

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER)
COMPANY, INC. FOR (1) AUTHORITY TO)
INCREASE ITS RATES AND CHARGES FOR)
WATER AND SEWER UTILITY SERVICE, (2))
APPROVAL OF NEW SCHEDULES OF RATES)
AND CHARGES APPLICABLE THERETO, (3)) CAUSE NO. 44450
AUTHORITY TO ESTABLISH AND)
IMPLEMENT SYSTEM DEVELOPMENT)
CHARGES, (4) AUTHORITY TO ESTABLISH) APPROVED:
AND IMPLEMENT CERTAIN CONNECTION) JAN 28 2015
FEES AND POLICIES AND NEW RULES AND)
REGULATIONS APPLICABLE THERETO, AND)
(5) AUTHORITY TO IMPLEMENT A REVENUE)
STABILITY MECHANISM)

ORDER OF THE COMMISSION

Presiding Officers:

Carol A. Stephan, Commission Chair

Carolene Mays-Medley, Vice-Chair

Jeffery A. Earl, Administrative Law Judge

On January 24, 2014, Indiana-American Water Company, Inc. ("Indiana American") filed its petition in this Cause. Indiana American also filed the testimony and exhibits of the following witnesses:

- Alan J. DeBoy, President of Indiana American;
- Gary M. VerDouw, Director of Rates—Central Division at American Water Works Service Company ("Service Company");
- Gregory P. Roach, Manager of Rates for Indiana American at Service Company;
- Pauline M. Ahern, Principal of AUS Consultants;
- Kerry A. Heid, an independent rate consultant;
- Stacy S. Hoffman, Director of Engineering at Indiana American;
- Bruce A. Hauk, Vice President of Operations at Indiana American;
- Carl R. Meyers, Director of Income Tax at Service Company; and
- Michael C. Borchers, Principal Consultant at Black & Veatch Corporation;

The following parties appeared in this Cause as intervenors:

- City of Crown Point;
- Town of Schererville;
- Sullivan-Vigo Rural Water Corporation ("Sullivan");
- Indiana American Water Company, Inc. Industrial Group ("Industrial Group");

- City of West Lafayette;
- City of Gary;
- City of Winchester;
- Ramsey Water Company, Inc. (“Ramsey”); and
- Town of Chesterton.

In this order, Schererville, West Lafayette, Gary, Winchester, Chesterton, and Sullivan will be referred to as “Schererville et al.”

The Indiana Office of the Utility Consumer Counselor (“OUCC”) filed testimony and exhibits of the following witnesses:

- Scott A. Bell, Director of the OUCC’s Water/Wastewater Division;
- Charles E. Patrick, Utility Analyst in the OUCC’s Water/Wastewater Division;
- Harold L. Rees, Senior Utility Analyst in the OUCC’s Water Wastewater Division;
- Heather R. Poole, Senior Utility Analyst in the OUCC’s Natural Gas Division;
- Crystal L. Thacker, Utility Analyst in the OUCC’s Electric Division;
- Richard J. Corey, Utility Analyst in the OUCC’s Water/Wastewater Division;
- Margaret A. Stull, Senior Utility Analyst in the OUCC’s Water/Wastewater Division;
- Edward R. Kaufman, Chief Technical Advisor at the OUCC;
- Anthony F. Swinger, Director of External Affairs at the OUCC; and
- Jerome D. Mierzwa, Principal and Vice President of Exeter Associates, Inc.

The Industrial Group filed testimony and exhibits of the following witnesses:

- Michael P. Gorman, Managing Principal of Brubaker & Associates, Inc. (“BAI”); and
- Stephen M. Rackers, Senior Consultant at BAI.

Crown Point filed testimony and exhibits of the following witnesses:

- Gregory T. Guerrettaz, President of Financial Solutions Group, Inc.; and
- Brian Kalcic, Principal of Excel Consulting.

Schererville et al. filed testimony and exhibits of Theodore J. Sommer, Partner with London Witte Group, LLC.

The Commission held a prehearing conference and preliminary hearing at 1:00 p.m. on February 20, 2014, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana, and issued a Prehearing Conference Order (“PHC Order”) on March 19, 2014.

The Commission held public field hearings in this Cause on April 8, 2014, in Franklin, Indiana, and on April 10, 2014, in Gary, Indiana.

The evidentiary hearing in this Cause commenced at 9:30 a.m. on June 23, 2014, in Hearing room 222, 101 West Washington Street, Indianapolis, Indiana.

On November 18, 2014, Indiana American filed a Stipulation and Settlement Agreement entered into with the OUCC (the “OUCC Settlement”) along with supporting testimony from Mr. DeBoy. On November 21, 2014, the OUCC filed supporting testimony from Mr. Patrick.

On December 8, 2014, Indiana American filed a Stipulation and Settlement Agreement entered into with the OUCC, the Industrial Group, Crown Point, and Schererville et al. (collectively “Settling Parties”) (“Comprehensive Settlement”). In this Order “the Settlement” refers to the OUCC Settlement and the Comprehensive Settlement collectively. Indiana American also filed supporting testimony from Mr. VerDouw.

The Commission held a settlement hearing at 9:30 a.m. on December 15, 2014, in Hearing Room 224, and at 9:30 a.m. on January 5, 2015, in Hearing Room 222.

Having considered the evidence presented and the applicable law, the Commission finds:

1. **Notice and Jurisdiction.** Timely notice of the filing of the petition in this Cause was given and published by Indiana American as required by law. Notice of the hearings in this Cause was given and published by the Commission as required by law. Indiana American is a public utility as that term is defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over Indiana American’s rates and charges for utility service. Therefore, the Commission has jurisdiction over Indiana American and the subject matter of this proceeding.

2. **Indiana American’s Characteristics.** Indiana American is a public utility corporation organized under the laws of the State of Indiana and engaged in the provision of water utility service in counties throughout the State of Indiana. Indiana American also provides sewer utility service in Wabash and Delaware Counties. Indiana American has charter power and authority to engage in the business of providing water and sewer utility service. Indiana American owns, leases, operates, manages, and controls utility plant, property, equipment, and related facilities that are used and useful for the convenience of the public for the provision of water utility service, public and private fire utility service, and sewer utility service.

3. **Existing Rates.** Indiana American’s existing basic rates and charges for water and wastewater utility service were established in the Commission’s June 6, 2012 Order in Cause No. 44022 (“2012 Rate Order”). Since the 2012 Rate Order, a Distribution System Improvement Charge (“DSIC”) was authorized in Cause Nos. 42351 DSIC 7 and 42351 DSIC 8, issued December 27, 2012, and December 18, 2013, respectively.

4. **Relief Requested.** In its original case-in-chief, Indiana American proposed a \$19,645,449 (9.84%) increase to its revenues. This proposal used an average rate base over the course of the future test year (“FTY”) as recommended in the Commission’s GAO 2013-5. After the PHC Order was issued, Indiana American modified its request to reflect quarterly, phase-ins of utility plant in service and annualized depreciation during the test year, consistent with the directives of the PHC Order. Indiana American also originally proposed an additional step in its gradual transition to single tariff pricing (“STP”), including a phase-in of the rate increase for the Wabash Operation over three years to prevent rate shock.

5. **Test Year.** Indiana American proposed a forward-looking test period using

projected data as authorized by Ind. Code § 8-1-2-42.7(d)(1) (“Section 42.7”). This is the first case filed under Section 42.7 utilizing a fully forecasted test year.

In the PHC Order, we found that the test year to be used for determining Indiana American’s projected operating revenues, expenses and operating income shall be the 12-month period ending November 30, 2015. The historical base period shall be the 12-month period ending September 30, 2013.

6. Settlement. In the Settlement, the Settling Parties agreed Indiana American should be authorized to increase its basic rates and charges for water and sewer utility service in two phases, designed to produce total annual operating revenues of \$205,897,284, subject to certification of utility plant in service and rate base for both phases. The overall increase provides for additional annual revenues of \$5,121,575. The increase is calculated to produce total net operating income of \$54,192,581, which the parties stipulate is a fair return on the fair value of Indiana American’s rate base for purposes of this case. The calculation is set forth in Appendix B to the OUCC Settlement. Based on additional revenues of \$5,121,575, the overall increase over total operating revenues is 2.55%. The Settlement proposes that the increase would take effect in two phases: one based on utility plant in service and other components of rate base at the beginning of the test year (November 30, 2014), and the second based on the submission of the actual utility plant in service and other components of rate base at the end of the test year (November 30, 2015). The agreed-on increases are from Indiana American’s current authorized revenue, and are subject to adjustment in accordance with the update and certification process agreed to by the parties.

A. Residential Revenues. In its case-in-chief, Indiana American proposed test year residential revenues of \$96,764,248. The OUCC disagreed with Indiana American’s customer growth and declining usage calculations and ultimately projected residential water revenue for the test year of \$101,474,568, exclusive of DSIC revenues. The Industrial Group also disagreed with Indiana American’s projected residential usage and residential revenue calculations. In the Settlement, the Settling Parties have agreed to test year residential revenues of \$96,775,000, exclusive of DSIC revenues. The Settling Parties acknowledge in the Settlement that the agreed level of residential revenues is a result of compromise and not the election of a specific calculation methodology or percentage of declining usage.

B. Cost of Equity. Indiana American initially proposed a cost of common equity of 10.8%, which it then updated on rebuttal to 11.05% to reflect changes in market conditions. The OUCC’s proposed cost of equity was 8.6%; the Industrial Group proposed 9.25%; Schererville et al. and Crown Point both proposed 9.0%. In the Settlement, the Settling Parties agreed to a cost of common equity of 9.75%.

