ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF GIBSON WATER, INC., A NONPROFIT CORPORATION, FOR AUTHORITY TO ISSUE LONG-TERM DEBT AND FOR APPROVAL OF A CHANGE IN RATES AND CHARGES	))))))	**CAUSE NO. 45080** **APPROVED:** NOV 21 2018

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ORDER OF THE COMMISSION

Presiding Officers:
David L. Ober, Commissioner
Carol Sparks Drake, Administrative Law Judge

On April 24, 2018, Gibson Water, Inc. ("Gibson Water" or "Petitioner") filed a Verified Petition with the Indiana Utility Regulatory Commission ("Commission") in the above-captioned Cause seeking authority to increase its rates and charges and issue long-term debt. That same day, Gibson Water prefiled the direct testimony and exhibits of the following witnesses:

- John W. Wetzel, P.E., President of Midwestern Engineers, Inc. ("Midwestern") and a Senior Project Engineer with Midwestern;
- Steve Jenkins, Manager for Gibson Water; and
- Scott A. Miller, C.P.A., Partner in H.J. Umbaugh & Associates, Certified Public Accountants, LLP ("Umbaugh").

On August 24, 2018, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the testimony and exhibits of the following witnesses:

- Richard J. Corey, Utility Analyst in the OUCC's Water/Wastewater Division;
- Carl N. Seals, Utility Analyst in the OUCC's Water/Wastewater Division; and
- Edward R. Kaufman, Assistant Director of the OUCC's Water/Wastewater Division.

On September 14, 2018, Gibson Water filed a notice confirming Petitioner's intent to not file rebuttal testimony and its acceptance of certain adjustments and reporting requirements the OUCC proposed in its prefiled testimony. These include adjustments for the normalization of residential and commercial customer growth, eliminating expenses for various celebrations during the test year, and reporting requirements related to Petitioner's debt service reserve.

An evidentiary hearing was held in this Cause on October 5, 2018, at 9:30 a.m. in Hearing Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Gibson Water and the OUCC were present, by counsel, and their respective evidence was admitted without objection.

Based upon the applicable law and the evidence, the Commission finds:

1. **Statutory Notice and Commission Jurisdiction.** Notice of the public hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a), and as such, the Commission has authority under Ind. Code § 8-1-2-125 to approve Gibson Water's rates and charges for water service and under Ind. Code §§ 8-1-2-78, -79, and -83 to authorize Petitioner to issue long-term indebtedness. The Commission, therefore, has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Gibson Water is a nonprofit utility supplying treated water within rural and urban areas in Gibson County, Indiana. Petitioner serves approximately 1,750 retail customers and also provides wholesale water service to the Town of Haubstadt, Indiana, ("Haubstadt") and retail service to the Toyota Manufacturing Facility ("Toyota") near Princeton, Indiana. Gibson Water purchases its entire supply of water from the City of Evansville, Indiana, ("Evansville") pursuant to a Water Purchase Agreement ("WP Agreement") dated July 13, 1977. Petitioner uses transmission facilities, elevated storage tanks, land, land rights, equipment, distribution mains, and other property to provide water service. Gibson Water's existing base rates and charges were established by the Commission's February 26, 1986 Order in Cause No. 37829 (the "37829 Order"). Since the 37829 Order, 11 wholesale tracking factor adjustments have been approved corresponding to increases in the wholesale rate from Evansville. The most recent tracking factor adjustment was approved on February 28, 2018.

3. **Relief Requested.** Gibson Water requests approval in this Cause to adjust its rates and charges for water service on an across-the-board basis. Petitioner proposes to increase its annual revenue requirement by 17.2% or $318,866, for a total net annual revenue requirement of $2,172,473. Petitioner also requests authority to issue long-term debt in order to make needed capital improvements.

4. **Test Year.** The test year for determining Gibson Water's actual and pro forma operating revenues, expenses, and operating income under present and proposed rates is the 12 months ended August 31, 2017, adjusted for changes that are fixed, known, and measurable for ratemaking purposes and that occur within the 12 months following the end of the test year.

5. **Gibson Water's Direct Evidence.**

A. **John W. Wetzel, P.E.** Mr. Wetzel testified concerning Gibson Water's current water supply, distribution system, and Petitioner's anticipated capital and periodic maintenance needs. Mr. Wetzel stated that Midwestern has provided engineering services for Gibson Water since the 1970's when the initial Gibson Water construction project brought potable water to many Gibson County rural areas. He testified that Gibson Water's service area covers approximately 150 square miles and includes approximately 1,750 retail customers. Gibson Water also provides wholesale water service to Haubstadt and retail service to Toyota pursuant to two separate water service agreements. Mr. Wetzel testified that Haubstadt is served through a master meter located near the intersection of U.S. Route 41 and County Road 925 South, and Haubstadt uses an average of approximately 124,000 gallons per day ("GPD") and is Gibson Water's second largest user. He testified the Commission approved the wholesale Water Supply Contract between Gibson Water and Haubstadt on November 4, 2010, in Cause No. 43918.

