

ORIGINAL

STATE OF INDIANA

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INDIANA UTILITY REGULATORY COMMISSION

PETITION OF COMMUNITY UTILITIES OF INDIANA,)
INC. FOR (1) AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR WATER AND WASTEWATER)
UTILITY SERVICE; (2) APPROVAL OF NEW)
SCHEDULES OF RATES AND CHARGES APPLICABLE)
THERE TO; AND (3) APPROVAL OF NEW)
DEPRECIATION RATES)

CAUSE NO. 44724

APPROVED: JAN 24 2018

ORDER OF THE COMMISSION

Presiding Officers:
Angela Rapp Weber, Commissioner
Lora L. Manion, Administrative Law Judge

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On December 15, 2015, Community Utilities of Indiana, Inc. (“Petitioner” or “Company”) filed its Petition and Submission of Case-in-Chief under Ind. Code § 8-1-2-42.7 and Notice of Intent to File Information Required Under Minimum Standard Filing Requirements. Petitioner requested approval of new uniform schedules of rates and charges applicable to its water and wastewater utility services in two phases. On December 15, 2015, Petitioner filed its case-in-chief, work papers, and information required by the Minimum Standard Filing Requirements at 170 IAC 1-5. Petitioner also filed a Motion for Protective Order regarding work papers with confidential information, and the Motion was granted on January 29, 2016, by the Presiding Officers.

On December 22, 2015, a Petition to Intervene was filed by Lakes of the Four Seasons Property Owners’ Association (“LOFS”). LOFS is a property owners’ association that represents the residents within Lakes of the Four Seasons Subdivision, and the residents and the association are water and wastewater customers of Petitioner. The Presiding Officers subsequently granted the Petition on January 27, 2016.

On January 6, 2016, the Presiding Officers filed a docket entry directing Petitioner to address five deficiencies in its materials submitted pursuant to the Minimum Standard Filing Requirements. On January 12, 2016, Petitioner filed its response.

On February 15, 2016, the Presiding Officers established a procedural schedule for the Cause. On April 22, 2016, the Indiana Office of Utility Consumer Counselor (“OUCC”) and LOFS filed their respective cases-in-chief.

On April 20, 2016, the Presiding Officers filed a docket entry directing Petitioner to provide detailed rate schedules for each of the two proposed phased-rate increases. Petitioner filed its response on April 29, 2016.

On May 13, 2016, Petitioner filed an Unopposed Motion to Vacate Hearing Date and for Modification of Procedural Schedule. On May 31, 2016, Petitioner filed an Unopposed Motion to Suspend Procedural Schedule to permit Petitioner to investigate a potential issue related to its rate base. Both Motions were granted without objection.

On May 24, 2016, the Presiding Officers filed a docket entry requesting clarifications from Petitioner, OUCC, and LOFS regarding their cases-in-chief. Petitioner and OUCC filed their respective responses on June 17, 2016.

On June 27, 2016, Petitioner filed the supplemental direct testimony of witnesses Steven M. Lubertozi, President of Petitioner, and Justin P. Kersey, Vice President of Operations of Utilities, Inc. and its subsidiaries. The OUCC and LOFS filed their respective supplemental testimony on October 24, 2016. Petitioner filed its rebuttal testimony on December 30, 2016.

On July 27, 2016, the Presiding Officers filed a docket entry rescheduling the hearing from August 2, 2016, to October 4, 2016, and requested a procedural schedule going forward in this Cause from the parties.

On August 5, 2016, Petitioner filed its Response to the Commission Docket Entry Dated July 27, 2016, Regarding Procedural Schedule and proposed procedural dates, as agreed to by the

parties. On September 27, 2016, the Presiding Officers granted modifications to the filing and hearing schedules and continued the hearing to January 10, 2017.

On October 3, 2016, the OUCC filed its Motion to Modify Procedural Schedule, and the Motion was granted by the Presiding Officers on October 19, 2016.

On November 21, 2016, Petitioner filed its Unopposed Motion for Extension of Time to extend the due date for its pre-filing of rebuttal testimony to December 7, 2016, and the Presiding Officers granted the Motion on November 23, 2016.

On December 5, 2016, the Presiding Officers granted a request from the parties to extend the rebuttal pre-filing date for Petitioner and to continue the hearing date to February 7, 2017.

On February 2, 2017, the Presiding Officers filed a docket entry requesting written responses from Petitioner to 44 questions at or prior to the February 7, 2017 hearing. On February 3, 2017, the Presiding Officers filed a docket entry requesting written responses from the OUCC to 14 questions at or prior to the February 7, 2017 hearing. Petitioner and OUCC subsequently filed their respective responses.

The Commission conducted a public evidentiary hearing beginning at 9:30 a.m. on February 7, 2017, in Room 222 of the PNC Center, Indianapolis, Indiana. At the hearing, the parties presented their respective evidence and offered witnesses for cross-examination. On April 12, 2017, the Commission conducted a public hearing to ensure that notice was properly published in all counties in which Petitioner serves, at which time the record of the prior hearing was incorporated by reference.

The Commission, based upon the applicable law and the evidence presented, finds as follows:

1. **Notice and Jurisdiction.** Notice of the filing of the Petition was given and published by Petitioner as required by law. Notice was given by Petitioner to its customers summarizing the nature and extent of the proposed changes in its rates and charges for water and wastewater services. Notice of the hearings in this Cause was given and published as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a). Pursuant to Ind. Code §§ 8-1-2-42 and 42.7, the Commission has jurisdiction over Petitioner's rates and charges for utility service.

2. **Petitioner's Organization and Business.** Petitioner is a public utility incorporated under the laws of Indiana with its principal office address located at 2335 Sanders Road, Northbrook, IL 60062.

Petitioner was incorporated in 2015 for implementation of the merger into a single entity of the three wholly-owned subsidiaries of Utilities, Inc. that provide water and wastewater services in Indiana. Those subsidiaries are Twin Lakes Utilities, Inc. ("Twin Lakes"), Water Service Company of Indiana, Inc. ("WSCI"), and Indiana Water Service, Inc. ("IWSI"). The merger was approved by the Commission's July 8, 2015 Order in Cause No. 44587.

Petitioner provides water service to approximately 5,000 customers and wastewater service to approximately 3,300 customers. Petitioner renders water and wastewater service by means of utility plant, property, equipment, and related facilities owned, operated, managed, and controlled by it that are used and useful for the convenience of the public in the provision of water and wastewater service. Petitioner's service area includes portions of Jasper, Lake, Newton, and Porter counties.

3. **Existing Rates.** The basic rates and charges for Petitioner's operating divisions were previously approved in separate rate proceedings for each division. Twin Lakes' basic rates and charges were most recently approved in the Commission's April 23, 2014 Order in Cause No. 44388. WSCI's basic rates and charges were last approved in the Commission's March 27, 2013 Order in Cause No. 44104. IWSI's basic rates and charges were last modified by the Commission's November 7, 2012 Order in Cause No. 44097.

4. **Relief Requested.** Petitioner requested authority to increase its rates and charges for water and wastewater utility service and approval of: (1) new schedules of rates and charges that would provide for uniform water and wastewater rates across all three operating divisions, (2) revised depreciation rates, and (3) any other such relief as may be appropriate and proper. Petitioner requested a 50.09% increase in water rates and charges to produce additional revenues of \$928,932 per year and a 30.71% increase in wastewater rates and charges to produce additional revenues of \$666,033 per year.¹

5. **Test Year and Rate Base Cut-Off.** Petitioner proposed a forward-looking test period using projected data as authorized by Ind. Code § 8-1-2-42.7(d). Petitioner initially proposed Phase I rates based on rate base as of September 30, 2016, and Phase II rates based on rate base as of September 30, 2017. Subsequent to Petitioner's case-in-chief filing, the parties agreed that Phase I rates will be based on actual rate base, as adjusted, at February 29, 2016. Petitioner initially proposed Phase I to be effective on or about October 9, 2016, and Phase II to be made effective on or about October 9, 2017.

However, given the significant delays to the procedural schedule, we find it no longer necessary to process Petitioner's case in two phases. Petitioner's rate base cut-off shall be for utility plant-in-service ("UPIS") as of September 30, 2017. We further find the test year to be used for determining Petitioner's projected operating revenues, expenses, and operating income shall be the 12-month period ending September 30, 2017, subject to the rate base certification process discussed in the section titled Rate Base Update Mechanism.

6. **Rate Design.** Since the Commission's approval of the merger that resulted in the formation of Petitioner in the Commission's July 8, 2015 Order in Cause No. 44587, Petitioner has maintained separate tariffs for each of its water and wastewater operating divisions. In this proceeding, Petitioner proposed to adopt single-tariff pricing for all of its water and wastewater operations. In support of its proposal, Petitioner presented the testimony of Mr. Scott A. Miller, partner in the firm of H.J. Umbaugh & Associates, LLP. Mr. Miller presented a cost-of-service study for each of Petitioner's individual water and wastewater service territories within Indiana as

¹ Petitioner did not provide percentage amounts. The Commission calculated percentages based on the amounts proposed by Petitioner.

well as state-wide consolidated water and wastewater cost-of-service studies. He said these analyses were then used as a basis to make recommendations regarding changes in Petitioner's present schedules of rates and charges for water and wastewater service.

Based on his cost-of-service study, Mr. Miller concluded that consolidated rates appear reasonable for the individual service territories. He said on their own, each service territory is relatively small and lacks the economies of scale that could ultimately result in savings to the customers. He said consolidating the rates mirrors the overall ownership and operation of the different units and more closely matches the allocation of costs to the service areas. He concluded that the consolidated water and wastewater rates proposed in his accounting report are fair, just, non-discriminatory, and reasonable and necessary to meet the projected revenue requirements of Petitioner.

Ms. Margaret Stull, Senior Utility Analyst, on behalf of the OUCC, testified that single-tariff pricing in this case appears reasonable. She described the review and evaluation she performed to reach this conclusion. She stated that in its next base rate case, Petitioner should provide all work papers and schedules both on a combined basis and an individual-company basis. She said this will allow any party to that case to review and determine whether single-tariff pricing continues to be reasonable. Mr. Jerome D. Mierzwa, Principal and Vice President of Exeter Associates, Inc., also testified on behalf of the OUCC and concluded that Petitioner's proposed consolidated rate designs for water and wastewater are reasonable. He suggested that the rates should be proportionately scaled-back if the revenue increase authorized by the Commission is less than Petitioner's proposal.

Based on the evidence presented, the Commission finds Petitioner's proposed move to single-tariff pricing is reasonable and in the public interest. Accordingly, we approve the rate design shown in Petitioner's Exhibit 4, Attachment SAM-1. We further find that if Petitioner proposes a change in its rate design in a future proceeding, it should provide all work papers and schedules both on a combined basis and an individual-company basis to demonstrate whether single-tariff pricing continues to be reasonable.

7. **Rate Base.**

A. **Customer Deposits, Plant Acquisition Adjustment, and RedZone Robotics Invoices.**

While the parties presented different amounts for customer deposits in their respective rate base calculations, no testimony was provided to explain the difference. Based on Petitioner's general ledger trial balance as of February 29, 2016, we find customer deposits for the consolidated water operations to be \$37,650 and for the consolidated wastewater operations to be \$23,759. The parties agreed to a plant acquisition adjustment for the consolidated water operations of \$332,047 and to remove RedZone Robotics invoices totaling \$26,555. The remaining rate base issues are discussed below.

B. Ground-Storage Tanks.

1. Petitioner's Evidence. Mr. Steven M. Lubertozi testified regarding the Twin Lakes water system, which includes one 200,000-gallon elevated-storage tank and two 500,000-gallon ground-storage tanks ("North GST" and "South GST").² He testified that Petitioner disassembled the Peabody 500,000-gallon ground-storage tank ("Peabody GST"), and replaced it with the new North GST in 2014-2015.³ He explained that Peabody GST had numerous leaks around the bottom ring of the tank and had needed to be replaced. Mr. Lubertozi testified that North GST provides the necessary storage to meet the needs of the community and it provides redundancy. He testified in his case-in-chief that North GST was constructed at a cost of \$507,443 and placed in service in the fourth quarter of 2015.

Regarding Commission approval and Petitioner's construction of South GST, in the Commission's April 23, 2014 Order in Cause No. 44388, Petitioner was allowed to add to rate base \$650,000, which was Petitioner's proposed cost to construct South GST. That Order also approved a Stipulation and Settlement Agreement between Petitioner, OUCC, and LOFS. Petitioner built South GST during 2013-2014. Accordingly, Petitioner included the actual cost to build South GST in its rate base in this Cause. Petitioner's actual cost exceeded its previously proposed cost, but Petitioner did not offer pre-filed testimony to explain the exceedance. However, as discussed below, the OUCC analyzed the cost to construct South GST and presented evidence regarding the cost.

2. OUCC's Evidence. Mr. James T. Parks, OUCC Utility Analyst II, testified that ratepayers should not be expected to pay for new tanks that are poorly planned, unnecessary, or include inflated costs of construction. Additionally, Mr. Parks said that Petitioner could have discussed with the OUCC why it needed the new North GST.

Mr. Parks testified regarding the representations he believed Petitioner made regarding the scope that was included in the \$650,000 tank project in Cause No. 44388. Mr. Parks testified that the OUCC accepted Petitioner's proposal in Cause No. 44388 to build South GST *and to rehabilitate Peabody GST* for a total of \$650,000. However, Mr. Parks testified that other than listing the project's \$650,000 cost in Cause No. 44388, Petitioner provided no details regarding the costs. Finally, Mr. Parks testified that the plan the OUCC agreed to in Cause No. 44388 was *not* a plan for Petitioner to build South GST and to replace Peabody GST with the new North GST.

Mr. Parks testified regarding the types of planning studies Mr. Parks believed Petitioner should have performed prior to constructing North GST. He testified that Petitioner did not provide studies concerning water consumption, well production, water treatment plant production, high-service pumping, storage amounts, or life-cycle analysis to the OUCC to demonstrate that constructing North GST was prudent. He stated if Petitioner's studies showed additional water storage was in fact needed, alternatives could have included a new tank of a different capacity, type, or location. Mr. Parks testified that even though life-cycle analysis is a long-established engineering practice used by well-managed utilities and it is beneficial for planning major capital

² Mr. Lubertozi adopted the pre-filed testimony originally provided by Mr. Bruce Haas, Pet. Ex. 3 at 10.

³ During cross-examination by the OUCC, Mr. Lubertozi mistakenly identified the new tank in Petitioner's pre-filed testimony in this Cause as South GST.

improvement projects such as water tanks, Petitioner did not provide these types of studies for its capital projects.

Additionally, Mr. Parks stated in his supplemental testimony that Petitioner's justification for replacing Peabody GST with North GST appeared to be limited to a two-hour desktop review that was summarized in a one-page letter dated March 3, 2015, from RHMGE Engineers, Inc. ("RHMGE"). He said RHMGE's letter was submitted only after the OUCC filed its direct testimony recommending the Commission to disallow the construction costs for North GST. The initial February 26, 2015 email from Petitioner to RHMGE requested an opinion on the feasibility of replacement and a project quote, which the OUCC presumed to be a project quote for the design of North GST. Mr. Parks testified that it appeared to him that Petitioner only requested RHMGE's opinion to support the decision Petitioner already made.

Mr. Parks presented data regarding Petitioner's production quantities and demand, and he concluded that the data did not support Petitioner needing to build North GST. Mr. Parks said Petitioner's actual water production dropped to an average of 591,000 gallons per day ("gpd") and a peak-day demand of 1,116,703 gpd. He testified that Petitioner has met peak demand historically even during droughts by using its storage tanks and other water system components including wells, two treatment plants, and high-service pumps with a combined 1,685,000 gpd capacity. Mr. Parks testified that it is good practice to have the water-storage volume recommended by the Ten States Standards, but many utilities do not meet the minimum, including Indianapolis, Shelbyville, and Petitioner's own WSCI division.⁴

Mr. Parks testified that Petitioner hired contractor Central Sewer & Water ("CS&W") to perform construction work on the new North GST and some of the work reportedly performed was never performed and some of the invoice amounts were inflated. He testified that work invoiced by CS&W, which Petitioner alleged was done as directed by Mr. Bob Bakalar, Lake County Building Inspector, was neither required by the Inspector nor actually done. The work Mr. Parks believes was not done totaled \$80,200 and included \$8,500 that CS&W billed on Invoice No. 4093 and 80% of the \$89,500 CS&W billed on Invoice No. 4102. Mr. Parks testified that he spoke directly to Mr. Bakalar who confirmed he made only one inspection of North GST. Mr. Bakalar told Mr. Parks he never ordered additional excavations and ordering more stone did not happen. Mr. Parks also testified that CS&W Invoice Nos. 4084 and 4105 appeared to have inflated costs based on his cost estimations. Mr. Parks eventually proposed that the Commission disallow all costs to construct the new North GST.

Mr. Parks testified that Petitioner hired CS&W to perform construction work on South GST and he believed some of those costs were inflated also. He testified Petitioner paid CS&W nearly \$110,000 on South GST for site restoration, a water line, and a storm sewer, which were built but not on the design drawings. Mr. Parks also alleged that CS&W charged more for some work than typical. Additionally, he stated that Petitioner capitalized 756 hours of employee time equaling \$35,763 to the South GST project. However, since Petitioner did not describe the work performed or why the capitalized time was necessary, it was not possible to verify that the capitalized charges were prudent or should be recoverable.

⁴ *Recommended Standards for Water Works* (commonly known as the Ten States Standards), Great Lakes - Upper Mississippi River Board of State and Provincial Public Health and Environmental Managers, 2012 Edition.

Regarding the cost to construct South GST, Mr. Parks testified that Petitioner should have selected a different contractor, Cady Aquastore, to construct South GST. He said that if Petitioner would have selected Cady Aquastore, Petitioner would have left nearly \$300,000 available for rehabilitating Peabody GST and avoided constructing North GST.

Finally, Mr. Parks recommended that the entire cost of \$543,997 to construct North GST be disallowed for the reasons discussed above, but the \$18,800 cost to dismantle Peabody GST should be allowed. Petitioner's revised North GST cost of \$562,797 less \$18,800 cost to dismantle Peabody GST is \$543,997. Mr. Parks also recommended that the cost for South GST be capped at \$650,000, the same amount that was proposed and approved in Cause No. 44388.

3. Petitioner's Rebuttal. Mr. Kersey responded to the OUCC's position that Petitioner did not follow its plan presented in Cause No. 44388 to construct South GST *and rehabilitate Peabody GST* for \$650,000. Mr. Kersey disputed Mr. Parks's statement that the cost of rehabbing Peabody GST was supposed to be included in the \$650,000 cost. Mr. Kersey stated that the OUCC failed to produce a single document in discovery to support its position that rehabbing Peabody GST was included within Petitioner's \$650,000 plan. Mr. Kersey concluded that Mr. Parks did not correctly interpret Petitioner's position in Cause No. 44388.

Additionally, Petitioner's engineering consultants ultimately recommended replacement, not rehabilitation of Peabody GST. Ms. Marcia McCutchan, P.E., Executive Vice President of RHMGM, stated that based on her personal observations of the condition and continuing corrosion of Peabody GST and discussions regarding the cost of various tank rehabilitation options, RHMGM recommended replacement of Peabody GST.

Regarding the various studies performed during the planning process, Ms. McCutchan stated that RHMGM's involvement with Petitioner's tanks dates back to 1990 and RHMGM has extensive knowledge and experience with Peabody GST and the decision to replace it. Ms. McCutchan said that she was on site in 1992 and assisted with the startup of Peabody GST. Ms. McCutchan testified that she visited the site several times over the past 25 years including numerous times in 2013 and 2014 when she observed the condition and continuing corrosion of Peabody GST.

Ms. McCutchan testified that the decision to replace Peabody GST with the North GST was based on a review of records and information regarding the tank, as well as an evaluation of viable alternatives. The decision was not based on a two-hour desktop review as Mr. Parks suggested. Ms. McCutchan explained during cross-examination that she did not keep records of all of her recommendations to Petitioner and she kept a lot of knowledge in her head. Tr. at C-61, 62. She also said there were additional documents regarding the tanks in her files, not all of which she had provided to Petitioner. *Id.* at C-59.

Ms. McCutchan testified that she conducted an informal engineering analysis of Petitioner's water storage requirements under the Ten States Standards, but she did not create a written copy. *Id.* at C-81, 82. Ms. McCutchan testified that she was not surprised that Petitioner did not perform a life-cycle cost analysis because, based on Petitioner's and RHMGM's experience with alternative water-storage structures for tanks in this volume range, performing a life-cycle

cost analysis was not necessary to determine that a ground-storage tank of steel construction is the recommended alternative.

Mr. Lubertozi responded to Mr. Parks's contention that Petitioner did not conduct proper studies prior to its decision to replace Peabody GST. Mr. Lubertozi stated that Petitioner relied upon the independent assessment of RHMg, and he provided an e-mail from Petitioner's former Area Manager to Ms. McCutchan seeking RHMg's opinion regarding the feasibility of replacement versus rehabilitation of Peabody GST. He said this e-mail showed that there was no doubt that on February 26, 2015, Petitioner's local management was contemplating rehabilitating Peabody GST. Mr. Lubertozi testified that, in his opinion, replacement of Peabody GST was reasonable and prudent.

Mr. Lubertozi replied to the OUCC's contention that North GST was not needed to meet finished-water storage requirements. He testified that after construction of both North GST and South GST, the Twin Lakes service territory still only has 1,200,000 gallons of finished-water storage capacity. He testified that the OUCC supported this level of water capacity in Cause No. 44388. He stated that it is unreasonable for the OUCC to accept a given capacity level in one case, only to reject that capacity level in the next case.

Regarding finished-water storage requirements, Dr. John Norton, PhD, P.E., a project manager for Utilities, Inc., also discussed his concerns regarding the OUCC's calculation of minimum-recommended storage volume using the average-daily demand calculated from a multi-year period. He testified that *average-daily demand* calculated from a multi-year period does not account for seasonal variations, regional weather occurrences, operational upsets, power outages, firefighting demand, or other real factors which affect and impact water plant operations. Instead, Dr. Norton testified that minimum-recommended storage volume should have been calculated based on the *peak-daily flow* determined from daily-flow values measured over a representative period of time, preferably over a multi-year period.

Ms. McCutchan also testified regarding Petitioner's finished-water storage requirements. She testified that for communities similar to the Lakes of the Four Seasons with golf and lake amenities, summer demand levels are typically consistently higher than annual average-day demand and should be the design basis for system storage. She also pointed out that the Lakes of the Four Seasons Fire Department relies on Petitioner as a key source of water for its firefighting needs. Thus, to meet these demands and maintain reliable operations, she testified that RHMg continues to recommend finished-water storage volume *in excess of* 1.0 million gallons.

Responding to Mr. Parks's testimony that Petitioner should have selected Cady Aquastore to construct South GST and used the savings to rehabilitate Peabody GST, Dr. Norton disagreed. He said that Cady Aquastore's quote did not include the entire scope of work to construct South GST. Additionally, he testified that the issues with Peabody GST indicated that replacement was needed, not rehabilitation. Dr. Norton testified that Petitioner consulted with RHMg and an independent tank consulting firm, Tank Industry Consultants, about how to proceed with Peabody GST. Dr. Norton testified that those firms advised that the costs to rehabilitate Peabody GST would have exceeded the cost of replacement. Dr. Norton said that Petitioner reviewed the ongoing issues with Peabody GST and failure of the bottom ring and floor of the tank, and based on the condition

and number of leaks that had occurred, Petitioner agreed that a complete replacement of Peabody GST was appropriate.

Concerning CS&W's invoices, Mr. Lubertozi discussed Invoice No. 4102 for work on North GST, previously addressed by Mr. Parks, and stated that because of the nature of the excavation work contained in that invoice, Petitioner could not physically confirm the work was performed. To minimize controversy, Mr. Lubertozi said that Petitioner would accept Mr. Parks's recommended disallowance of \$71,700 related to the unconfirmed work on North GST.

Regarding CS&W's invoices and the OUCC's proposal to cap construction costs on South GST to \$650,000, Mr. Lubertozi testified that Petitioner does not accept the OUCC's adjustments on the CS&W costs for South GST construction because Petitioner compared CS&W's construction costs on South GST to North GST, and the costs were similar. He stated that based on the similarity of these projects and the nature of the work performed, Petitioner does not believe that a cost cap of \$650,000 is warranted for South GST.

Mr. Lubertozi responded to Mr. Parks's ultimate recommendation that North GST be totally disallowed from rate base. Mr. Lubertozi stated that the capital markets would have a negative reaction to the Commission disallowing the total cost of North GST. Mr. Lubertozi said that if the Commission were to disallow North GST from rate base, Petitioner would be forced to record a net loss of \$562,797 in the year the Commission's Order is finalized. Mr. Lubertozi testified that \$562,797 reflects the net effect of several accounting journal entries, including entries to UPIS and accumulated depreciation. Pet. Ex. R1 at 19. He said this loss would require Petitioner to sell or transfer North GST and then it would not be available to be used by Petitioner's customers. Mr. Lubertozi agreed to only exclude \$71,700 of cost on North GST, which represented unconfirmed CS&W work.