C. Rate Base. The OUCC originally proposed to exclude from rate base the deferred costs of Business Transformation (“BT”) granted in Cause No. 44059, the costs of the Warsaw Hidden Lake Treatment Plant Comprehensive Planning Study (“CPS”), Construction Work in Progress (“CWIP”), and Indiana American’s prepaid pension asset. For BT and CPS, the OUCC did not contend that the amounts spent were imprudent or that they should not be recovered. Rather, the OUCC proposed that those costs cannot properly be the basis of a return on rate base and should instead be amortized and recovered over a period of time. The Industrial

Group initially proposed to disallow the cost of internal labor associated with BT and objected to recovery of certain cost overruns.

In the Settlement, subject to the certification process described below, the Settling Parties agreed that Indiana American's rate base shall be based on all utility plant in service as of November 30, 2014, including any recurring investments in investment categories but excluding the following: (1) those costs associated with BT that would otherwise be recorded as expense pursuant to what is commonly known as Statement of Position 98-01 ("BT SOP 98-01 costs"); (2) CPS; (3) CWIP; and (4) prepaid pension asset payments, which is to be reflected in the capital structure as an offset to zero-cost capital. The Settling Parties agreed Indiana American's rate base will include an update for actual accumulated depreciation through November 30, 2014 as well as other components of rate base including contributions in aid of construction ("CIAC"), customer advances, post-in-service allowance for funds used during construction ("AFUDC"), deferred depreciation, and Materials & Supplies.

D. Rate Base Cut Off. We addressed the rate base cutoff in the PHC Order, concluding that the rate base cutoff for this Cause shall be the actual and projected used and useful property as of November 30, 2015. In the PHC Order we said:

In interpreting [Section 42.7], we presume the legislature intended logical application of the language used in the statute, so as to avoid unjust or absurd results. *Citizens Action Coalition of Ind., Inc. v. PSI Energy, Inc.*, 894 N.E.2d 1055, 1063 (Ind. Ct. App. 2008). If two statutes conflict, our first task is to attempt to harmonize the conflicting statutes. *Id.* "So long as two statutes can be read in harmony with one another, we presume that the legislature intended for them both to have effect." *Id.* (quoting *State v. Universal Outdoor, Inc.*, 880 N.E.2d 1188, 1191 (Ind. 2008)).

Section 42.7 does not explicitly authorize or prohibit the use of a projected rate base; rather, it authorizes the use of a forward-looking test year using projected data. Effective rate making requires that the data used provide an accurate picture of a utility's operations during the period in which the proposed rates will be in effect. *L.S. Ayres & Co. v. IPALCO*, 351 N.E.2d 814, 828 (Ind. Ct. App. 1976). By freezing, for a historic test period, or predicting, for a forward-looking test period, a utility's operations in a convenient time frame, we can observe the inherent interrelationships among rate base, expenses, and revenues. *See Id.* "This observation is crucial to the concept of the test period because a complete picture of these dynamic interrelationships can only be obtained when the rate base, expense, and revenue components are examined in phase." *Id.*

In light of this, it is appropriate to correlate a forward-looking test period with a projected rate base, especially when a utility plans to complete a major capital project during the test period. In Indiana-American's petition it identifies one major project, the Muncie Plant Improvements, that it anticipates completing and placing in service by November 2014. Therefore, we conclude that use of a projected rate base is appropriate in this case.

However, we cannot ignore the requirement of section 6 that utility property included in rate base must be actually used and useful. The phrase used and useful means that the plant must be actually devoted to providing utility service and that the plant's utilization must be reasonably necessary to the provision of utility service. *Citizens Action Coalition of Ind., Inc.*, 894 N.E.2d at 1064. Nothing in section 42.7 can be read to explicitly or implicitly alter this fundamental understanding of the used and useful standard. Indiana American's proposed 13-month average rate base would allow Indiana American to begin recovering a return on investment for utility plant that is not yet in service, i.e., not actually used and useful. Therefore, while we approve the use of a projected rate base, we do not approve Indiana American's proposed 13-month average rate base.

In light of our discussion above, we conclude that the rate base for this Cause shall be the actual and projected used and useful property as of November 30, 2015. Because Indiana American's rates will be based on a projected rate base that is not yet in service, we must devise some mechanism to phase in rates at one or more intervals during the test period to account for completed projects up to that interval.

Given this determination, we directed the parties to present evidence concerning how they would propose to implement rate changes as plant is placed in service.

E. Rate Base Certification and Update. In the Settlement, the Settling Parties have agreed that prior to implementation of its rate increase, Indiana American will certify all utility plant in service that was added after March 31, 2014, and is used and useful as of November 30, 2014, including the actual value of all components of rate base. Indiana American will include in its filing a schedule that shows the actual utility plant in service by account. Indiana American will also provide an updated calculation of depreciation expense based on the original cost of the utility plant in service and deferred depreciation as of November 30, 2014. The Settling Parties agreed that the parties to this Cause will have 21 days to review and submit objections to Indiana American's test year commencement certification filing. If objections cannot be resolved informally, the parties may request a hearing from the Commission.

The Settling Parties further agreed that Indiana American will update its rate base and depreciation expense as of November 30, 2015. Updated rate base shall include all utility plant in service as of November 30, 2015. Depreciation expense shall be updated based on the original cost of the utility plant in service and deferred depreciation as of November 30, 2015. The parties stipulated, however, that any update to rate base will not cause total rate base in this Cause to exceed \$813,051,628 (the "Rate Base Cap"). The parties further stipulated that the second step change in rates will be based on a cap to additions to Utility Plant in Service during the test year of \$44,884,714 (the "UPIS Cap"). The Settlement provides that the parties to this Cause will have 30 days to review and submit objections to any update submission. If objections cannot be resolved informally, the parties may request a hearing from the Commission.

The Settlement makes clear that, to the extent Indiana American's actual net original cost rate base as of November 30, 2015 exceeds the Rate Base Cap or the actual additions to utility plant in service exceed the UPIS Cap, Indiana American is not foreclosed from including those

additional investments in rate base in a future general rate case. The Settlement states the total, forecasted test year investment in improvements that might qualify for a distribution system improvement charge (“DSIC”) under Ind. Code ch. 8-1-31 but for their inclusion in rate base in this Cause is \$13,800,000. Indiana American agrees that it may not apply for a DSIC for improvements placed in service before November 30, 2015, unless Indiana American has invested more than \$13,800,000 in distribution system improvements in the test year. Indiana American also agrees that it will not file an application for DSIC prior to January 1, 2016. Any application for DSIC including such additional improvements must identify the plant additions that comprise the \$13,800,000 of test year distribution system additions as well as those plant additions for which DSIC recovery is sought.

F. Service Company Expense. Indiana American proposed forecasted pro forma Service Company expense of \$20,826,305, based on the Service Company budget, which is projected to remain flat compared to its 2013 budget. This is a reduction from the base year level of \$774,634. The OUCC disagreed with basing Indiana American’s proposed Service Company expense on the Service Company’s 2014 operating expense budget, rather than the 2015 operating expense budget. The OUCC proposed Service Company expense be composed of 11 months of the 2015 budget and 1 month of the 2014 budget to match the test year in this Cause, resulting in pro forma, test year Service Company expense of \$17,979,148 after adjusting for the removal of the costs of the Service Company Business Development Department.

The Settlement provides the level of forecasted pro forma Service Company expense allocated to Indiana American for the test year is \$20,674,435, which equals Indiana American’s proposed expense level, less Business Development expense.

G. Business Transformation. Indiana American sought to include its BT costs, which were the subject of settlements reached in Cause Nos. 44059 and 44230, in its rate base in this Cause. We took administrative notice of our Orders issued on December 19, 2012 in Cause Nos. 44059 and 44230 approving Stipulations and Settlement Agreements regarding the BT project. The Orders contain a full discussion of the scope of the project which will not be repeated here. In Cause No. 44059, we approved the following:

Petitioner shall be and hereby is authorized to defer for future recovery those costs associated with Business Transformation that would be recorded as expense pursuant to generally accepted accounting principles, SOP 98-01, estimated to be approximately \$6,800,000, which deferred costs should be amortized over ten (10) years.

Petitioner shall be and hereby is authorized to record all other costs associated with Business Transformation in Account No. 340300-Computer Software.

In Cause No. 44230, we approved the following:

Petitioner is hereby authorized to continue the accrual and capitalization of AFUDC and to defer depreciation on the Business Transformation project after its in-service dates and until the issuance of a rate order including Business

Transformation in Petitioner's rates according to the terms described in the foregoing findings; to record such post-in-service AFUDC and deferred depreciation as a regulatory asset in Account 186, Miscellaneous Deferred Debits; to amortize such regulatory asset over the estimated remaining service life of the Business Transformation assets, such amortization commencing on the date of the first rate order including Business Transformation in Petitioner's rates; to recover such amortization and to include the unamortized portion of the regulatory asset created herein in Petitioner's rate base in rate cases; and to delay commencement of amortization of the costs deferred pursuant to the Settlement Agreement in Cause No. 44059 until the date of the first rate order including Business Transformation in Petitioner's rates.

The question of future recovery of a return of and return on the Business Transformation costs and associated post-in-service AFUDC was deferred until this case:

Recovery of these [SOP 98-01] costs should be allowed only to the extent such recovery is approved in a subsequent rate case. The question of recovery of a return on the amortized balance is reserved for a future rate case. . . . [W]hether Petitioner will be permitted a return on or of such costs [recorded in Account No. 340300-Computer Software] shall be reserved for a future rate case.

Subject to the caveat that such authority [post-in-service AFUDC and deferred depreciation] is granted only to the extent that Business Transformation is ultimately approved in rate base (or, in the case of deferral of amortization of deferred expenses under Paragraph 4 of this Stipulation, recovered through amortization) by the Commission, the OUCC and the Industrial Group will not oppose Petitioner's grant of [such] approval.

Cause No. 44059 Stipulation and Settlement Agreement, pp. 3-4.