Mr. Wetzel also discussed Gibson Water's service to Toyota. He testified that Toyota's facility is located on the east side of U.S. Highway 41 between Fort Branch and Princeton, and Toyota is Gibson Water's largest customer, consuming an average of 0.7 million gallons per day ("MGD"). Mr. Wetzel stated the Water Supply Service Contract between Gibson Water and Toyota was approved by the Commission on March 26, 1997, in Cause No. 40755.

Mr. Wetzel testified that Gibson Water purchases its entire supply of potable water from Evansville. Under the WP Agreement, Evansville will supply Gibson Water with a volume not to exceed 2.5 MGD of potable water. The term of the WP Agreement is 50 years from the date of Evansville's initial delivery of water to Gibson Water. Mr. Wetzel testified that Gibson Water also has emergency interconnections with the Towns of Fort Branch and Owensville, Indiana. According to Mr. Wetzel, Fort Branch and Owensville each operate groundwater wells and a treatment plant to serve their respective communities. Petitioner's interconnections with Fort Branch and Owensville are only to be used in an emergency, and no water was sold or received via these emergency interconnections in 2016 or 2017.

Mr. Wetzel explained that the water Evansville supplies comes through a master meter pit located near 1-64 and U.S. Highway 41 and then flows through a 16-inch main to a booster station located along County Road 1250 South. This 16-inch main is the sole feeder main from Evansville into Gibson Water's system. The booster station then pumps the water north, primarily through a 20-inch transmission main to two elevated storage tanks located on the Toyota site. These two tanks have a total capacity of 1.8 million gallons ("MG"). Mr. Wetzel stated the distribution system also contains a third storage tank, which is a 0.3 MG standpipe. The third tank is located north of the other two tanks, approximately three miles east of Princeton. All three tanks have the same overflow elevation (approximately 669 feet).

Mr. Wetzel stated that Petitioner's distribution system contains approximately 190 miles of 2-inch through 20-inch water mains. The entire system operates on one pressure zone due to all the tanks having the same overflow elevation, but according to Mr. Wetzel, system operating pressure varies dramatically throughout Gibson Water's service area due to the large amount of small diameter piping and significant variations in ground elevation. The smaller diameter piping causes reduced pressure during peak demand periods. Mr. Wetzel testified that inadequate operating pressures have been observed at a number of locations within the distribution system network during high demand periods. He stated that most of the areas experiencing low pressure are remote locations relative to existing storage, pumping, or large transmission main facilities and are plagued by undersized and/or unlooped mains that are incapable of sustaining adequate pressure during peak demand periods. From his perspective, the pressure issues require attention.

Mr. Wetzel testified that much of Petitioner's pipe is 40 year old ductile iron or PVC piping. He testified the typical useful life expectancy of ductile iron or PVC main piping is estimated at 70 to 80 years; therefore, Petitioner's existing distribution system network is suitable for continued operation, assuming normal maintenance activities, with significant useful life remaining.

Mr. Wetzel testified there have been no significant improvements to the booster pumping station since its renovation in 1996. He stated that 20 years of growth in the customer base, plus increasing flow demands from Toyota and other industrial and commercial users, have taxed the station. Mr. Wetzel testified that Petitioner's pump station building and the pumps have been well maintained, but the pumps are now beyond their useful life of 15 to 20 years and need to be replaced. The pump station building, however, is suitable for continued service. Accordingly, Mr. Wetzel recommended replacing the booster station pumps.

Mr. Wetzel testified the three elevated water storage tanks are generally in good condition and provide storage approximately equal to one and a half (1.5) days based upon the current average daily demand for Gibson Water's system. He stated that with proper maintenance and regular inspection, the tanks should provide many more years of continued service.

Mr. Wetzel testified that Gibson Water expects significant growth in the demand for water due to a combination of moderate population growth (3.6% growth in Gibson County over the 20 year planning period) and a significant Toyota future plant expansion that is now in the planning stage. He testified that with the associated production and labor force expansion, an increase of 8% was added to the current industrial demand, resulting in a projected peak day water demand for plan year 2037 of approximately 2.924 MG (a 14% increase over 2017 peak day demands). Based on the system's current pressure issues and the projected future demand, Mr. Wetzel recommended making the improvements outlined in a Preliminary Engineering Report ("PER"). Mr. Wetzel described the PER (i.e., Petitioner's Exhibit 4) in some detail. The PER includes recommendations and probable costs for system enhancements which will, according to witness Wetzel, enable Gibson Water to meet regulatory requirements under all operating conditions. Mr. Wetzel testified that the PER serves two purposes: (1) provides a planning document required by many federal and state agencies to obtain financial assistance to construct drinking water projects; and (2) justifies why the Commission should authorize Gibson Water to incur debt and adjust its rates and charges as requested in this Cause.