Mr. Kersey responded to the OUCC's ultimate recommendation to limit South GST costs. Mr. Kersey testified that the OUCC proposed a limit of \$650,000 on costs associated with South GST. He testified that Petitioner does not agree with this proposed reduction because, while Petitioner's forecast in Cause No. 44388 consisted of \$650,000 in capital costs, that forecast did not include an estimate for capitalized time and an allowance for funds used during construction ("AFUDC"). He further testified that total costs booked for South GST were \$715,318. He stated that Petitioner agreed to remove AFUDC from South GST project. Finally, Mr. Kersey testified that if the Commission were to limit Petitioner's recovery of South GST project, Petitioner suggested "isolating AFUDC and capitalized time" because these components were not included in the Company's Cause No. 44388 forecast of \$650,000. Pet. Ex. R2 at 42.

4. Commission Discussion and Findings. The OUCC indicated that Petitioner in Cause No. 44388 represented that Petitioner would construct South GST and rehabilitate Peabody GST for \$650,000. However, Petitioner disagreed, saying that it agreed only to construct South GST for \$650,000, not construct South GST *and rehabilitate Peabody GST* for \$650,000. Regarding Petitioner's evidence filed in its case-in-chief under Cause No. 44388, Petitioner listed *Install Additional 500K Gallon Water Storage Tank at WTP1* for \$650,000 in its Summary of Capital Projects, Table 1. Pet. Ex. BTH at 8. WTP1 means Water Treatment Plant One. In that table, there is no reference to Peabody GST. Additionally, Petitioner, in its case-in-chief under Cause No. 44388, explained the tank project in relevant part as follows below:

The addition of a second ground storage tank [South GST] will enable [Petitioner] to continue serving the community potable water without concerns of interruption during these high demand periods. This addition will enable [Petitioner] to service the existing ground storage tank [Peabody GST], while still having the ability of 500K gallons of storage during this process. Pet. Ex. BTH at 9.

We believe that Petitioner was explaining above that adding South GST would *enable* Petitioner to service Peabody GST. We believe that Petitioner was not proposing to construct South GST and also rehabilitate Peabody GST for \$650,000. This position is supported by the fact that there was no mention of Peabody GST in Petitioner's Table 1, Summary of Capital Projects. When Petitioner submitted its case-in-chief in 2013 on Cause No. 44388, it is clear that \$650,000 was for building South GST and rehabilitating Peabody GST was a consideration. However, Petitioner ultimately decided, based on engineering advice from RHMg, to replace Peabody GST. The evidence simply does not support the OUCC's conjecture that \$650,000 included the cost to build South GST and rehabilitate Peabody GST.

Regarding the extent of Petitioner's various studies before constructing North GST, the OUCC testified that Petitioner did not provide evidence of adequate studies being performed, including a life-cycle analysis. Ms. McCutchan provided rebuttal testimony that RHMg had extensive knowledge and experience with the water system going back to 1990. She testified that her recommendation to replace rather than rehabilitate Peabody GST was based on her extensive review of historical records, her personal observations of Peabody GST, and relative cost comparisons. Ms. McCutchan further testified that her personal experience included visiting the site numerous times in 2013 and 2014 and observing the continuing corrosion of Peabody GST. Ms. McCutchan stated there were additional documents regarding the tanks in her files that were not submitted, and she said that she prepared an informal engineering analysis under the Ten States Standard. Ms. McCutchan also explained that based on Petitioner's and RHMg's experience with alternative water storage structures for tanks in this volume range, a life-cycle analysis was not necessary to determine that a steel ground-storage tank was the recommended alternative.

Although Petitioner relied upon the extensive knowledge and experience of RHMg, it is concerning to us that Petitioner did not submit all documents prepared by RHMg and a summary of Ms. McCutchan's review of historical records, personal observations of Peabody GST, and relative cost comparisons. In the future, we expect Petitioner to retain better documentation to more thoroughly demonstrate that capital projects are reasonable and prudent.

Concerning Petitioner's finished-water storage-capacity needs, the OUCC argued that Petitioner should not have replaced the old Peabody GST with the new North GST because this resulted in Petitioner having excess finished-water storage capacity. Petitioner explained that the total finished-water storage capacity after completion of both tanks and removal of Peabody GST is the same total capacity amount that resulted from the construction of South GST in Cause No. 44388. No convincing evidence was presented by the OUCC that there was a change of circumstances to warrant a need for a decrease in the required capacity as compared to the capacity that resulted from the Stipulation and Settlement Agreement under previous Cause No. 44388. Petitioner's evidence regarding peak-daily flow and finished-water storage requirements for areas

with increased summer demand-support the total storage capacity of 1.2 million gallons. The Commission finds there is insufficient evidence to support the OUCC's contention that construction of North GST should not have occurred because it created excess storage capacity.

Regarding Mr. Parks's position that Petitioner should have selected Cady Aquastore's proposal to construct South GST and use the savings to rehabilitate Peabody GST, we do not agree. Because Cady Aquastore's quote was incomplete, it is unclear if there would have been any savings realized by selecting Cady Aquastore. Additionally, Mr. Parks's position is based on the assumption that rehabilitation of Peabody GST would have been prudent. However, Dr. Norton testified that Petitioner consulted with RHMG and Tank Industry Consultants about whether to repair or replace Peabody GST. Dr. Norton testified that those firms advised that the costs to rehabilitate Peabody GST would have exceeded the cost of replacement. Dr. Norton testified that both of those firms and Petitioner's own review of the ongoing problems with the tank, including its condition and leaks, indicated that replacement of Peabody GST was appropriate. Based upon our review of the evidence, we find that the replacement of Peabody GST was reasonable and prudent.

Mr. Parks alleged that Petitioner's contractor CS&W on North GST did not actually perform some work and CS&W's invoices were inflated. Mr. Parks ultimately recommended disallowing all costs to construct North GST. Mr. Lubertozi said that Petitioner would accept a disallowance of \$71,700 on North GST related to excavation work that Petitioner could not physically confirm was performed. The Commission agrees with Petitioner and finds that \$71,700 of costs for unconfirmed work are excluded from revised construction costs for North GST of \$543,997. We discuss the total costs allowed for rate base for North GST in more detail later in this section. Additionally, we identify improvements Petitioner should make regarding its oversight of contractors' invoices, including oversight of CS&W's invoices, in this Order in the section titled Use of Three-Way-Match Process.

Additionally, Mr. Parks testified that Petitioner should have communicated with the OUCC and explained why it needed North GST. Petitioner did not dispute that more communication would have been helpful. In the future, the Commission urges Petitioner to improve its communication with the OUCC regarding significant capital-improvement projects. The OUCC can provide helpful advice to Petitioner about the types of engineering studies that are typically provided by other utilities to support capital projects, and increased communication could ultimately result in increased support for Petitioner's proposed projects.

Regarding total costs for North GST, Mr. Parks recommended that the construction costs on North GST be totally disallowed in rate base. Mr. Lubertozi agreed to eliminate \$71,700 of costs related to a CS&W invoice on North GST discussed above. The Commission is not persuaded by the OUCC's arguments that all North GST costs should be disallowed. We agree that Petitioner should have documented its pre-construction engineering analyses more thoroughly. The current finished-water storage capacity is the same amount considered in the previous Cause No. 44388. No convincing evidence was presented to support the contention that the previously approved capacity is now excess capacity. Petitioner found a need for a capacity of 1.2 million gallons, and it could not prudently rehabilitate Peabody GST. Accordingly, Petitioner built the new North GST with the same storage capacity as the tank it replaced, Peabody GST. We do not believe that there

is a rational basis to disallow the total cost of North GST. The Commission finds that North GST, which is now in service, is used and useful in Petitioner's water system and supports the needs of the community for finished-water storage. The Commission approves the net addition of \$491,097 to rate base for the demolition of Peabody GST and the construction of North GST. For North GST, the calculation of the total approved amount is as follows: Petitioner's revised cost as presented in rebuttal of \$562,797, which includes the \$18,800 for Peabody GST dismantling costs, less a reduction for the CS&W invoice of \$71,700 equals \$491,097.

Concerning total costs for South GST, which was placed in service in 2014 and the proposed cost was included in Cause No. 44388, the OUCC recommended limiting the cost to \$650,000, the amount proposed by Petitioner in that Cause. Mr. Parks also testified about questionable CS&W invoices and a lack of explanation regarding significant capitalized time by Petitioner on South GST. Mr. Lubertozzi testified that the construction costs on South GST were similar to the costs on the new North GST and Petitioner did not accept Mr. Parks's recommendation to limit the cost to \$650,000. Mr. Kersey ultimately said if the Commission were to limit Petitioner's recovery of South GST project, Petitioner suggested isolating cost components that were not included in the Company's Cause No. 44388 forecast of \$650,000.

After reviewing the evidence in this Cause, the Commission is concerned about the OUCC's assertion that some CS&W charges were for work that was not in the original design drawings and some costs seemed inflated. Additionally, the OUCC stated that Petitioner did not provide a detailed explanation of the capitalized time of employees who worked on South GST. Accordingly, the Commission finds that the increase to rate base for construction of South GST is limited to \$650,000, the amount approved in Cause No. 44388. For South GST, the calculation of the total approved amount is as follows: Petitioner's proposed \$715,318 less a reduction of \$65,318 equals \$650,000, the amount approved in Cause No. 44388.

C. Manhole Rehabilitation.

1. OUCC's Evidence. Mr. Parks testified regarding contractors' invoices to Petitioner for manhole rehabilitation work. Mr. Parks testified that Petitioner initiated a confidential investigation into invoices from CS&W that were prepaid by Petitioner. He testified that contractors performed manhole re-inspections and interior lining work in 2016 in response to Petitioner's investigation. He further testified that three to five weeks after Petitioner determined that the manhole work totaling \$80,750 on Invoice No. 4018 was not performed, additional contractor work was performed. All 21 re-inspected manholes and newly located manholes had their interiors lined or were repaired by Spectra-Tech LLC ("Spectra-Tech") at a total cost of \$52,448. Mr. Parks discussed his review of manhole sealing and lining work invoiced by CS&W and Spectra-Tech. He testified that his review indicated that \$149,001 of the \$160,627 paid to CS&W for manhole work was not performed and the costs were in rate base prior to 2015.

Mr. Parks discussed CS&W Invoice Nos. 3114 and 3115 and stated that six manholes that were shown on invoices as being excavated from the outside also showed evidence of interior lining performed by Spectra-Tech. He stated that it does not make financial sense for Petitioner to pay one contractor to excavate and seal manhole exteriors and then pay a second contractor to line the interiors of the same manholes. He further stated that he identified 17 manholes that were

reportedly repaired by CS&W and also lined by Spectra-Tech. He stated that his review of the invoices gave him a negative view of Petitioner's management. Mr. Parks further discussed the costs associated with rehabilitating manholes shown on Invoice Nos. 3111, 3112, 3114, and 3115 and stated that constructing a new manhole would have cost less than the \$13,000 plus of rehabilitation costs paid by Petitioner to seal and line certain manholes. Mr. Parks said that Invoice Nos. 3111, 3112, 3114, and 3115 were dated at year end, and it appeared to him that \$60,490 of the invoiced work was not completed.

Mr. Parks recommended that the Commission continue to require semi-annual reports from Petitioner and order Petitioner to prepare and submit a more comprehensive wastewater lateral and manhole repair tracking form with its semi-annual reports to prevent future issues from occurring. Mr. Parks further recommended that the Commission require a person from upper management to sign the semi-annual reports verifying under oath that the reports had been prepared under their direction or supervision and that the information submitted is, to the best of their knowledge and belief, true, accurate, and complete.

2. Petitioner's Rebuttal. Mr. Lubertozi responded to the OUCC's criticisms related to CS&W invoices. Despite Mr. Parks's contention that no work invoiced on Nos. 3111, 3112, 3114, and 3115 was performed, Mr. Lubertozi testified that Petitioner investigated Invoice Nos. 3114 and 3115. Petitioner obtained four invoices from a restoration contractor showing restoration work was performed. Petitioner's local operating personnel also recalled being at Manhole No. 93 and confirmed that the work was completed. To minimize the contested issues in this Cause, Petitioner agreed to remove \$41,750 of manhole work and accepted the OUCC's adjustments to certain other CS&W invoices.

3. Commission Discussion and Findings. The OUCC recommended disallowance of \$60,490 associated with Invoice Nos. 3111, 3112, 3114, and 3115. In rebuttal, Mr. Lubertozi explained that Petitioner's physical audit reviewed two invoices specifically challenged by the OUCC and determined, in some instances, that the work actually was performed. We note that Petitioner's evidence specific to CS&W's Invoice Nos. 3114 and 3115 was invoices from a third-party contractor and recollections of Petitioner's personnel. We find that the evidence presented by Petitioner to show that some of the work billed by CS&W was actually performed is weak and unconvincing. Accordingly, the Commission accepts the OUCC's recommendation that \$60,490 be removed from rates.

The Commission is also concerned about Petitioner's lack of supervision over contractor work performance and inadequate financial controls over contractor invoices. The Commission notes that Petitioner did not identify that it paid CS&W for manhole work that was not performed until the OUCC identified the errors in its review. Petitioner should have identified the errors during its own review of invoices in the regular course of business. The Commission finds that Petitioner did not properly monitor the work performance of contractors performing manhole work and Petitioner did not maintain adequate financial controls over the invoices of manhole contractors. The Commission will direct Petitioner to improve oversight of projects performed by contractors and improve financial controls over invoices in the section titled Use of Three-Way-Match Process.

Moreover, the Commission is concerned about Petitioner’s lack of technical review over the manhole work by contractors. Based upon the OUCC’s testimony, it is not reasonable for Petitioner’s management to allow contractors to perform external and internal lining of the same manhole because these are redundant activities. Additionally, the OUCC testified that it would have been cheaper for Petitioner to use one contractor for the work and also that construction of a new manhole is sometimes more cost efficient than a repair. The Commission finds in this instance that Petitioner did not properly plan its repairs of manholes and its use of contractors to effectively control costs. To focus Petitioner on improving in these areas, in the section of this Order titled Wastewater and Water Service Quality and Communications with LOFS, we require Petitioner to submit detailed wastewater lateral and manhole repair tracking forms to the Commission on a quarterly basis.

D. Capital Projects.

1. Petitioner’s Evidence. Mr. Lubertozi provided a summary of additional capital improvements Petitioner has invested in already or plans to invest in as part of this Cause.

Petitioner’s Capital Project Descriptions	Estimated Amount
Supervisory Control and Data Acquisition at Water Treatment Plant	\$ 87,170
Second Sludge-Storage Tank at Wastewater Plant	539,159
500,000-Gallon Water-Storage Tank Replacement (North GST)	507,443
Wastewater Treatment Plant Headworks	1,072,503
WSCI Hydro-Tank Replacement at Water Plant	161,211
2015 Sewer Capital Improvement Project	435,775
2016 Sewer Capital Improvement Project	443,202
2017 Sewer Capital Improvement Project	228,112
Total	\$ 3,474,575

Mr. Lubertozi stated that installing Supervisory Control and Data Acquisition (“SCADA”) controls will provide continuous monitoring and automated operations of the water treatment facilities and will allow automatic operations to maintain levels within the distribution system along with the existing ground-storage tanks.⁵

Concerning the Second Sludge-Storage Tank at the wastewater treatment plant (“WWTP”), Mr. Lubertozi stated that Petitioner currently operates with one 400,000-gallon sludge-storage tank. However, with increasingly more stringent phosphorous limits, a second tank is needed. He testified that a second tank will also provide needed additional storage as well as redundancy and allow one tank to be taken out of service for inspection or maintenance.

Regarding the WWTP Headworks Upgrades, he explained that the sewage grinder originally in operation at the headworks structure failed and a manual bar screen is being

⁵ We note that Petitioner’s Exhibit 15 reflects that \$34,539 of the \$87,170 amount for SCADA is allocated to wastewater operations.

temporarily used. He further explained that a new structure will be added to the head of the plant that will use a mechanical step screen to remove the non-biodegradable solids from wastewater. The new structure will also have a grit removal system to remove sand-like debris from wastewater before it enters the plant. Mr. Lubertozi explained that the removal of these two types of solids will allow for more efficient solids removal and reduce future maintenance requirements within the WWTP as well as aid in the reduction of potential blockages and backups within the WWTP.

For the WSCI Hydro-Tank Replacement at the water treatment plant, Mr. Lubertozi testified that Petitioner inspected the existing hydro-tank in 2014 and determined that the tank reached the end of its useful life and posed a safety risk to nearby residents and operations staff. He testified that a new tank was installed and placed in service in October 2015.

Regarding Petitioner's proposed 2015, 2016, and 2017 Sewer Capital Improvement Projects ("SCIP"), Mr. Lubertozi stated that Petitioner is required by the Commission in Cause No. 43128 S1 to clean and televise a minimum of 10% of its sewer collection system each calendar year and to make the necessary repairs and replacements of deficiencies. Mr. Kersey explained in the February 6, 2017 Docket Entry Response 4-40 that \$148,122 of SCIP for 2015 was included in Petitioner's UPIS at February 29, 2016 balance.

2. OUCC's Evidence. Mr. Parks testified regarding Petitioner's plans to install a SCADA communication system at the Twin Lakes water division to link both water treatment plants and the elevated water tower. He testified that he was not able to review project specifics or the reasonableness of the project because Petitioner's case-in-chief did not provide this information. He said that the OUCC requested this information but did not receive it. He recommended that the Commission disallow the SCADA project in its entirety due to lack of information provided by Petitioner for the OUCC to review whether the project is prudent and reasonable.

Regarding Petitioner's proposal to install a Second Sludge-Storage Tank at Petitioner's WWTP, Mr. Parks testified the estimated cost is \$539,150. He further testified that Petitioner completed minimal planning regarding the tank's construction and that he requested additional information regarding project specifics, but he did not receive it. He stated that he did not believe Petitioner needed to construct a second sludge-storage tank in 2017 because the phosphorus limits Petitioner used to justify the project would not take place until 2021. Mr. Parks recommended that the Commission disallow Petitioner's Second Sludge-Storage Tank project in its entirety.

Mr. Parks also testified regarding Petitioner's proposed WWTP Headworks Upgrades. He testified that Petitioner proposed to construct new grit removal, mechanical step screening, and raw sewage odor control in a new Headworks Building. He further discussed the need for the WWTP Headworks project and stated that he requested additional information from Petitioner regarding project specifics, but he did not receive the information. He testified that despite Petitioner's contention that the Headworks Upgrades will benefit ratepayers, the cost savings were not quantified. He recommended that the Commission disallow the Headworks Upgrades in their entirety.

Mr. Parks testified regarding Petitioner's Hydro-Tank Replacement Project at the water treatment plant. Mr. Parks explained generally what a hydro-tank is and explained why Petitioner needed to replace its original hydro-tank. Mr. Parks testified that Petitioner estimated a cost of \$110,000, but based on his review, actual costs associated with the Hydro-Tank Project were \$183,239. Mr. Parks further testified that, while he agreed with Petitioner that the Hydro-Tank Replacement project was needed, he was unable to verify that the higher project cost was reasonable.

The OUCC recommended adjustments to Petitioner's initial SCIP estimates for 2016 and 2017 to remove costs for televising, cleaning, and mapping because those costs are more appropriately classified as operating expenses rather than as capital projects. The OUCC's rate base schedules reflect revised SCIP amounts of \$180,903 for 2016 and \$361,806 for 2017.

3. Petitioner's Rebuttal. Mr. Kersey provided an update on Petitioner's proposed capital projects and responded to the OUCC's suggested adjustments. As shown in Table 7, Petitioner removed the SCADA system for the Water Treatment Plant, Second Sludge-Storage Tank, and WWTP Headworks Upgrade projects from rate base. Pet. Ex. R2 at 31. Mr. Kersey also revised the cost estimates for the remaining capital projects. Petitioner provided a revised Table 7 in its February 6, 2017 Docket Entry Response 4-43 that correctly tabulated its case-in-chief and rebuttal amounts as shown in the table below.

Petitioner's Rebuttal Amounts, Table 7, Adjustments to Forecasted Projects

Petitioner's Revised Capital Project Description Per Rebuttal Testimony	Case-in-Chief	Rebuttal Amount	Change
Supervisory Control and Data Acquisition at Water Treatment Plant	\$ 87,170	N/A	\$ (87,170)
Second Sludge-Storage Tank at Wastewater Plant	539,159	N/A	(539,159)
500,000-Gallon Water-Storage Tank Replacement (North GST)	507,443	\$ 491,097	(16,346)
Wastewater Treatment Plant Headworks	1,072,503	N/A	(1,072,503)
Hydro-Tank Replacement at Water Plant	161,211	184,151	22,940
2015 Sewer Capital Improvement Project	435,775	148,122	(287,653)
2016 Sewer Capital Improvement Project	443,202	180,903	(262,299)
2017 Sewer Capital Improvement Project	228,112	361,806	\$133,694
Total	\$ 3,474,575	\$ 1,366,079	\$(2,108,496)

Regarding the Hydro-Tank Replacement, Mr. Kersey testified that Petitioner does not agree with the OUCC's recommendation to remove the Hydro-Tank Replacement costs from Petitioner's rate base. He testified that despite Mr. Parks agreeing that the Hydro-Tank Project was needed to replace the original hydro-tank, the OUCC proposed limiting project costs to \$110,000. He further testified that the OUCC arrived at the \$110,000 threshold based on a figure that was communicated to Mr. Parks by Mr. Lubertozzi. Mr. Parks admitted he did not know the cost detail used to arrive at the \$110,000. Mr. Kersey testified that the completed project cost was \$184,151; \$155,609 in construction costs for engineering, material, and contract labor, \$20,582 in capitalized

time, and \$7,959 in AFUDC. Petitioner does not agree that any of these costs should be removed from rate base because the OUCC failed to provide which of the higher costs were unreasonable and failed to base its recommendation on costs that are on record in this Cause.

Mr. Lubertozi stated that capitalized time and interest costs during the Hydro-Tank construction were not included in the original \$110,000 estimate communicated to Mr. Parks. Mr. Lubertozi further stated that despite Mr. Parks's contention that he was unable to verify that the higher project costs were reasonable, he admitted that he was able to review project specifics, the reasonableness of the project, and the project costs. Mr. Lubertozi stated that the OUCC was aware that Petitioner's original tank failed inspection and a significant investment would need to be made to replace it. He testified that the OUCC agreed that the project was necessary and did not identify any costs associated with the Hydro-Tank that it believed were imprudent or unreasonable. For these reasons, Mr. Lubertozi recommended that the Commission reject the OUCC's proposed cap of \$110,000 on Petitioner's Hydro-Tank Project.

4. Commission Discussion and Findings. The OUCC identified concerns with several of the forecasted capital projects Petitioner proposed to include in rate base. In rebuttal, Petitioner removed several of those projects. Thus, the only remaining challenged capital projects (excluding North GST, which is discussed separately) are the Hydro-Tank Replacement and SCIP.

For the Hydro-Tank Replacement, the OUCC agreed that this project is necessary but questioned the increase in costs above the preliminary cost estimate provided to the OUCC. The record shows that the preliminary estimate of \$110,000 for the Hydro-Tank Replacement project did not include capitalized time and interest during construction. While the OUCC agreed with Petitioner that the Hydro-Tank Replacement project was needed, Mr. Parks said that he was unable to verify that the higher project cost was reasonable. Because the OUCC did not identify any specific costs which it considered unreasonable or imprudent, we decline to accept the OUCC's position regarding the Hydro-Tank project and accept Petitioner's updated Hydro-Tank Replacement cost of \$184,151.

Regarding SCIP, the Commission finds that Petitioner's rebuttal testimony amount of \$180,903 for 2016, which does not include work scope that is properly classified as operating expense, should be reduced to \$107,404 based on Petitioner's 2017 Monthly Project Update. The Commission finds that 2017 SCIP should be limited to \$180,903, subject to the adjustment in the Rate Base Update Mechanism section. We note that while Petitioner's 2017 SCIP shown in Mr. Kersey's rebuttal testimony agrees with the OUCC's supplemental rate schedules, the \$361,806 included in the OUCC's schedules is inconsistent with Mr. Parks's written testimony and appears to be an error. Further, Petitioner's rebuttal testimony never explains the proposed increase to \$361,806. We note that Petitioner's SCIP 2015 proposed amount of \$148,122 was already included in Petitioner's \$19,091,095 UPIS at February 29, 2016 balance. Accordingly, no amount should be added to rate base for SCIP in 2015.