The OUCC did not oppose recovery of the deferred SOP 98-01 costs or the inclusion of the balance of the BT costs in rate base. As noted above, the OUCC did oppose, however, the inclusion in rate base of the unamortized, deferred SOP 98-01 costs and the inclusion of post-in-service AFUDC associated with SOP 98-01 costs. The OUCC proposed that these deferred costs be amortized over 10 years and the associated post-in-service AFUDC be disallowed. The Industrial Group objected to Indiana American's recovery of its allocated share of BT cost overruns, in the amount of \$5.902 Million.

In the Settlement, the Settling Parties agreed that all BT-related assets (including plant in service, deferred depreciation, post-in-service AFUDC, the BT CPS, and BT SOP 98-01 costs) should be depreciated or amortized, as the case may be, over 13 years. As Mr. DeBoy noted in his settlement testimony, this is a change from the 10-year depreciation rate for BT assets approved in Indiana American's last rate case (Cause No. 44022) and the 10-year amortization rate for BT SOP 98-01 assets approved in the preapproval case (Cause No. 44059).

H. Comprehensive Planning Studies. The OUCC recommended removal of \$92,195 from rate base in this Cause related to the Warsaw comprehensive planning study (“CPS”), a portion of which Indiana American has included as part of the costs incurred and capitalized in connection with the Warsaw Hidden Lake Water Treatment Facility. The OUCC proposed instead that the CPS costs for Warsaw be amortized over 15 years. In the Settlement, Indiana American agreed to remove the Warsaw CPS costs from rate base, and the Settling Parties agreed to allow amortization of the costs over 50 years, with the exception of the BT CPS, which, as noted above, the Settling Parties agreed to amortize over 13 years.

I. Regulatory Expense. In the Settlement, the Settling Parties have agreed to amortize Rate Case Expense over four years.

J. Atrazine. In its case-in-chief, Indiana American proposed a 50/50 split between customers and shareholders of the proceeds of settlement of a class action suit related to atrazine run off (*City of Greenville v. Syngenta*) in the amount of \$948,000. Indiana American also proposed to amortize the customers’ share of the settlement amount (\$474,000) over a period of five years, resulting in an annual amortization amount of \$94,840. Mr. VerDouw testified that amount would be included in amortization expense as an offset to the expense for carbon that was used to treat the atrazine runoff.

The OUCC opposed Indiana American’s proposed split of the atrazine settlement proceeds, advocating that the entire amount of the proceeds be allocated to the benefit of the customers and amortized over three years instead of five. Schererville et al. also opposed Indiana American’s proposed split of the proceeds of the atrazine settlement and recommended that if Indiana American’s proposal to split the funds between shareholder and customers is accepted, then half of the cost of litigation and half of the prior cleanup costs should be carried by Indiana American as well. Crown Point also opposed Indiana American’s proposed sharing of the Atrazine settlement proceeds and recommended that the full amount be used to offset 2014 and 2015 expenses by amortizing the settlement proceeds over two years.

The Settlement provides that all proceeds of the Atrazine settlement will be split 50/50 with customers and the Atrazine account will be amortized over three years.

K. Cost of Service Study and Rate Design. Mr. Heid testified concerning Indiana American’s Cost of Service Study and Rate Design. Mr. Heid conducted and presented a Cost of Service Study (“COSS”) based on the American Water Works Association (“AWWA”) Base-Extra Capacity method to allocate costs to customer classes. Mr. Heid’s COSS used maximum day and maximum hour coincident demand ratios determined from the Black & Veatch Customer Class Capacity Factor Study (“Black & Veatch Study”) sponsored by Mr. Borchers.

The OUCC and other intervenors each proposed modifications to Indiana American’s COSS and proposed rate design and filed cross-answering testimony in response to each other’s proposals.

The Settlement resolves all customer class allocation and rate design disputes in this Cause. The Settlement provides that given the efforts to gradualize impacts on Sale-for-Resale and Industrial Group customers, the Settling Parties agree that in light of an agreed on rate design and

allocation among customer classes, the various cost of service study and allocation disputes raised in this case are moot, and do not need to be resolved.

Mr. VerDouw submitted agreed allocation and rate design schedules supporting the Settlement. Mr. VerDouw specifically addressed the increase allocated to the public fire protection class, which is higher than the system average. He explained that for several rate cases, Indiana American's approved rate design has held down the public fire protection increase below the level indicated by its cost of service studies, resulting in a growing subsidy of a significant portion by the other customer classes. Today, almost all of Indiana American's customers are on the public fire protection surcharge by meter size and therefore this increase is being spread across nearly all customers (other than Sale for Resale, which is calculated separately). Given the modest increase in revenues agreed on under the Settlement, Mr. VerDouw testified that this is the ideal case in which to address the significant subsidy afforded public fire protection historically. The table below reflects the rate impact for each customer class:

<u>Customer Class</u>	<u>Increase over Present Rates</u>
Residential	1.2%
Commercial	1.22%
Industrial	3.4%
Sale-for-Resale	3.5%
Public Fire Protection	13.93%

L. Capacity Factor Study. There was dispute over the capacity factor study presented in this case using load research data. The Industrial Group contended that the study should include multiple years of data, which was unavailable for purposes of this case. In the Settlement, Indiana American agrees to present a capacity factor study in its next rate case that uses the process for determining non-coincident peaking factors as outlined in Appendix A to Principles of Water Rates, Fees, and Charges (AWWA Manual M1), 6th Edition, and uses multiple years of billing and system demand data. To the extent sufficient actual billing and system demand data is available, Indiana American will use actual data in accordance with Appendix A to the AWWA Manual M1. To the extent actual billing and system demand data is unavailable (e.g., system maximum hour demand), Indiana American will use engineering judgment and experience to estimate based on the data that is available.

The overall rate design set forth in the Settlement is a compromise among the divergent positions taken by the parties on the capacity factor study. Indiana American agrees not to use the capacity factor study from this case in the next rate case. The Settling Parties agree that Indiana American may defer reasonable and prudent expenses incurred to conduct the required capacity factor study in an amount not to exceed \$250,000 for recovery in Indiana American's next general rate case. The Settlement also provides that the agreement on deferral of the costs to conduct a new capacity factor study does not constitute agreement that the costs actually incurred are reasonable and prudent, and preserves the Settling Parties' right to challenge the expenses and proposed recovery mechanism in Indiana American's next rate case.

M. Usage Data Revenues. Indiana American proposed a pro forma reduction of \$653,298 to eliminate revenues associated with providing usage data to third parties. In the alternative, Indiana American proposed that, if the Commission were to determine that Indiana

American should continue to charge for this service, the Commission should approve a uniform charge that would be included in Indiana American's tariff. Indiana American currently has various data billing arrangements at varying fee levels. The OUCC opposed the removal of \$653,298 in usage data reading revenues, contending that the projected test year amount of usage data reading revenues should be included in Indiana American's revenue requirement. The Industrial Group contended that Indiana American had not adequately justified the elimination of the usage data revenue.

The Settlement provides that Indiana American will continue to include usage data reading revenues above the line. However, the Settling Parties agree that Indiana American may apply for a uniform tariff for usage data through the Commission's 30-day filing procedure on a revenue neutral basis, subject to any defenses that may be raised.

N. Change to Monthly Billing in Northwest District. Indiana American proposed to move Northwest residential customers to monthly billing and to increase the current bimonthly customer charge to twice the monthly customer charge until the move to monthly billing is accomplished. The OUCC and other intervenors objected to the increase to the current bimonthly charge. The OUCC proposed instead that the Northwest bimonthly customer charge not be increased until Indiana American has switched these customers to monthly billing, and that any revenue shortfall shall be deferred for recovery in a regulatory asset account for recovery in the next general rate case.

The Settlement provides that prior to the switch to monthly billing for the Northwest residential customers, the bimonthly customer charge will not be increased to twice the monthly charge. Indiana American agreed to inform the Commission when it has switched the residential customers in the Northwest District to monthly billing through a 30-day filing submitting changes to Indiana American's rules and tariff to eliminate bimonthly billing. The Settling Parties agreed that Indiana American shall defer any revenue shortfall associated with the switch to monthly billing in a regulatory asset account for recovery in the next general rate case.

O. Wabash Phase-In. In this case, Indiana American proposed an additional step in its gradual transition to STP. For general water service, Indiana American proposed moving the Wabash Operation, which recently received a new treatment facility and is currently in the Area Two tariff rate, to the Area One tariff rate. This would leave Mooresville and Winchester in the Area Two tariff rate. In order to mitigate the rate shock that might otherwise be experienced by ratepayers in the Wabash Operation as a result of the move to Area One rates, Indiana American proposed the rate increase for Wabash be phased-in over a two-year period with a portion of the revenue increase for Wabash to be deferred over the same period and recorded as a regulatory asset and recovered in the Indiana American's next general rate case.

The Settlement provides that Indiana American's Wabash Phase-In should be approved, including the deferral of a portion of the revenue increase over the same period, to be recorded as a regulatory asset in Account 186. In Indiana American's first general rate case following completion of the Wabash Phase-in, Indiana American will be entitled to recover a return of and a return on the balance in the regulatory asset account, amortized over thirty-six months.

P. Subdocket. As part of its case-in-chief, Indiana American proposed to establish and implement a Revenue Stability Mechanism ("RSM") and sought approval of a fair

value increment associated with Indiana American's acquisition of Northwest Indiana Water Co. and United Water West Lafayette, Inc. and United Water Indiana, Inc.. On rebuttal, Indiana American also proposed an Earnings Sharing Mechanism. All three proposals (the "Phase 2 Proposals") were moved to Phase 2 of the subdocket (Cause No. 44450 S1). The OUCC and Industrial Group both filed Motions to Dismiss the Phase 2 Proposals. In the Settlement, Indiana American agreed to withdraw the Phase 2 Proposals.

Mr. DeBoy explained in his settlement testimony that the OUCC Settlement Agreement does not address the requested relief in Phase 1 of the subdocket, as the parties have already made their post-hearing filings and only one item remains in dispute (Indiana American's proposal to eliminate developer refunds). That issue is left for the Commission to decide in the subdocket.