Mr. Wetzel testified about the capital improvements recommended in the PER. He stated the PER was used to identify the distribution system improvements needed to eliminate low residual pressure conditions in portions of Petitioner's system during periods of high demand. Mr. Wetzel testified that improvement and reinforcement of the system is essential to improve carrying capacity and hydraulic gradients, particularly in high elevation areas. Also, a single 16-inch transmission main currently carries all the water from the meter pit connection with Evansville. This is the sole feed from Evansville into Gibson Water's system, so if there is a problem with the main, Petitioner has no supply source after exhausting its storage facilities. Mr. Wetzel reviewed the engineering analyses that went into the PER and identified the recommended capital project alternatives. These include water main extensions to ensure Gibson Water's ability to adequately meet projected maximum daily and peak hourly demands and installation of a parallel transmission main from the interconnection with Evansville to improve system capacity and redundancy. Mr. Wetzel testified the additional 16-inch main is essential for service to be provided if the existing main has a problem and also includes upgrades to Gibson Water's high service pumping equipment within the booster station. He opined that in his professional opinion, each of the proposed capital improvements identified in the PER is reasonable and necessary to Gibson Water to provide safe, efficient service and ensure the system's ability to meet projected maximum day demand for plan year 2037.

Mr. Wetzel testified that Gibson Water is also seeking authority to incur long-term debt in an amount sufficient to cover the cost of constructing the proposed improvements identified in the PER. Gibson Water, therefore, seeks authority to issue approximately $3,581,000 in long-term debt to cover the probable construction costs of the PER recommendations as well as a 10%

construction contingency and estimated non-construction costs. Mr. Wetzel testified that Gibson Water plans to borrow from the United States Department of Agriculture Rural Development ("RD") and the Indiana State Revolving Loan Fund ("SRF") Program to finance these improvements. Specifically, Gibson Water is requesting authority to issue a 40-year note in an estimated amount of $2,438,000 to RD and a 35-year note in an estimated amount of $1,143,000 to SRF to cover the probable construction cost of the PER recommended alternatives along with the construction contingency and estimated non-construction costs. According to Mr. Wetzel, RD has approved the PER and funding for the improvements identified with similar approval anticipated from the SRF Program.

Mr. Wetzel testified that Gibson Water also seeks amounts for periodic maintenance as discussed in the pre-filed testimony of Mr. Miller. Mr. Wetzel stated the items and amounts contained in Mr. Miller's accounting report for periodic maintenance are consistent with the expenses Gibson Water will incur. Mr. Wetzel described the review process Gibson Water engaged in to determine the appropriate amount for periodic maintenance. He testified the items and amounts detailed in the Umbaugh Accounting Report are appropriate, reasonable, and accurately reflect the type and amount of expenses Gibson Water will experience for periodic maintenance.

B. Steve Jenkins. Steve Jenkins testified in support of Gibson Water's proposed rate adjustment and request for authority to issue long-term debt. As Petitioner's manager, Mr. Jenkins stated he is familiar with the utility's day-to-day operations and its system.

In describing Gibson Water's existing facilities, Mr. Jenkins stated much of the system dates back to the 1970's when Gibson Water began providing service. He testified there have been a number of improvements over the past 30 years including, most notably, the installation of new facilities in 1996 to serve Toyota. According to Mr. Jenkins, many portions of Petitioner's system are to the point where capacity and reliability are jeopardized, especially during peak usage. Given the aging water infrastructure and the capacity and reliability issues, Mr. Jenkins opined that Gibson Water needs to make a series of improvements to ensure it has sufficient capacity and reliability for retail customers and, in particular, for its wholesale customer, Haubstadt, and for Toyota.

Mr. Jenkins testified that Mr. Wetzel's testimony and the PER accurately describe the improvements Gibson Water needs to make to ensure safe and adequate service. Specifically, he noted the system experiences low pressure, especially during the summer peak usage months, and operational issues because dead-end lines need to be looped. He testified that with the looping of lines, Gibson Water will have the ability to isolate and fix main breaks while maintaining service on either side of a break. Mr. Jenkins also stated that he believes it is extremely important for Gibson Water to install a parallel transmission main from its Evansville interconnection. He expressed concerned that because the sole main is under Interstate 64 it could require days, if not weeks, to repair a break given the difficulty of accessing the line. Mr. Jenkins testified that considering the age of this transmission main, Gibson Water's need for more water across its system, and the redundancy the parallel main will provide, it is critical for Petitioner to complete this parallel main project.

