herein, subject to incorporation into a final order of the Commission, which approves this Stipulation without any modification or condition that is not acceptable to the Settling Parties.

1. In this proceeding, this Stipulation follows the Settling Parties’ prefiled testimony and attachments, as well as rebuttal testimony with respect to engineering issues. On all other issues, this Stipulation follows the Petitioner’s submission of its case-in-chief testimony and reflects Petitioner’s acceptance of the OUCC’s positions stated in its Settlement Testimony. It coincides with the Settling Parties’ filing of supplemental testimony in support of this Stipulation. Since the time of the OUCC’s filing of its case-in-chief in this Cause on engineering issues, the parties have engaged in discussions to address items the OUCC has identified in testimony and would have identified in accounting testimony as its primary issues in this Cause. Those interactions have framed the discussions between the Settling Parties, and formed the basis for the Settling Parties to reach agreement on the terms reflected in this

Stipulation. A basic component of each party's willingness to enter this agreement is the overall result that is achieved hereby. The Settling Parties have agreed to concessions on individual issues to which the Settling Parties would not be willing to agree but for the overall result produced by this Stipulation and Settlement Agreement. In other words, each party is agreeing to forego or compromise on positions on individual issues in exchange for the overall result produced collectively by all of the concessions. As set forth below, the parties have negotiated terms that resolve all issues in this proceeding. In most cases, the agreed upon terms are founded upon documented positions that are in the record in this proceeding, including in Settlement Testimony that the Settling Parties have agreed each of them will file in support of this Stipulation.

2. For purposes of settlement of the non-revenue requirement issues, the Settling Parties stipulate and agree as follows:

- a. **Establishment of Restricted Account for Tank Maintenance.** Petitioner shall establish a restricted account for tank maintenance and tank painting and shall pre-fund this account in the amount of \$140,000. Upon the effective date of Phase I rates, Petitioner will annually record \$35,359 into this account to accumulate funds which shall be used only for future tank painting needs.
- b. **Tank Maintenance Program.** Petitioner shall develop a tank maintenance program as described in the AWWA Standard G200 Sections 4.3.1.3 and 4.3.1.4 within six (6) months of issuance of the final order in this Cause. Martinsville will provide a copy of this tank maintenance program to the Commission and the OUCC.
- c. **Asset Management Plan.** Petitioner shall provide notice to the Commission and the OUCC upon completion of its asset management plan.
- d. **Establishment of Restricted Account for Capital Improvements.** Petitioner shall establish a restricted account to fund capital improvements which account shall

be funded, at minimum, in an amount equal to annual depreciation expense included in Petitioner's revenue requirement in this Cause (\$141,025 in Phase 1, \$211,538 in Phase 2, and \$282,051 in Phase 3 and thereafter). Further, to the extent the Environmental Protection Agency ("EPA") pays the costs of replacing filter media which are included in Petitioner's revenue requirement per this Stipulation, the \$125,000 provided in the revenue requirement for this expense shall also be deposited into the restricted capital improvement fund to be used to replace aging infrastructure or other capital improvement needs. Martinsville can use the existing "Water Improvement" account for this purpose or a new account could be created.

- e. **Annual Reports.** Petitioner shall submit annual reports to the Commission and the OUCC describing its capital improvements funded through its restricted account and its periodic maintenance expenditures for well cleaning, pump repairs, GAC media replacement, tank cleaning, and tank painting.
- f. **Proprietary Fund Accounting System.** Beginning before filing its next rate case, but no later than 1/1/2021, Petitioner shall account for water utility transactions using the proprietary (enterprise) fund accounting methodology.
- g. **NARUC Uniform System of Accounts.** In connection with paragraph f. above, Petitioner shall review and be aware of the various guidelines and accounts included in the NARUC Uniform System of Accounts ("USoA") and, to the extent possible, use this as a template to set up new accounts needed for the proprietary fund accounting system (assets, liabilities, CIAC, etc.). Further, Petitioner shall create a document showing how its account designations relate (i.e. map) to the NARUC USoA. Finally, Petitioner shall stop recording sales tax receipts and disbursements

as revenues and expenses. Instead, it shall appropriately record these as debits and credits to a sales tax liability account.