Q. Rate Moratorium. As part of the Settlement, Indiana American has agreed not to file a petition seeking a general increase in basic rates and charges prior to January 1, 2018, except for a request for emergency rate relief under Ind. Code § 8-1-2-113.

R. DSIC Accounting. Indiana American proposed a change in the treatment of retirements within the confines of the DSIC calculation. Mr. Roach explained that Indiana American had requested in Cause No. 42351 DSIC 8 that retirements be accounted for in the same fashion as the Commission recently ordered for Indiana Michigan Power Company in Cause No. 44182, or as the Commission more recently ordered for Northern Indiana Public Service Company in Cause No. 42350 ECR 21. The OUCC opposed this request and contended that the method for addressing retirements ordered in Cause No. 42351 DSIC 1 should be continued.

The Settlement provides that Indiana American will not change its treatment of retirements for purposes of calculating the DSIC, and the method for addressing retirements ordered in Cause No. 42351 DSIC 1 will be continued.

S. Additional Comprehensive Planning Studies. The OUCC had proposed that Indiana American be required to complete new CPSs for its Newburgh, Seymour, and Wabash districts by December 31, 2015. The Settlement provides that these three CPSs will not be required.

T. Collaboration. As part of the Settlement, Indiana American has committed to a number of collaborative efforts to address concerns raised by the OUCC and Crown Point, including the following: (1) meet with the OUCC and any interested intervenors to discuss utility performance benchmarking; (2) meet with the OUCC and any interested intervenors to discuss water loss prevention measures and water audits; (3) meet with the OUCC and any interested intervenors to discuss efficiency and best practices (including water footprinting, Integrated Water Resource Management, ISO 14001, Institute for Sustainable Infrastructure rating system, vulnerability assessments, and sustainability commitments from Tier 1 and Tier 2 suppliers); (4) prior to July 31, 2015, arrange a meeting with the OUCC and other interested intervenors to explain Indiana American's prioritization model, which is used to select distribution and other system improvements, with such meeting open to Commission Staff to the extent it wishes to participate; (5) permit direct contact between Crown Point and Schererville with Indiana American's Vice President of Operations in order to resolve any further questions over meter readings now or in the future; (6) work informally and in good faith to resolve any concerns in meter reading accuracy and differences between customer and Company meter reads; and (7)

within 120 days of Commission approval of the Settlement, meet with Crown Point representatives and any other interested SFR customer representatives to discuss the appropriateness, feasibility, and workings of alternative rate designs, a demand-commodity rate, other pricing suggestions, and how Indiana American can better meet the customers' metering, billing, and service interests.

7. **Certification Filing.** As part of the Settlement, the parties agreed that Indiana American would true-up its rates through certification filings, which are subject to review and possible objection by the parties. On December 12, 2014, Indiana American filed its Phase 1 certification. The Phase 1 certification includes a list, by account, of all utility plant in service as of November 30, 2014. Depreciation expense in addition to all other components of rate base are also updated. No party filed objections to the Phase 1 certification.

The certification includes rates that are higher than Indiana American projected. This is due, in large part, to major improvements in Muncie being completed and placed into service prior to November 30, 2014. Indiana American's proposed Phase 1 rates did not originally include this project. Because of the updates and additions, the revenue increase exceeds the overall increase agreed to in the Settlement. Thus, the Phase 1 increase is equal to the overall increase included in the Settlement.

Even though the Phase 1 certification results in rates that equal the overall increase agreed to in the Settlement, the terms of the Settlement still require Indiana American to file a Phase 2 certification of rate base as of November 30, 2015. The UPIS Cap, Rate Base Cap, and DSIC limit agreed to in the Settlement will continue to apply when Indiana American submits its Phase 2 certification.

8. **Commission Discussion and Findings.**

A. **Settlement.** Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition*, 664 N.E.2d at 406.

Further, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement, we must determine whether the evidence in this cause sufficiently supports the conclusions that the Settlement is reasonable, just, and consistent with the purpose of Ind. Code § 8-1-2-1 et seq., and that such agreement serves the public interest.

Our review of the reasonableness of the Settlement is aided by the parties' agreement on the rate base and implementation and update methodology to be used in determining Indiana

American's rate increase, the agreed-on allocation of the increase and agreed-on rate design, the agreed-on cost of common equity, and each adjustment used to determine the adjusted financial results at present and settlement rates. All of the agreed-on pro forma adjustments are supported by and explained in the Appendices to the OUCC Settlement and Comprehensive Settlement and supporting settlement testimony.

The rates agreed to in the Settlement are significantly less than what Indiana American originally sought in its case. The Settlement resolves various disputed issues about Indiana American's revenue forecasts, rate base updates, implementation of rates under Section 42.7, and the appropriate return on equity. In addition, the agreement reached among the Settling Parties with respect to rate base cutoff and updates is a reasonable solution to address the issues raised in the PHC Order regarding the interplay between the "used and useful" standard and valuing rate base as of the end of the test year, November 30, 2015. The Settlement also addresses certain issues among the Settling Parties for purposes of future proceedings.

The Settlement provides for a four-year rate moratorium on a general rate case filing. This assures a longer life of the base rates approved in this case than Indiana American's customers have historically seen. We also note that the Phase 1 certification results in a higher rate increase than the overall rate increase agreed to in the Settlement. Therefore, Phase 1 rates will be based on the overall increase agreed to in the Settlement.

Having examined the basis for all of the components of the increase in base rates and charges provided for in the Settlement, we find that the Settlement is reasonable, supported by the evidence, and is in the public interest, and we approve the Settlement.

The parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 Ind. PUC LEXIS 459, at *19-22 (IURC March 19, 1997).

B. Quantifications of Original Cost Rate Base. Based on the evidence, including the Settlement, and the findings made above, the Commission finds that the original cost of Indiana American's water and sewer utility properties as of November 30, 2015, is as follows:

Utility Plant in Service	\$1,432,587,533
Less: Accumulated Depreciation	(433,239,275)
Net Utility Plant	999,348,258
Less: Contributions in Aid of Construction	(121,566,031)
Customer Advances	(66,078,485)
Capacity Adjustment – Somerset	(198,769)
Add: Acquisition Adjustment	206,681
Materials and Supplies (13-Month Average)	<u>1,339,974</u>
Net Original Cost Rate Base	<u>\$813,051,628</u>

C. **Capital Structure and Overall Weighted Cost of Capital.** Based on the Settlement and the foregoing findings, we find that Indiana American's capital structure and weighted cost of capital is as follows:

<u>Class of Capital</u>	<u>Pro Forma Amount</u>	<u>% of Total</u>	<u>(%) Cost</u>	<u>Weighted Cost</u>
Long-term debt	\$354,987,636	41.80%	6.08%	2.541%
Common equity	352,922,680	41.55%	9.75%	4.052%
Deferred income taxes ("DIT")	143,650,219	16.91%	0.00%	0.000%
Accumulated depreciation on contributed utility plant for Muncie Sewer	72,694	0.01%	0.00%	0.000%
Prepaid Pension	(5,541,209)	-0.65%	0.00%	0.000%
Post Retirement Benefits, net	2,579,644	0.30%	0.00%	0.000%
Accum. DIT credits – Pre 1971	12,033	0.00%	0.00%	0.000%
Job development Investment tax credits – Post 1970	618,706	0.07%	7.34%	0.005%
Preferred Stock	0	0.00%	0.00%	0.000%
Total capitalization	<u>\$849,302,403</u>	<u>100.00%</u>		<u>6.598%</u>

D. **Authorized Rate Increase.** On the basis of the Settlement and the supporting evidence presented in these proceedings and subject to the certification and update mechanism provided in the Settlement, we find that Indiana American should be authorized to increase its rates and charges to produce additional operating revenue of up to \$5,121,575, or a 2.55% increase in total operating revenues of \$200,775,709, resulting in total annual operating revenue of \$205,897,284. This is the overall increase we authorize based on Indiana American's rate base as of November 30, 2015. This revenue is reasonably estimated to afford Indiana American the opportunity to earn net operating income of \$54,192,581, as follows:

Operating Revenues	\$205,897,284
O&M Expenses	68,398,008
Depreciation/Amortization	43,214,137
Income Taxes	23,336,008
Other Taxes	<u>16,756,550</u>
Total Operating Expenses	<u>151,704,703</u>
Net Operating Income	<u>\$54,192,581</u>

E. **DSIC as a Fixed Charge.** Indiana American proposed in its case-in-chief that going forward its DSIC charge be applied only as a fixed charge. Pursuant to the Settlement, this issue will be deferred until Indiana American's next general rate case.

F. **Confidentiality.** Indiana American filed a motion for protective order showing documents to be submitted to the Commission pursuant to 170 IAC 1-5-15 were to be treated as confidential and protected from disclosure to the public under Ind. Code § 5-14-3-4 and Ind. Code § 8-1-2-29. The Industrial Group also filed a motion for protective order with respect to workpapers to be treated as confidential and protected from disclosure to the public under Ind.

Code § 5-14-3-4, Ind. Code § 8-1-2-29, and Ind. Code § 24-2-3-2. The Presiding Officers granted Indiana American's motion on the record at the Prehearing Conference held on February 20, 2014, finding such information to be preliminarily confidential after which such information was submitted under seal. The Presiding Officers made a similar preliminary finding of confidentiality with respect to the Industrial Group's confidential workpapers. We find all such information is confidential and is exempt from public access and disclosure by the Commission under Ind. Code § 5-14-3-4 and Ind. Code § 8-1-2-29.