IURC's Findings: Capital Projects To Be Included in Rate Base	Amount
Hydro-Tank Replacement at Water Plant	\$ 184,151
2016 Sewer Capital Improvement Project	107,404
2017 Sewer Capital Improvement Project	180,903
500,000-Gallon Water-Storage Tank Replacement (North GST)	491,097
Total	\$ 963,555

E. Non-Capital Costs.

1. OUC's Evidence. Ms. Stull expressed concern that Petitioner was excessively capitalizing operating expenses and Petitioner's Capitalized Time Guidelines encouraged this practice. Pub. Ex. 1 at 23. She said Petitioner consistently capitalizes costs such as well cleaning, geographic information system ("GIS") mapping, televising of sewer mains, smoke testing of sewer mains, and other routine maintenance expenses of its water and wastewater systems if that activity led to a capital project. She said in the short run, it may appear to be less expensive to capitalize a cost rather than expense it. She said doing so reduces operating expenses today, but over the long run, ratepayers could pay both a return *on* and a return *of* that cost for 40 to 50 years or longer. Moreover, she stated the return *on* these costs will be grossed up for state and federal taxes. She provided an example of a \$1,000 repair expense and argued that after ten years, ratepayers would pay a higher annual revenue requirement if the item was capitalized versus expensed.

For Petitioner's water utility plant, Ms. Stull proposed to exclude \$171,845 of costs related to maintenance that should have been expensed. Ms. Stull also proposed to exclude \$77,272 of capitalized time, of which \$18,124 was associated with the operational activities identified below.

Well Cleaning Costs	\$	150,235
Filter Media Replacement		2,735
Well Maintenance		15,775
Other Misc. Non-Capital Costs		3,100
TOTAL	\$	171,845

For Petitioner's wastewater plant, Ms. Stull proposed to exclude \$4,222 of costs that were not properly classified. In addition, Ms. Stull also proposed to exclude \$41,405 of capitalized time, of which \$6,052 was associated with the operational activities identified below.

Blower Repair	\$	1,521
Tree Removal		484
NPDES Land App Permit		2,000
Other Plant		217
TOTAL	\$	4,222

Ms. Stull said that to the extent the costs removed should be considered a recurring operating expense and that operating expense is not already included in test year operating expenses, she proposed an upward adjustment to maintenance and repair expense as appropriate. Ms. Stull recommended that Petitioner be required to properly record operating expenses in its

general ledger. More specifically, she said that whether an activity is booked as an operating expense depends on the nature of the activity and not on whether a capital project follows the activity.

Ms. Stull also asserted Petitioner capitalized a disproportionately large percentage of employee time, sometimes 50% - 90% of an employee's time, including the time of high-level managers. She stated that, based on her experience, high-level manager time is not typically capitalized in material amounts. Ms. Stull noted that during January 2011 through September 2015, Petitioner capitalized allocations of \$490,659 to its consolidated water operations, including \$88,599 of capitalized-employee time, which represents 18.0% of total capital additions. Ms. Stull considered that percentage to be high since Petitioner hires contractors to perform all capital work except meter installations. Ms. Stull stated Petitioner's employees do not perform capital work themselves because it is against corporate policy for an employee to enter a trench or confined space. Therefore, Petitioner's employees capitalize time spent supervising contractors, conducting site reviews, working with contractors and engineers during construction, preparing project status updates, ordering materials, obtaining permits, and other similar administrative functions.

As an example, Ms. Stull noted the capitalized time for South GST was \$34,773, representing 756 hours. Five employees capitalized their time to South GST, including 704 hours charged by supervisory and management employees for time spent reviewing sites, making inspections, working with contractors, and attending meetings. One management employee charged 432.5 hours to South GST. The OUCC proposed to reduce excessive capitalization of management's time by \$24,183 for the water operations and \$35,353 for the wastewater operations.

Mr. Parks also expressed concern with Petitioner's tendency to capitalize its staff costs. Mr. Parks noted that capitalized emergency-leak repairs and capitalized time was an issue in the Twin Lakes Distribution System Improvement Charge ("DSIC") application under Cause No. 44646 in 2015. Mr. Parks said capitalized time charges are supposed to be for time spent by Petitioner's staff on capital projects during planning, design, construction, and start-up. Mr. Parks testified costs to acquire and put long-term assets into service are typically considered capital costs, while ongoing costs incurred for daily operations or to maintain the current condition of a long-lived asset are typically expensed. Mr. Parks said it appears Petitioner capitalizes almost every leak repair whether for water-main breaks or service-line leaks, and whenever any length of pipe is replaced instead of using a clamp, the cost is capitalized.

Mr. Parks noted that in Cause No. 44646, Twin Lakes indicated that it cost \$91,161 to replace 124 feet of distribution main as a result of nine main breaks. Mr. Parks noted that more than one-third of the cost was for employee-capitalized time even though the utility's employees do not perform any of the labor on those jobs. Mr. Parks stated that fundamentally, the capitalized time charged by Petitioner was excessive. He explained that the total number of capitalized hours Twin Lakes charged against water main repairs was 801 hours spread primarily among five utility staff members. At a cost of \$43.65 per hour, he said this equates to 89 hours for each of the nine water-main breaks, most of which were completed by the contractor with a three-or four-person crew within one day. He said total crew repair time would range from 18 to 40 hours per leak repair compared to 89 hours per leak repair for capitalized time. Mr. Parks recommended all

reasonable and prudent Petitioner staff time spent addressing water-main breaks and service-line leaks be expensed and not capitalized. The OUCC proposed to disallow \$34,965 for capitalized time associated with DSIC leak repairs, which should have been expensed.

2. Petitioner's Rebuttal. Mr. Kersey explained that the well cleaning costs, filter media replacement, and well maintenance costs the OUCC proposed to disallow from rate base should be set-up as a net-deferred charge component of rate base with a proposed recovery of these costs over a span of three years. Mr. Kersey explained that a three-year amortization period for well cleanings and rehabilitations is appropriate because the three-year period was chosen to reflect the above-normal corrosiveness of the water which requires well reconditioning at an above-normal frequency. Mr. Kersey further explained that without frequent reconditioning of Petitioner's wells, the risk of failure would increase and would result in otherwise unnecessary capital spending in the future. Mr. Kersey explained that Ms. Stull proposed an adjustment of (\$171,845) to operating expense based on the transactions the OUCC proposed to exclude in Public's Exhibit No. 1, Attachment MAS-4. However, no adjustment to operating expense was made. Petitioner recommended \$44,145 remain in rate base and the remaining \$127,700 be amortized through maintenance expense over a three-year period. The total amount of incremental amortization per year would be \$42,567 ($\$127,700 / 3$).

Mr. Lubertozi testified that Ms. Stull's comparison of an annual expense to a capital item only looked at the costs over a ten-year period. He said that if the expense item was truly ongoing, those costs would continue past the ten years and then customers would clearly pay more than what Ms. Stull depicts. Mr. Lubertozi asserted, "[I]t is a commonly understood practice that a regulatory utility should trade expense for capital whenever possible." Pet. Ex. R1 at 27.

With respect to the OUCC's comments regarding capitalized time, Mr. Lubertozi stated Petitioner uses a very straightforward and commonly accepted method when deciding whether to expense or capitalize costs when there is a main break or a leak. He said this method is common in the water and wastewater industry, even in Indiana. Furthermore, he said Petitioner's method is similar to what was discussed in Mr. Parks's testimony. Mr. Lubertozi explained that when there is a leak or main break and Petitioner installs one clamp to repair a leak, those costs are expensed. He said when there is a leak or main break and Petitioner replaces any portion of the transmission or collection system, Petitioner capitalizes all of the costs associated with that replacement. He said Petitioner's approach is consistent with Petitioner's internal policies as well as generally accepted accounting principles and the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USoA"), and he identified the specific NARUC USoA instructions that supported Petitioner's approach.

Mr. Kersey also responded to Mr. Parks's testimony and explained how Petitioner distinguishes capital costs from operating costs. He noted that Mr. Parks based his claim on the USoA, but in discovery, Mr. Parks did not offer an opinion on whether the accounting treatment of water main replacement under the USoA is dependent on whether the activity was planned or unplanned, or whether the accounting treatment of water main replacement under the USoA is dependent on the length of the replaced main. He further noted that the OUCC did not propose any rate recovery to implement their recommendation to treat main replacements as an expense. Mr. Kersey identified the annual forecasted expense that would need to be added to Petitioner's

operating expenses if the OUCC's position was adopted. Mr. Kersey explained that \$137,331 should be added to Petitioner's operating expenses, which consists of \$101,777 for pipe, replacement, and site restoration and \$35,554 in capitalized time from Petitioner's operations.

Further, Mr. Kersey explained that although he believes the Company prudently capitalizes time when applicable, to limit the number of contested issues, Petitioner accepts the OUCC's adjustments and has included corresponding adjustments related to capitalized time expense. However, Petitioner did not accept the OUCC's adjustment for capitalized time associated with DSIC leak repairs. Mr. Kersey explained capitalized time for water main leak repairs is still eligible for recovery, per the Company's Settlement with the OUCC in Cause No. 44646. Mr. Kersey opined that if the OUCC proposes that Petitioner cease capitalizing time for water main leak repairs, the OUCC should likewise propose a corresponding adjustment to Petitioner's forecast of capitalized-time expense, similar to the OUCC's proposed adjustments to excessive capitalization of management time and non-capital activities.

3. Commission Discussion and Findings. Under the capitalization policy section of Mr. Lubertozi's rebuttal testimony, he asserted that it is a commonly understood practice that a regulatory utility should trade expense for capital whenever possible. The Commission disagrees with that premise. A regulated utility should follow accounting principles and the NARUC USoA when classifying transactions. The business decision to either capitalize or expense a cost should be based upon the nature of the activity. Instead, Petitioner appears to capitalize its maintenance costs if the activity leads to a capital project and elects to perform a capital activity in lieu of a repair. If a utility were allowed to capitalize expenses, a utility would generate higher costs to ratepayers through an inappropriate return on expenses and an unnecessary increase in state and federal income taxes on the increased return generated by capitalizing expenses. Moreover, capitalizing maintenance expenses would create intergenerational rate inequities because ratepayers in the future would pay for operating costs that occurred in the past.

While the OUCC was critical of Petitioner and provided examples with cost information, the OUCC did not propose adjustments to remove any amount of main repairs from rate base. However, we note that based on Petitioner's 2015 Annual Report for the Twin Lakes water operations (the largest of Petitioner's three divisions), 40 main breaks occurred in that year. It was undisputed that Petitioner averages only one clamp repair annually. However, Petitioner's practice of encouraging capitalization whenever possible appears to have affected Petitioner's decision whether to repair a main leak with a clamp or replace a section of pipe. It seems unreasonable that more than 95% of all main breaks resulted in capital projects.

We find Petitioner's practices of capitalizing maintenance activities and opting for a capital project versus a repair to be inappropriate, and those practices violate proper accounting procedures and the NARUC USoA. Therefore, we direct Petitioner to properly expense maintenance and other operating costs as incurred regardless of the frequency of the occurrence or whether a capital project eventually results from the performance of the maintenance activity. We find that \$171,845 of routine maintenance, which includes well cleanings and maintenance, filter media replacement, and other miscellaneous non-capital items, should be disallowed from Petitioner's consolidated water rate base. An expense adjustment associated with this finding is

explained below. We also find that \$4,222 of non-capital activities identified by the OUCC should be disallowed from Petitioner's consolidated wastewater rate base.

We now address Petitioner's capitalization of labor related to management time and the capitalization of non-capital activities. Ms. Stull provided Petitioner's Capitalized Time Guidelines, which states, in part, the following:

Capitalized time refers to internal labor costs directly related to a capital expenditure or a capital project. The "cost" of your salary and benefits associated with the time you worked on a capital item is allocated to that item and becomes part of its overall cost basis. Capitalized time adds to rate base or our investment basis and improves our net income. Any missed capitalized time artificially inflates our expenses and reduces our rate base. Pub. Ex. 1, Attach. MAS-5.

Ms. Stull and Mr. Parks provided evidence that showed Petitioner capitalized more hours on capital projects than the time spent by contractors performing the actual work. We believe Petitioner's practice led to excessive capitalization of employee time. It is evident from the examples provided by the OUCC, as well as Petitioner's Capitalized Time Guidelines, that employees and management personnel have inappropriately capitalized their time. We find that Petitioner should revise its Capitalized Time Guidelines to avoid inappropriate capitalization of employee time and specifically management time. We also find that Petitioner should implement the related requirements in the section titled Use of Three-Way-Match Process.

Accordingly, we accept the OUCC's adjustments to remove capitalized time associated with non-capital activities, excessive management time, and DSIC leak repairs of \$77,272 from consolidated water rate base and \$41,405 from consolidated wastewater rate base. The impact of these adjustments on Petitioner's pro forma operating expense are explained below.

Finally, we address Mr. Kersey's position that \$137,331 should be added to Petitioner's operating expenses if the Commission disallows it as a capital cost. We agree with Mr. Kersey that a certain level of expense should be allowed given our finding regarding Petitioner's capitalization practices. However, Petitioner provided no supporting evidence for the \$137,331 adjustment. Therefore, we decline to include Petitioner's proposed adjustment. For future cases, we encourage Petitioner to provide adequate support for its proposed adjustments. Additionally, Petitioner might respond to our finding here by initiating a comprehensive main-replacement program, which may reduce the number of emergency-leak repairs, improve service to customers, and if prudently implemented, provide an opportunity to earn a return.

F. Water Service Lines and Wastewater Laterals.

1. OUCC's Evidence. Ms. Stull proposed to exclude capitalized costs incurred to install or replace water service lines and wastewater laterals. She explained that Petitioner installed two water service lines at a total cost of \$19,899 and four wastewater laterals at a total cost of \$50,748. She explained that the service lines and wastewater laterals in question are the property of the customers, not the property of the water and wastewater utilities,

respectively. She explained that the capital costs should not be included in rate base for all customers to pay a return *on* and *of* property the utility does not own.

2. Petitioner's Rebuttal. Mr. Kersey disagreed with the OUCC's proposed service line and wastewater lateral adjustments. He explained that the OUCC neglected to consider whether these costs were associated with bringing service to the customer's property line or if any of the customers made cash contributions consistent with the connection charges in Petitioner's tariffs. Mr. Kersey explained that these costs are investments made by Petitioner for the provision of retail utility service. Because no consideration was given to draw a distinction between Petitioner's and customer's service lines, the OUCC's proposed adjustments should be disallowed.

However, Mr. Kersey explained that if the OUCC's position was adopted, consideration must also be given to offsetting amounts recorded to Petitioner's Contributions in Aid of Construction ("CIAC") accounts. Mr. Kersey explained that for water, certain invoices should not be removed because contributions from the customer were received. Additionally, regarding Invoice No. 4015, extensive work on the Company-owned portion of the line was required to bring service to the customer's property line. Regarding the wastewater operations, Mr. Kersey explained that cash was received from the customer, which was associated with Invoice No. 3190. Regarding Invoice No. 3357, Mr. Kersey explained that although the OUCC considered the pipe as a wastewater lateral, it is actually a pipe that runs between two manholes for which Petitioner is responsible. Thus, he argued that these invoiced costs should not be removed from rate base. With regard to Invoice Nos. 4028 and 4218, he argued that these invoices should also not be removed due to the extensive work on Petitioner's portion of the line that was required to bring service to the customer's property line.

For its water service lines, Petitioner indicated in discovery that it received \$16,184 in contributions, which leaves \$3,715 in water utility plant that Petitioner disputes should be excluded from capital costs. For its wastewater, Petitioner received contributions of \$12,832 for its wastewater laterals, which leaves \$37,916 in wastewater utility plant that Petitioner disagrees should be excluded from capital costs.

3. Commission Discussion and Findings. We agree with the OUCC that service lines and wastewater laterals owned by customers should not be included in rate base. While the Commission concurs with Petitioner's witness Mr. Kersey that consideration needs to be given if costs were associated with bringing service to the customer's property line, Petitioner did not identify which of the costs or how much of those costs were associated with the utility's portion of the service line. A review of Invoice No. 4015 shows that the invoice does not identify which costs are related to Petitioner's portion of the line extension and which costs are related to the customer's portion. Because Petitioner did not adequately support its position, the Commission finds that service lines and wastewater laterals should not be included in rate base.

Further, to the extent the OUCC's proposed plant reductions to rate base were funded by CIAC, a corresponding CIAC reduction should also be made. Thus, the Commission finds that \$19,899 should be disallowed in UPIS for Petitioner's water operations and \$50,748 should be disallowed in UPIS for Petitioner's wastewater operations because those amounts representing

customer-owned property should not have been included in Petitioner's rate base. Additionally, customers made CIAC payments toward the cost of the water service lines and wastewater laterals. Accordingly, based on the OUCC's Cross-Examination Exhibit 22, we also find a reduction of \$16,184 to CIAC for Petitioner's water operations and an \$11,732 reduction to CIAC for Petitioner's wastewater operations should be made.

G. Scrap Value of Retired Meters.

1. OUCC's Evidence. Ms. Stull testified that Petitioner recently stripped metals from meters retired in 2013 and Petitioner received a salvage value for the metals. Ms. Stull proposed a reduction to rate base of \$8,513 to consolidated water operations to reflect this salvage value.

2. Petitioner's Rebuttal. Mr. Kersey indicated he agreed with Ms. Stull's recommendation to remove the proceeds for stripped salvage metals from meters in 2013 from rate base. However, he indicated that the meters were scrapped in multiple installments and the total proceeds in 2013 was \$13,023.

3. Commission Discussion and Findings. Rate base should be reduced by the value of salvaging any items that have been retired. Here, the OUCC found that Petitioner retired meters in 2013 and salvageable metal from the meters was sold. Petitioner initially indicated the proceeds were \$8,513; however, this was revised by Mr. Kersey to \$13,023. The Commission finds that Petitioner's rate base shall be decreased by \$13,023 due to the proceeds from salvaged metal from meters in 2013.

H. General Plant.

1. Petitioner's Evidence. Testimony regarding Petitioner's Phase I and Phase II general plant additions was not provided and was not listed in Petitioner's rate schedules set forth in Petitioner's Exhibit 2, Attachment JPK-1.

2. OUCC's Evidence. The OUCC explained that Petitioner forecasted general rate base additions of \$919,319 for water and \$491,112 for wastewater. In her supplemental testimony, Ms. Stull explained that Phase II general plant additions of \$476,929 for water and \$189,857 for wastewater should be included in rate base. It appears that the OUCC accepted the embedded amount for Phase I plant additions for water and wastewater as of February 29, 2016; however, the OUCC did not reflect in its schedules an amount for Phase I general plant additions.

3. Petitioner's Rebuttal. Mr. Kersey explained that although it appeared that the OUCC had proposed inclusion of general plant additions for Phase II, it did not appear that any consideration was given for general plant additions from March 1, 2016, through September 30, 2016. The OUCC provided no testimony as to why general plant additions recorded from March 1, 2016, through September 30, 2016, should be excluded from its September 30, 2017 updated rate base. Petitioner's Exhibit R2, Attachment JPK-R1 at pages 8 and 17 reflected \$0 for general plant additions to be included in Phase I rates for water and wastewater operations,

respectively. For Phase II, Petitioner proposed \$755,138 (\$278,209 + \$476,929) in general plant additions for water operations and \$300,607 (\$110,750 + \$189,857) for wastewater operations.

4. Commission Discussion and Findings. Petitioner's forecasted general plant for water is \$953,858 per its Supplemental Response to IURC Docket Entry Dated February 2, 2017, and it was not \$919,319 as indicated by the OUCC. On February 6, 2017, Petitioner filed Attachment 4.2 and 4.4 that provided a breakout of Petitioner's forecasted Net Pro Forma Plant, which included \$953,858 for water operations combined and \$379,715 for wastewater operations combined. Petitioner explained that its forecasted \$953,858 included \$476,929 for both Phase I and Phase II for water operations and \$379,715 included \$189,857 for both Phase I and Phase II for wastewater operations. However, when the parties agreed to change the rate base cutoff date for Phase I from September 30, 2015, to February 29, 2016, \$198,720 of the \$953,858 was included in the February 29, 2016 balance for its combined water operations and \$79,107 was included in the February 29, 2016 balance for its combined wastewater operations. We agree with Petitioner that no testimony from the OUCC was provided disputing the general plant amounts proposed by Petitioner. Therefore, we accept Petitioner's proposed general plant rate base additions, with the additions proposed in Phase II being subject to the adjustment described in the Rate Base Update Mechanism section.

I. Allowance for Funds Used During Construction.

1. OUCC's Evidence. Ms. Stull testified that Petitioner used various rates during the period 2013 through 2015 to record AFUDC as follows:

January 2013 – March 2013	8.36%
April 2013 – May 2013	8.15%
June 2013 – December 2015	9.15%

Ms. Stull explained that Petitioner's AFUDC rate should be limited to the weighted costs of capital allowed in Petitioner's most recent rate case. Thus, the appropriate rates for each utility are: (1) Twin Lakes – 8.213% (Cause No. 44388); (2) WSCI – 8.31% (Cause No. 44104); and (3) IWSI – 8.31% (Cause No. 44097). Ms. Stull testified that the AFUDC rates through May 2013 appear reasonable for each utility. However, Petitioner's use of a 9.15% rate used since June 2013 is excessive. The 9.15% rate used is approximately 10% higher than the weighted cost of capital rate approved by the Commission. In supplemental testimony, Ms. Stull ultimately proposed to reduce AFUDC by \$8,426 for water operations and \$1,575 for wastewater operations.

2. Petitioner's Rebuttal. Mr. Kersey explained that Petitioner did not entirely agree with the OUCC's proposed water operations adjustment. Within the proposed adjustment, AFUDC was accrued to project 2013069, which was not closed and placed into service and was not requested in rate base. Therefore, the \$72 in AFUDC associated with this project should not be adjusted from rate base. Petitioner's proposed adjustment to water rate base is \$8,061 (\$8,354 - \$293). Petitioner corrected the AFUDC rate from 9.15% to 8.23%. Pet. Ex. 2R at 40. However, Petitioner accepted the OUCC's wastewater operations adjustment for AFUDC.

3. Commission Discussion and Findings. Petitioner did not disagree with the OUCC's use of Petitioner's weighted cost of capital as allowed in Petitioner's most recent

rate cases. Thus, the Commission finds Petitioner's adjustment to reduce AFUDC by \$8,354, which includes the modification of \$72 associated with project 2013069, for consolidated water operations and the OUCC's reduction of \$1,575 for consolidated wastewater operations are accepted.

J. Utility Plant Retirements.

1. OUCC's Evidence. Ms. Stull explained that Petitioner proposed utility plant retirements through September 30, 2017, consisting of: (1) ground-storage tank (\$212,519), (2) hydro-pneumatic tank (\$19,979), (3) general plant (\$36,298), (4) vehicles (\$44,100), and (5) computers (\$556,877) for a total of \$869,773 for Petitioner's water operations.⁶ Pub. Ex. 1 at 20. For its wastewater operations, Petitioner proposed a total of \$529,873 in retirements for: (1) general plant (\$135,491); (2) vehicles (\$28,940); and (3) computers (\$365,442). Ms. Stull also explained that most of the retirements forecasted by Petitioner had been recorded and are included in its February 29, 2016 general ledger balance. However, \$353,166 for the retirement of computers forecasted by Petitioner for its consolidated water operations had not occurred. Ms. Stull proposed an adjustment to remove \$310,450 for Phase I retirements of computers and \$353,166 for Phase II retirements of computers and vehicles from UPIS and accumulated depreciation as of September 30, 2017, for consolidated water operations. Further, Ms. Stull proposed \$336,538 for Phase I retirements of computers and \$364,570 for Phase II retirements of computers and vehicles from UPIS and accumulated depreciation as of September 30, 2017, for consolidated wastewater operations.

2. Petitioner's Rebuttal. No rebuttal testimony was provided by Petitioner on utility plant retirements. However, Petitioner reflects a removal from rate base of \$514,161 for Phase I retirements and a removal of \$556,877 for Phase II retirements from UPIS and accumulated depreciation for consolidated water operations. Pet. Ex. 2R, Attach. JPK-R1 at 8. Petitioner also reflects a removal of \$336,538 for Phase I retirements and a removal of \$364,570 for Phase II retirements from UPIS and accumulated depreciation for consolidated wastewater operations. Pet. Ex. 2R, Attach. JPK-R1 at 17.

3. Commission Discussion and Findings. Regarding wastewater plant retirements, the parties appear to agree that \$336,538 represents Phase I retirements and \$364,570 represents Phase II retirements. We note that the \$28,032 increase from Phase I to Phase II is associated with vehicle retirements. There is no longer a need to phase-in Petitioner's rates due to the time delays in this case. Therefore, we include \$364,570 in rate base for plant retirements for consolidated wastewater operations.