Based on his familiarity with Gibson Water's finances, Mr. Jenkins testified that Gibson Water needs an adjustment to its rates and charges to maintain its existing infrastructure and ensure safe, adequate, and reliable service. Mr. Jenkins testified that Gibson Water will also need a rate adjustment to cover the anticipated principal and interest payments on its long-term debt from RD and the SRF Program.

C. Scott A. Miller. Mr. Miller testified that Umbaugh was retained to determine the rates necessary to support Petitioner's pro forma revenue requirements, make recommendations regarding changes in Petitioner's schedule of rates and charges, and assist with structuring the long-term indebtedness to be used to fund Gibson Water's proposed improvement projects. Mr. Miller sponsored a March 23, 2018 Accounting Report on Proposed Rates and Charges ("Accounting Report") his firm prepared for Gibson Water.

Mr. Miller testified that Gibson Water last adjusted its rates in 1986. Since then, 11 wholesale tracking factor adjustments have been approved corresponding to increases in Evansville's wholesale rate, with the most recent approval being on February 28, 2018. Mr. Miller testified that the primary driver for the rate adjustment being proposed is the need to upgrade Petitioner's distribution system as Mr. Wetzel describes. Mr. Miller stated Petitioner lacks sufficient funds to cover the cost of the projects Mr. Wetzel identifies and that incurring long-term indebtedness will provide the necessary funds and also spread the cost of the improvements over the useful life of the assets.

Mr. Miller testified that Gibson Water currently has no outstanding debt, but Petitioner is seeking authority in this Cause to effect financings with RD and the SRF Program. He testified the issuance of long-term notes via the RD program will provide Gibson Water with customer and territory protection in accordance with 7 U.S.C. § 1926(b). According to Mr. Miller, because Gibson Water has a concentration and reliance on industrial water sales, this results in some exposure to its non-industrial customer base should the industrial sales dramatically diminish. Mr. Miller testified the protection afforded by the RD program will lessen this exposure by preventing portions of Petitioner's system from being forcibly annexed or cherry picked by another utility or municipality.

Mr. Miller reviewed the Accounting Report (Petitioner's Ex. 7), stating the test year used in support of the requested adjustment to Petitioner's rates and charges was the 12 months ended August 31, 2017. Based on his analysis, Mr. Miller testified an overall increase of 17.2% is justified.

Mr. Miller testified the estimated project costs for the proposed capital improvements are based on the PER engineering estimates. He generally described the projects as main extensions and upgrades, an upgrade to the existing booster station, and installation of a parallel transmission main. Mr. Miller testified that Gibson Water intends to fund the projects using a two-pronged approach that includes a 40-year loan through RD in the estimated amount of $2,438,000 and a 35-year loan through the SRF Program in the estimated amount of $1,143,000. Mr. Miller stated the estimated amortization schedules for the proposed notes are included in the Accounting Report. He testified that Gibson Water originally intended to fund the entire loan through RD, but during the pre-approval process RD informed Gibson Water that Petitioner needs to borrow approximately one million dollars of the loan funds from a third-party lender to which RD will provide a federal loan guarantee. In lieu of a third-party bank or similar lender, Mr. Miller testified Petitioner has received an indication from the SRF that it is willing to fund the balance of the project not funded by RD, and RD has consented to this arrangement.

Mr. Miller stated that to allow for a 35-year amortization period for project components, Gibson Water allocated the entirety of Mr. Wetzel's PER Alternatives 2 and 3, representing complete segments of water main (including construction and non-construction costs), to SRF for funding. He anticipates Alternatives 2 and 3 will qualify for the 35-year amortization period under the SRF Program. The balance of the PER projects are allocated to RD for funding.

Mr. Miller testified that the proposed RD note is expected to be paid monthly over 40 years beginning one month after closing, which is assumed to be December 1, 2019. Interest for the RD loan was assumed at 3.50%, resulting in an annual debt service payment of approximately $113,400. Principal and interest related to the proposed SRF note is expected to be paid semiannually over 35 years beginning January 1, 2019. Interest on the SRF note was assumed at 2.75%, resulting in an annual debt service payment of approximately $51,200.

Mr. Miller described how he arrived at the estimated interest rates. He stated the RD interest rate will be the lower of the interest rate contained in the Letter of Conditions or the program interest rate in effect at closing. Petitioner received the Letter of Conditions on March 19, 2018, and it contains an interest rate of 3.50%. Because of the current increasing interest rate environment, Mr. Miller stated it is unlikely, but possible, the actual RD interest rate may be lower at the time of closing. Mr. Miller testified the SRF Program's interest rate will not be known until closing occurs. Using the SRF Program's traditional criteria, he estimated the interest rate will be approximately 2.75%.