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

1. The OUCC Settlement and the Comprehensive Settlement are approved.
2. For Phase 1 rates, Indiana American is authorized to increase its total operating revenues by 2.55% in accordance with the findings above. Indiana American's rates and charges shall be designed to produce total annual operating revenues of up to \$205,897,284, which are expected to produce annual net operating income of up to \$54,192,581.
3. Indiana American is authorized to implement the authorized rate increase in two phases to be implemented as set forth in Ordering Paragraphs 4 and 5 below.
4. For Phase 1, Indiana American shall file new schedules of rates and charges with the Water/Wastewater Division of the Commission on the basis set forth above. Indiana American's new schedules of rates and charges shall be effective on filing after approval by the Water/Wastewater Division and shall apply to water and sewer usage from and after the date of filing approval of this Order.
5. For Phase 2, within 30 days of the conclusion of the test year, Indiana American shall file new schedules of rates and charges with the Water/Wastewater Division of the Commission to update its rate base as of the end of the test year. The second step will be based on actual net original cost rate base that does not exceed \$813,051,628 and a cap to additions to Utility Plant in Service during the test year of \$44,884,714. Indiana American shall include a schedule by NARUC subaccount detail of the actual utility plant in service as of November 30, 2015, an affidavit that such investment is actually in service, and a calculation of actual depreciation expense thereon and the balance of deferred depreciation as of November 30, 2015. Any objections to Indiana American's submission must be filed within 30 days of submission.
6. All schedules of rates and charges submitted under Ordering Paragraphs 4 and 5 shall be developed according to the agreed on rate design as filed with the Comprehensive Settlement and otherwise in the manner described by the terms of the Comprehensive Settlement, including the agreed on allocation among customer classes.
7. Indiana American's proposal to switch the Northwest District to monthly billing and defer any revenue shortfall associated with the switch to monthly billing in a regulatory asset account for recovery in the next general rate case is approved, and Indiana American is authorized to record as a regulatory asset the deferred revenues resulting therefrom in Account 186 pursuant to Finding No. 5(N). Indiana American shall inform the Commission when it has switched the

residential customers in the Northwest District to monthly billing through a 30-day filing submitting changes to Indiana American's rules and tariff to eliminate bimonthly billing.

8. Indiana American's proposal to phase-in the move of the Wabash District to Area One rates over a twenty-four month period is approved, and Indiana American is authorized to record as a regulatory asset the resulting deferred revenues in Account 186.

9. The information filed by Indiana American and the Industrial Group in this Cause pursuant to their respective Motions for Protective Orders is deemed confidential pursuant to Ind. Code § 5-14-3-4, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

STEPHAN, MAYS-MEDLEY, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED:

JAN 28 2015

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

A handwritten signature in cursive script, reading "Brenda A. Howe", is written over a horizontal line.

**Brenda A. Howe
Secretary to the Commission**

**STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF INDIANA-AMERICAN)
WATER COMPANY, INC. FOR (1))
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR WATER AND)
SEWER UTILITY SERVICE, (2))
APPROVAL OF NEW SCHEDULES OF)
RATES AND CHARGES APPLICABLE)
THERE TO, (3) AUTHORITY TO)
ESTABLISH AND IMPLEMENT SYSTEM)
DEVELOPMENT CHARGES, (4))
AUTHORITY TO ESTABLISH AND)
IMPLEMENT CERTAIN CONNECTION)
FEES AND POLICIES AND NEW RULES)
AND REGULATIONS APPLICABLE)
THERE TO, AND (5) AUTHORITY TO)
IMPLEMENT A REVENUE STABILITY)
MECHANISM)**

FILED
November 18, 2014
INDIANA UTILITY
REGULATORY COMMISSION

CAUSE NO. 44450

**MOTION FOR LEAVE TO SUBMIT STIPULATION AND SETTLEMENT AGREEMENT
AND SETTLEMENT TESTIMONY**

Petitioner Indiana-American Water Company, Inc. ("Indiana American" or the "Company"), by counsel and in accordance with 170 IAC 1-1.1-12 and 170 IAC 1-1.1-17, respectfully moves for leave to submit the attached Stipulation and Settlement Agreement ("Settlement Agreement") and Settlement Testimony of Alan J. DeBoy. In support of this Motion, Indiana American further states as follows:

1. On October 29, 2014, Indiana American filed a Notice of Settlement of Less Than All of the Issues and Request for Attorneys Conference. The Notice indicated that the Company and the Indiana Office of Utility Consumer Counselor ("OUCC") had reached an agreement in principle with respect to almost all of the issues in this Cause.
2. On November 10, 2014, an attorneys conference was held to discuss a procedural schedule and hearing date for submission of the Settlement Agreement and related evidence.

3. While the Company and the OUCC view the Settlement Agreement to be within the scope of the evidence that has already been admitted into the record, at the attorneys conference, the Company indicated its intention to file the Settlement Agreement and testimony of Mr. DeBoy as of today's date (filed herewith), and the OUCC indicated its intention to file testimony in support of the Settlement Agreement by November 21, 2014.
4. A second attorneys conference has been scheduled in this Cause for November 21, 2014 to further discuss a procedural schedule and hearing date with respect to the Settlement Agreement.
5. The Company submits the attached Settlement Agreement for Commission approval on the condition that if the Commission fails to approve the Settlement Agreement in its entirety and without any change or condition unacceptable to either the Company or the OUCC, the Settlement Agreement shall be null and void and shall be deemed withdrawn upon notice in writing by either party within 15 days after the date of the final order stating that a modification made by the Commission is unacceptable to the party.
6. Counsel for the OUCC has authorized Indiana American to represent that it agrees to this Motion.

WHEREFORE, Indiana American respectfully requests that this Motion be granted; and that the Commission grant to Indiana American such other relief as may be reasonable and appropriate in the premises.

Respectfully Submitted,

By:



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Attorneys for Petitioner

Indiana-American Water Company, Inc.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served this 18th day of November, 2014, by electronic transmission to the following:

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Nicholas K. Kile

PETITIONER'S EXHIBIT S-1

INDIANA-AMERICAN WATER COMPANY, INC.

IURC CAUSE NO. 44450

SETTLEMENT TESTIMONY

OF

ALAN J. DEBOY

**SPONSORING JOINT EXHIBIT 1
(INCLUDING APPENDICES A AND B)**

**SETTLEMENT TESTIMONY
OF
ALAN J. DEBOY**

CAUSE NO. 44450

1 **Q.** Please state your name and business address.

2 A. My name is Alan J. DeBoy, and my business address is 555 East County Line Road,
3 Greenwood, Indiana 46142.

4 **Q.** What is your position?

5 A. I am the President of Indiana-American Water Company (“Indiana American” or the
6 “Company”).

7 **Q.** What is the purpose of your testimony?

8 A. I will sponsor the Stipulation and Settlement Agreement (herein the “Settlement,” the
9 “Agreement,” and the “Settlement Agreement”) that has been signed by me on behalf of
10 the Company and by the Indiana Office of Utility Consumer Counselor (the “OUCC”)
11 identified as Joint Exhibit 1 and includes the appendices containing the accounting
12 schedules supporting the settled positions. I will explain why the Stipulation and
13 Settlement Agreement is in the public interest.

14 **Q.** What does the Settlement Agreement provide?

15 A. I will provide an overview of the key terms of Settlement. The Agreement itself provides
16 a much more detailed explanation of the concessions that the OUCC and the Company

PETITIONER'S EXHIBIT S-1

1 are making. The Agreement ultimately provides for a 2.55% overall increase over total
2 operating revenues or 2.59% increase in revenues subject to increase, calculated to
3 produce additional annual operating revenues of \$5,121,575. The 2.55% overall increase
4 would be effective at the end of the test year, and will reflect all components of rate base
5 as of November 30, 2015. That increase is further conditioned on Indiana-American
6 meeting or exceeding the level of plant additions projected in its case. Meanwhile, initial
7 rates will reflect plant additions and other components of rate base through November 30,
8 2014. The Settlement resolves the most highly contested issues in this case, namely, (1)
9 revenues, (2) forward looking rate base, and (3) cost of equity. In addition, it contains a
10 moratorium on the Company's filing of its next general rate case, which by agreement
11 may not occur until January 2018. The Settlement also addresses the Company's pending
12 proposals in Phase 2 of the subdocket (Cause No. 44450 S-1). As a result of the
13 settlement negotiations, the Company has agreed to decrease its overall rate request in its
14 proposed order by \$12,090,384. Overall, the Agreement represents a reasonable outcome
15 from the considerable efforts on the part of the OUCC and the Company to reach
16 resolution on a number of difficult issues in a manner suitable to all parties involved.

17 **Q. How does the Agreement resolve the issue of the Company's revenue forecast?**

18 A. As we acknowledged in our proposed order in this Cause, Indiana-American owns that
19 its presentation of a fully integrated forecast in this case made understanding our forecast
20 unnecessarily complicated for those less familiar with our model. There was considerable
21 disagreement regarding the appropriate level of the Company's revenues during the test

PETITIONER'S EXHIBIT S-1

1 year. In the Settlement, the Company and the OUCC have agreed that the Company's
2 total pro forma revenues at present rates for the test year will be \$200,775,709, of which
3 \$7,900,441 is DSIC Revenue. For purposes of Settlement, the parties agreed to test year
4 residential revenues of \$96,775,000 exclusive of DSIC revenues. By reaching agreement
5 with the OUCC on test year revenues, including residential revenues, for purposes of
6 determining rates in this case, we hope to alleviate any concern the Commission may still
7 have regarding the appropriate revenue forecast to apply in this case. As the Settlement
8 Agreement makes clear, the agreed revenue numbers represent a compromise by both
9 parties for the purposes of settlement and were not determined by adopting any particular
10 calculation methodology or percentage of declining usage. It is Indiana American's belief
11 that the compromise reached is an appropriate resolution of this complex and contentious
12 issue.

13 **Q. What questions surrounding Indiana-American's use of a forward looking rate base**
14 **are resolved by the Settlement?**

15 A. The appropriate rate base cutoff in this case has been a contested issue from the
16 beginning. Indiana American filed using a 13-month average for its forward-looking test
17 year rate base. As a result of the OUCC's Motion to Strike our proposed rate base cutoff,
18 the Commission ruled in its Prehearing Conference Order that the rate base for this Cause
19 should be the actual and projected used and useful property as of November 30, 2015 and
20 left to the parties the task of proposing an implementation of that rate base within the
21 confines of Indiana's used and useful requirements. The parties presented different

PETITIONER'S EXHIBIT S-1

1 methods for determining the rate base and different implementations. The Settlement
2 resolves those differences by allowing all plant additions through November 30, 2015 to
3 be included in rate base and reducing the steps for implementation to two.