However, a difference exists for water plant retirements as shown on Petitioner's Exhibit 2R, Attachment JPK-R1 of \$203,711 (\$514,161 less \$310,450 equals \$203,711, and this is the difference between Petitioner's rebuttal and the OUCC's supplemental schedules for Phase I). We note that the difference appears to be related to the OUCC multiplying Petitioner's 60.38% Equivalent Residential Connection ("ERC") factor to the \$514,161 in computer retirements allocated to Petitioner's water operations. Petitioner proposed a total of \$922,319 in retirements

⁶ We note that based on Petitioner's February 6, 2017 Docket Entry response, the \$36,298 general plant retirement is actually associated with Petitioner's SCADA system, which Petitioner removed in rebuttal from its proposed projects to be included in rate base.

for computers, which if one multiplies this amount by Petitioner's ERC allocation factor of 60.38% for its water operations, equates to the \$514,161 Phase I allocation and additional \$42,716 allocation for Phase II. Therefore, we disagree with the OUCC's further allocation of computer retirements because it is not necessary. We find Petitioner's plant retirements for computers of \$514,161 for Phase I and for Phase II for Petitioner's water operations should be approved. We also find the \$42,716 Phase II increase in retirements associated with vehicles should be approved.

Further, we note that in response to the Commission's docket entry questions, Petitioner indicated that \$212,519 in retirements associated with North GST and \$19,979 associated with the Hydro-Tank Replacement were included in its net pro forma plant additions for its water operations, and both projects were approved for recovery in rate base as described above. Thus, these associated retirements should also be reflected in rate base. However, based on the OUCC's docket entry responses submitted at the hearing, Petitioner retired \$59,761 associated with Peabody GST in the February 29, 2016 UPIS balance of \$13,445,342. Thus, the Commission finds further retirements of \$19,979 associated with the replacement of Petitioner's Hydro-Tank and \$152,758 (\$212,519 - \$59,761) associated with the demolition of Peabody GST for North GST construction should be included in rate base. Given there is no longer a need to phase-in Petitioner's rates, we reflect in rate base the retirement of \$729,614 in plant for consolidated water operations.

K. Accumulated Depreciation. Both Petitioner and the OUCC made adjustments to accumulated depreciation based on their respective positions regarding Petitioner's UPIS issues described above. Moreover, we note that both Petitioner and the OUCC included Remaining Phase I Depreciation Expense in the Phase I column of their respective rate schedules. However, the OUCC used a September 30, 2016 cutoff date, which would make such an adjustment necessary, but Petitioner's rebuttal Phase I cutoff date is February 29, 2016. Thus, for Petitioner, any remaining Phase I depreciation after Petitioner's cutoff date is properly reflected in its Phase II accumulated depreciation balance. If there were a need for phased rates, the Commission would have found accumulated depreciation for Phase I and Phase II based on a Phase I cutoff date of February 29, 2016, as follows:

Combined Water Operations		
	Phase I	Phase II
Accumulated Depreciation at 2/29/2016	\$ 2,684,682	\$ 2,684,682
Add: Remaining Phase I Depreciation Expense		148,558
Phase II Depreciation Expense	-	269,886
Less: A/D on Disallowed Capital Costs	12,601	12,601
Retirements	686,898	729,614
Total Accumulated Depreciation	\$ 1,985,183	\$ 2,360,911

Combined Wastewater Operations			
		Phase I	Phase II
Accumulated Depreciation at 2/29/2016		\$ 6,256,180	\$ 6,256,180
Add:	Remaining Phase I Depreciation Expense		270,149
	Phase II Depreciation Expense	-	477,927
Less:	A/D on Disallowed Capital Costs	14,176	14,176
	Retirements	336,538	364,570
Total Accumulated Depreciation		\$ 5,905,466	\$ 6,625,510

However, given the time delays to this Cause, we find the accumulated depreciation for Petitioner's consolidated water and wastewater operations to be \$2,360,911 and \$6,625,510, respectively. These amounts are subject to the Rate Base Update Mechanism described below.

L. Contributions in Aid of Construction.

1. Petitioner's Evidence. Mr. Kersey testified that Petitioner's forecast for amortization of CIAC reflected the removal of Twin Lakes CIAC amortization expenses incorrectly recorded to Petitioner's general ledger during the base period. Mr. Kersey stated that because Petitioner does not amortize Twin Lakes CIAC for ratemaking purposes, it was necessary to reverse these base year transactions. Mr. Kersey also testified that forecasted amortization of CIAC for IWSI and WSCI was annualized based on Petitioner's recommended depreciation rates.

For consolidated water operations, Petitioner forecasted net CIAC of \$2,319,597 as of September 30, 2017. This forecast reflects a decrease of \$16,871 from base year net CIAC of \$2,336,468. Petitioner proposed an increase of \$17,561 to its water net acquisition adjustment to reflect the removal of accumulated amortization of its Twin Lakes CIAC. Petitioner also forecasted a decrease of \$34,432 to reflect additional amortization of WSCI and IWSI CIAC.

For consolidated wastewater operations, Petitioner forecasted net CIAC of \$3,773,299 as of September 30, 2017. This forecast reflects an increase of \$32,657 from base year wastewater net CIAC of \$3,740,642. Petitioner proposed an increase of \$33,342 to wastewater net CIAC to reflect the removal of accumulated amortization of the Twin Lakes CIAC. Petitioner also forecasted a decrease of \$685 to reflect additional amortization of WSCI wastewater CIAC.

2. OUCC's Evidence. Ms. Stull explained that CIAC is a reduction to rate base. Ms. Stull rejected Petitioner's proposed forecasted CIAC because she believes it is not needed and instead used Petitioner's actual CIAC balance as of the general rate base cut-off of February 29, 2016.

3. Petitioner's Rebuttal. Mr. Kersey testified that Petitioner did not agree with the OUCC's removal of the impact of Petitioner's newly recommended depreciation rates on CIAC amortization. Therefore, Petitioner did not agree with the OUCC's proposed CIAC amortization using the Commission's composite-depreciation rates.

4. - Commission Discussion and Findings. In light of our finding below requiring Petitioner to continue using the Commission's composite-depreciation rates, we find the Commission's composite-depreciation rates shall also be used to establish the net CIAC to be included in rate base. Further, similar to the issue described above with regard to accumulated depreciation, based on the use of a Phase I cutoff date of February 29, 2016, any accumulated amortization expense accrued from March 1, 2016, through the end of Petitioner's test period would be recorded in Phase II subject to the Rate Base Update Mechanism.

Net CIAC for Consolidated Water Operations			
		Phase I	Phase II
Contributions in Aid of Construction, net as of 2/29/16		\$ 2,342,255	\$ 2,342,255
Less:	Disallowed Plant	16,184	16,184
	Amortization of CIAC Phase I		8,568
	Amortization of CIAC Phase II	-	14,687
Contributions in Aid of Construction, net		\$ 2,326,071	\$ 2,302,816

Net CIAC for Consolidated Wastewater Operations			
		Phase I	Phase II
Contributions in Aid of Construction, net as of 2/29/16		\$ 3,748,895	\$ 3,748,895
Less:	Disallowed Plant	11,732	11,732
	Amortization of CIAC Phase I		457
	Amortization of CIAC Phase II	-	783
Contributions in Aid of Construction, net		\$ 3,737,163	\$ 3,735,923

However, given the time delays to this Cause, we find net CIAC for Petitioner's consolidated water and wastewater operations to be \$2,302,816 and \$3,735,923, respectively. These amounts are subject to the Rate Base Update Mechanism described below.

M. Accumulated Deferred Income Taxes.

1. Petitioner's Evidence. Petitioner explained that the forecasted changes to accumulated deferred income taxes related to projected differences between book and tax depreciation. Attachment JPK-1, page 6 reflects pro forma proposed combined accumulated deferred income taxes of \$1,313,021.

2. OUC's Evidence. Ms. Stull explained in a footnote that the difference between Petitioner's and OUC's accumulated deferred income taxes was primarily due to the difference between Petitioner's allocation of rate base based on customer counts and the OUC's allocation methodology shown on Attachment MAS-3. Ms. Stull's supplemental testimony reflects the OUC's revised accumulated deferred income tax balances for Phase II of \$1,043,121 for consolidated water operations and \$1,010,994 for consolidated wastewater operations.

3. Petitioner's Rebuttal. No rebuttal testimony was provided regarding this issue. However, in Rebuttal Schedule 8W, Petitioner proposed Phase II accumulated deferred income tax of \$949,410 for consolidated water operations and \$962,307 for consolidated wastewater operations.

4. Commission Discussion and Findings. Accumulated deferred income taxes is the difference between book and tax depreciation for Petitioner's depreciable plant. We also take into consideration our findings regarding total depreciable utility plant. We find accumulated deferred income tax for Petitioner's Phase I rates for its consolidated water operations to be \$944,945 and for Phase II to be \$1,041,204. For Petitioner's consolidated wastewater operations, the Commission finds accumulated deferred income tax to be \$887,594 for Phase I rate base and \$987,305 for Phase II rate base. However, given the delay in this Cause, there is no need to phase-in Petitioner's rates. Therefore, based on our findings for Petitioner's UPIS above, we find accumulated deferred income taxes to be \$1,041,204 for consolidated water operations and \$987,305 for consolidated wastewater operations.

We note that both parties deducted vehicles and computers from their accumulated deferred income tax calculations, but they did not explain why the deduction was made. Based on the work papers filed in Petitioner's rebuttal testimony, vehicles and computers are reflected in Petitioner's general ledger trial balance as of February 29, 2016, which is inconsistent with Mr. Kersey's statement that "computer software and transportation, are held on affiliate books." Pet. Ex. 2R at 24. Vehicles and computers are included in rate base to be depreciated using the Commission's approved composite-depreciation rates as discussed herein. Therefore, for ratemaking purposes, vehicles and computers should be included in Petitioner's accumulated deferred income tax calculations. However, because neither Petitioner nor the OUCC included computers and vehicles in their deferred income tax calculations, we also removed these assets. We find for future rate cases, Petitioner shall describe its deferred income tax calculation in its case-in-chief testimony and provide a supporting rate schedule.

N. Working Capital.

1. Petitioner's Evidence. Mr. Kersey explained that Petitioner's forecasted working capital was calculated based on forecasted operations and maintenance expenses ("O&M") as well as forecasted taxes other than income expense.

2. OUCC's Evidence. Ms. Stull explained that Petitioner used the Federal Energy Regulatory Commission ("FERC") 45-day method to estimate working capital and proposed to earn a return on working capital of \$194,043 for consolidated water operations and \$136,167 for consolidated wastewater operations. Ms. Stull stated that for ratemaking purposes, working capital generally is defined as the average amount of capital provided by investors, over and above the investment in plant, to bridge the gap between the time expenditures are required to provide service and the time collections are received for that service. In other words, working capital is the money a utility needs to provide utility service before it receives payment for that service. She added that while some expenses are paid after the related service revenues have been collected, some expenses are incurred and paid before the related revenues have been collected such as chemical expense, rent, and salaries. She testified that expenses paid in arrears include

taxes, purchased water, and purchased power. She said working capital is the net amount of money needed on an ongoing basis to fund daily utility operations. Working capital is considered the investment necessary for providing utility service and is included in rate base for investor-owned utilities.

Ms. Stull noted that in its calculation of working capital, Petitioner included expenses that are known to be paid in arrears. She identified taxes as well as purchased power and purchased water as items paid at the time or after Petitioner has received revenues from its customers for the utility service provided, noting many taxes are paid on a quarterly basis in arrears and property taxes are paid up to two years in arrears. Therefore, she proposed the exclusion of all taxes as well as purchased power and purchased water expense from the calculation of operating expenses on which the FERC 45-day method is applied. Ms. Stull noted these types of downward operating expense adjustments have been approved by the Commission in previous rate cases involving Twin Lakes, WSCI, and IWSI. Finally, Ms. Stull recommended the Commission require Petitioner to perform a lead-lag study or otherwise support its proposed working capital in its next base rate case.

3. Petitioner's Rebuttal. Mr. Kersey accepted the adjustments proposed by the OUCC and said Petitioner will exclude the suggested expenses paid in arrears to calculate its working capital requirements. However, Mr. Kersey said Petitioner does not agree to perform a lead-lag study, and he proposed to continue using the FERC 45-day method because it is a low-cost calculation and is commonly accepted. He noted the Commission has accepted this method in each of the prior cases for Petitioner's individual territories. However, he added Petitioner would agree to perform and file a lead-lag study if it were to request a working capital allowance greater than 1/8th of its operating expenses.

4. Commission Discussion and Findings. We agree with the OUCC's proposed expense adjustments used under the FERC 45-day method and given the time delay in this Cause, the Commission finds that Petitioner's forecasted working capital for purposes of establishing rate base is as follows:

Consolidated Water Working Capital

			Total
	Maintenance Expense		\$ 918,267
	General Expense		448,200
Less:	Purchased Water		380,353
	Purchased Power		78,115
	Adjusted Operation & Maintenance Expense		907,999
Times:	45 Day Factor		0.125
	Working Capital Requirement		<u>\$ 113,500</u>

Consolidated Wastewater Working Capital

			Total
Maintenance Expense			\$ 711,329
General Expense			295,327
Less: Purchased Water			-
Purchased Power			214,266
Adjusted Operation & Maintenance Expense			792,390
Times: 45 Day Factor			0.125
Working Capital Requirement			\$ 99,049

Regarding Petitioner's use of the FERC 45-day method to approximate its cash working capital needs, the Commission finds no evidence that would dispute the results as a reasonable approximation of Petitioner's billing and payment practice or Petitioner's actual cash needs. We agree with the OUCC that a lead-lag study provides transparency and precision. However, there is no evidence to suggest that the results of a lead-lag study would support spending the additional cost to perform the study. Thus, we decline to require Petitioner to perform a lead-lag study in its next rate case.

O. Rate Base Determination. Based on the foregoing, the Commission finds Petitioner's rate base for consolidated water operations to be \$7,778,960 as shown below, subject to the Rate Base Update Mechanism. We note that given the context of this Cause and the time delay issue, we included Phase I rate base for the sole purpose of clarity to readers of this Order.

	Do Not Use Phase I 2/29/2016	Final 9/30/2017
South GST* (Included in UPIS at 9/30/15 total)	\$ 715,318	\$ 715,318
Utility Plant in Service at 9/30/15	12,470,720	12,470,720
Reduction to South GST	(65,318)	(65,318)
Vehicle Additions	54,340	54,340
Vehicle Retirements	(15,889)	(15,889)
Hydro-pneumatic Tank	184,151	184,151
North GST	562,797	562,797
Reduction to North GST	(71,700)	(71,700)
Peabody Retirement	(59,761)	(59,761)
General Plant	198,720	198,720
Difference from 2/29/16 Trial Balance	50,264	50,264
Utility Plant in Service at 2/29/2016	13,308,324	13,308,324
Reestablished Values for Computers and Vehicles	516,923	559,639
Vehicles	-	5,611
General Plant Additions Phase I**	-	278,209
General Plant Additions Phase II	-	476,929
Less: Retirements	686,898	729,614
Non-Capital Costs	171,845	171,845
AFUDC	8,354	8,354
Scrap Value of Meters	13,023	13,023
Water Service Lines	19,899	19,899
Additional Capitalized Time	42,307	42,307
Capitalized Time for DSIC Leak Repair	34,965	34,965
Gross Utility Plant in Service	12,847,956	13,608,704
Less: Accumulated Depreciation at 2/29/2016***	2,684,682	2,684,682
Less: Remaining Phase I Depreciation Expense	-	148,558
Phase II Depreciation Expense	-	269,886
Add: A/D on Disallowed Capital Costs	12,601	12,601
Retirements	686,898	729,614
Restb. Values for Computers and Vehicles	162,710	131,384
Less: Contributions in Aid of Construction, net	2,342,255	2,342,255
Add: Disallowed Plant	16,184	16,184
Amortization of CIAC Phase I	-	8,568
Amortization of CIAC Phase II	-	14,687
Net Utility Plant in Service	8,699,412	9,076,361
Less: Accumulated Deferred Income Taxes	944,945	1,041,204
Acquisition Adjustment, net	339,291	332,047
Customer Deposits	37,650	37,650
Add: Net Deferred Charges	-	-
Working Capital	105,541	113,500
Total Original Cost Rate Base	\$ 7,483,067	\$ 7,778,960

*The South GST is included in Petitioner's September 30, 2015 Utility Plant in Service balance of \$12,470,720.

**Petitioner presented its "Phase I" adjustments in its proposed Phase II column in its Rebuttal rate schedules. In Petitioner's Docket Entry response 4-39 received on February 6, 2017, Petitioner explained that with the change to agreed a rate base cutoff for Phase I of February 29, 2016 from September 30, 2016 that portion for Petitioner's original Phase I adjustments from March 1, 2016 through September 30, 2016 was pushed to Phase II.

*** Included in the \$2,684,682 is an adjustment of \$59,761 for the retirement of the Peabody tank and \$15,889 for the retirement of vehicles

The Commission finds Petitioner's rate base for consolidated wastewater operations to be \$8,040,181 as shown below, subject to the Rate Base Update Mechanism. We note that given the context of this Cause and the time delay issue, we included Phase I rate base for the sole purpose of clarity to readers of this Order.

	Do Not Use Phase I 2/29/2016	Final 9/30/2017
Utility Plant in Service at 9/30/15	\$ 18,675,607	\$ 18,675,607
Add: Allocation of Vehicles	25,213	25,213
GIS Mapping	42,359	42,359
2015 Sewer Capital Improvement Project	148,122	148,122
General Plant Additions Phase I	79,107	79,107
Difference from 2/29/16 Trial Balance	120,688	120,688
Utility Plant in Service at 2/29/2016	19,091,095	19,091,095
Add: Restb. Values for Computers and Vehicles	339,223	367,254
Add: 2016 Sewer Capital Improvement Project	-	107,404
2017 Sewer Capital Improvement Project	-	180,903
Vehicles	-	3,682
General Plant Additions Phase I	-	110,750
General Plant Additions Phase II	-	189,857
Less: Retirements	336,538	364,570
Non-Capital Costs	4,222	4,222
Sewer Laterals	50,748	50,748
Manhole Repairs	60,490	60,490
CS&W Invoices	230,113	230,113
RedZone Robotics Invoices	26,555	26,555
Capitalized Time (Management and Repairs)	41,405	41,405
Retirement Reversal	(873)	(873)
AFUDC	1,575	1,575
Gross Utility Plant in Service	18,679,545	19,272,140
Less: Accumulated Depreciation	6,256,180	6,256,180
Less: Remaining Phase I Depreciation Expense		270,149
Phase II Depreciation Expense	-	477,927
Add: A/D on Disallowed Capital Costs	14,176	14,176
Retirements	336,538	364,570
Restb. Values for Computers and Vehicles	85,872	41,490
Less: Contributions in Aid of Construction, net	3,748,895	3,748,895
Add: Disallowed Plant	11,732	11,732
Amortization of CIAC Phase I		457
Amortization of CIAC Phase II	-	783
Net Utility Plant in Service	9,122,788	8,952,198
Less: Accumulated Deferred Income Taxes	887,594	987,305
Acquisition Adjustment, net	-	-
Customer Deposits	23,759	23,759
Add: Net Deferred Charges	-	-
Working Capital	90,885	99,049
Total Original Cost Rate Base	<u>\$ 8,302,319</u>	<u>\$ 8,040,181</u>

P. Rate Base Update Mechanism.

1. Petitioner's Evidence. In its case-in-chief, Petitioner did not provide a proposed Rate Base Update Mechanism; however, Petitioner proposed implementation of Phase II to occur one year after implementation of Phase I rates.

2. OUC's Evidence. Ms. Stull explained that by using actual rate base as of February 29, 2016, for Phase I rate base, it eliminated the need for Petitioner to affirm in a future filing that UPIS is used and useful. Regarding Phase II, the rates should continue to be based on projected rate base as of September 30, 2017. However, before Phase II rates can be implemented, Petitioner should file an affirmation that additional capital costs are in service and used and useful. Petitioner should also file a general ledger trial balance reflecting account balances as of September 30, 2017. Ms. Stull stated that only the capital additions that are identified as specific projects in Petitioner's case-in-chief should be eligible for phase-in treatment.

Ms. Stull stated that the rate base update for each project should not exceed Petitioner's projected construction costs for that project for ratemaking purposes. Petitioner should also provide a certification that the new plant is in service and verification that the construction costs have been incurred and paid. Petitioner should provide a general ledger transaction listing for each project reflecting all costs Petitioner seeks to include in rate base along with all supporting documentation. The supporting documentation should include invoices, time sheets, contracts, and other applicable documents, for each line item that is greater than 10% of the project's total value. Further, Petitioner should submit the following: (1) updated UPIS by asset account incorporating the eligible plant additions, (2) updated annual depreciation expense incorporating the eligible plant additions, (3) updated accumulated depreciation on Petitioner's authorized rate base, (4) updated contributions-in-aid of construction by account, including accumulated amortization, (5) a revised revenue requirement, as necessary, and (6) updated tariffs.

3. Petitioner's Rebuttal. Mr. Kersey explained that Petitioner agreed with a Phase I rate base cut-off of February 29, 2016. However, Petitioner disagreed with the OUC's proposed Phase II rate base update. Petitioner argued that it should be allowed to include in its Phase II update all general ledger rate base transactions with corresponding adjustments to September 30, 2017, forecasted expenses. Mr. Kersey explained that adjustments to forecasted expenses would include expense items that are dependent on rate base, such as depreciation expense, interest expense, property tax expense, and income tax expense. Petitioner would allow the OUC a period for discovery to confirm Petitioner's revenue requirement for Phase II rates. Mr. Kersey stated that the OUC's discovery should be limited to confirming Petitioner's updated September 30, 2017, rate base, as well as adjustments to fiscal year-end September 30, 2017 operating income for Phase II rates.

4. Commission Discussion and Findings. Because the parties agreed to a Phase I rate base cutoff of February 29, 2016, there is no need to true-up Phase I rates because all plant that was under review is already in service. However, for rate base adjustments that were proposed for Phase II, a Rate Base Update Mechanism is necessary, and we believe that a discovery process is appropriate for Petitioner's Phase II update. We also agree that confirmation of rate base updates should be part of the process. However, while the OUC provided a list of specific

information Petitioner should provide with the Phase II update, Petitioner did not provide a list of the information that it agreed to submit. Moreover, the parties disagreed as to whether all utility plant through the end of the test period should be included or if only major projects should be included in Petitioner's Phase II update.

In Cause No. 44450, the Commission addressed the issue of a phase-in mechanism related to Indiana-American Water Company Inc.'s ("Indiana-American") rate base projected to be placed in service due to the use of a future test period. In that Cause, the Commission approved a settlement that described a two-phase certification process for Indiana-American's proposed future utility plant investments. The Rate Base Update Mechanism we describe below is based on consideration of both parties' positions in this Cause and the documentation and review period process approved in Cause No. 44450.

Rates approved in this Cause are based on UPIS and other components of rate base projected through the end of the test period, September 30, 2017. To be consistent with the intent of Ind. Code § 8-1-2-42.7, total plant additions, including major projects, should be included in Petitioner's Rate Base Update. However, total plant additions may not exceed Petitioner's proposed rate base as of September 30, 2017, as determined by the Commission in this Order based on the evidence presented. If we were to allow material plant additions in Petitioner's update that were not included in Petitioner's forecasts, the Commission would have nothing in its record to support the reasonableness of the additional plant. Further, Petitioner represents that its forecasts are a reasonable representation of the costs, including the plant addition costs that it will incur. Thus, based on Petitioner's testimony, the recommendation to cap Petitioner's total plant to the amounts proposed in this Cause should not harm Petitioner. Moreover, to the extent Petitioner's actual net original cost rate base as of September 30, 2017, exceeds the amount proposed in Petitioner's case-in-chief, Petitioner is not foreclosed from including those additional investments in rate base in a future general rate case.

The rates approved herein are effective upon approval of a filed tariff as described below. However, within 30 days of the effective date of this Order, Petitioner shall certify under this Cause that all UPIS to be included in rates is used and useful as of September 30, 2017. The certification shall include a schedule of actual values for all components of rate base. Petitioner shall also provide the following schedules: (1) actual UPIS by account, (2) updated calculations of depreciation expense based on the original cost of UPIS and deferred depreciation as of September 30, 2017, (3) a revised revenue requirement, as necessary, and (4) an updated tariff.

In addition, because of our separately-discussed concerns regarding Petitioner's need to improve its oversight of projects performed by contractors and its financial controls over invoices, Petitioner shall also provide a listing for each project in a general ledger transaction that reflects all costs Petitioner is seeking to include in Phase II rate base. Petitioner shall provide supporting documentation, including invoices, time sheets, contracts, and other applicable documents, for each line item of the general ledger transaction listing that is greater than \$7,500 of that project's total cost. The OUCC and LOFS will have 30 days to review and submit objections to Petitioner's rate base update compliance filing. If objections cannot be resolved informally, any party may request a hearing on the issue.