Mr. Miller acknowledged the project costs used in the Accounting Report are based on engineering estimates, not actual construction bids. Given the uncertainty of the actual construction costs and actual interest rates, Mr. Miller stated the total cost of the proposed financing is unknown. Mr. Miller testified that Gibson Water, therefore, anticipates that once the actual construction bids are received, Petitioner will be able to appropriately size the proposed borrowings. In addition, upon closing with RD and the SRF the actual interest rates and annual debt service requirements will be known; consequently, Mr. Miller testified it will be appropriate at that time to perform a true-up calculation on Petitioner's rates and charges.

Mr. Miller reviewed the mechanics of the proposed financings. He stated that RD now requires borrowers to obtain a short-term construction loan through the Indiana Bond Bank. He testified the proceeds from this short-term loan are used to pay all the costs associated with closing on the loan and constructing the proposed facilities. Once construction is completed and final costs are known, RD will then close on the permanent loan in an amount sufficient to pay off the Indiana Bond Bank loan and any associated issuance costs. Petitioner will, therefore, use the funds from the Indiana Bond Bank to complete construction of the facilities, and when construction is complete, RD will close on the permanent loan. Mr. Miller stated that Petitioner anticipates a November 2018 closing on the interim construction loan with the Indiana Bond Bank and the permanent SRF Program loan. Petitioner anticipates completion of the proposed improvements by December 1, 2019, at which time it will close on the permanent loan with RD.

Mr. Miller discussed the adjustment for pro forma expenses and revenues contained in the Accounting Report. These include adjustments to payroll expense, employee benefits, purchased water, insurance, consulting services, periodic maintenance, and operating expenses for capital or non-recurring items. He explained the calculation of normalized annual operating revenues to account for additional revenues from new customers during the test year as well as additional revenues from the most recent Evansville tracker. Mr. Miller testified that Gibson Water's total annual net revenue requirements are estimated at $2,172,473, after deducting test year miscellaneous income and interest earnings. To provide sufficient revenues to meet the annual revenue requirements, Mr. Miller stated Gibson Water needs to increase its rates by approximately 17.2% across-the-board which will result in an increase of $318,866 to its pro forma revenues.

Mr. Miller testified the revenue requirements include an amount for replacements and improvements based on annual expenditures for capital additions during 2014, 2015, and 2016. He believes this amount is sufficient to allow Petitioner to effectively address the capital needs within its system after completing the proposed improvement projects. Mr. Miller also testified as to the mechanics of incorporating the most recently approved Evansville tracking factor into Gibson Water's rates and charges.

Mr. Miller testified that Petitioner cannot obtain the funding necessary to complete the proposed capital improvements without changing its current rates and charge because the net revenues at pro forma present rates are insufficient to make the estimated debt service payments. In his opinion, the proposed financing plan using both RD and the SRF Program funding provides reasonable and cost-effective funding to construct the capital improvements. He testified the rates proposed in the Accounting Report are fair, just, non-discriminatory, reasonable, and necessary for Gibson Water to meet its projected revenue requirements.

6. <u>OUCC's Direct Evidence</u>.

A. <u>Richard J. Corey</u>. Mr. Corey testified regarding the OUCC's proposed adjustments to Gibson Water's revenue requirement. Generally, he recommended adjustments to Petitioner's test year customer growth and that certain non-allowed expenses be removed. Based on these adjustments, Mr. Corey recommended the Commission approve an across-the-board rate increase for Gibson Water of 16.6% which he testified will produce an annual increase in Petitioner's water revenues of $308,420.

Mr. Corey testified that he did not accept Petitioner's normalization methodology for customer growth during and subsequent to the test year, particularly Petitioner's normalization of industrial and agricultural revenues. He testified it is not appropriate to normalize industrial and agricultural revenues in the manner Petitioner proposed because these customers' consumption varies widely from customer to customer; therefore, Petitioner's growth should not be calculated based simply on total customer billings and consumption. Mr. Corey testified the appropriate method for adjusting for industrial and agricultural customer growth is to identify specific customers gained or lost during and after the test year and make specific adjustments related to that customer's actual or expected usage. He stated there has been no change in the number of Petitioner's industrial, public authority, educational, and resale customers during the test year, eliminating the need to perform customer growth analysis on these groups. Mr. Corey also disagreed with Petitioner assuming a typical residential usage of 4,300 gallons. From his perspective 4,300 gallons is not representative of the various customer classes included in Petitioner's residential customer count analysis.

Mr. Corey testified that he accepted Petitioner's proposed Evansville tracking factor normalization adjustment; consequently, he recommended a net increase of $168,458 to test year operating revenues of $1,700,780 for the revenue normalization adjustment which yields pro forma operating revenues of $1,869,238. He testified these adjustments reflect residential and commercial customer growth during the test year as well as post-test year and are calculated based on the data in Petitioner's workpapers and information obtained during the OUCC's site visit.