4 **Q. What rate base was agreed to for purposes of the Settlement?**

5 A. For purposes of Settlement, the parties agreed that initial rates would be calculated from a
6 rate base including utility plant in service as of November 30, 2014, as well as Indiana-
7 American's actual accumulated depreciation, contributions in aid of construction
8 ("CIAC"), customer advances, post-in-service allowance for funds used during
9 construction ("AFUDC"), deferred depreciation and Materials & Supplies, all as of
10 November 30, 2014. The Company and the OUCC have also agreed that within thirty
11 (30) days after the end of the test year, the Company will file a second step change to its
12 rates to update its rate base as of the end of the test year, to include all utility plant in
13 service as of November 30, 2015 and updated actual accumulated depreciation, CIAC,
14 customer advances, post-in-service AFUDC, deferred depreciation and 13-month average
15 of Materials & Supplies as of that date, all subject to a Rate Base Cap and UPIS Cap that
16 I will describe later in my testimony. The second step rate change will also reflect an
17 updated calculation of depreciation expense based upon the original cost of utility plant
18 in service as of November 30, 2015. The second step rate change would be an across-the-
19 board change from the first step.

20 **Q. What will be the process under the Settlement for implementing the initial rates and**
21 **this "second step" change to rates?**

PETITIONER'S EXHIBIT S-1

1 A. The OUCC and the Company have agreed to a process whereby, for the initial rate
2 increase, the Company will certify all utility plant in service added since March 31, 2014
3 as used and useful and state the actual value as of November 30, 2014 of all components
4 of rate base including utility plant in service and accumulated depreciation. The
5 Company's filing will include a schedule showing actual utility plant in service by
6 account. The initial rates will also reflect an updated calculation of depreciation expense
7 based on the original cost of utility plant in service as of November 30, 2014. The
8 Settlement Agreement provides that the Company will supply the parties to this Cause
9 with a schedule of actual utility plant in service as of October 31, 2014 on or before
10 November 21, 2014. The Settlement Agreement contemplates that the Company will
11 make its initial filing to implement new rates on or before December 12, 2014. The
12 parties would then have twenty-one (21) days to review and submit objections to the
13 Company's submission.

14 The Settlement Agreement contemplates that the Company may request the Commission
15 to approve proposed interim rates with an effective date no earlier than January 1, 2015,
16 at the settled level and based on the certification I referred to above. The agreed rate
17 increase under the Settlement is less than 50% of the amount that was included in the
18 Company's original request in this Cause.

19 The second step rate change implementation will work in much the same way, with the
20 Company filing its update to rate base as of November 30, 2015 within thirty (30) days of
21 that date. The parties will have thirty (30) days to review and submit objections to the

PETITIONER'S EXHIBIT S-1

1 Company's submission of its second step rates. If objections cannot be resolved
2 informally, the parties may request a hearing from the Commission.

3 **Q. What other rate base items were agreed upon in the Settlement?**

4 A. The Company agreed the Company's rate base in this Cause would not include (1)
5 Business Transformation – SOP 98-01 costs, (2) Comprehensive Planning Studies, (3)
6 Construction Work in Progress, and (4) Prepaid Pension Asset payments.

7 In addition, the OUCC and the Company have agreed that to the extent the Company's
8 actual net original cost rate base as of November 30, 2015 exceeds \$813,051,628 (the
9 "Rate Base Cap"), or the actual test year additions to utility plant in service exceed
10 \$44,884,714 (the "UPIS Cap"), the Company is not foreclosed from including those
11 additional investments in rate base in a future general rate case. Further, the Company's
12 forecasted rate base for the test year includes \$13,800,000 of plant additions that would
13 be DSIC eligible. Accordingly, the parties have agreed that if the Company places in
14 service during the test year DSIC eligible investments in excess of the \$13,800,000, the
15 Company may include those additional investments in its next DSIC application subject
16 to applicable eligibility requirements.

17 **Q. What cost of common equity is included in the Settlement?**

18 A. The stipulated cost of common equity is 9.75%. As the Settlement Agreement explains,
19 this is within the range of evidence that has been submitted by the parties in this matter.

PETITIONER'S EXHIBIT S-1

1 **Q. Is the dispute between the Company and the OUCC over Service Company expense**
2 **resolved by the Settlement?**

3 A. Yes. The Company and the OUCC agreed on forecasted pro forma Service Company
4 expense allocated to the Company for the test year of \$20,674,435. This figure represents
5 the Company's proposed expense level, less Business Development expense.

6 **Q. How is Business Transformation ("BT") treated under the Settlement?**

7 A. As noted above, for settlement purposes, the OUCC and the Company agreed that BT
8 SOP 98-01 costs and Comprehensive Planning Studies will not be included in rate base.
9 All BT assets (including plant in service, deferred depreciation, post-in-service AFUDC,
10 the BT Comprehensive Planning Study and BT SOP 98-01) are to be depreciated or
11 amortized, as the case may be, over thirteen years. This is a change from the 10-year
12 depreciation rate for BT assets approved in our last rate case (Cause No. 44022) and the
13 10-year amortization rate for BT SOP 98-01 assets approved in the preapproval case
14 (Cause No. 44059).

15 **Q. That amortization period applies to the BT Comprehensive Planning Study. What**
16 **about the Warsaw Comprehensive Planning Study?**

17 A. Again, for purposes of Settlement, the Company agreed not to include the Warsaw
18 Comprehensive Planning Study in rate base. Instead, the parties agreed that the Warsaw
19 Comprehensive Planning Study will be amortized over fifty (50) years.

PETITIONER'S EXHIBIT S-1

1 **Q. Does the Settlement resolve the dispute over treatment of the settlement proceeds**
2 **from the Atrazine class action litigation?**

3 A. Yes. The Company and the OUCC agreed that all proceeds of the Atrazine settlement
4 will be split 50/50 between customers and shareholders. The Atrazine settlement will be
5 amortized over three (3) years.

6 **Q. How are the remaining revenue requirements supporting the 2.55% increase**
7 **resolved?**

8 A. These are all set forth in detail in the Settlement Agreement. Almost all of them were
9 resolved as a compromise between the respective positions of the OUCC and the
10 Company. The Appendices attached to the Settlement Agreement show the resolution
11 and comparison of the Company's and the OUCC's positions for Operating Income
12 (Appendix A) and Rate Base (Appendix B2), as well as support for the settlement
13 positions on cost of capital (Appendix B3) and overall rate increase (Appendix B1).
14 These accounting schedules were prepared at my direction by Melissa Schwarzell, a
15 Rates & Regulatory Analyst with American Water Works Service Company. To the
16 extent there are specific questions regarding the Appendices, Ms. Schwarzell can be
17 available to respond to those questions.

18 **Q. Do the numbers and adjustments set forth in Appendices A and B fairly and**
19 **accurately represent the agreement of the parties contained in Joint Exhibit 1?**

20 A. Yes, I believe they do.

PETITIONER'S EXHIBIT S-1

1 **Q. How does the Settlement deal with the Company's pending requests in Phase 2 of**
2 **the Subdocket?**

3 A. For purposes of settlement, the Company has agreed to withdraw the Phase 2 proposals,
4 consisting of (1) its request to establish and implement a Revenue Stability Mechanism
5 ("RSM"), (2) its request for approval of a fair value increment associated with the
6 Company's acquisition of Northwest Indiana Water Co. ("Northwest") and United Water
7 West Lafayette, Inc. and United Water Indiana, Inc. (collectively, "United"), and (3) its
8 proposed Earnings Sharing Mechanism ("ESM").

9 **Q. Does the Settlement Agreement resolve all of the issues pending in this Cause?**

10 A. The Settlement Agreement resolves all issues related to the revenue requirements in this
11 Cause, as well as certain other items not directly affecting the rates to be set in this
12 Cause. It does not resolve matters related to rate design and class cost of service study
13 questions, including the Company's proposal that the DSIC be calculated and applied as a
14 fixed charge on a going forward basis. It also provides that the Company may apply for a
15 uniform tariff for usage data through the Commission's thirty-day filing procedure on a
16 revenue neutral basis, which application would remain subject to any defenses that may
17 be raised. The Company has agreed to continue to include usage data reading revenues
18 above the line. Finally, the Settlement Agreement does not address the requested relief in
19 Phase 1 of the subdocket. There remains only one item in dispute in Phase 1 (the
20 Company's proposal to eliminate developer refunds), and the parties have submitted their
21 proposed orders and post-hearing filings in that regard. The Company and the OUCC

PETITIONER'S EXHIBIT S-1

1 leave to the Commission to decide the Phase 1 matters.

2 **Q. What are the items other than revenue requirement, cost of capital and rate base**
3 **that are resolved by the Settlement?**

4 A. The other provisions of the Settlement cover a range of subjects from a rate moratorium
5 to DSIC Accounting, Comprehensive Planning Studies, Benchmarking, Nonrevenue
6 Water, Efficiency and Best Practices, the change to monthly billing for the Northwest
7 District and the phase-in of the agreed rate increase for the Wabash district.

8 **Q. What is the rate moratorium to which you refer?**

9 A. One key term of the Settlement that I have not yet discussed is the provision of a rate
10 moratorium, whereby the Company agrees not to file a petition seeking a general increase
11 in basic rates and charges prior to January 1, 2018, except for a request for emergency
12 rate relief pursuant to Indiana Code § 8-1-2-113. This term was a critical part of the
13 Settlement negotiations and the Company views it as an extremely valuable component
14 of the overall compromise reached. The Settlement Agreement also provides that rate
15 case expense will be amortized over a period of four years to match the 4-year rate
16 moratorium.

