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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF JACKSON COUNTY)
WATER UTILITY, INC., FOR) CAUSE NO. 44986 FEB 21 2018
AUTHORITY TO ISSUE LONG TERM)
DEBT AND CHANGES TO ITS RATES,) APPROVED:
CHARGES AND TARIFF)

PHASE I ORDER OF THE COMMISSION

Presiding Officers:

James F. Huston, Interim Chairman

Brad J. Pope, Administrative Law Judge

On September 21, 2017, Jackson County Water Utility, Inc. ("Petitioner") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") seeking authority to issue long term debt through a Phase I proceeding and to change its rates, charges, and tariff through a Phase II proceeding. Petitioner prefiled its Phase I case-in-chief on September 21, 2017, consisting of the testimony and exhibits of its witnesses Larry W. McIntosh, Lori A. Young, and Earl L. Ridlen III.

Pursuant to notice and as provided in 170 IAC 1-1.1-15, a Prehearing Conference was held in this Cause on October 24, 2017, at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Proofs of publication of the notice of the Prehearing Conference were incorporated into the record and placed in the official files of the Commission. Petitioner and the Indiana Office of Utility Consumer Counselor ("OUCC") appeared and participated at the Prehearing Conference.

During the Prehearing Conference, Petitioner indicated that the relief it seeks is separated into two phases. Phase I seeks the authority to issue long term debt up to certain maximum amounts. Phase II seeks to change Petitioner's existing rates, charges, and tariff as supported by the evidence filed during the subsequent proceedings to be held for Phase II. During the Prehearing Conference, Petitioner and the OUCC discussed procedural matters indicating general agreement as to the procedural schedule to be used for Phase I and indicating that further discussions would be held on Phase II prior to the filing of Phase II evidence. Based on the agreement of the Parties, the Commission issued its Prehearing Conference Order on November 8, 2017.

On December 20, 2017, the OUCC prefiled its Phase I case-in-chief consisting of the testimony and exhibits of Carl N. Seals and Edward R. Kaufman. On January 10, 2018, Brown County Water Utility, Inc., a customer of Petitioner, filed its Petition to Intervene (hereinafter, "Intervenor"). On January 11, 2018, Petitioner prefiled the rebuttal testimony and exhibits of its witness Earl L. Ridlen III. On January 18, 2018, Intervenor's Petition to Intervene was granted.

Pursuant to notice, the Commission held an evidentiary hearing in Phase I of this Cause on January 30, 2018, at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street,

Indianapolis, Indiana. Petitioner, the OUCC, and Intervenor appeared, and Petitioner and the OUCC offered their respective prefiled testimony and exhibits, which were admitted into evidence without objection.

The Commission, having considered the evidence of record and the applicable law, now finds as follows:

1. **Notice and Jurisdiction.** Notice of the proceedings in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as defined by Ind. Code § 8-1-2-1 and a not-for-profit utility as defined in Ind. Code § 8-1-2-125. Petitioner seeks Commission authority to issue long term debt in these Phase I proceedings and thereafter, in Phase II, to change its rates, charges, and tariff. Pursuant to Ind. Code § 8-1-2-78 and Ind. Code § 8-1-2-125, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is a not-for-profit utility organized and existing under the laws of the State of Indiana. Petitioner provides water service to customers in both rural and municipal areas in Jackson, Jennings, Bartholomew, Brown, and Lawrence Counties, Indiana.

3. **Existing Rates, Test Year, and Relief Requested.** The Commission established Petitioner's current rates and charges by its Phase II Order issued on December 9, 2015, under Cause No. 44461. In its Verified Petition, Petitioner proposes to issue long term debt in an amount not to exceed \$7,500,000 for a period no greater than 35 years at an average interest rate of 2.80% or less. In order to repay the long term debt, Petitioner proposes to change its rates and charges in Phase II pursuant to the evidence offered in such phase. The test year for Phase II is the 12 months ending December 31, 2017, adjusted for changes that are fixed, known, measurable, and occurring within 12 months following the end of the test year.