Mr. Corey recommended an increase to test year residential operating revenues of $2,737 per year and proposed a post-test year residential growth adjustment increase of $7,870 per year. Mr. Corey testified that Petitioner proposed several operating expense adjustments totaling an increase of $370,423. He stated the OUCC accepted all of Petitioner's expense adjustments except $3,185 that Petitioner paid for various celebrations during the test year. Mr. Corey testified that while the OUCC does not wish to discourage such activities, these costs provide no benefit to ratepayers and should be disallowed as an operating expense.

Mr. Corey testified that Gibson Water requested $126,143 for extensions and replacements based on Petitioner's average annual capital additions for 2014 through 2016. He testified the OUCC accepts Petitioner's requested amount for extensions and replacements. Mr. Corey testified the OUCC also accepts Petitioner's proposed debt service of $164,618 and debt service reserve of $16,535. With all of this taken together, Mr. Corey recommended the Commission authorize a 16.6% increase in operating revenues on an across-the-board basis to provide Gibson Water the opportunity to collect $2,177,283 in net revenues. Based on Mr. Corey's Schedule 1, this results in a monthly rate for a customer using 5,000 gallons increasing from $38.98 to $45.43.

B. **<u>Carl N. Seals</u>.** Mr. Seals testified regarding Gibson Water's proposed capital improvement projects and periodic maintenance adjustment. He recommended the Commission approve the projects described in the PER, as well as Gibson Water's requested authorization for financing. He also recommended the Commission accept Gibson Water's proposed periodic maintenance adjustment.

Mr. Seals provided an overview of Gibson Water's system and its characteristics. He testified that Petitioner operates as a distribution system only and does not produce its own water. Mr. Seals stated Gibson's system includes one meter pit interconnecting it to Evansville, one pumping station, three storage tanks, 120 hydrants, and approximately 187.5 miles of main, with diameters ranging from 2-inch to 20 inch. He testified that Gibson Water sells an average of 1.3 MGD and has total storage capacity of 2.1 MG. Mr. Seals testified that Gibson Water easily meets the Ten State Standard recommendation that total water storage meet average day demands. He testified that based on Petitioner's Monthly Report of Operations to the Indiana Department of Environmental Management, Gibson Water showed a peak day on June 14, 2016, of 2.98 MG. Mr. Seals stated this is significant in that the WP Agreement with Evansville is for a maximum of 2.5 MGD, causing Petitioner to rely upon its storage under such scenarios.

Mr. Seals testified that over the last five years, Petitioner's water loss values ranged from -4.9% to 0.6%. Mr. Seals stated the negative values of water loss suggest Evansville's point of connection may be under-registering actual sales volumes to Gibson Water. If so, this would obscure water loss and impede Petitioner's ability to respond appropriately. Mr. Seals further testified that Petitioner's distribution system is fairly young, so losses due to leaks (excluding those caused by poor installation) may be expected to be small.

Mr. Seals testified that Gibson Water is proposing the following five capital improvement projects to its distribution system:

(1) County Road 225 West Water Main Extension (Alternative 2);
(2) State Route 68 Water Main (Alternative 3);
(3) County Roads 200 South and 350 West Water Mains (Alternative 6);
(4) State Road 64 Water Main Extension (Alternative 7); and
(5) Parallel Booster Station Supply Main plus Booster Pump Replacement (Alternative 8).

Mr. Seals described each of these capital improvement projects and the costs associated with each as presented in the PER. He testified the total cost of the proposed capital improvement projects, including 10% construction contingencies and non-construction costs, is $3,581,000. Mr. Seals testified that Gibson Water intends to fund these projects with loans from the SRF Program and RD. Mr. Seals opined that the proposed capital improvement projects are reasonable and necessary for Petitioner's continued provision of reliable service.

Mr. Seals also reviewed Gibson Water's proposed adjustment for periodic maintenance. He stated the proposed adjustment encompasses supervisory control and data acquisition systems, pump maintenance, tank maintenance, and replacement of large meters. Mr. Seals testified the proposed periodic maintenance expenses appear to be reasonable for continued maintenance and operation of these critical assets, and he accepted the pro forma maintenance expense amounts. Mr. Seals commented that it appears Gibson Water is not reporting any system usage in its Annual Report on page W-6, particularly with respect to flushing. He testified that while Petitioner reports having flushed 36 hydrants in 2017, no volumes are reported in the Annual Report. He noted that reporting flushing amounts may exacerbate Petitioner's negative water loss, but this may be addressed by requesting recalibration of Evansville's meter serving Petitioner.

Mr. Seals recommended the Commission accept Gibson Water's capital improvement plan for purposes of approving Gibson Water's requested authorization for financing. He also recommended the Commission accept Gibson Water's proposed periodic maintenance adjustments.