8. **Weighted Average Cost of Capital.** Mr. Lubertozzi testified that Petitioner and OUCC entered into a settlement agreement that resolves all components to the Weighted Average Cost of Capital (“WACC”). He explained that customer interests are best served when the authorized rate of return on rate base is neither higher nor lower than the overall cost of capital; thus, Petitioner and OUCC reached agreement on a WACC that is equal to 8.18%. He testified that the agreed-upon return on equity and capital structure is reasonable and was the result of an arms-length negotiation after considerable discussion between knowledgeable parties. Mr. Lubertozzi further testified that a 9.75% return on equity (“ROE”) is consistent with the Commission’s Order in Cause No. 44450, and is lower than the ROEs previously approved for Petitioner’s Indiana operating divisions. He also indicated that the 50/50 ratio for the capital structure is reasonable and consistent with the actual capital structure of Utilities, Inc.

At the hearing, the Presiding Officers asked Mr. Lubertozzi and Mr. Kaufman about the stipulated cost of equity, a component of WACC, that the parties recommended. Mr. Lubertozzi testified that Petitioner looked at the approved cost of equity in other states and also looked at the cost of engaging a cost of capital expert and determined it was beneficial to avoid bringing an expert in to testify. When asked to compare the relative cost of equity for a utility that has no service issues with one that does, Mr. Lubertozzi explained that most utilities are going to have some type of sanitary system overflow or manhole overflow or some surcharges. He acknowledged that cost of equity could be used as a tool to send a message to a utility regarding whether its service is adequate or not. Tr. at B-132, 133. During questioning from the bench, Mr. Kaufman acknowledged that in the last Order concerning Twin Lakes, the Commission approved a reduction of 50 basis points to express their concern about service quality issues. Tr. at E-18, 19. Mr. Kaufman declined to express an opinion as to whether a reduction would be warranted in this proceeding because of the agreement between the parties.

Petitioner experienced operational difficulties as a result of certain employees, and Petitioner indicated that it has renewed its focus in conjunction with replacing those employees. It is our hope that along with their new personnel, Petitioner will improve internal controls. Additionally, Petitioner has made some progress with service quality issues; however, there is still room for Petitioner to improve service quality. It is also our hope that Petitioner will continue to make measureable improvements in service quality. To support these goals, the Commission designates detailed requirements in the sections of this Order titled as follows: (1) Internal Investigation and Use of Three-Way-Match Process, and (2) Wastewater and Water Service Quality and Communications with LOFS.

With an expectation and goal of eliminating controversy and avoiding rate case expense, prior to the filing of its case, Petitioner reached agreement with the OUCC on cost of equity and capital structure to establish weighted cost of capital. The Commission finds that the agreed upon cost of equity and capital structure percentages to establish weighted cost of capital are reasonable and prudent, and these amounts are as follows:

<u>Class of Capital</u>	<u>Percent of Total</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long Term Debt	50.00%	6.60%	3.30%
Common Equity	50.00%	9.75%	4.88%
Total	<u>100.00%</u>		<u>8.175%</u>

9. **Revenue Adjustments.** Base year revenues through September 30, 2015, were \$2,073,096 for consolidated water and \$2,200,545 for consolidated wastewater. The parties proposed various pro forma adjustments to revenues associated with accruals, surcharges, miscellaneous, and declining usage. Petitioner agreed with many of the OUCC's adjustments to consolidated water operations, including the following: \$22,107 for Service Revenues for Water, (9,711) for Accrued Water Revenues, (\$5,771) for IWSI Water Tracker, and (\$22,107) for Other Miscellaneous Revenues for Water. Petitioner agreed with the OUCC's adjustment to consolidated wastewater operations, including the following: (\$10,185) for Accrued Wastewater Revenues. We find the adjustments agreed to by the parties to be reasonable. The remaining disagreements, which are associated with Declining Usage, Customer Normalization, and Surcharge revenues, are discussed below.

A. Declining Usage and Customer Normalization Adjustments.

1. **Petitioner's Evidence.** Mr. Kersey testified that Petitioner proposed a decrease of \$133,301 to base year water revenues and a decrease of \$12,641 to base year wastewater revenues to reflect declining usage. These overall adjustments to water and wastewater service revenues include declining usage, customer normalization, and surcharge revenue adjustments. He explained that the usage normalization adjustment was calculated specifically for each territory and customer class and was developed by averaging the annual change in consumption per customer from June 2009 through June 2015. He further stated that Petitioner analyzed consumption patterns during the winter months of December through February over the same period to determine whether the declining usage was weather neutral. He testified that a similar level of decline in usage was seen during the winter months, suggesting that the decline is not a weather-related phenomenon.

2. **OUCC's Evidence.** Mr. Kaufman proposed removal of Petitioner's declining usage adjustment in its entirety because he said that Indiana Senate Enrolled Act No. 383, System Integrity Adjustments, diminished the need to make a declining consumption adjustment to revenues. He explained that Senate Bill 383 allows a utility to track the difference between its authorized revenues and collected revenues thereby insulating a utility from under-collecting its authorized revenues. Additionally, he said that estimated usage in the Year One Forecasted Revenues should not be used when Petitioner now has actual usage figures. The OUCC did not propose any customer growth or customer normalization adjustments.

3. **Petitioner's Rebuttal.** Mr. Kersey noted that the OUCC did not dispute Petitioner's declining usage forecast or supporting data. Pet. Ex. R2 at 2-3. Mr. Kersey testified regarding the effect of declining usage data, and he said he did not believe that Petitioner should update its Year One Forecasted Revenues with billings for periods where actual usage data

now exists. He reasoned that a significant amount of time went into reconciling the bill frequency distribution by Petitioner's cost-of-service consultants, and because there was no significant change to the customer base or in weather patterns, an update using actual usage data would not materially change the proposed rates. He testified that an update was an inefficient use of resources. Mr. Kersey further testified that he did not agree with Mr. Kaufman's suggestion that any under-collection should be recovered via Senate Bill 383. He explained that relying on the mechanism provided via Senate Bill 383 would conflict with the purpose for utilizing a future test year and would not guarantee full recovery of Petitioner's revenue requirement. *Id* at 3-4.

Petitioner also presented customer normalization adjustments based on its cost-of-service analysis, which was further explained in Petitioner's February 6, 2017 Docket Entry Response 4-38. For water, Petitioner proposed a pro forma customer normalization reduction of \$2,495. Pet. Ex. R2, Attach. JPK-R1. For wastewater, Petitioner proposed a pro forma customer normalization increase of \$13,085.

4. Commission Discussion and Findings. The OUCC's objection to Petitioner's declining usage adjustment appeared to be primarily based on new legislation that allows utilities to file for system integrity adjustments. We find the OUCC's reliance on Senate Bill 383 unpersuasive. Setting a utility's rates lower than they would otherwise be on the theory that the utility can subsequently seek to true-up their rates through some future mechanism is not consistent with sound ratemaking principles which are based on a revenue requirement that is reasonable, necessary, and prudent.

The record shows a measurable decline in usage by Petitioner's customers, which did not appear to be weather related. The OUCC did not dispute the declining usage forecast. Indeed, the OUCC argued that declining consumption justified its proposal to deny recovery of the second ground-storage tank. We find it reasonable to take this decline into consideration in establishing rates, particularly where the utility is using a forecasted test period. While the OUCC noted that predicting consumption usage can be difficult, we do not believe this renders Petitioner's proposed adjustment faulty. On this point, we note that the OUCC's comparison between Petitioner's initially proposed Year One Forecasted Revenues to actual revenues for the same period does not present an apples-to-apples comparison. More specifically, the OUCC's analysis did not recognize the fact that Petitioner's Year One Forecasted Revenues excluded all surcharges, whereas the actual revenue included all surcharges. Accordingly, this makes the OUCC's proposed usage inaccurate for this purpose.

The record shows Petitioner's analysis included detailed work papers providing adjustments for each customer class for each of Petitioner's operating divisions. We find this analysis is transparent and provides a suitable basis to adjust future consumption. Accordingly, the Commission finds Petitioner's proposed usage adjustment, which reduces pro forma water and wastewater revenues by \$68,976 and \$17,315, respectively, is reasonable and should be approved. Similarly, we find Petitioner's proposed customer normalization revenue reduction of \$2,495 for water and increase of \$13,085 for wastewater to be reasonable and should be approved.

B. Surcharge Revenues.

1. OUCC's Evidence. Ms. Stull included forecasted revenues and pro forma adjustments for all of Petitioner's surcharges in determining her recommended level of revenues. These include the IWSI water tracker pro forma reduction of \$5,771, IWSI DSIC pro forma adjustment of \$4,683, and a Twin Lakes wastewater utility infrastructure improvement charge ("USIC") pro forma adjustment of \$87,608, of which the latter two include revenues to be recovered in the DSIC and USIC reconciliation process. Pub. Ex. 1 at 59-62 and 65-67.

2. Petitioner's Rebuttal. Mr. Kersey explained that Petitioner did not initially consider it necessary to include surcharges in its forecasted revenues because Petitioner's proposed tariff resets the surcharge rates to \$0 and are therefore a non-factor when determining rates for Petitioner's total revenue requirement. Pet. Ex. R2 at 10. However, he testified that Petitioner agreed with Ms. Stull's recommendation to include Petitioner's surcharge revenues in its forecast, but Petitioner proposed a different calculation method. *Id.* at 9. He said Petitioner annualized surcharge revenues based on base year and forecasted usage and customer counts; therefore, Petitioner proposed an IWSI DSIC pro forma adjustment of \$2,679 and a Twin Lakes USIC pro forma adjustment of \$76,063. *Id.* at 10.

3. Commission Discussion and Findings. We note that the difference in Petitioner's proposed surcharge revenue and the OUCC's proposed amount is associated with the DSIC and USIC reconciliation process, which we believe should be included. Thus, the Commission agrees with the OUCC's IWSI and Twin Lakes surcharge revenue pro forma adjustments, noting that due to the DSIC and USIC reconciliation process, Petitioner is guaranteed to recover this level of revenue.

C. Pro Forma Present Rate Revenues. Based on the above, the Commission finds Petitioner's pro forma water and wastewater revenue at present rates for the 12 months ended September 30, 2017, are \$1,990,826 and \$2,273,738, respectively.

10. Operating Expenses. Mr. Kersey described generally how the forecasted changes to O&M were determined. He explained O&M may be directly billed to Petitioner or allocated to Petitioner from its affiliate services company, Water Service Corporation ("WSC"), or represent a combination of direct and allocated expense. Mr. Kersey said whenever possible, WSC will directly allocate costs that are identified with a specific operating company or prorate the allocations based on the functionality or proximity of the overhead cost, which are distinguished by utilizing overhead cost centers. He explained that costs that are not directly assignable to a specific subsidiary are allocated to the subsidiaries of Utilities, Inc. monthly. He said allocations are based on September 30, 2015, weighted ERC counts for each cost type, as shown in WP-JPK-01 (ERC Allocations).

Several of the O&M items were either not challenged by the OUCC or the OUCC's proposed adjustments were accepted by Petitioner in rebuttal. The adjustments agreed to by the parties, which the Commission finds to be reasonable, are as follows:

Description	Water Adjustments	Wastewater Adjustments
Salaries and Wages	\$ 58,708	\$ 38,507
Maintenance Testing	3,726	(862)
Maintenance Repair	1,261	57,950
Transportation	(9,652)	(6,334)
Outside Services - Other	(34,323)	(22,522)
<i>General Expenses</i>		
Salaries and Wages	18,549	Disputed Adj.
Office Expense	7,430	4,876
Regulatory Commission	6,656	4,956
Pension & Other Benefits	5,664	3,717
Rent	3,973	2,606
Insurance	7,805	5,120
Office Utilities	3,615	2,372
Miscellaneous	3,890	2,435
Amortization - Abandoned Meter	33,906	-
Amortization - Acq. Adj.	(1,083)	(2,819)

We discuss the remaining disputed operating expense adjustments below.

A. Purchased Power and Water Expenses.

1. Petitioner's Evidence. Mr. Kersey testified regarding Petitioner's forecasted purchased power and water expenses. He explained that electric power costs are forecasted by month based on the historical levels of electric power costs. Fiscal year forecasts for 2016 and 2017 are based on the latest four years of supplier invoices for the service periods June 1, 2011, through May 30, 2015. He further stated that the latest twelve months, June 1, 2014, through May 30, 2015, service costs were used as a base, and an average annual growth rate from the historical periods was applied to all forecast periods. It was assumed that any seasonality from the four years analyzed will continue. Based on the calculations, Mr. Kersey testified that purchased power costs were forecasted to increase by approximately 1% from \$290,042 in the base period to \$292,381 in the test year, including the forecasted reduction in usage.

Mr. Kersey explained that purchased water costs were forecasted by month based on respective levels of forecasted purchased water and water rates. He stated that forecasted purchased water rates of \$2.90 per thousand gallons were based on current charges by Petitioner's supplier, Indiana-American, of \$2.83 with an anticipated increase of \$0.07. He further stated that forecasted purchased water volumes were calculated based on an average of the prior 9-10 years of purchased water volumes, discounted by 1% annually. The 1% discount assumes both consumer conservation and changes in water losses. The volume used to calculate purchased water expense was based on pumped water and not sold water. Mr. Kersey stated that purchased water costs were forecasted to increase by approximately 12% from \$341,794 in the base period to \$381,398 in the test year. The increase is due to increased supplier rates and a one-time sales tax refund credited

to Petitioner in the base period in the amount of \$24,155.53 for the period ending December 31, 2013.

2. OUCC's Evidence. Ms. Stull disagreed with Petitioner's use of a year-over-year growth rate to forecast purchased power expense because she said it showed unusual fluctuations and inconsistencies among its assumptions. Ms. Stull proposed removal of \$2,339 in purchased power expenses and recovery based on Petitioner's fiscal year ending September 30, 2015. Additionally, she disputed Petitioner's growth rate projections for electric costs and suggested that Petitioner did not factor in its proposed declining consumption. She proposed no change to base year purchased power of \$290,042, which consists of \$77,830 for consolidated water and \$212,212 for consolidated wastewater.

With respect to purchased water expense, Ms. Stull disagreed with Petitioner's forecast. She said that purchased water expense should be comprised of a monthly meter charge and a volumetric charge; however, Petitioner's estimate did not incorporate a monthly meter charge. Additionally, she said that Petitioner proposed declining consumption for operating revenues but forecasted increased purchase water volumes as compared to base year levels. She said these two assumptions conflict. She stated that it was not necessary for Petitioner to forecast purchased water because Petitioner can file a water tracker for any increases in purchased water costs. Additionally, Ms. Stull said that Petitioner included forecasted costs to file a water tracker in 2017. Ms. Stull proposed a reduction of \$4,033 and further proposed a new forecasting method wherein separate metered and volumetric charges are utilized instead of using one effective rate.

3. Petitioner's Rebuttal. Mr. Kersey testified that Petitioner did not agree to the negative adjustment of \$2,339 to the purchased power expense. Mr. Kersey stated that Petitioner considered all aspects of electric cost trends in its proposed declining usage when forecasting for purchased power expense. He further stated that historical cost trends take all components into consideration, including weather impacts, cost changes by electric providers, and consumption changes by both Petitioner and its customer base.

With respect to purchased water expense, Mr. Kersey testified that while Petitioner agreed with the OUCC's proposed forecasting method, which included metered and volumetric charges, it did not agree to the negative adjustment of \$4,033. He explained that Petitioner's forecast for purchased water is based on a long-term average of purchased volume at 1% annually and not on purchased volumes in the base year. This accounts for the difference in proposal between the OUCC and Petitioner of 127,178,000 and 131,418,000 for purchased water volumes, respectively. He proposed an adjusted forecast for purchased water expense of \$380,353, which is an increase of \$2,988 to the OUCC's proposal but \$1,045 less than Petitioner's original proposal.

4. Commission Discussion and Findings. Petitioner calculated its forecasted purchased power expense by taking into account weather impacts, cost changes by electric providers, and consumption changes by Petitioner and its customer base. Petitioner's forecasted growth rates are based on the average year-over-year historical purchased power expense change. The OUCC argued that variations in the year-over-year growth rates for water and wastewater purchased power expense meant Petitioner's methodology was flawed. However, the record shows average growth rates are dependent on historical costs recognized in each of the service periods analyzed by Petitioner. Historical cost trends take into consideration all

components that historically changed costs, including weather impacts, cost changes by electric providers, and consumption changes by the utility and its customer base. We find Petitioner's forecasted purchased power expenses to be reasonable and should be approved. Purchased power expenses are \$78,115 for Petitioner's consolidated water operations and \$214,266 for Petitioner's consolidated wastewater operations, a base year increase of \$285 and \$2,054, respectively.

Further, the record shows that Petitioner updated its forecasted purchased water expense to account for the OUCC's proposed change in methodology. The revised purchased water expense properly included both metered and volumetric charges as agreed upon by Petitioner and OUCC. We find Petitioner's forecasted purchased water expense to be reasonable and is approved. Purchased water expense of \$380,353 is applicable to Petitioner's water operations, a base year increase of \$38,559.

B. Salaries and Wages Expense.

1. OUCC's Evidence. Mr. Richard Corey, Utility Analyst with the OUCC, proposed removal of \$7,976 from salaries and wages expense that Petitioner proposed for its consolidated wastewater operations due to an incorrect expense recognition in Petitioner's general ledger trial balance for the fiscal year ending September 30, 2015.

2. Petitioner's Rebuttal. Mr. Kersey testified that Petitioner did not agree to the OUCC's proposed removal of \$7,976 from salaries and wages expense. He explained that one employee's cost was incorrectly booked to Petitioner's general ledger in its base year. However, Petitioner's forecast should not be adjusted because that employee was not included in the forecast of salaries and wages expense. He further explained that the forecast was calculated on an individual employee basis.

3. Commission Discussion and Findings. The record shows the salaries and wages expense was calculated on a per employee basis and based upon current and anticipated levels of staffing. The adjustment proposed by the OUCC failed to recognize that the employee's cost at issue was not included in Petitioner's forecast. Accordingly, the OUCC's proposed adjustment would cause salaries and wages expense to be understated. We thus find Petitioner's calculation of salaries and wages expenses to be reasonable. We find that Petitioner's salaries and wages expense is \$734,850, which includes \$443,699 for water operations, a \$77,257 base year increase, and \$291,151 for wastewater operations, a \$50,678 increase over base year.

C. Capitalized Labor.

1. OUCC's Evidence. Mr. Corey explained that Petitioner's capitalized labor in the test year was calculated based on anticipated capital investments. He stated that the OUCC proposed removing the capitalized labor from Petitioner's Leadership/President cost center ("Leadership") and Indiana operations cost centers. Ms. Stull explained that Petitioner proposed capitalizing 50% - 90% of an employee's time in some instances. This includes the time of high-level managers. Ms. Stull said that the time of high-level managers is not typically capitalized in material amounts. Petitioner's employees do not perform the actual capital work because it is against corporate policy for an employee to enter a trench or confined space. Petitioner appears to be over-capitalizing time spent on capital projects, especially the time of management

employees. Ms. Stull proposed a total reduction to capitalized labor of \$42,307 for Petitioner's consolidated water operations.⁷ The adjustment is comprised of \$24,183 to remove excessive capitalization of management time and \$18,124 of specific non-capital. For Petitioner's consolidated wastewater operations, Ms. Stull proposed a total reduction of capitalized labor of \$41,405 that includes \$6,052 for specific non-capital and \$35,353 for excessive capitalization of management time. The OUCC proposed capitalized labor and benefits of \$101,319 for consolidated water operations and \$66,484 for wastewater operations for capitalized labor.

2. Petitioner's Rebuttal. Mr. Kersey accepted the adjustment proposed by the OUCC to remove capitalized labor from Leadership and Indiana operation centers. Additionally, Mr. Kersey stated that because Petitioner agreed to remove certain projects (SCADA, Second Sludge-Storage Tank, and WWTP Headworks Upgrade) from its capital project forecast, it is necessary to remove the capitalized time associated with these projects. Mr. Kersey proposed to exclude capitalized labor of \$5,550 for consolidated water operations and \$45,787 for consolidated wastewater operations as shown on Rebuttal Schedule 6-E.

3. Commission Discussion and Findings. Petitioner agreed with the OUCC to exclude capitalized labor for Leadership and the Indiana operation center. We find it is appropriate to adjust the capitalized labor as agreed upon by Petitioner and the OUCC. We also agree with Petitioner's proposal to remove forecasted capitalized labor on projects that were eliminated. However, we note that Petitioner made an additional adjustment on its Rebuttal Schedule 6-E to include in capitalized labor time associated with the SCADA project and the WWTP Headworks Upgrade, both of which have been removed from rate base. Therefore, we deny Petitioner's rebuttal position, in part, and we find that Petitioner's forecasted capitalized labor expense is \$95,769 for the consolidated water operations and \$20,698 for the consolidated wastewater operations.

D. Chemical Expense.

1. Petitioner's Evidence. Mr. Kersey explained how forecasted chemical costs were determined. He testified that chemical costs were forecasted by month based on historical levels of chemical costs and usages. He further testified that, based on this evaluation, chemical expenses were forecasted to decrease from \$84,799 in the base period to \$80,790 in the test year, and the decrease was primarily due to projected decreases in consumption, which resulted in less need for chemicals.

2. OUCC's Evidence. Ms. Stull proposed an increase of \$4,009 to Petitioner's forecasted chemical expense of \$80,790 to eliminate Petitioner's forecasted decrease in consumption, which the OUCC rejected. Ms. Stull proposed using the 2015 base year chemical expense as the 2017 projected chemical expense to be consistent with the OUCC's recommendations regarding operating revenues.

3. Petitioner's Rebuttal. Mr. Kersey explained that Petitioner does not accept the OUCC's proposed increase of \$4,009 to Petitioner's original forecasted amount of

⁷ We note the OUCC also proposed a \$34,965 reduction to rate base associated with capitalized labor for DSIC leak repairs from April 2013 – May 2015.

\$80,790. Petitioner also does not accept the OUCC's removal of Petitioner's declining usage adjustment. Mr. Kersey explained that Petitioner revised its original forecasted amount of \$80,790 because Petitioner should not have originally relied on ERC to apportion forecasted expenses between water and wastewater. Accordingly, Petitioner's revised allocation is \$17,556 for water and \$63,235 for wastewater for a total of \$80,790 for chemical expenses.

4. Commission Discussion and Findings. The Commission previously approved Petitioner's proposed declining usage and customer normalization adjustments. Thus we reject the OUCC's proposal to remove that same adjustment. We find Petitioner's original forecasted amount of \$80,790 and the revised allocation are reasonable and supported by the evidence of the record. Therefore, we accept Petitioner's chemical expense of \$17,556 allocated to water operations and \$63,235 allocated to wastewater operations.

E. Deferred Maintenance in Rate Base.

1. Petitioner's Evidence. Mr. Kersey explained that forecasted Net Deferred Charges were adjusted to remove both Twin Lakes' and IWSI's loss of prudent abandonment of plant. Other adjustments to Net Deferred Charges include the incremental amortization of book assets and the addition of a forecasted tank inspection project in the Twin Lakes service territory. Petitioner decreased Net Deferred Charges for its consolidated water operations by \$331,393 and \$229,504 for its consolidated wastewater operations.

2. OUCC's Evidence. Ms. Stull opposed Petitioner's proposal to include deferred maintenance in its rate base. She said that Petitioner referred to these expenses as deferred charges. She explained that they represent maintenance costs that are amortized over the expected life of the deferred cost. She said that these costs do not represent an investment in utility plant and should not be included in rate base. Pub. Ex. 1 at 33. Ms. Stull noted Petitioner forecasted \$41,318 of water deferred charges and \$33,681 of wastewater charges as of September 30, 2017. She explained Petitioner's forecasted water deferred charges primarily consisted of deferred maintenance costs, including tank painting, volatile organic chemical testing, tank maintenance and repair, and sludge hauling. Ms. Stull also explained that Petitioner's wastewater deferred charges primarily consisted of deferred maintenance costs, including sludge hauling, tank maintenance and repair, and sewer master planning.

3. Petitioner's Rebuttal. Mr. Kersey noted that the OUCC did not propose any maintenance and repair adjustments in its case-in-chief testimony. Mr. Kersey explained that the well cleaning costs, filter media replacement, and well maintenance costs that the OUCC proposed to disallow from rate base should be set up as a net deferred charge component of rate base with a proposed recovery of these costs over a span of three years. Mr. Kersey explained that a three-year amortization period for well cleanings and rehabilitations is appropriate because the three-year period was chosen to reflect above normal corrosiveness of the water, which requires well reconditioning at an above normal frequency. Mr. Kersey further explained that without frequent reconditioning of Petitioner's wells, the risk of failure would increase and would result in otherwise unnecessary capital spending in the future.