4. **Petitioner's Direct Evidence.** Petitioner's direct evidence in this Phase I proceeding consists of the testimony and exhibits offered by its general manager, Larry M. McIntosh, its professional engineer, Lori A. Young, P.E., and its accountant and financial advisor, Earl L. Ridlen III. Mr. McIntosh began his testimony by describing his experience with Petitioner and other utilities. He explained the interest of potential customers that had contacted him or Petitioner's board members. He described the process that Petitioner used in considering the potential project to extend water mains into an unserved area of its service area. He noted that the existing water treatment plant and water wells are sufficient to provide potable water to this area. He described Petitioner's approach to Ms. Young's engineering firm, the ability of Petitioner to extend appropriate water mains, and the potential costs of such extension. He described meeting with Mr. Ridlen following Petitioner's financial audit to discuss Petitioner's ability to finance this new construction. He explained that he, along with Ms. Young and Mr. Ridlen, met with the Board of Directors ("Board") in July of 2017 and explained the construction options, the funding options, and the potential impact on Petitioner's revenue requirement. He indicated that these discussions with the Board described a two phase process before the Commission. Following a series of meetings with the Board, he stated that the Board approved the project, approved the borrowing from the Indiana Finance Authority's State Revolving Fund ("SRF"), and authorized the filing of the Petition which initiated this Cause. He explained that the Board members are elected by the customers and are customers of Petitioner themselves. Finally, he suggested that based on his

experience, the project is reasonable, appropriately uses long term debt, and will reasonably increase Petitioner's customer base.

Petitioner's witness Lori Young described the proposed improvements. She explained that she, as a professional engineer, and her engineering firm designed the project and provided estimated costs. Ms. Young explained that the project is divided into three areas (A, B, and C). Area A consists of the construction of approximately 88,125 linear feet of 8", 6", and 4" PVC mains extending from the current mains of Petitioner south of Seymour, Indiana. Area B consists of the construction of 30,235 linear feet of similarly sized PVC mains and will connect to the existing 8" transmission main along Base Road at the intersection of State Road 231. Area C consists of the construction of 55,255 linear feet of similar PVC main and will be connected to the proposed Area B extension at the intersection of County Road 1300 East and County Road 100 South. Ms. Young also pointed to the Preliminary Engineering Report ("PER"), which she and her firm prepared and was attached as an exhibit to her testimony. The PER and Ms. Young's testimony describe the project in detail breaking out each of the three areas. She noted that the location of the mains are reflected on maps included in the PER. She stated that the cost estimates for these extensions are also described and included in the PER. She explained that the minimum expected useful life of these new water mains is 50 years. She described the number of new potential customers based on existing homes and businesses located in this area and suggested that connection of these existing buildings will occur over a 3 to 5 year period once the water line has been installed. She noted that Petitioner has previously expanded its water distribution system and that this project is similar to prior expansions. She stated that the project is technically feasible and that there are no known barriers to its completion. She testified that this project cannot occur unless the Commission authorizes the requested relief in this Phase I. Finally, she concluded that the proposed improvements are reasonable.