C. **Edward R. Kaufman.** Mr. Kaufman testified regarding Gibson Water's request to issue long-term debt. He recommended the Commission approve this request, subject to certain reporting requirements. Mr. Kaufman also recommended restrictions be placed on Petitioner's debt service reserve to ensure the funds are available, if needed.

Mr. Kaufman provided an overview of Petitioner's requested authorization to issue a 40-year loan through RD for $2,438,000 and a 35-year loan through the SRF Program for $1,143,000. Mr. Kaufman testified that Petitioner has established the reasonableness of its proposed borrowings from RD and the SRF, but Petitioner has not established that the borrowing terms from any other lender are appropriate or reasonable; consequently, he testified the OUCC's position is that financing approval in this Cause should only extend to the borrowings Gibson Water proposes from RD and the SRF. In the event of a proposed debt issuance by another entity, Mr. Kaufman testified Petitioner should secure the Commission's approval through filing a new Cause or a modification of the final order in this proceeding. He opined that before any such alternative debt issuance, the OUCC should have an opportunity to review the terms of the proposed debt issuance to ensure they are reasonable.

Mr. Kaufman testified there will be a gap between the time Petitioner receives an order in this Cause and when its proposed debt is issued. He proposed that in the event of such a gap, Petitioner use the funds collected in rates for its 2018 debt issuances to offset the amount Petitioner needs to borrow or apply these funds to its debt service reserve. He recognized, however, that if Petitioner closes on its debt within two months after an order is issued in this Cause, any funds collected for debt could be considered immaterial, so Petitioner need not apply such funds as otherwise recommended.

Mr. Kaufman also recommended that Petitioner be required to true-up its proposed annual debt service once the interest rates on its proposed debt are known. Mr. Kaufman stated the precise interest rates and annual debt service will not be known until the debt is issued. Accordingly, he recommended Petitioner's rates be trued-up to reflect the actual cost of the debt. He also recommended Petitioner file a report within 30 days of closing on each of its long-term debt issuances explaining the terms of the new loan, the amount of debt service reserve, and an itemized account of all issuance costs. Mr. Kaufman testified this true-up report should include a revised tariff, amortization schedule, and also calculate the rate impact in a manner similar to the OUCC's schedules. He proposed the OUCC have 14 days after service of the true-up report to challenge Petitioner's proposed true-up and that Petitioner then have an additional 14 days to file a response to the OUCC's challenge. Thereafter, Mr. Kaufman testified the Commission should resolve the issue through a process the Commission deems appropriate. Mr. Kaufman also recommended that any unused financing authority expire 360 days after the final order is issued in this Cause.

Mr. Kaufman testified that he agreed with Petitioner's debt service reserve. While Petitioner did not propose conditions on debt service reserve, Mr. Kaufman recommended: (i) the debt service reserve be placed in a restricted account; and (ii) Gibson Water notify the Commission and the OUCC within five business days if Petitioner spends any funds from its debt service reserves for any reason other than to make the last payment on its current or proposed debt issuances. He testified this notification or report should state how much Petitioner spent from its debt service reserve, explain why Petitioner spent funds from its debt service reserve, provide the cite to any applicable loan documents that allows Gibson Water to spend funds from its debt service reserve, describe Petitioner's plans to replenish its debt service reserve, and explain any cost-cutting activities Petitioner has implemented to forestall spending funds from its debt service reserve.

In closing, Mr. Kaufman testified Petitioner should be authorized to issue up to $2,438,000 of long-term debt from RD and up to $1,143,000 from the SRF Program. He recommended the following be included in the Commission's findings in this Cause:

> (i) For each of Petitioner's two proposed debt issuances, Petitioner should temporarily reserve the funds collected in rates for its 2018 debt issuance and use these funds to offset/reduce the amount Gibson Water borrows; provided, however, that if the approved debt is issued within two months after Gibson Water files a revised tariff with the Commission reflecting the rates approved in this Cause, the funds collected will be considered immaterial and need not be applied to Petitioner's proposed debt issuance or debt service reserve;

ii) Within 30 days of closing on an approved long-term debt issuance, Petitioner shall file a report with the Commission and serve a copy of the report on the OUCC explaining the terms of the new loan, including an amortization schedule, the amount of debt service reserve, and detailing all issuance costs. The report should also include a revised tariff and calculate the rate impact in a manner similar to the OUCC's schedules. Petitioner's rates shall be trued-up, if necessary, to match its actual cost of debt service; and

(iii) If Petitioner spends any funds from its debt service reserves other than to make the last payment on its approved debt issuance, Gibson Water shall provide a report (as described above) to the Commission and the OUCC within five business days.