4.- Commission Discussion and Findings. We find Petitioner's practice of capitalizing maintenance activities is inappropriate and violates proper accounting procedures and NARUC's USoA. Therefore, we have removed the costs associated with well cleanings and filter media replacement from Petitioner's rate base. However, these costs should be recovered through operating expense. The OUCC explained in its response to a February 3, 2017 Docket Entry that Petitioner's maintenance expense as detailed in Petitioner's work paper JPK-5 does not include any costs for well cleaning or filter media replacement. Pub. Ex. 8, Response 2. The OUCC agreed that well cleaning and filter media replacement costs should be recovered but disagreed with Petitioner's proposed amount and amortization period. The OUCC recommended an amortization period of five years for well cleaning costs and ten years for filter media replacement costs. The OUCC did not provide any explanation for its recommended amortization period of five years for the well cleaning costs. Petitioner, however, explained that a three-year amortization is necessary due to raw water quality. Thus, the Commission finds a three-year amortization for well cleanings is reasonable and supported by the evidence. Regarding filter media replacement costs, Petitioner proposed a three-year amortization period, while the OUCC recommended a ten-year amortization. Neither party provided an explanation in support of their proposed amortization period. Thus, the Commission finds that an average of the two proposed amortization periods should be used. Based on the foregoing, the Commission finds \$60,782 should be included in operating expense for the water utility maintenance costs.

Total Well Cleaning	\$164,320
Divided by: 3 years	<u>3</u>
Sub-total	<u>54,773</u>
Total Filter Media Replacement	39,060
Divided by: 6.5 years	<u>6.5</u>
Sub-total	<u>6,009</u>
<i>Total</i>	<u><u>\$60,782</u></u>

F. Taxes Other Than Income Expense.

1. Petitioner's Evidence. Mr. Kersey explained how taxes other than income taxes were determined. He explained that these expenses were forecasted to increase from \$380,465 in the base period to \$420,929 in the test year and that the adjustments were based on forecasted levels of salaries, revenues, and UPIS. He testified that Utility Commission Taxes were forecasted to increase from \$64,368 in the base period to \$73,589 in the test year, and the increase was calculated at 1.50% of revenue.

2. OUCC's Evidence. Mr. Corey proposed removing Petitioner's Utility Commission Taxes based on a rate of 1.5% and replacing it with the current rate of 1.4% rate for Utility Receipts Tax. He proposed including the IURC Fee expense based on the IURC fee rate of 0.1077802% that became effective on July 1, 2015, and reducing the forecasted payroll taxes in the amount of \$903, which he specifically related to the proposed salary reduction of \$7,976.

Ms. Stull proposed a reduction to Petitioner's forecasted property tax expense in the amount \$44,507 but agreed Petitioner's forecast method was appropriate. She said the OUCC's

property tax expense adjustment was solely related to the reductions to Petitioner's forecasted net utility plant balance.

3. Petitioner's Rebuttal. Mr. Kersey testified that he agreed to the adjustment methods used by the OUCC, but Petitioner does not agree to the payroll tax reduction of \$903. Mr. Kersey stated that because the OUCC's proposed \$7,976 salary adjustment was inappropriate, the associated \$903 payroll tax adjustment was also in error.

4. Commission Discussion and Findings. Because of our determination regarding salaries and wages expense above, the Commission rejects the OUCC's proposed reduction in forecasted payroll taxes of \$903. We find Petitioner's payroll tax expense to be \$40,145 for its consolidated water operations and \$26,343 for its consolidated wastewater operations. In addition, we find Petitioner's taxes other than income tax expense should be calculated using the current rates as of the filing date of Petitioner's Petition as follows: 1.4% Utility Receipts Tax rate and a 0.1077802% IURC Fee rate.

The record shows the OUCC agreed to Petitioner's forecast method for property expense. We find the methodology used by the parties to determine property tax expense to be reasonable. As a result of our previous determination regarding UPIS, the Commission finds property tax expense for Petitioner's consolidated water and wastewater utilities to be \$125,700, a \$35,149 decrease over base period, and \$140,604, a \$45,930 increase over base period, respectively. We further find property taxes shall be updated as part of Petitioner's Rate Base Update filing.

G. Sales Tax Refund.

1. OUCC's Evidence. Ms. Stull discussed an issue related to sales tax paid by IWSI. She explained that, until recently, IWSI paid sales tax on all water purchased from Indiana-American because IWSI neglected to file the necessary paperwork for the sales tax exemption. She said this was corrected when IWSI filed the proper paperwork in 2014. Petitioner received a \$24,156 refund from the Indiana Department of Revenue on November 6, 2014, and a \$29,040 credit from Indiana-American in July 2014. She explained that although IWSI revised its water tracker downwards in January 2015 to reflect this decrease in purchased water expense, the prior period amount of \$53,196 should be refunded or credited to IWSI customers who paid these taxes.

2. Petitioner's Rebuttal. Mr. Lubertozi disagreed with the OUCC's proposal that sales tax refunds should be credited to customers. In his opinion, a Commission-ordered refund would be retroactive ratemaking. Mr. Lubertozi also stated the OUCC's proposal would constitute a taking of utility property. Just as Petitioner's returns are not guaranteed, expenses are not guaranteed to stay the same, increase, or decrease. In other words, the test year represents a snap shot of expenses and revenues. Thus, the OUCC only identified one area in which expenses were lower than otherwise expected but ignored other instances in which expenses increased. Therefore, he argued, it is unreasonable in this instance to retroactively adjust rates to capture one issue while ignoring the rest.

3. Commission Discussion and Findings. The OUCC proposed requiring Petitioner to refund customers \$53,196 for refunds paid to Petitioner for sales tax in late

2014. The Commission previously authorized IWSI's revenue requirement, which included the recovery of projected sales tax on purchased water. Therefore, it would be unreasonable for the Commission in this Order to require Petitioner to refund to customers amounts previously authorized by the Commission and occurring outside of the adjustment period. The Commission finds that the OUCC's proposal is not an appropriate adjustment, and the Commission declines to direct Petitioner to refund sales tax amounts in this instance.

However, the Commission is troubled by the underlying issues here including Petitioner's failure to properly monitor its costs and to file its tax exemption form in a timely manner. We note that Petitioner needs to make improvements to its management oversight. The Commission requires Petitioner to make improvements in the section titled Internal Investigation and Use of Three-Way-Match Process herein.

H. Depreciation Rates and Depreciation Expense.

1. Petitioner's Evidence. John F. Guastella, President of Guastella Associates, LLC, performed a depreciation analysis of Petitioner's water and wastewater utility systems and recommended depreciation rates. He stated that Petitioner's water and wastewater systems are comprised of relatively small utilities that do not have sufficient retirement data readily available to perform either an actuarial or simulated plant balance method for determining average-service lives for his depreciation study. He said, therefore, he undertook a comparative analysis to establish appropriate average-service lives.

For his comparisons, Mr. Guastella looked at ten utilities, NARUC guideline depreciation rates, California Public Utilities Commission Standard Practice depreciation rates, and Florida Public Service Commission rules and regulations on depreciation rates. The most recent comparative depreciation study he performed was on behalf of Utility Services of Illinois, Inc., a sister company to Petitioner, in connection with a rate application to Illinois Commerce Commission. He noted he has prepared similar comparative studies, which were accepted in other jurisdictions in recent years. Mr. Guastella recommended a depreciation rate for individual plant accounts. Mr. Guastella did not present evidence showing how each recommended depreciation rate is reasonable based on Petitioner's actual assets.

Mr. Guastella described the comparative data he collected and identified the basis for the negative-net-salvage values used in his study. He testified that net-salvage-value is the salvage value of property retired less the cost of removal. Negative-net-salvage value occurs when the cost of retirement or removal exceeds gross-salvage value. He explained that to develop the relationship between original and current construction costs he used the ratio of the current-year Handy-Whitman Index ("Handy-Whitman") to the vintage-year index, which supports the use of negative-net-salvage values. The vintage years were determined by the number of years of the respective average-service life of Petitioner's water and wastewater systems. He said Handy-Whitman is commonly used in construction-cost comparisons like the one he prepared for Petitioner. Mr. Guastella testified that the average-service lives of Petitioner's systems he recommended are not only reasonable in general but are reasonable for determining depreciation rates for Petitioner.

2. OUCC's Evidence. Mr. Kaufman testified in opposition to Petitioner's proposal to dispense with the Commission's composite-depreciation rates to determine Petitioner's depreciation expense. Mr. Kaufman noted that in past cases Petitioner's various divisions have used the Commission's composite-depreciation rates for its water and wastewater utilities. However, in this case, Petitioner proposed to use depreciation rates on an account-specific basis, based on the results of Mr. Guastella's study. Mr. Kaufman explained that Mr. Guastella's estimated depreciation rates range from 1.47% for Lake, River, and Other Intakes to 14.29% for Back-Flow-Prevention Devices. Mr. Kaufman stated that Mr. Guastella's proposed depreciation rates are not based on the actual condition of Petitioner's plant. In fact, Mr. Kaufman noted, Mr. Guastella did not physically inspect the condition of Petitioner's plant.

Mr. Kaufman stated that Petitioner's alternative depreciation rates are not more reliable than the Commission's composite-depreciation rates. Mr. Kaufman explained that a water or wastewater utility has the option of relying on the Commission's composite-depreciation rate or conducting its own depreciation study. Mr. Kaufman explained that Mr. Guastella's study is not specific to the conditions in Indiana or Petitioner's plant. In the absence of a utility-specific depreciation study, Mr. Kaufman testified that the Commission's composite-depreciation rates should be used to determine depreciation expenses. Mr. Kaufman explained that Petitioner's proposed depreciation expense is 3.03% for its water operations and 2.79% for its wastewater operations compared to the Commission's composite-depreciation rates of 2.0% for a complete water system, 1.7% for a water system that purchases its water, 2.5% for a wastewater system with a treatment plant, and 2.2% for a wastewater system without a treatment plant.

Mr. Kaufman also rejected Mr. Guastella's use of negative-net-salvage value. He argued that Petitioner provided no documentation that Petitioner incurs the removal or dismantling costs indicated by Mr. Guastella's depreciation study. He added that including negative-net-salvage value attempts to recognize the current cost of dismantling and removing assets, such as structures, storage facilities, pumps, mains, and service laterals. He also stated that Mr. Guastella's examination of the relationship between original and current construction costs is not utility-specific and does not provide an accurate approach to estimate or infer negative-net-salvage values. Mr. Kaufman stated that if Petitioner's proposed negative-net-salvage values are removed from Petitioner's effective depreciation rates, Petitioner's depreciation rates would be reduced from 3.03% to 2.40% for water operations and from 2.79% to 2.12% for wastewater operations.

He explained that Petitioner's proposal to recognize negative-net-salvage value increases depreciation rates. Mr. Kaufman said that if negative-net-salvage values were removed from Petitioner's depreciation calculations, the annual depreciation expense for water operations would be reduced by \$82,443 to \$311,292 and the annual depreciation expense for wastewater operations would be reduced by \$136,459 to \$421,125. Mr. Kaufman noted that Mr. Guastella assumes a negative-net-salvage value ratio of 70% for Transmission and Distribution Mains and 100% for Services; however, utilities typically do not incur significant expenses to remove or dismantle these plant assets. He explained that when service lines are replaced, the retired plant is typically destroyed or left in the ground.

Mr. Kaufman disagreed with Mr. Guastella's assertion that Mr. Kaufman's evaluation confirms the reasonableness of the negative-net-salvage rates Mr. Guastella proposed. Mr.

Kaufman did not dispute that the cost to construct and install water utility plant has progressively become more expensive over the last 75-100 years, but he asserted Mr. Guastella's study did not provide a reasonable basis to estimate removal and dismantling costs. Mr. Kaufman added it is an inaccurate approach to estimate or infer negative-net-salvage rates.

Mr. Kaufman noted Mr. Guastella uses average-service life to calculate a multiplier of original cost to current cost. For example, Mr. Guastella assumes transmission and distribution mains have an average-service life of 70 years, a time span Mr. Kaufman did not dispute. Mr. Guastella then calculates a multiplier of current versus original cost by comparing the cost to install transmission and distribution mains 70 years ago to the cost of installing transmission and distribution mains using the 2015 Handy-Whitman, and this results in a cost multiplier of 25.96. Mr. Kaufman asserted that this approach is not reasonable. He said this relationship might make sense if the average age of Petitioner's transmission and distribution mains was 70 years. Hypothetically, if the average age of Petitioner's transmission and distribution mains is only 30 years old, the relationship of the cost of mains today compared to 70 years ago is irrelevant. Mr. Kaufman asserted this age-price relationship does not provide a reasonable basis to determine a negative-net-salvage value. Mr. Kaufman explained that Mr. Guastella calculates negative-net salvage-value multipliers that assume all of Petitioner's plant has an age equal to its estimated life. This type of analysis is inaccurate, and it overstates negative-net-salvage value multipliers and Petitioner's depreciation expense.

Mr. Kaufman asserted Mr. Guastella's estimate of the negative-net-salvage ratios will be the same for all water and wastewater utilities regardless of their actual age. Mr. Kaufman explained this type of analysis distorts estimated depreciation expense and overstates the cost of negative-net-salvage for newer plant. He explained that newer plant will have a higher construction cost than parts of a similar, older utility. Thus, using the same multiplier results in the newer utility having a higher estimated cost to remove the same plant. Mr. Kaufman stated there is no basis to estimate that it costs more to remove plant constructed in 2015 than plant constructed in 1990, which is the effect of Mr. Guastella's negative-net-salvage study. He asserted that the cost of removal, if there is any, should be the same for similar plant, regardless of the cost to install the plant that is being removed.

Mr. Kaufman noted that approximately \$218,900 of Petitioner's proposed depreciation expense relates to its estimated negative-net-salvage. To ensure that these funds are available for plant removal, funds collected for negative-net-salvage should be segregated in a separate account to pay for future removal costs. Petitioner should then be required to track its actual costs for removal and dismantling as those costs are incurred. Petitioner can use the funds in the separate account to pay for the actual cost of removal.

3. LOFS's Evidence. Mr. Theodore Sommer, a Partner with London Witte Group, LLC, testified on behalf of LOFS and disagreed with the depreciation study performed by Mr. Guastella. Mr. Sommer agreed that there are cost savings associated with doing a desk analysis of the plant that Petitioner has on its books, but he questioned the accuracy of Mr. Guastella's result and testified Petitioner's proposed depreciation study should not be accepted.

Regarding Petitioner's proposed negative-net-salvage values, which are embedded in its proposed depreciation rates, Mr. Sommer explained that the cost of removal must represent an accurate estimate of the actual cost to remove an asset. He stated that Mr. Guastella relied on the net-salvage values established some years ago to determine the costs of removal, but Mr. Sommer explained that current technology includes the in situ method, which is likely more appropriate given the character of Petitioner's system.

Mr. Sommer testified that the in situ method, which repairs assets in place, eliminates the cost of removal for some collection and transmission lines. Mr. Sommer referenced the pipe-bursting method of gravity wastewater main remediation and how it was applied to 2,200 linear feet of main in the Twin Lakes system. Mr. Sommer testified that his understanding is that the pipe-bursting method allows for a replacement of existing pipe without removing any of the old pipe. Mr. Sommer stated that Petitioner's system contains a great deal of mains that contain asbestos, which suggests that the in situ method for replacement of mains in Petitioner's system is appropriate. Mr. Sommer concluded that Mr. Guastella's use of negative-net-salvage rates that did not consider the impact of new technology would result in depreciation rates that are too high. He recommended that the Commission reject Mr. Guastella's depreciation study.

4. Petitioner's Rebuttal. Mr. Kersey testified that, while Petitioner agreed to recalculate depreciation expense based on UPIS as of February 29, 2016, and September 30, 2017, it did not agree to the continued use of the Commission's composite rates. Mr. Kersey stated that not only are the Commission's composite rates outdated, they prevent Petitioner from earning its authorized return. He testified that the composite rates are outdated because they were adopted approximately 30 years ago and do not accurately reflect the greatly changed industry landscape. He further testified that the Commission's composite rates do not allow Petitioner to adjust depreciation rates for assets that are not held on its books. He stated that if the Commission is going to reject the depreciation rates proposed, Petitioner must be allowed to re-establish plant values for such short-lived assets. Mr. Kersey provided tables showing the impact of re-establishing these plant values for both water and wastewater. Table 6 reflects a Net-Gross Plant-in-Service adjustment amount of \$408,744 for consolidated wastewater operations as of September 30, 2017. Table 4 reflects a Net-Gross Plant-in-Service adjustment amount of \$691,023 for consolidated water operations as of September 30, 2017.

Mr. Guastella also responded to Mr. Kaufman and Mr. Sommer. He stated that their criticisms do not reflect reasonable assessments of his study or his comparative analysis, which used a methodology that has been accepted by utility regulatory jurisdictions throughout the country for thousands of small water and wastewater utilities. He said their criticisms also do nothing to support the continued use of the fixed-composite depreciation rates.

Mr. Guastella testified that the application of a composite-depreciation rate is the least-preferred method of satisfying the purpose of depreciation, namely, intergenerational equity. He testified that an arbitrary 2% composite-depreciation rate for a water system is the least-accurate way to determine depreciation expense as compared with any of the other methods used to estimate the most likely average-service life of each asset. Mr. Guastella explained that the percentages for net salvage that he recommended reflect reasonable estimates that result in depreciation rates to achieve intergenerational equity. He said failure to include net salvage at all is not reasonable. Mr.

Guastella also stated that Mr. Kaufman's recommendation that the funds collected for negative-net-salvage be segregated in a separate account was unnecessary and speculative.

Mr. Guastella concluded that both Mr. Kaufman and Mr. Sommer recommended the continued use of composite-depreciation rates that were apparently established 28 years ago for water systems and 32 years ago for wastewater systems. He said neither Mr. Kaufman nor Mr. Sommer showed how the composite rates were calculated for the utilities under consideration and if plant data was used. He added that both witnesses focused on their assumptions of the physical condition of certain assets, apparently absent any recognition of such other causes of depreciation such as obsolescence and changes in regulatory requirements. He said that on the basis of the magnitude of those composite rates, it is likely that they do not reflect any consideration of net-salvage values. He said Mr. Kaufman and Mr. Sommer offered no opinion as to the reasonableness of the depreciation rates for individual accounts that he recommended. Mr. Guastella concluded that the depreciation rates for individual accounts that he recommended have been generally accepted and are considerably more accurate than the Commission's composite rates, and most importantly, best accomplish the goal of intergenerational equity.

5. Commission Discussion and Findings. Depreciation allows utilities to recover the original cost of assets that are used and useful in providing service at a level that spreads recovery of the cost over the estimated life of assets. As a result, each generation of customers pays its fair share of cost according to their use of the assets.

NARUC in its Uniform System of Accounts for Class A Water Utilities, published in 1996, defined depreciation as:

Depreciation, as applied to depreciable utility plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of providing service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and requirements of public authorities. Pet. Ex. 5 at 2.

The Commission has the responsibility pursuant to Ind. Code § 8-1-2-19 to ascertain and determine the proper and adequate rates of depreciation of the several classes of property of each public utility. Historically, the Commission's composite rate is used, unless the Commission decides that a utility's proposed rate schedule is more proper and adequate for the public utility's property.

The Commission is presented with two options to determine the appropriate depreciation expense for Petitioner: (1) Accept Petitioner's proposed depreciation rates, which designate a depreciation rate for each individual plant account and include an embedded cost of removal and salvage value; or (2) Re-approve Petitioner's use of the Commission's composite rates for water and wastewater utilities in Indiana.

We previously addressed applicable depreciation rates for Petitioner's Twin Lakes division. In Cause No. 43957, the Commission rejected Petitioner's proposed depreciation rates wherein Petitioner proposed to change the depreciation rates for only vehicles and computer equipment and software systems, explaining that the Commission's composite rate takes into consideration the total plant. *Twin Lakes Utilities, Inc.*, 2012 WL 641631, Cause No. 43957 at p. 21 (IURC Feb. 22, 2012). The Commission in its Order directed Petitioner to use the Commission-developed depreciation rates for water and wastewater and "if Petitioner believes that a composite rate provides inaccurate information, it should have conducted and submitted for Commission approval its own depreciation study to more accurately reflect the expense." *Id.*

To be approvable, Petitioner's proposed depreciation rates need to be proper and adequate per the statute and *more accurately reflect the expense* for depreciation than the Commission-developed depreciation rates. Therefore, we consider what constitutes an approvable depreciation study and resulting rates, and we begin our analysis by comparing a previous Commission-approved depreciation study to Petitioner's study. We then consider evidence regarding whether Petitioner's proposed rates more accurately reflect Petitioner's depreciation expense. If Petitioner's proposed rates do not more accurately reflect depreciation expense, we must re-approve the Commission's composite rates.

For instance, the Commission approved the use of Indiana-American Water's proposed depreciation rates rather than the Commission's composite rates in Cause No. 43081. *Indiana-American Water Co. Inc.*, 2006 WL 3877352, Cause No. 43081 (IURC Nov. 21, 2006). Indiana-American provided the testimony of Mr. John J. Spanos of Gannett Fleming, Inc. who explained his depreciation study. Regarding the thoroughness of his study, Mr. Spanos filed an approximately 300-page report that included annual and accrued depreciation, the statistical support for the life and net-salvage values, and the detailed tabulation of annual and accrued depreciation for water plant and a much shorter report for wastewater plant, primarily based on the depreciation study for the water plant. Importantly, he also indicated that he physically observed the condition of Indiana-American's plant and equipment. Mr. Spanos used his extensive experience to determine service lives and net-salvage values, and he discussed these issues with Indiana-American personnel. Pet. Ex. JJS-1 at I-4.

Unlike the Indiana-American study above, Mr. Kaufman testified that Petitioner's study was not based on a depreciation study specific to the actual condition of Petitioner's plant. Petitioner retained a consultant to prepare a depreciation *comparative* analysis by individual plant account but not a study of Petitioner's actual assets. In the Indiana-American study, their consultant observed the condition of the plant and equipment; however, Mr. Guastella did not inspect Petitioner's plant and equipment. Additionally, Indiana-American's consultant discussed the service lives and net-salvage values of the plant with Indiana-American personnel, and Mr. Guastella said that he did not do this. We conclude that there are significant differences between Indiana-American's approved study and Mr. Guastella's study and these differences indicate that Mr. Guastella's proposed rates are less likely to be more accurate for Petitioner's plant than the Commission's composite rates.

Mr. Guastella's argument for providing a comparative-depreciation study instead of a full-depreciation study is because, in part, he lacked sufficient data to complete a full-depreciation

study or to provide actual costs incurred for retirements and removals. Mr. Guastella testified that Petitioner has not experienced sufficient retirements to perform either an actuarial or simulated-plant balance method for determining average-service lives. However, Mr. Guastella did not provide detailed evidence supporting his recommended rates by individual plant account. Petitioner's lack of data does not justify using unsupported depreciation rates rather than the Commission's composite-depreciation rates.

Mr. Guastella also testified that the Commission's composite rates are outdated because they were developed approximately 30 years ago and do not accurately reflect the greatly changed industry landscape. However, Mr. Guastella's statement was conclusory, and he did not provide detailed evidence to specifically show how the rates are outdated or how the industry landscape in Indiana has changed. Accordingly, we are unconvinced that Mr. Guastella's proposed rates, albeit developed more recently, are more accurate than the Commission's composite rates.

Mr. Guastella testified that he prepared similar comparative studies for utilities in other states and his studies were accepted by those jurisdictions. Mr. Kaufman explained that Mr. Guastella's study is not specific to the conditions in Indiana or to Petitioner's plant. Mr. Guastella did not provide evidence to show that conditions such as typical plant age, types of plant, and terrain in Indiana are similar to conditions in the states that approved Mr. Guastella's rates. The fact that other states approved Mr. Guastella's composite-depreciation rates is not evidence that the rates are more accurate for Petitioner's utilities in Indiana than the Commission's composite rates.

As a component of its proposed rates, Mr. Guastella embedded net-salvage values, and we now consider whether inclusion of net-salvage values could possibly increase the accuracy of Petitioner's proposed rates. By including net-salvage values in rates, Petitioner is attempting to recover the current cost of dismantling and removing assets like structures, storage facilities, pumps, and other facilities and selling those assets for salvage value. Mr. Guastella did not produce any evidence of the actual cost to remove any plant or equipment for his proposed net-salvage value. Mr. Kaufman also noted that in Indiana, when transmission and distribution plants are replaced, the retired plant is typically destroyed or left in the ground. Mr. Guastella offered no evidence that explains the common practices in Indiana regarding removal or abandonment of obsolete assets and how those practices support Petitioner's proposed net-salvage rates. Petitioner acknowledged in response to discovery by the OUCC, Petitioner does not separately track actual costs to remove retired assets, thereby preventing further review. The Commission finds there is insufficient evidence to support use of Petitioner's proposed net-salvage values as a component of their proposed depreciation rates because we are not convinced of the accuracy for Petitioner's plant.