- h. **Tap Fee.** Within sixty (60) days of a final order being issued in this Cause, Petitioner shall make a 30-day filing to add a tap fee with a boring charged to its authorized tariff on file with Commission.
- i. **Well Replacement.** Petitioner's proposed financing shall be approved. With funds supplied through the financing, Petitioner shall replace two of its three wells and agrees that cost savings between its estimated well replacement costs and actual replacement costs, if any, shall be applied to additional water main replacement projects in order to accelerate water main infrastructure replacements.
- j. **True-Up Report and Revision of Tariff.** Within thirty (30) days after closing on the State Revolving Fund loan, Martinsville shall file in this Cause a true-up report describing the final terms of the State Revolving Fund loan, the amount of the debt service reserve, and the amortization schedule for the State Revolving Fund loan. Martinsville shall also restate in its true-up report the precise terms of this section of the settlement agreement. Within fourteen (14) calendar days of service of the true-up report, the OUCC shall state whether it objects or disagrees with the true-up report. If there is no objection or disagreement, and if the annual debt service payment on the State Revolving Fund loan differs from the originally estimated total of \$136,746, Martinsville shall file with the IURC a revised tariff adjusting the rates to include the final amount of annual interest payments on the State Revolving Fund loan. However, if the actual terms of the financing are such that the debt payment is less than \$136,746 per annum, Martinsville need not file a revised tariff if the OUCC states in writing that it considers the difference to be immaterial for purposes

of revising Martinsville's rates. In such case, Martinsville shall file the OUCC's written statement to the extent it has not already been filed by the OUCC. If the cost of the debt is more than \$136,746 per annum, Martinsville may, in its sole discretion, elect not to file a revised tariff reflecting a higher interest payment for the State Revolving Fund loan.

3. **Rates.** The Settling Parties stipulate that Petitioner shall be permitted to increase its customer rates as follows: The total increase in revenue requirement shall be calculated to produce an increase in annual operating revenues of \$346,784 (including utility receipts tax (“URT”)) and a total revenue requirement of \$2,873,463. This amount includes \$125,000 per year for replacement of filter media and is therefore subject to the restricted capital improvement account established pursuant to Paragraph 2.d. of this Stipulation. The revenue requirement also includes \$117,971 per year for debt service reserve associated with Petitioner’s proposed financing. The increase in rates shall take place in three steps. 6.28% in Step 1 (for an increase in revenues of \$152,317, including URT), to take effect January 1, 2021; 3.16% in Step 2 (for an increase in revenues of \$81,523, including URT), to take effect January 1, 2022; and 4.25% in Step 3 (for an increase in revenues of \$112,944, including URT), to take effect January 1, 2023.

4. **Expenditures from Debt Service Reserve.** If Martinsville spends any of the funds from its Debt Service Reserve for any reason other than to make the last payment on the underlying, already approved debt, Martinsville will provide a report to the Commission and the OUCC within five (5) business days after such expenditures, stating: (i) how much Martinsville spent from its Debt Service Reserve; (ii) why and on what it spent those funds; (iii) a cite to, and quote from, any applicable loan documents that allow Martinsville to spend funds from its Debt Service Reserve for other purposes; (iv) how Martinsville plans to replenish its Debt Service Reserve; and (v) any cost-cutting activities

Martinsville has implemented to forestall spending any additional funds held in its Debt Service Reserve.

5. **Stipulation Effect, Scope and Approval.** The Stipulation is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without any change or condition that is unacceptable to any Settling Party. Each term of the Stipulation is in consideration and support of each and every other term. If the Commission does not approve the Stipulation in its entirety or if the Commission makes modifications that are unacceptable to any Settling Party, the Stipulation shall be null and void and shall be deemed withdrawn upon notice in writing by any party within 10 days after the date of the final order stating that a modification made by the Commission is unacceptable to the Settling Party.

The Stipulation is the result of compromise in the settlement process and neither the making of the Stipulation nor any of its provisions shall constitute an admission or waiver by any Settling Party in any other proceeding, now or in the future. The Stipulation shall not be used as precedent in any other current or future proceeding or for any other purpose except to the extent provided for herein or to the extent necessary to implement or enforce its terms.

The evidence to be submitted in support of the Stipulation, together with evidence already admitted, constitutes substantial evidence sufficient to support the Stipulation and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of the Stipulation.

The communications and discussions and materials produced and exchanged during the negotiation of the Stipulation relate to offers of settlement and shall be privileged and confidential.

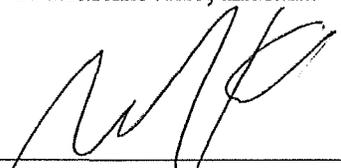
The undersigned represent and agree that they are fully authorized to execute the Stipulation on behalf of the designated party who will be bound thereby.

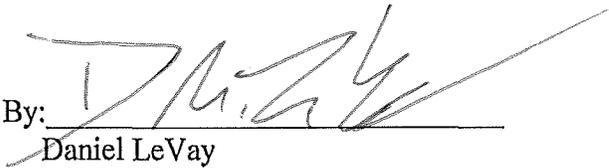
The Settling Parties will either support or not oppose on rehearing, reconsideration and/or appeal, an IURC Order accepting and approving this Stipulation in accordance with its terms.

ACCEPTED and AGREED this 2nd day of December, 2019.

City of Martinsville, Indiana

Indiana Office of Utility Consumer Counselor

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