7. <u>Gibson Water's Rebuttal Evidence</u>. In lieu of rebuttal evidence, Gibson Water filed a Notice of Intent to Not File Rebuttal Testimony ("Notice"). In the Notice, Gibson Water accepted the following OUCC proposals: (1) adjustments for the normalization of residential and commercial customer growth; (2) elimination of certain expenses for various celebrations during the test year; and (3) reporting requirements with respect to Gibson Water's debt service reserve. Gibson Water did not file rebuttal testimony.

8. <u>Commission Discussion and Findings</u>. The evidence Gibson Water and the OUCC presented, as discussed above, along with Petitioner's Notice of Intent to Not File Rebuttal Testimony in which Gibson Water accepted certain adjustments and reporting requirements the OUCC proposed, provide the Commission with sufficient information and facts from which to find that the public interest will be served by approving Gibson Water's petition, subject to the OUCC's modifications and proposed reporting requirements. The evidence demonstrates that Gibson Water's requested relief, as amended by the OUCC's adjustments and recommendations, is reasonable and in the public interest; therefore, the Commission approves Petitioner's request to adjust its rates and charges and incur long-term debt from RD and the SRF Program consistent with our findings below.

A. <u>Rates and Revenue Requirement</u>. The Commission finds that based upon the evidence, Gibson Water's current rates and charges, which provide annual adjusted revenues of $1,861,243, are insufficient to satisfy Gibson Water's annual pro forma net revenue requirement of $2,177,283 and that Gibson Water should be authorized to increase its rates and charges for water service on an across-the-board basis to produce annual revenues of $2,177,283, which represents an overall increase of $308,420 in annual revenues and a 16.6% increase to current rates, consistent with the OUCC's recommendation.

Gibson Water's net revenue requirements are itemized below:

Revenue Requirements	
Operating Expenses	$ 1,870,216
Extensions and Replacements	126,143
Working Capital	-
Debt Service	164,618
Debt Service Reserve	16,535
Total Revenue Requirements	$2,177,512
Less: Revenue Requirement Offsets	
Interest Income	(229)
Total Net Revenue Requirements	$2,177,283
Less: Revenues at Current Rates subject to increase	(1,861,243)
Other revenues at current rates	(7,995)
Net Revenue Increased Required	$308,045
Add: Additional IURC Fee	375
Recommended Increase	$308,420
Recommended Percentage Increase	16.6%

B. Debt and Conditions on Debt/Debt Service Reserve. Based upon Gibson Water and the OUCC's testimony, Petitioner is also authorized to issue long-term debt of up to $2,438,000 through RD and long-term debt of up to $1,143,000 through the SRF Program for the projects identified in the PER, subject to the following conditions:

(i) For each of its approved debt issuances, Petitioner will temporarily reserve the funds collected in rates for its 2018 issuances and use those funds to offset/reduce the amount Gibson Water borrows (or debt service reserve). If the proposed debt is issued within two months after Petitioner files a revised tariff with the Commission reflecting the rates approved in this Cause, the funds collected will be considered immaterial and need not be applied to Petitioner's proposed debt issuance (or debt service reserve).

(ii) Within 30 days of closing on an approved long-term debt issuance with RD or the SRF Program, Petitioner shall file a report with the Commission under this Cause and serve the OUCC with a copy explaining the terms of the new loan, including an amortization schedule, the amount of debt service reserve, and itemizing all issuance costs. The report shall include a revised tariff, and Petitioner shall also calculate the rate impact in a manner similar to the OUCC's schedules. Petitioner's rates shall be trued-up, if necessary, to match its actual cost of debt service.

(iii) If Petitioner spends any funds from its debt service reserves for any reason other than to make the last payment on its approved debt issuances, Petitioner shall provide a report (as described in Mr. Kaufman's testimony and Paragraph No. 6.C. above) to the Commission and the OUCC within five business days.

C. **Alternative Regulatory Program ("ARP").** If Petitioner elects to participate in the Small Utility ARP in accordance with the procedures the Commission approved in Cause No. 44203, the eligible operating expenses to which the Annual Cost Index will be applied are $1,562,530. This amount excludes $308,061 approved for purchased water. Extensions and replacements of $126,143 are also eligible expenses to which the Annual Cost Index will be applied. All other components of Petitioner's revenue requirement will remain unchanged.

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

1. Gibson Water is authorized to increase its rates and charges for water service as provided in Finding No. 8.A. of this Order.

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

3. Gibson Water is authorized to issue long-term debt of up to $2,438,000 through RD and long-term debt of up to $1,143,000 through the SRF Program as provided in Finding No. 8.B. in order to perform the capital improvement projects identified in the PER.

4. With the issuance of the approved long-term debt, Petitioner is subject to all the reporting and other conditions set forth in Finding No. 8.B.

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

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

APPROVED: NOV 21 2018

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

Mary M. Becerra

Mary M. Becerra
Secretary of the Commission