Our inquiry above indicates that Petitioner's proposed rates are not more accurate than the Commission's composite rates for calculating the depreciation expense applicable to Petitioner's plant. Additionally, because Petitioner embedded net-salvage values into its depreciation rates and we do not accept the accuracy of Petitioner's net-salvage values, we cannot accept Petitioner's depreciation rates. The Commission finds that Petitioner's proposed study does not more accurately reflect Petitioner's expense for depreciation. Using the Commission's composite rates

based on the depreciable plant, the Commission finds the following depreciation expense adjustments to be reasonable, subject to the Rate Base Update Mechanism discussed herein:

	Water	Wastewater
	2017	2017
Utility Plant in Service	\$ 13,608,704	\$ 19,272,140
Less: Land and Land Rights	114,404	155,076
Depreciable UPIS	13,494,300	19,117,064
Times: Composite Depreciation Rate	2.00%	2.50%
Pro forma Depreciation Expense	269,886	477,927
Less: Base Year Depreciation Expense	352,735	492,427
Pro forma Adjustment	\$ (82,849)	\$ (14,500)

Rejecting Petitioner's proposed depreciation rates leaves this Commission with the issue of re-establishing plant values for short-lived assets, which are still in service but have no book value. We agree and accept Mr. Kersey's proposed re-establishment of plant values for short-lived assets that are in service but have no book value. As a result, Net-Gross Plant-in-Service is increased to \$408,744 for the consolidated wastewater operations and \$691,023 for the consolidated water operations.

I. Maintenance and Repair Expense.

1. Petitioner's Evidence. Mr. Kersey stated that maintenance and repair expense were forecasted based on an evaluation of historical data and estimated operations. Mr. Kersey stated that Petitioner forecasted an increase from base year maintenance and repair expense of \$129,797 to test year expense of \$189,009. Mr. Kersey explained maintenance and repair expense consisted of: (1) deferred maintenance, (2) sewer rodding, (3) sludge hauling, (4) permits, (5) uniforms, and (6) other.

2. OUC's Evidence. Ms. Stull accepted Petitioner's projected maintenance and repair expense as presented in its case-in-chief testimony. However, Ms. Stull proposed the removal from rate base of costs that were capitalized in error and stated that, to the extent the costs removed should be considered a recurring operating expense and were not already included in test year operating expense, she proposed an adjustment to maintenance and repair expense as appropriate. The \$171,845 of water rate base costs eliminated by Ms. Stull consisted of well cleaning, rehabilitation costs, and filter media maintenance. The costs eliminated were incurred during 2011 through 2015. The \$4,222 of wastewater rate base costs eliminated by Ms. Stull consisted of repair costs, tree removal, and renewal of a National Pollutant Discharge Elimination System land application permit. The costs eliminated were incurred during 2013 through 2015.

3. Petitioner's Rebuttal. Mr. Kersey noted that no maintenance and repair expense adjustments were proposed by the OUC. Mr. Kersey asserted that Ms. Stull goes so far as to clarify that the OUC proposed an adjustment for operating expense based on the transactions it proposes to exclude in Public's Exhibit No. 1; however, no adjustment to operating expenses was made by the OUC. Mr. Kersey explained Petitioner believes the costs Ms. Stull removed from rate base should be amortized over three years, which would result in additional forecasted

maintenance amortization expense. Mr. Kersey stated that Attachment JPK-R2 of Petitioner's Exhibit R2 breaks down Ms. Stull's proposed rate base adjustment for non-allowed costs between costs which Petitioner believes should remain capitalized and those that should be amortized. Mr. Kersey stated the total amount of incremental amortization per year proposed by Petitioner is \$42,567 (\$127,700/3). Mr. Kersey explained the three-year amortization period proposed by Petitioner was chosen to reflect the above-normal corrosiveness of the water, which requires well reconditioning at an above-normal frequency.

4. Commission Discussion and Findings. Petitioner's proposed annual maintenance and repair expense of \$189,009 as of September 30, 2017 included \$34,710, which represented periodic maintenance costs that are not incurred on an annual basis. The \$34,710 of periodic maintenance expense represents the amortization of deferred charges Petitioner proposed in rate base. Because the parties agreed to the initial maintenance and repair expense adjustments proposed by Petitioner in its case-in-chief testimony, we will limit our discussion to the adjustments proposed by Petitioner in its rebuttal case, which represent the annual amortization of non-capital costs Ms. Stull removed from Petitioner's rate base. First, we note Mr. Kersey misstates Ms. Stull's testimony regarding the need for adjusting entries. Mr. Kersey states that Ms. Stull went so far as to clarify that the OUCC is proposing an adjustment to operating expense based on the transactions the OUCC proposed to exclude in Attachment MAS-4. However, Ms. Stull's actual testimony was, "To the extent the costs I remove should be considered a recurring operating expense and that operating expense is not already included in test year operating expenses, I propose an upward adjustment to maintenance and repair expense *as appropriate*." Pub. Ex. 1 at 23. Ms. Stull did not make any additional adjustments to maintenance and repair expense, and therefore, must have determined that no further adjustments were appropriate. Having reviewed the evidence before us, we agree with Ms. Stull and find that Petitioner's forecasted maintenance and repair expense is \$189,008, of which \$48,864 represents water operations maintenance and repair expense and \$140,144 represents wastewater operations maintenance and repair expense.

J. Authorized Operating Expense. Based on the above, the Commission finds Petitioner's pro forma present rate water and wastewater operating expenses for the 12 months ending September 30, 2017, are \$1,801,004 and \$1,820,752, respectively.

11. Net Operating Income at Present Rates.

A. Water Utility's Net Operating Income under Present Rates. Based on the evidence and the determinations made above, the Commission finds Petitioner's water utility adjusted forecasted operating results under present rates are as follows:

	Water
Operating Revenues	\$ 1,990,826
O&M Expense	918,268
General Expenses	448,200
Depreciation Expense	269,886
Amortization Expense	9,784
Taxes Other Than Income	193,577
Federal Income Taxes	(33,993)
State Income Taxes	(4,717)
Total Operating Expenses	1,801,004
Net Operating Income	\$ 189,822

We further find that the net operating income available to Petitioner for return under its present rates for consolidated water utility service of \$189,822 is insufficient to provide a fair return on the fair value of its properties used and useful in providing water service for the convenience of the public, and is therefore unjust and unreasonable and shall be increased.

B. Wastewater Utility's Net Operating Income under Present Rates. Based on the evidence and the determinations made above, we find Petitioner's wastewater utility adjusted forecasted operating results under present rates are as follows:

	Wastewater
Operating Revenues	\$ 2,273,738
O&M Expense	711,329
General Expenses	295,327
Depreciation Expense	477,927
Amortization Expense	19,612
Taxes Other Than Income	198,727
Federal Income Taxes	97,175
State Income Taxes	20,656
Total Operating Expenses	1,820,752
Net Operating Income	\$ 452,986

We further find that the net operating income available to Petitioner for return under its present rates for wastewater utility service of \$452,986 is insufficient to provide a fair return on the fair value of its properties used and useful in providing wastewater service for the convenience of the public, and is therefore unjust and unreasonable and should be increased.

12. **Authorized Rate Increase.**

A. **Water Utility.** The Commission finds Petitioner is permitted to increase its water rates and charges by 37.53% to produce additional operating revenue of \$734,268, total annual operating revenues of \$2,725,095, and net operating income of \$635,930 as depicted below:

	Total
Operating Revenues	\$ 2,725,095
O&M Expense	918,268
General Expenses	451,538
Depreciation Expense	269,886
Amortization Expense	9,784
Taxes Other Than Income	203,817
Federal Income Taxes	195,820
State Income Taxes	40,052
Total Operating Expenses	2,089,165
Net Operating Income	\$ 635,930

The determinations in the preceding table reflect the effect of additional revenue on federal and state income taxes, Utility Receipts Tax, Bad Debt Expense, and the IURC Fee.

The calculation of Petitioner's water utility authorized percent increase subject to the Rate Base Update Mechanism described herein is depicted below:

	Total
Original Cost rate Base	\$ 7,778,960
Times: Weighted Cost of Capital	8.175%
Net Operating Income Required for Return on Rate base	635,930
Less: Adjusted Net Operating Income	189,822
Net Revenue Requirement	446,108
Gross Revenue Conversion Factor	164.594545%
Recommended Revenue Increase	\$ 734,268
Recommended Percentage Increase	37.53%

B. **Wastewater Utility.** The Commission finds Petitioner is permitted to increase its rates and charges by 14.82% to produce additional operating revenue of \$336,266, total annual operating revenues of \$2,610,004, and net operating income of \$657,285 as depicted below:

	Total
Operating Revenues	\$ 2,610,004
O&M Expense	711,329
General Expenses	296,856
Depreciation Expense	477,927
Amortization Expense	19,612
Taxes Other Than Income	203,417
Federal Income Taxes	202,420
State Income Taxes	41,158
Total Operating Expenses	1,952,719
Net Operating Income	\$ 657,285

The determinations in the preceding table reflect the effect of additional revenue on federal and state income taxes, Utility Receipts Tax, Bad Debt Expense, and the IURC Fee.

The calculation of Petitioner's wastewater utility authorized percent increase subject to the Rate Base Update Mechanism described herein is depicted below:

	Total
Original Cost rate Base	\$ 8,040,181
Times: Weighted Cost of Capital	8.175%
Net Operating Income Required for Return on Rate base	657,285
Less: Adjusted Net Operating Income	452,986
Net Revenue Requirement	204,300
Gross Revenue Conversion Factor	164.594540%
Recommended Revenue Increase	\$ 336,266
Overall % of Revenues Subject to Increase	14.82%

C. **Ultimate Finding.** Based on the evidence and giving appropriate weight to the need for Petitioner to discharge its public duties, the Commission finds that the rates authorized above, subject to Rate Base Update Mechanism described herein, are just and fair and should allow Petitioner the opportunity to earn a reasonable return on its property dedicated to providing water and wastewater utility services to the public.

13. **Other Tariff Issues and Non-Recurring Charges.** In compliance with the Commission's Order in Cause No. 44587, Petitioner clarified the tariff language of the WSCI division's wastewater reconnection fee to match the Twin Lakes division's description. Also, to achieve synchronization of non-recurring charges, Petitioner increased the Twin Lakes division's

wastewater reconnection fee from \$25 to \$37.50 to match the WSCI division's reconnection fee, and Petitioner increased its new customer charge from \$20 to \$25 to match the WSCI and IWSI divisions' new customer charge. The OUCC agreed with these changes. Accordingly, the Commission finds these changes comply with the Commission's Order in Cause No. 44587, and are approved.

14. Internal Investigation and Use of Three-Way-Match Process.

A. Internal Investigation of Contractor Invoices.

1. Petitioner's Supplemental Evidence. Mr. Lubertozi testified regarding Petitioner's internal investigation into invoices from CS&W. He explained that while preparing portions of Petitioner's rebuttal testimony Petitioner engaged in an internal investigation after he and Mr. Kersey discovered issues with CS&W invoices. Mr. Lubertozi testified that the answers provided by Petitioner's operations management regarding the invoices were vague and untimely. After a series of questions, one of Petitioner's then-current employees admitted that certain of these invoices were prepaid and that work for these prepaid invoices was either not started or not completed. Mr. Lubertozi stated that based on this information, he contacted Utilities, Inc.'s CEO, Ms. Lisa Sparrow, regarding his concern about possible fraud. The resulting investigation was conducted by Ms. Sparrow and Mr. John Stover, General Counsel and Corporate Secretary of Utilities, Inc., and Petitioner's Vice President.

Petitioner engaged in an internal investigation that involved physical inspection or auditing of invoices related to hard assets in four phases. Phase Two was a random sample of capital invoices, and it revealed that one invoice, CS&W Invoice No. 4018, had been prepaid for work that had not been started. Mr. Lubertozi explained that, due to this inconsistency, Petitioner engaged in Phase Three of the investigation, which consisted of a physical inspection of all CS&W invoices over \$10,000 from 2012 to present. While Phase Three revealed no inconsistencies, Petitioner again expanded the scope of the audit to include additional invoices in Phase Four. Phase Four revealed no inconsistencies.

Mr. Lubertozi testified that the internal investigation identified nine invoices covering approximately \$230,000 of capital projects that had been invoiced, but the work had either not been started or not been completed. The invoices were issued at the request of Petitioner's former employee, who then falsely receipted them for payment. Additionally, the investigation did not reveal a widespread issue and showed that only Indiana customers were impacted.

He testified that Petitioner completely removed the impact of the prepaid invoices from its rate filing and prepared updated schedules reflecting the corrections Petitioner identified. Mr. Lubertozi further testified that Petitioner intends to provide bill credits for the over-collection associated with its sewer infrastructure charge approved in Cause No. 44646. Additionally, the investigation revealed that the former employee falsely reported the status of certain projects in the January and July 2015 semi-annual reports filed in Cause No. 44388. Petitioner will file corrected semi-annual reports to address the investigation's findings.

Mr. Kersey testified regarding Petitioner's internal investigation. He provided detailed explanations of the adjustments Petitioner made to remove the impact of the prepaid \$230,000 capital projects invoices that were discovered during the internal investigation. Mr. Kersey explained that Petitioner proposed a pro forma rate base reduction of \$246,394 to account for the prepaid invoices. He discussed in detail the steps used by Petitioner to calculate this adjustment. He further testified that Petitioner compared its pro forma proposed wastewater revenue requirement in its case-in-chief to its revised revenue requirement to calculate a reduction of \$32,497 or 1.15% in Phase II rates, and a \$32,483 or 1.17% reduction in Phase I rates, because of the investigation. Mr. Kersey said that Petitioner takes all allegations of fraud very seriously and Petitioner will take steps to remind all employees of Utilities, Inc.'s Code of Business Conduct and Ethics Policy.

2. OUCC's Supplemental Evidence. Mr. Parks testified regarding OUCC's investigative field review of invoices. Mr. Parks testified that he identified four invoices from late 2011 wherein CS&W invoiced for work at manholes and he found no on-site evidence that the work was performed. Mr. Parks testified regarding his site visit, and he referenced his detailed analysis of invoices in Table 2 of his supplemental testimony.

Ms. Stull outlined Petitioner's internal investigation process and stated that Petitioner's internal inquiry was insufficient to find all instances where Petitioner paid for work that was not completed. Ms. Stull stated that her concerns included: (1) the limited time-period reviewed, (2) the insufficiency of the review conducted, and (3) the lack of further investigation or verification of information provided by Petitioner's terminated employees and CS&W.

Ms. Stull used the OUCC's field review of CS&W manhole work as an example of the insufficiency of Petitioner's investigation. Ms. Stull further testified that she had concerns regarding the lack of further investigation or verification of information provided by Petitioner's terminated employees and CS&W, specifically the lack of verification that no one benefitted financially from the improperly paid invoices. Ms. Stull ultimately testified that, while she agreed that the adjustments proposed by Petitioner in its supplemental testimony were necessary, she did not agree with Petitioner that the Commission should conclude that Petitioner's problems were limited to the invoices and issues uncovered during its internal investigation.

3. LOFS's Evidence. Mr. Richard Cleveland, Community Manager of LOFS, addressed Petitioner's internal investigation. Mr. Cleveland testified that it was alarming that Petitioner's management and culture allowed for a trusted supervisory employee to engage in dishonest behavior that, if left undiscovered, likely would have resulted in customers paying for work that was never done. Mr. Cleveland expressed concern that this latest incident raises questions about Petitioner's management like those raised by the Commission in its Order in Cause No. 43957. In that Cause, the Commission analyzed Twin Lakes' longstanding history of service quality deficiencies and noted "an apparent lack of continuity among the individuals operating Twin Lakes, which we consider an obstacle to meaningful improvement." Cause No. 43957, Order at 24. Mr. Cleveland testified that after Employees A and B were terminated because of the latest incident, he was notified that Mr. Charles Alexander resigned. Mr. Alexander served in a supervisory capacity over the operations personnel assigned to the system that serves LOFS.

4. Petitioner's Rebuttal. Mr. Lubertozi responded to the OUCC's criticisms of Petitioner's internal investigation. He emphasized the seriousness with which Petitioner took the investigation and the speed at which Petitioner instituted its investigation upon being made aware of a potential problem. He again discussed the four-phase process constituting the internal investigation and described the inquiries that took place at each stage. He stated that Petitioner confirmed that some of the work referenced by Mr. Parks was actually completed; thus, the OUCC's investigation identified only two invoices that had not been previously identified by Petitioner. He further stated that using three different methods, Petitioner confirmed that some work identified in Mr. Parks's Table 2 was also completed. He concluded that Mr. Parks's thorough review in large part confirmed Petitioner's conclusions.

5. Commission Discussion and Findings. While the OUCC criticized the scope of Petitioner's investigation and its decision to only review invoices since 2012, the record shows that Petitioner began its investigation with a scope intended to uncover whether additional invoices and work were questionable. Based on the findings of that initial phase, Petitioner expanded its review, both in terms of the period reviewed and the dollar amount of the audited invoices. Petitioner expanded its investigation into Phases Three and Four to gain greater certainty that it had identified the reasonable scope of the potential issues. The investigation involved both financial auditing and physical inspections. The record shows that in a handful of instances, it was not always feasible or easy to physically inspect and confirm that certain work was done. Further, while the OUCC performed an exhaustive review of Petitioner's records and engaged in substantial discovery, it only identified two additional invoices that had not already been identified in Petitioner's investigation. Both invoices were dated prior to January 2012. Given the passage of time, the Commission finds the scope of invoices and years considered in Petitioner's review to be reasonable.

We note that Petitioner appropriately removed approximately \$230,000 of capital projects that had been invoiced but the work had either not been started or not been completed. Petitioner also acted promptly to provide bill credits for the over-collection associated with its sewer infrastructure charge approved in Cause No. 44646. We find Petitioner's remedial financial actions to be reasonable and prudent under the circumstances.

B. Use of Three-Way-Match Process.

1. OUCC's Evidence. Mr. Parks testified that Petitioner's three-way match process for matching purchase orders, receipts, and invoices was ineffective because it allowed payments to be made to contractors when work was not performed, allowed payment of inflated invoices for both North and South GSTs, and allowed inflated invoices to be paid for other sewer repair work. He further testified that Petitioner's three-way match permitted these things to happen because the process allowed a single Petitioner employee to control or influence all parts of the three-way match. He stated that Petitioner's processing of the prepaid sewer repair invoices also caused him concern. He stated that Petitioner's management and accounts payable failed to question year-end clustering of the prepaid invoices and other characteristics that would make the invoices suspect. Mr. Parks further stated that while Petitioner claimed that its investigation uncovered pre-billing for only nine 2015 invoices, the OUCC found additional invoices that were questionable.

Ms. Stull testified that Petitioner maintained insufficient internal controls and undue reliance on the three-way match process. She further stated her concerns regarding Petitioner's internal management controls, including its lack of an internal auditor position, lack of segregation of duties with respect to its internal control procedures, and lack of adequate cost control measures. Ultimately, Ms. Stull recommended that the Commission order Petitioner to evaluate its internal controls and accounting procedures.

2. Petitioner's Rebuttal. Mr. Lubertozi testified regarding Petitioner's three-way match process. He said the three-way match process is a payment verification technique used to ensure that all purchases have been approved or authorized and that payments to contractors are complete and accurate. The matches refer to the comparison of the purchase order to the contractor's invoice and a confirmation that the goods or services are received. After the third step, the contractor's invoice is paid. He explained that a significant amount of Petitioner's capital spending relates to capital projects that are reviewed by a Capital Projects Review Team ("Projects Team"). Mr. Lubertozi said due to Petitioner's organizational structure and Projects Team, there are instances when purchase orders are created after the order has been requested or placed with the contractor. He stated that while this may not coincide with the three-way match best practice, the goal of the three-way match was achieved as well as the overall integrity of the process.

Mr. Lubertozi further testified that Petitioner is not opposed to hiring an internal auditor, as the OUCC suggested; however, he is not convinced that an internal auditor would have uncovered the prepayment situation. He said no audit or auditor could detect all instances of potential fraud. Mr. Lubertozi further questioned whether the benefits of hiring a dedicated internal auditor would outweigh the costs. He pointed out that the OUCC had not included any salary and benefit expense in its schedules for this new employee.

3. Commission Discussion and Findings. The OUCC was critical of Petitioner's operations because of its three-way match process and its failure to prevent payment on several occasions of invoices for work that was not performed, and we agree with the OUCC's assessment of this issue. Petitioner has in place a three-way match process to ensure that all purchases have been approved or authorized and that payments to contractors are complete and correct. However, on several occasions, a single employee was responsible for multiple parts of the three-way match, and this defeated the purpose of the three-way match. A three-way match wherein multiple matches and approvals are conducted by the same person cannot prevent fraudulent activities. We also note that the OUCC initially detected the fraudulent invoices, and not Petitioner. We agree with the OUCC that Petitioner's past three-way match process was insufficient because it did not include a division of duties among multiple people or measures to prevent payment for unperformed work. Although we understand that Petitioner has a small number of local staff, it is important that Petitioner creates a division of duties within its three-way-match process to ensure that contractor invoices are accurate.

While Petitioner did not oppose hiring a full-time internal auditor as recommended by the OUCC, the Commission finds such a requirement to be insufficiently supported at this time, particularly given the additional expense that would be incurred to employ an auditor. Pet. Ex. R1 at 7 (identifying annual revenue requirement of \$74,754 for an Internal Auditor I position). Most importantly, a proper three-way match process, which includes a division of duties, would

eliminate the need to hire a full-time internal auditor to monitor accuracy and adequacy of contractor invoices and payments to contractors.

Regarding Petitioner's oversight of work performance of contractors, the OUCC testified above regarding Petitioner's minimal oversight and project planning on the manhole work performed by contractors. We agree with the OUCC that Petitioner needs to make operational improvements in its oversight of contractor invoices and work performance. Accordingly, the Commission identifies below several specific improvements Petitioner must make. Within 90 days of the effective date of this Order, Petitioner shall file under this Cause a report explaining how it is implementing the improvements below:

a. Improve Management's Oversight of Projects Performed by Contractors. Develop best practices for management oversight of contractors and effective invoice review procedures, which includes (1) creating a scope of work for each project, (2) performing inspections of contractor-performed construction, and (3) implementing a policy requiring contractors to list materials, equipment, and quantity of labor on invoices.

b. Improve Financial Controls Over Invoices Submitted to Petitioner. Integrate a division of duties into Petitioner's three-way matching policy to decrease the risk of fraud and potential for clerical errors in the review, approval, and payment of contractor invoices. Consult with Petitioner's internal audit resources or external consultants as prudent to identify material risks in Petitioner's current controls and develop policies and practices to decrease material risks.

c. Properly Classify Expenses and Capital Work for Accounting Purposes. Modify Petitioner's Capitalized Time Guidelines regarding classification of capital and expenses as discussed in the Non-Capital Costs section. Develop a written policy for how expenses and capital work related to both contractor invoices and employee time will be properly categorized in Petitioner's books and records. Make policy consistent with applicable guidance from the NARUC USoA.

Petitioner shall pursue these steps and others that it believes will help it to minimize the possibility of fraudulent activity in the future, to improve its management and control over contractors and invoices, and to comply with acceptable practices regarding the classification of expenses and capital work.

15. Wastewater and Water Service Quality and Communication with LOFS.

A. Petitioner's Evidence. Concerning Petitioner's wastewater collection system, Mr. Lubertozi testified that Petitioner complied with the 10% annual inspection, televising, and pressure cleaning ordered by the Commission in Cause No. 43128 S1. Petitioner also performed additional work within the last five years to identify and resolve issues within its wastewater system. He said these steps included implementing a Sewer Capital Improvement Program and utilizing RedZone Robotics technology to produce a web-based GIS map of Petitioner's entire wastewater collection system. He further testified that Petitioner has additional plans to replace the wastewater system infrastructure in the next five years, and he provided a general outline of those plans.

Mr. Lubertozi stated that the backups and overflows which occurred during 2015 in the Twin Lakes wastewater system were a result of unprecedented rainfall events and flooding throughout Indiana. He further stated that Petitioner takes these situations very seriously and has taken additional steps toward eliminating these events, including upgrades and improvements consistent with the Commission's Order in Cause No. 43128 S1. He said that the record rainfall events which occurred in the spring and summer of 2015 allowed Petitioner to locate previously unidentified points where surface water impacted the wastewater system. Mr. Lubertozi stated that Petitioner is working closely with customers, including LOFS, to help mitigate these issues in the future and reduce any impact rain events have on Petitioner's wastewater system.