Mr. Ridlen provided testimony describing his firm's experience working with Petitioner and other similar utilities throughout the Midwest region. He explained that his work began with an audit of Petitioner's financials for calendar year 2016. He indicated that a portion of his audit is attached as exhibits to his testimony. He explained that Petitioner will need to borrow funds from some source in order to cover the costs associated with the construction of this project. In that regard, he described the alternatives Petitioner considered prior to moving forward with the SRF as its source of funds. He explained that Petitioner is proposing to delay any increase in rates and charges until Phase II of this proceeding. He explained that this delay in changing rates and charges will allow Petitioner to know the final terms of the borrowing, allow Petitioner to review its financials for a test year ending December 31, 2017, and eliminate concern that Petitioner would be using rates that could have been established in Phase I for anything other than repaying the long term debt. Mr. Ridlen recognized that existing revenue available to Petitioner will allow it to cover any costs associated with this borrowing through late fall of 2018, and he recognized that certain existing debt service requirements fall off in 2018. Mr. Ridlen explained the basis Petitioner used to estimate the maximum amount to be borrowed, the maximum period of time for such borrowing, and the likely interest rate that will be established by the SRF at closing. With respect to the interest rate, Mr. Ridlen recommended the maximum rate of 2.80% because he believes the interest rate charged by the SRF will not exceed 2.625% if Petitioner can close a loan with the SRF by early 2018. He also stated interest rates could increase later in 2017 or early 2018. Mr. Ridlen provided exhibits reflecting a potential amortization schedule for this new debt, and he explained that while Petitioner's current financial condition is sound, Petitioner cannot make these improvements

unless it borrows the long term debt as described in Phase I. Finally, he offered that Petitioner will advise the Commission and the OUCC of the closing terms of its borrowing and that such terms should be known either at the time of the initiation of Phase II or shortly thereafter.

5. OUCC's Direct Evidence. The OUCC offered the testimony of its witnesses Carl N. Seals and Edward R. Kaufman in this Phase I proceeding. Mr. Seals explained his review of Petitioner's Phase I case-in-chief. He explained that he and the Director of the OUCC's Water/Wastewater Division, Scott Bell, met with Petitioner's General Manager, Larry McIntosh to discuss Petitioner's operations, view Petitioner's current treatment facilities, and discuss the proposed water main project into currently unserved rural areas located within Petitioner's service area. Mr. Seals explained that Petitioner's current treatment facility has the ability to produce 2.4 million gallons of water per day. The average delivery of water in 2016 was 1.38 million gallons per day. Thus, Mr. Seals concluded that sufficient treatment capacity exists for Petitioner to provide water to the proposed new area.

Turning to the specific area to be served, Mr. Seals described the need for potable water, noting the marginal current water supply in the area and the unique sources of supply currently being used such as ponds, refillable storage tanks, and polyethylene tanks directly connected to downspouts. Mr. Seals indicated that this expansion will provide safe and reliable water service to currently unserved homes and allow for future development. He noted that Petitioner's Brownstown treatment plant is currently operating below its capacity due to the loss of a large water user and Petitioner's Chestnut Ridge water tank should see greater use, thus reducing the age of the water within the tank and improving the chlorine residual. Mr. Seals indicated that the SRF administrators will make their own technical review of Petitioner's project and its PER before closing on any funding. Mr. Seals described notifications to the customers in this area. He also stated that Petitioner's management of its facilities is forward looking, that Petitioner adopts new technology to enhance its operations, and that Petitioner's initiatives have promoted customer well-being and advanced operational efficiency.

OUCC witness Edward Kaufman described his review of Petitioner's Phase I request. He indicated that the terms of the proposed debt are reasonable, though he recommends consideration by Petitioner of system development charges to reduce the impact of the debt service on all other customers and grants to help reduce the cost of the proposed expansion projects. He pointed out that the new debt service will require new revenue of \$121,943 per year. He also stated that Petitioner's current revenue exceeds its cash revenue requirement before the issuance of this new debt by \$280,057. Mr. Kaufman explained that this difference is important to properly recognize the impact the proposed project would have on Petitioner's current rates. Finally, Mr. Kaufman recommended Petitioner provide notice to all of its current customers about the impact of this proposed long term debt on rates.