17 **Q. What agreement was reached with respect to the other topics you listed?**

18 A. The Settlement provides that the Company will not change its treatment of retirements
19 for purposes of calculating the DSIC and that the Company will not be required to
20 complete the three comprehensive planning studies for the Newburgh, Seymour and

PETITIONER'S EXHIBIT S-1

1 Wabash districts by December 31, 2015, as was proposed by the OUCC. The Settlement
2 Agreement also states that the Company will meet with the OUCC to discuss utility
3 performance benchmarking, water loss prevention measures and water audits, and
4 efficiency and best practices.

5 The Settlement also provides that in connection with the Company's proposed switch of
6 Northwest customers to monthly billing instead of bi-monthly, the Company will not
7 increase the bi-monthly customer charge to twice the monthly charge prior to
8 implementing the switch to monthly billing. Instead, consistent with the testimony of
9 Gary VerDouw on behalf of Indiana American at the hearing, the Company will inform
10 the Commission through a thirty-day filing when it has made the switch and submit
11 changes to its rules and tariff eliminating bimonthly billing. The Company will make the
12 change to monthly billing for the Northwest customers as soon as practicable after the
13 Order in this Cause is issued and after adequate notice has been provided customers
14 regarding the change. Consistent with the OUCC's testimonial recommendation, the
15 Company will defer any resulting revenue shortfall in a regulatory asset account for
16 recover in the next general rate case.

17 With respect to the Wabash phase-in, the Settlement Agreement reflects that the
18 Company's proposal was not opposed in this case and should be approved. Accordingly,
19 Wabash will move to Area One rates over a 24-month period, with a portion of the
20 revenue increase deferred over the same period, to be recorded as a regulatory asset in
21 Account 186. In the Company's first general rate case following completion of the phase-

PETITIONER'S EXHIBIT S-1

1 in, the Company will be entitled to recover a return of and a return on the balance in the
2 regulatory asset account, amortized over thirty-six (36) months.

3 **Q. Given the Settlement does not address questions of rate design, how should the**
4 **Commission proceed?**

5 A. The increase under the Settlement should be implemented across customer classes in the
6 manner determined by the Commission based upon the class cost of service study and
7 rate design evidence already submitted into the record. The Commission should also
8 decide the question whether the DSIC should be calculated and applied as a fixed charge
9 on a going forward basis, based upon the evidence that has already been submitted.

10 **Q. Is the Settlement Agreement in the public interest?**

11 A. Yes it is.

12 **Q. What relief are you requesting?**

13 A. I am requesting that the Commission issue an order approving the Settlement Agreement
14 without modification and would urge that the Commission do so as soon as possible.

15 **Q. Does this conclude your settlement testimony?**

16 A. Yes, at this time.

VERIFICATION

I, Alan J. DeBoy, President of Indiana-American Water Company, Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Alan J. DeBoy
Alan J. DeBoy

Date: 11/17/14

STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN)
 WATER COMPANY, INC. FOR (1))
 AUTHORITY TO INCREASE ITS RATES)
 AND CHARGES FOR WATER AND)
 SEWER UTILITY SERVICE, (2))
 APPROVAL OF NEW SCHEDULES OF)
 RATES AND CHARGES APPLICABLE)
 THERETO, (3) AUTHORITY TO) CAUSE NO. 44450
 ESTABLISH AND IMPLEMENT SYSTEM)
 DEVELOPMENT CHARGES, (4))
 AUTHORITY TO ESTABLISH AND)
 IMPLEMENT CERTAIN CONNECTION)
 FEES AND POLICIES AND NEW RULES)
 AND REGULATIONS APPLICABLE)
 THERETO, AND (5) AUTHORITY TO)
 IMPLEMENT A REVENUE STABILITY)
 MECHANISM)

STIPULATION AND SETTLEMENT AGREEMENT

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

In this proceeding, this Stipulation follows the evidentiary hearing on the parties' prefiled testimony and exhibits as well as post-hearing briefs and proposed orders. Those filings have framed

the discussions among the Settling Parties, and formed the basis for the Settling Parties to reach agreement on the terms reflected in this Stipulation. A basic component of each party's willingness to enter this agreement is the overall result that is achieved hereby. The Settling Parties have agreed to concessions on individual issues to which the Settling Parties would not be willing to agree but for the overall result produced by this Stipulation and Settlement Agreement. In other words, each party is agreeing to forego or compromise on positions on individual issues in exchange for the overall result produced collectively by all of the concessions. As set forth in Appendices A (Pro Forma Income Statement) and B (Rate Increase, Rate Base, Capital Structure and Gross Revenue Conversion Factor/Proposed Rate Adjustments), the parties have negotiated terms that resolve all issues related to the revenue requirement. In most cases, the agreed upon adjustments to pro forma results of operations, rate base and cost of capital are founded upon documented positions that are in the record in this proceeding. The Settling Parties have agreed that the Company and OUCC will file Settlement Testimony in support of this Stipulation.

All issues not specifically addressed in the enumerated paragraphs below are as reflected in Appendices A and B attached hereto and incorporated herein by reference.

The Settling Parties stipulate and agree as follows:

1. Rate Increase.

Petitioner shall be authorized to increase its basic rates and charges (collectively "rates") for water and sewer utility service. Subject to and as adjusted for the test year commencement certification and adjustment mechanism set forth in Paragraph 2(c)(iii) and (iv) below, the rates shall be designed to produce, after completion of both phases of implementation, total annual operating revenues of \$205,897,284. The increase provides for additional annual revenues of \$5,121,575. The increase is

calculated to produce total net operating income of \$54,192,581, which the parties stipulate is a fair return on the fair value of Petitioner's rate base for purposes of this case. The calculation is set forth in Appendix B. Based on projected additional revenues of \$5,121,575, the overall increase over total operating revenues is approximately 2.55%, and the overall increase in revenues subject to increase is approximately 2.59%. The increase shall be implemented across customer classes in the manner determined by the Commission based upon the class cost of service study and rate design evidence already submitted into the record.

The amount of the rate increase to which the parties have agreed herein is less than fifty percent (50%) of the amount that was included in the Company's original request in this Cause. Pursuant to Ind. Code § 8-1-2-42.7(e), the Company may request the Commission to approve proposed interim rates with an effective date no earlier than January 1, 2015, at the settled level and based upon the test year commencement certification set forth in Paragraph 2(c)(iii) herein in the event that an Order approving this Settlement has not been issued by that date.

The agreed-upon rate increase reflects the following original cost rate base, cost of capital and forecasts (See Appendices A & B) which the Parties agree are reasonable for purposes of compromise and settlement:

Rate Base as of November 30, 2015

Utility Plant in Service	\$ 1,432,587,533
Less: Accumulated Depreciation	(433,239,275)
Net Utility Plant	999,348,258
Less: CIAC ¹	(121,566,031)
Less: Customer Advances	(66,078,485)
Less: Capacity Adj (Somerset)	(198,769)
Add: Acquisition Adjustment	206,681
Add: Materials and Supplies	<u>1,339,974</u>
Total	\$813,051,628

¹ Contributions in Aid of Construction

Capital Structure as of November 30, 2014

	<u>Amount</u>	<u>Weight%</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	\$354,987,636	41.80%	6.08%	2.541%
Common Equity	352,922,680	41.55%	9.75%	4.052%
Deferred Tax	143,650,219	16.91%	0.00%	0.000%
Accum Dep Muncie Sewer	72,694	0.01%	0.00%	0.000%
Prepaid Pension	(5,541,209)	-0.65%	0.00%	0.000%
Post Retirement Benefit	2,579,644	0.30%	0.00%	0.000%
Deferred ITC Pre-1971	12,033	0.00%	0.00%	0.000%
JDITC – Post 1970	618,706	0.07%	7.34%	0.005%
	<u>\$849,302,403</u>	<u>100.00%</u>		<u>6.598%</u>

Pro Forma Proposed Rates

Operating Revenue	\$205,897,284
O&M	68,398,008
Depreciation/Amortization	43,214,137
Income Taxes	23,336,008
Other Taxes	16,756,550
Total Operating Expense	<u>\$151,704,703</u>
Net Operating Income	<u>\$54,192,581</u>

2. Resolution of Issues Impacting Rate Increase.

All agreed upon revenue requirement components are detailed in Appendices A and B. As a result of settlement negotiations, the Company agrees to decrease its overall rate request by \$12,090,384. The attached Appendices show the resolution and comparison of positions for Operating Income (Appendix A) and Rate Base (Appendix B2), as well as explanations of the settlement positions for cost of capital and overall rate increase (Appendix B3 and B1 respectively).

The material pro forma reductions as a result of settlement discussions are described specifically below. While an explanation of these individual adjustments is provided, the negotiated amounts represent agreements reached by the parties as part of the overall settlement package of terms.

(a) Revenues

Total pro forma revenues at present rates for the test year for purposes of settlement will be \$200,775,709, of which \$7,900,441 is DSIC Revenue. For purposes of Settlement, the Settling Parties agree to test year residential revenues of \$96,775,000 exclusive of DSIC revenues. That figure represents the amount the Settling Parties agree is reasonable for the purposes of compromise and settlement, and is not based on a particular calculation methodology or percentage of declining usage. Total pro forma revenues at present rates are detailed in the attached schedules.

(b) Cost of Equity

The Company contended that its cost of equity is 11.05% but proposed using 10.8% (its original proposed cost of equity) for purposes of computing its weighted cost of capital. The OUCC contended that the cost of equity is 8.6%. The Industrial Group's proposed cost of equity was 9.25%. For purposes of settlement, the Settling Parties have agreed to a cost of common equity of 9.75%, producing a weighted cost of capital of 6.598%, which the Settling Parties stipulate and agree is both reasonable and within the range of the evidence that has been submitted.