Mr. Lubertozi explained that it would take significant investment of probably \$7 million in the wastewater system to stop the backups from occurring from manholes and in basements of homes. Tr. B-26, 27. He said that all rain downspouts need to be permanently disconnected from the sewer system and all ditches that run through Lakes of the Four Seasons need to be cleared out. He said that he did not have direct evidence of whether customers in the past year were asked to disconnect their downspouts. He said he did not have specific knowledge of an instance when Petitioner asked Lakes of the Four Seasons to clear a ditch and they did not do it, but he had evidence of ditches with rain water collecting in them.

Mr. Lubertozi testified during cross examination that Petitioner began developing a comprehensive asset management plan in 2015 and continues to work on it in 2017. *Id.* at 15. Mr. Lubertozi explained that the plan is a list of all system assets and the plan addresses consequences of asset failure, status of assets, and guidelines for asset maintenance. *Id.* at 19.

Regarding drinking water quality, Mr. Lubertozi testified that Petitioner has taken additional steps to improve service, including making improvements within the water system. He said that aggressive flushing and some additional capital spent at the water treatment plant could help remedy the water discoloration problem. *Id.* at 27. Mr. Lubertozi stated that Petitioner is in compliance with all applicable water quality regulations and standards. He testified that Petitioner recently implemented vigorous and comprehensive uni-directional flushing and hydrant maintenance programs. Mr. Lubertozi testified that these programs reduced the number of customer complaints regarding water quality. He stated that there were 47 customer complaints regarding water quality in 2015; however, only four of the complaints were regarding utility-side issues. He noted that, while there is always room for improvement, he believed the reduced number

of complaints demonstrated the significant efforts undertaken in the past several years to improve water quality for Petitioner's customers.

Mr. Lubertozi discussed Petitioner's communication with LOFS about the water and wastewater service provided within the community. He explained that the majority of the communication took place between Mr. Charles Alexander, former Area Manager for Petitioner, and Mr. Rick Cleveland. Mr. Lubertozi further stated that Petitioner meets periodically with various LOFS personnel to discuss work being done within the community, updates to ongoing activities, future scheduled work, as well as other issues arising in the LOFS community.

B. LOFS's Evidence. Mr. Cleveland testified regarding service quality and Petitioner's communication with LOFS. Mr. Cleveland testified that for the past 25 years, there have been problems with sewage backing up into LOFS residents' homes and manholes overflowing during rain events. He testified that these issues were recognized by the Commission in previous cases. In particular, Mr. Cleveland said that in Petitioner's 2006 rate case, Cause No. 43128, there was testimony that Petitioner received at least 45 complaints of sewage backing up into customers' homes. *Twin Lakes Utilities, Inc.*, Cause No. 43128, 2008 WL 294523 at p. 13 (IURC Jan. 16. 2008).

In this Cause, Mr. Cleveland presented records from the Indiana Department of Environmental Management ("IDEM") showing 16 manhole overflows between April 2014 and December 2015, with eight of these overflows occurring at Manhole No. 329. He stated that sewer backups and manhole overflows were not acceptable and recommended that the Commission impose specific performance metrics on Petitioner. Mr. Cleveland said he was concerned that Petitioner's wastewater treatment facility may not be able to accommodate and treat flows in heavy rain events. He recommended that the Commission require Petitioner to address these decades-old wastewater discharge problems and order, as a condition of the rate increase, that Petitioner replace or repair the system in reasonable, measurable increments that eliminate wastewater overflows. He also recommended that the Commission not authorize additional rate increases until Petitioner has operated for a suitable period of time without sewage backups, manhole overflows, or discolored water and has achieved acceptable customer satisfaction ratings.

Mr. Cleveland expressed his concerns regarding Petitioner's drinking water quality. Mr. Cleveland recounted the testimony of Ms. Carol Karpen in a field hearing in February 2011 in Cause No. 43957. The Karpens experienced brown water in wash cycles and would not drink the water due to quality issues. Mr. Cleveland testified that the Karpens reported to him that despite more frequent flushing by Petitioner since 2012, they continue to have damaged clothing because they do not always know when brown water will appear in the wash cycle, and they continue to buy bottled water. He recounted other specific examples of quality issues experienced by LOFS residents. He testified that he received numerous complaints over the years that water delivered by Petitioner required softening and filtration and the water shortened the expected useful life of household appliances.

Regarding communication between Petitioner and LOFS, Mr. Cleveland testified that the Commission in the October 5, 2017 Order in Cause No. 44646 found that Petitioner needed to improve communication with LOFS. The Commission directed Petitioner to meet with LOFS quarterly to discuss issues. Mr. Cleveland testified that Petitioner has not complied with the

Commission's Order to meet quarterly and Petitioner has not responded to e-mails requesting meetings to discuss quality issues or potential rate case filings.

Mr. Cleveland provided supplemental testimony in this Cause in response to Petitioner's internal investigation. Mr. Cleveland testified that it is alarming that Petitioner's management and culture allowed for a trusted supervisory employee to engage in dishonest behavior that would have resulted in customers paying for work that was never done. He further stated that Petitioner's supplemental testimony suggested that Petitioner's management and culture encourages the attainment of financial goals without regard to basic principles of fairness and honesty.

C. Petitioner's Rebuttal. Mr. Lubertozi responded to Mr. Cleveland's testimony regarding 16 manhole overflows. He pointed out that, with the exception of two events, all of the sewer discharges identified by Mr. Cleveland involved instances of significant rainfall, ranging from 1.3 inches within 40 minutes to over 4 inches within 60 minutes. He further explained that, absent the unprecedented rainfall experienced on June 8, 2015, and August 18, 2015, there would only have been a single overflow event in the past three years. Mr. Lubertozi discussed past instances when the Commission recognized that Petitioner's wastewater system, as an older gravity system, was prone to inflow and infiltration issues. Mr. Lubertozi stated that Petitioner has adopted a more proactive approach to cleaning and televising the wastewater system and explained this approach.

Mr. Lubertozi addressed the concerns raised regarding Petitioner's drinking water quality. He stressed that any water leaving Petitioner's treatment plant meets or exceeds all applicable state and federal water quality standards. He stated that he understands some customers have concerns about water quality at their residences and Petitioner continues to work with these customers to address brown water at their residences. In the case of the Karpens' residence, Mr. Lubertozi stated that Petitioner routinely flushes a hydrant located in the vicinity of their residence and will continue to work with them to address any quality issues. He said testing performed at the Karpens' residence showed that the water coming into their residence was clear with extremely low or non-measurable iron concentrations, even when discolored water was experienced in their faucets. He also explained that the issue of water hardness is not unique to Petitioner and would be present at any water utility using similar groundwater sources. He disagreed with Mr. Cleveland's suggestion that the need for softening Petitioner's water is an indication of water service quality issues.

Mr. Lubertozi responded to Mr. Cleveland's testimony regarding communications with LOFS. He stated that while there is always room for improvement, correspondences showed that there was plenty of communication between Petitioner and LOFS. He agreed with Mr. Cleveland's comments that Petitioner did not meet with LOFS on a quarterly basis. He stated that this failure was due to Petitioner incorrectly relying on the Commission's Order in Cause No. 44388, which required meetings on a semi-annual basis and a meeting at least 60 days prior to filing its next general rate case. As Petitioner's President, he took full responsibility for not complying with the Commission's Order and apologized to the Commission and LOFS for the oversight. However, Mr. Lubertozi disagreed with Mr. Cleveland's comments that Petitioner failed to advise LOFS of Petitioner's intention to file a rate case. He stated that Petitioner's representatives met with LOFS on September 30, 2015, and informed LOFS of its intention to file a rate case. He further stated that in the future it would be advisable to have these communications in writing so each party would have a record.

Mr. Lubertozi testified regarding criticisms by LOFS of Petitioner's management. He responded to Mr. Cleveland's statement that the management and culture at Petitioner encourages attainment of the utility's financial goals without regard to basic principles of fairness and honesty. He testified that the culture at Utilities, Inc. and its operating companies is one of safety and integrity. Mr. Lubertozi explained that the terminated employee's actions decreased Petitioner's opportunity to achieve its financial goals, not *encouraged the attainment* of Petitioner's financial goals as Mr. Cleveland suggested.

D. Commission Discussion and Findings. As referenced in the testimony by LOFS, Petitioner has faced service challenges with its utilities for many years, particularly in regard to sewage backups, manhole overflows, and drinking water discoloration. Additionally, there have been concerns regarding Petitioner's on-going communication with LOFS. In more recent years, Petitioner has taken some steps to improve performance as noted in the Commission's Orders.

In the October 7, 2015 Order in Cause No. 44646, the Commission denied LOFS's request for a subdocket to address overflows at Twin Lakes because the Commission believed that Petitioner was making appropriate improvements in its collection system and Petitioner's older gravity system was prone to inflow and infiltration issues. The Commission discussed these issues as follows:

We have previously initiated a subdocket in Cause No. 43128 SI to address similar (sanitary sewer overflow) issues, and in fact, sanitary sewer overflows at the same manholes that recently overflowed. As part of that subdocket, Petitioner is televising and smoke testing 10 percent of its system annually. Petitioner is also providing semi-annual reporting of the inspections and improvements it is making to its collection system. While it is troubling that sanitary sewer overflows are reoccurring at the same manholes at issue in Cause 43128, Petitioner's system is an older gravity system prone to inflow and infiltration issues. We also note that the recent sanitary sewer overflows occurred during a statistically historic rain event. We believe that Petitioner is making the appropriate improvements in its collection system based on the reports filed under Cause No. 43128 SI. Accordingly, we decline LOFS's request for another subdocket. However, we do believe that Petitioner needs to improve the communication of its planning with LOFS, and direct Petitioner to meet with LOFS on a quarterly basis to discuss any issues with Petitioner's water or wastewater systems, and provide LOFS any filings made to IDEM related its collection system. *Twin Lakes Utilities, Inc.*, Cause No. 44646, 2015 WL 5920879 at p. 8 (IURC Oct. 7, 2015).

In the April 23, 2014 Order in Cause No. 44388, the Commission approved a Stipulation and Settlement Agreement with the OUCC and LOFS and discussed Petitioner's improvements. In that Cause, Mr. McIntosh, on behalf of the OUCC, testified regarding Petitioner's wastewater operations, and he noted that the odor controls implemented by Petitioner appear to have been effective. Mr. McIntosh recommended that Petitioner continue to make repairs on defective manholes to reduce inflow and infiltration of ground water and storm water. In the Order, the Commission stated the following regarding Petitioner's service quality and customer relations:

While Petitioner still has room for improvement, it appears that many of the service quality and customer relation issues raised in Petitioner's last rate case have been addressed or improved by Petitioner. We encourage Petitioner to continue to improve service quality and proactively manage its water and wastewater systems, and further encourage the parties to continue to work together to proactively identify issues and work to reach mutually agreeable solutions. *Twin Lakes Utilities, Inc.*, Cause No. 44388, 2014 WL 1712265 at p. 9 (IURC April 23, 2014).

In the current Cause, regarding wastewater bypasses and overflows, the record shows that in nearly every instance, significant and heavy precipitation was present when bypasses and overflows occurred. To address those issues, Petitioner is actively gathering data and taking steps to prevent bypasses and overflows. For instance, Mr. Lubertozzi stated that Petitioner was making capital improvements and implementing a web-based GIS map. Indeed, the record showed a decline in the percentage of complaints in 2015 that were determined to be due to utility-side issues. Going forward, Mr. Lubertozzi testified that Petitioner would probably need to invest \$7 million in the wastewater system to stop overflows from occurring from manholes and backups in basements of homes. He said that downspouts need to be permanently disconnected, ditches should be cleaned, and the system needs to be aggressively flushed.

Based upon our review of the evidence, Petitioner is making strides in decreasing wastewater bypasses and overflows as shown by the decline in complaints and that most incidences occurred when there was significant and heavy precipitation. We find that there is still room for Petitioner to further decrease the incidences of wastewater bypasses and overflows. We encourage Petitioner to incorporate their proposed investments and actions to decrease wastewater bypasses and overflows into the Commission required System Improvement Plan ("SIP") discussed below.

Regarding drinking water quality and discoloration, Mr. Lubertozzi stated that the water leaving Petitioner's treatment plant meets or exceeds all applicable state and federal water quality standards, and he said that Petitioner continues to work with customers to address discolored water. Mr. Cleveland testified regarding brown water in wash cycles and that Petitioner's water requires softening and filtration. Mr. Lubertozzi said that Petitioner continues to work with customers who have discolored water. He also explained that water hardness would be present at any water utility using similar groundwater sources, and he disagreed with Mr. Cleveland's conclusion that the need to soften water indicates water quality issues.

Based upon our review of the evidence, Petitioner is working with residents to address discolored water concerns. We find that Petitioner shall renew its focus on flushing the drinking water system and making strategic capital improvements to decrease water discoloration concerns. Petitioner shall also continue to communicate with residents about discolored water and to work with residents to resolve concerns. Accordingly, as discussed in Paragraph 7 below, we find that Petitioner shall meet with LOFS on a quarterly basis as required in Cause No. 44646.

Regarding rate increases for the wastewater and water systems, Mr. Cleveland recommended that the Commission not authorize additional rate increases until Petitioner has operated for a suitable period of time without sewage backups, manhole overflows, or discolored water and has achieved acceptable customer satisfaction ratings. We disagree. The evidence shows that Petitioner has already been making progress on decreasing bypasses and overflows and has

been working with residents regarding discolored water complaints. We believe that following the recommendation from LOFS to withhold additional rate increases to a future date when Petitioner meets certain performance criteria would be unfair and unreasonable to Petitioner and not in the best interest of customers over the long-term.

In summary, based on our review of the evidence, we believe Petitioner is making strides to improve service quality and Petitioner generally knows what it needs to do to continue improving service quality. However, Petitioner needs to create a master plan to decrease total incidences of wastewater backups in homes and manhole overflows and to decrease total complaints about discoloration of drinking water. That master plan, the SIP, should be well documented and include feedback from the OUCC and LOFS, and then, most importantly, must be implemented and progress measured and reported. The Commission finds the following process reasonably addresses our desire to see continued cooperation among the parties and the development and implementation of a comprehensive and thoughtful strategy by Petitioner to create lasting improvements in wastewater and water service quality, value, and accountability:

1. Develop and Implement a System Improvement Plan Focused on Three Key Aspects of Service Quality for Petitioner's Water and Wastewater Systems. Based on our consideration of the evidence, we find that Petitioner still needs to improve three key aspects of service quality and Petitioner shall develop and implement the SIP to ensure that it makes these improvements. Accordingly, we direct Petitioner to develop the SIP to achieve the following goals: (a) to decrease total incidences of wastewater backups in homes, (b) to decrease total incidences of manhole overflows, and (c) to decrease total complaints of discoloration of drinking water ("Three Key Aspects").

In the SIP, Petitioner shall provide detailed plans to measurably improve performance in the Three Key Aspects through use of two primary components: a comprehensive inflow and infiltration ("I&I") program and a multi-faceted program to decrease incidences of discolored water, as described below. The detailed plans shall include descriptions of the activities, measureable outcomes, cost-benefit analyses, and timelines. Additionally, Petitioner shall propose capital investments that require Commission approvals and suggested timetables for the filings and approvals. For proposed significant capital investments, Petitioner shall provide proper documentation of engineering studies and detailed competitive bids from contractors to support Petitioner's proposals.

a. Develop a Comprehensive Inflow and Infiltration Program to Decrease Total Incidences of Wastewater Backups and Manhole Overflows. Petitioner shall develop a comprehensive I&I program to decrease wastewater backups in homes and manhole overflows and to eliminate water inflow and ground water infiltration into Petitioner's wastewater collection system. The I&I program shall specifically address how Petitioner will decrease inflow of rain and storm water into the wastewater system by working with LOFS to eliminate improperly installed residential sump pumps and roof downspouts and illegally connected drains. The I&I program shall also utilize Petitioner's comprehensive asset program to decrease infiltration of groundwater into the wastewater system through leaky joints, cracked pipelines, and deteriorated manholes.

b. Develop a Multi-Faceted Program to Decrease Total Complaints of Discoloration of Drinking Water. Petitioner shall develop a thorough program to decrease complaints of discolored drinking water through implementation of a comprehensive asset program to prudently maintain, repair, flush, and replace Petitioner's water infrastructure. Additionally, Petitioner shall communicate with leadership and residents of LOFS regarding causes of discolored drinking water, steps Petitioner is taking to decrease complaints, and how residents can help prevent discolored water.

2. Measure and Achieve Annual Improvements in Three Key Aspects of Service Quality. To quantify and improve service quality, Petitioner shall measure and improve performance on the Three Key Aspects annually during 2018-2022. Accordingly, Petitioner shall develop a proposed plan to measure performance on the Three Key Aspects, and Petitioner shall report on actual performance on a quarterly and annual basis ("Performance Plan"). The Performance Plan shall designate percentage goals to decrease incidences and complaints annually as compared to the previous year, and Petitioner shall define how achievement of the percentage goals will be calculated and documented. Petitioner shall file the proposed Performance Plan as a compliance filing under this Cause at least five days before the technical conference discussed below. Petitioner shall discuss the proposed Performance Plan during the technical conference, and the Commission will provide written recommendations regarding the proposed Performance Plan within ten days following the technical conference. Petitioner shall incorporate the recommendations and file a revised Performance Plan in Petitioner's next Quarterly Status Report, as defined in Paragraph 5 below. Thereafter, Petitioner shall implement the Performance Plan and report performance in the Quarterly Status Report.

3. Present Proposed SIP and Performance Plan at a Technical Conference. For Petitioner to present the SIP for 2018-2022 and Performance Plan and receive initial feedback, Petitioner shall meet with Commission, OUCC staff, and LOFS in a technical conference within approximately 90 days of the effective date of this Order. To coordinate the scheduling of the technical conference, Petitioner, OUCC staff, and LOFS shall propose possible dates for a technical conference to the Presiding Officers in this Cause. As a compliance filing under this Cause, Petitioner shall file the agenda, proposed SIP, and proposed Performance Plan at least five days prior to the technical conference. Additionally, Petitioner shall file minutes from the technical conference within five days after the technical conference.

4. Incorporate Commission's Comments into Petitioner's SIP and Performance Plan. The Commission will provide written recommendations regarding Petitioner's proposed SIP and Performance Plan within ten days following the technical conference. Petitioner shall take into consideration the Commission's recommendations and file a revised SIP and Performance Plan in Petitioner's next Quarterly Status Report, as defined in Paragraph 5 below. Thereafter, Petitioner shall implement the SIP and Performance Plan and report performance in the Quarterly Status Report.

5. File Quarterly Status Reports with Commission. To communicate Petitioner's progress and to maintain accountability, Petitioner shall file a Quarterly Status Report with the Commission. This Quarterly Status Report replaces the previous semiannual reporting requirements ordered in Cause Nos. 43957 and 44388. The Quarterly Status Report shall include: (a) status of implementation of the SIP and updates to SIP, (b) quarterly and annual actual and

target performance of Performance Plan, (c) quarterly and annual televised line-inspection information, (d) a report on complaints elevated to the Director of Customer Care and resolutions, and (e) detailed wastewater lateral and manhole repair tracking forms with customer name and address, description of incident and root cause, a copy of any report to IDEM, and an explanation of the final resolution with the customer. Petitioner is directed to file its next Quarterly Status Report under this Cause, on or before April 30, 2018. A Quarterly Status Report filing shall be due on January 31, April 30, July 31, and October 31, of each year. Petitioner shall also simultaneously serve copies of the report on the OUCC and LOFS. The requirement to file a Quarterly Status Report shall end on December 31, 2022, unless Commission staff determine that Petitioner is not adequately implementing the SIP.

6. Present a Quarterly Update at a Technical Conference with Commission, OUCC staff, and a Representative from LOFS. To maintain accountability and communication, Petitioner shall meet quarterly (or another frequency as agreed to by the parties) with the Commission, OUCC staff, and a representative from LOFS in a technical conference. To coordinate the scheduling of each technical conference, Petitioner, OUCC staff, and LOFS shall propose possible dates for the technical conference to the Presiding Officers in this Cause. As a compliance filing under this Cause, Petitioner shall file the agenda for the technical conference at least five days prior to the conference. The agenda shall include Petitioner's updates regarding the status of Petitioner's SIP, Performance Plan, and any other significant activity occurring in the field. As a compliance filing under this Cause, Petitioner shall file the minutes of the technical conference within five days after the conference. The requirement to present quarterly updates at technical conferences shall end on December 31, 2020, unless Commission staff determine that Petitioner is not adequately implementing the SIP.

7. Meet Quarterly with LOFS to Discuss Plans and to Collaborate. Petitioner shall comply with the requirements in Cause No. 44646 regarding quarterly meetings with LOFS. As required in that Cause, Petitioner shall discuss issues with Petitioner's water or wastewater systems and provide LOFS with filings made to IDEM related to its collection system. Additionally, meetings shall include communication regarding Petitioner's plans to implement the SIP and collaborative actions LOFS and residents can take to help improve service quality. The requirement to conduct quarterly meetings with LOFS shall end on December 31, 2020, unless Commission staff determine that Petitioner is not adequately communicating and collaborating with LOFS.

16. Temporary Rates and Charges. On December 8, 2017, Petitioner filed its Submission of Temporary Rates and Charges seeking a determination that its filing satisfies the requirements of Ind. Code § 8-1-2-42.7 and authorizing Petitioner to implement temporary rates and charges. In a January 8, 2018 Docket Entry, the Commission through the Presiding Officers, approved the temporary implementation of rates and charges by Petitioner according to the provisions of Ind. Code § 8-1-2-42.7. The temporary rates and charges differ from the permanent rates and charges approved by the Commission in this Order. In compliance with Ind. Code § 8-1-2-42.7(i), Petitioner shall perform a reconciliation and implement a refund, in the form of a credit rider or a surcharge, as applicable, on customer bills rendered on or after the date the Commission approves the credit or surcharge. Accordingly, within 60 days from the effective date of this Order and prior to implementing the credit or surcharge, Petitioner shall file their reconciliation as a compliance filing under this Cause for approval by the Commission's Water/Wastewater Division.

On January 12, 2018, LOFS filed their Objection, Appeal to the Full Commission of January 8, 2018 Docket Entry and Motion to Stay Rate Increase Authorized by Docket Entry. LOFS sought to stay the implementation of the temporary rates and charges that were approved on January 8, 2018, as discussed in the paragraph above. However, this Order establishes permanent rates and charges for Petitioner. Accordingly, the filing by LOFS on January 12, 2018, is now moot.

17. **Confidentiality.** Petitioner filed Motions for Protection and Nondisclosure of Confidential and Proprietary Information on December 15, 2015, and June 27, 2016, which were supported by affidavits showing documents to be submitted to the Commission were trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4), (9), and 24-2-3-2. On January 29, 2016, and October 24, 2016, the Presiding Officers issued docket entries finding such information to be preliminarily confidential, after which such information was submitted under seal. No party objected to the confidential and proprietary nature of the information submitted under seal in this proceeding. We find the information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall continue to be held confidential and protected from public access and disclosure by the Commission.

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

1. Petitioner should be permitted to increase its water rates and charges to produce additional operating revenue of \$734,268 to produce total annual operating revenues of \$2,725,095 and net operating income of \$635,930.

2. Petitioner should be permitted to increase its wastewater rates and charges to produce additional operating revenue of \$336,266 to produce total annual operating revenues of \$2,610,004 and net operating income of \$657,285.

3. In compliance with Finding Paragraph No. 16 above, Petitioner shall file a reconciliation of temporary rates and charges pursuant to Ind. Code § 8-1-2-42.7(i).

4. LOFS's Objection, Appeal to the Full Commission of January 8, 2018 Docket Entry and Motion to Stay Rate Increase Authorized by Docket Entry is denied as moot.

5. Petitioner is authorized to implement the rate increase as set forth in Ordering Paragraph 6 below and subject to the Rate Base Update Mechanism described herein.

6. Prior to implementing the rates authorized in this Order, Petitioner shall file the tariff and applicable rate schedules under this Cause for approval by the Commission's Water/Wastewater Division. Such rates shall be effective on or after the Order date subject to Division review and agreement with the amounts reflected.

7. Petitioner shall file its Rate Base Update Mechanism as described above.

8. Petitioner shall continue to utilize the Commission-approved composite-depreciation rates.

9. Petitioner shall revise its Capitalized Time Guidelines in compliance with Finding Paragraph Nos. 7E and 14B and avoid the inappropriate capitalization of employee time.

10. Petitioner is directed to file, under this Cause, all documents required by this Order.


11. The Confidential Information filed under seal in this Cause shall continue to be held by the Commission as confidential and not subject to public disclosure.

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

HUSTON, FREEMAN, WEBER, AND ZIEGNER CONCUR:

APPROVED: **JAN 24 2018**

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



Mary Becerra
Secretary of the Commission