6. Petitioner's Rebuttal Evidence. Petitioner offered the rebuttal testimony and exhibits of its witness Earl Ridlen to address the OUCC's comments. Mr. Ridlen began by stating that the OUCC has not objected to the proposed long term debt or the requested relief in this Phase I proceeding. He noted that Mr. Kaufman has analyzed the proposed debt on a standalone basis. Mr. Ridlen explained that Petitioner would not issue debt on a standalone basis, since it has existing debt and has previously issued such debt to make various main extensions and plant improvements to serve its other customers. With respect to the OUCC's comment that Petitioner consider a

system development charge, he stated that such a proposal could be seen by customers to be discriminatory because historically Petitioner has used long term debt, paid by all of its customers through their rates, to construct main extensions. He said that this funding of construction through debt is a fairly typical approach used by not-for-profit rural water entities and cooperatives to expand their facilities. Mr. Ridlen testified that Petitioner has also published additional notices to all of its customers. He included as exhibits the proofs of publication of notices in the Tribune, The Jackson County Banner, and The Crothersville Times and a copy of the actual notice that was sent to all current customers. Finally, Mr. Ridlen responded to the OUCC's suggestion that Petitioner should consider obtaining grants for the project by stating that he was unaware of any available grants. He noted that grant moneys have been reduced in recent years and typically only apply to areas with low income residential customers. However, Mr. Ridlen indicated that before Petitioner closes with the SRF, it will ask the SRF if any grant moneys are available.

7. Commission Discussion and Findings. As described in the Verified Petition and recognized by the Commission's Prehearing Conference Order, this proceeding is divided into two phases. Phase I is focused solely on Petitioner's request to issue new long term debt through the SRF. Phase II is anticipated to be filed later this year based on a test year of December 31, 2017, adjusted for fixed, known, and measurable changes. The evidence of record indicates the purpose of this long term debt is to extend water mains into rural areas of Petitioner's service area. The area to be served is currently obtaining water from marginal wells, polyethylene tanks connected to down spouts, and ponds.

The evidence described in detail the facilities to be constructed, the estimated costs, and the routes to be used. The evidence further described the authority requested for long term debt explaining the maximum amount, the maximum term of years, and the maximum average interest rate that Petitioner seeks. The evidence also reflects a potential amortization of this long term debt and references Petitioner's current outstanding debt used to construct prior facilities. The OUCC's witness Mr. Seals agreed there is a need for the expansion project because it would supply water to existing homes that do not have access to good ground water. The OUCC offered no objection to the requested Phase I relief.

Ind. Code § 8-1-2-78 authorizes the issuance of long term debt to the extent required to provide sufficient funds for the construction, completion, extension, or improvement of facilities including distribution mains as proposed by Petitioner. Based on the evidence of record, Petitioner and the OUCC recommend that the Commission authorize Petitioner to issue long term debt up to \$7,500,000 at a term of no more than 35 years at an average interest rate not to exceed 2.80%. The Commission agrees with the amount and term of the debt, but we impress upon Petitioner the urgency of closing on financing with the SRF during the first quarter of 2018 given the potential for interest rate escalation, as acknowledged by Petitioner's witness Mr. Ridlen. Further, as requested by Petitioner, we acknowledge that a Phase II proceeding will be held following this Phase I Order wherein Petitioner's revenue requirement, including necessary funds for debt service and debt service reserve, will be established.

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

1. Petitioner is authorized to incur additional long term indebtedness not to exceed

\$7,500,000 for a period of no more than 35 years at an average interest rate not to exceed 2.80%.

2. Petitioner shall file under this Cause information on the actual terms of such long term debt within 60 days following the closing on such debt.


3. Petitioner is hereby authorized to seek a Phase II increase in its rates and charges by filing additional evidence based upon a test year of December 31, 2017, as adjusted for fixed, known, and measurable changes that will occur within 12 months of the end of such test year. Petitioner shall coordinate with the OUCC and the Intervenor regarding a proposed procedural schedule to be used for the Phase II proceedings. Petitioner shall file the proposed procedural schedule with the Commission on or before April 4, 2018. If the Parties are unable to agree to scheduling matters, the Parties shall so advise the Commission.

4. This order shall be effective on or after the date of its approval.

HUSTON, FREEMAN, WEBER, AND ZIEGNER CONCUR:

APPROVED: FEB 21 2018

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


Mary M. Becerra
Secretary of the Commission