(c) Rate Base

(i) Cutoff date

Subject to the test year commencement certification as set forth below, the initial rates following approval of this Settlement shall be calculated from a rate base based upon utility plant in service as of November 30, 2014, including any recurring investments but excluding those items specifically excluded below, and including actual accumulated depreciation as of November 30, 2014 as well as other components of rate base including contributions in aid of construction (CIAC), customer advances, post-in-service allowance for funds used during construction ("AFUDC"), deferred depreciation and Materials & Supplies.

(ii) Exclusions from Rate Base

For purposes of settlement, Business Transformation – SOP 98-01 costs, Comprehensive Planning Studies, Construction Work in Progress and Prepaid Pension Asset payments are not included in the Company's rate base in this Cause. The Prepaid Pension Asset is to be reflected in the capital structure as an offset to zero-cost capital.

(iii) Test Year Commencement Certification

Prior to implementation of its initial rate increase, the Company will certify all utility plant in service added since March 31, 2014 as used and useful and shall state the actual value as of November 30, 2014 of all components of rate base including utility plant in service and accumulated depreciation. The Company will include in its filing a schedule that shows the actual utility plant in service by account. Initial rates shall also reflect an updated calculation of depreciation expense based upon the original cost of the utility plant in service and the balance of deferred depreciation as of November 30, 2014. The Company will submit its certification on or before December 12, 2014. In order to facilitate the other parties' opportunity to review the test-year commencement

certification, the Company will submit to all parties the actual utility plant in service balances as of October 31, 2014 on or before November 21, 2014.

The parties to this Cause will have twenty-one (21) days to review and submit objections to the Company's test year commencement certification filing. If objections cannot be resolved informally, the parties may request a hearing from the Commission.

(iv) Update Mechanism

Within thirty (30) days of the conclusion of the test year, the Company will file a second step change to its rates to update its rate base as of the end of the test year. The second step rate change will be based upon actual net original cost rate base that does not exceed \$813,051,628 (the "Rate Base Cap"). The second step will also be based on a cap to additions to Utility Plant in Service during the test year of \$44,884,714 (the "UPIS Cap"). The second step rate change will otherwise include all utility plant in service as of November 30, 2015, including any recurring investments, updated actual accumulated depreciation and other components of rate base as of November 30, 2015, including CIAC, customer advances, post-in-service AFUDC, deferred depreciation, and 13-month average as of that date for Materials & Supplies. The second step rate change will also reflect an updated calculation of depreciation expense based upon the original cost of utility plant in service as of November 30, 2015.

The parties to this Cause will have thirty (30) days to review and submit objections to any update submission. If objections cannot be resolved informally, the parties may request a hearing from the Commission.

To the extent the Company's actual net original cost rate base as of November 30, 2015 exceeds the Rate Base Cap or the actual additions to Utility Plant in Service exceed the UPIS Cap, the Company is not foreclosed from including those additional investments in rate base in a future general rate case. In forecasting its rate base, the Company has forecasted test year investment totaling \$13,800,000 in improvements that might qualify for a distribution system improvement charge (DSIC) pursuant to IC 8-1-31 but for their inclusion in rate base in this Cause. More specifically, these improvements would meet the definition of "distribution system" under 170 IAC 6-1.1-1. Accordingly, Petitioner may not apply for a DSIC for improvements placed in service before November 30, 2015 unless the Company shall have invested more than \$13,800,000 in distribution system improvements in the test year. An application under IC § 8-1-31-1 et seq. that includes test year in-service distribution system improvements shall only include test year distribution system improvement costs that exceed the \$13,800,000 projected to be made in the test year. In any application for DSIC including improvements placed in service before November 30, 2015, Petitioner shall identify the plant additions comprising the \$13,800,000 of test year distribution system additions as well as those plant additions for which DSIC recovery is sought.

(d) Operating Expenses and Depreciation

(i) *Service Company Expense*

The level of forecasted pro forma Service Company expense allocated to the Company for the test year agreed upon for purposes of settlement is \$20,674,435. This figure represents the Company's proposed expense level, less Business Development expense.

(ii) Business Transformation

All Business Transformation ("BT") related assets (including plant in service, deferred depreciation, post-in-service AFUDC, the BT Comprehensive Planning Study and BT SOP 98-01) are to be depreciated or amortized as the case may be over thirteen years.

(iii) Comprehensive Planning Studies

As noted above, the BT Comprehensive Planning Study shall be amortized over thirteen (13) years just as all other BT assets. The Warsaw Comprehensive Planning Study shall be amortized over fifty (50) years.

(iv) Regulatory Expense

Regulatory (rate case) expense shall be amortized over four (4) years.

(e) Atrazine

All proceeds of the Atrazine settlement shall be split 50/50 between customers and shareholders. The Atrazine settlement will be amortized over three (3) years.

3. Effect of Stipulation In Future Proceedings

As a part of this Stipulation and Settlement Agreement and for purposes of Petitioner's next general rate case and thereafter, the parties stipulate and agree to the following terms and conditions:

(a) Usage Data Revenues

The Company agrees to continue to include usage data reading revenues above the line. Notwithstanding the foregoing, the Company may apply for a uniform tariff for usage data through the Commission's thirty-day filing procedure on a revenue neutral basis, which application shall be subject to all defenses that may be raised.

(b) Change to Monthly Billing in Northwest District

Prior to the switch to monthly billing for these customers, the Northwest bi-monthly customer charge will not be increased to twice the monthly charge. The Company shall inform the Commission when it has switched the residential customers in the Northwest District to monthly billing through a 30-day filing submitting changes to the Company's rules and tariff eliminating bimonthly billing. Pursuant to the OUCC's testimonial recommendation, the Company shall defer any revenue shortfall as a result of this provision in a regulatory asset account for recovery in the next general rate case.

(c) Wabash Phase-in

The Company's proposal to phase in the rate increase for Wabash customers and to defer the resulting revenue shortfall in a regulatory asset account for recovery in the next general rate case should be approved. As a result, Wabash will move to Area One rates over a 24-month period, with a portion of the revenue increase deferred over the same period, to be recorded as a regulatory asset in Account 186. In the Company's first general rate case following completion of the phase-in, the Company will be entitled to recover a return of and a return on the balance in the regulatory asset account, amortized over thirty-six (36) months.

Other than as stated in this paragraph, the Settling Parties reserve the right to take positions in future cases that may be inconsistent with the revenue requirements, cost of capital, rate base and other matters set forth in this Stipulation and Settlement Agreement.

4. Subdocket Phase 2 Relief

As part of its case-in-chief, the Company proposed to establish and implement a Revenue Stability Mechanism (“RSM”) and sought approval of a fair value increment associated with the Company’s acquisition of Northwest Indiana Water Co. (“Northwest”) and United Water West Lafayette, Inc. and United Water Indiana, Inc. (collectively, “United”). On rebuttal, the Company also proposed an Earnings Sharing Mechanism (“ESM”). All three proposals (the “Phase 2 Proposals”) were moved to Phase 2 of the subdocket (Cause No. 44450 S-1). The OUCC and Industrial Group both filed Motions to Dismiss with respect to the Phase 2 Proposals, which motions were joined by the other parties.² For purposes of settlement, Petitioner stipulates and agrees to withdraw the Phase 2 Proposals.

5. Rate Moratorium

Except for a request for emergency rate relief in accordance with IC 8-1-2-113, the Company will not file a petition seeking a general increase in basic rates and charges prior to January 1, 2018.

6. Post-Order Compliance and Matters Not Affecting Rates

(a) DSIC Accounting

The Company will not change its treatment of retirements for purposes of calculating the DSIC, and the method for addressing retirements ordered in Cause No. 42351 DSIC-1 will be continued.

(b) Additional Comprehensive Planning Studies

The Settling Parties agree that the Company will not be required to complete the three comprehensive planning studies for the Newburgh, Seymour and Wabash districts by December 31, 2015, as proposed by the OUCC.

² This Stipulation and Settlement Agreement is being filed prior to the Commission ruling on the Motions to Dismiss in the subdocket.

(c) Benchmarking

The Company agrees to meet with the OUCC to discuss utility performance benchmarking.

(d) Nonrevenue Water

The Company agrees to meet with the OUCC to discuss water loss prevention measures and water audits.

(e) Efficiency and Best Practices

The Company agrees to meet with the OUCC to discuss efficiency and best practices including:

1. Water footprinting;
2. Integrated Water Resource Management (IWRM);
3. ISO 14001;
4. Institute for Sustainable Infrastructure (ISI) rating system;
5. Vulnerability assessments; and
6. Sustainability commitments from Tier 1 and Tier 2 suppliers.

7. Rate Design and Class Cost of Service Study

All rate design and class cost of service study issues presented in this case shall be determined by the Commission based upon the evidence that has already been submitted. The issues left for the Commission to decide include the Company's proposal, which the OUCC opposes, that the DSIC be calculated and applied as a fixed charge on a going forward basis.

8. Stipulation Effect, Scope and Approval.

The Stipulation is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without any change or condition that is unacceptable to any Settling Party. Each term of the Stipulation is in consideration and support of each and every other term. If the Commission does not approve the Stipulation in its entirety or if the Commission makes modifications that are unacceptable to any Settling Party, the Stipulation shall be null and void and shall be deemed withdrawn upon notice in writing by any party within 15 days after the date of the final order stating that a modification made by the Commission is unacceptable to the Settling Party.

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

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

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

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

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

(signature page follows)

ACCEPTED and AGREED this _____th day of _____, 2014.

Indiana-American Water Company, Inc.

Indiana Office of Utility Consumer Counselor

By: Alan J. DeBoy
Alan J. DeBoy, President
555 East County Line Road
Suite 201
Greenwood, Indiana 46143

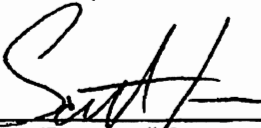
By: _____
Scott Franson, #
Deputy Consumer Counselor
115 West Washington Street
Suite 1500 South
Indianapolis, Indiana 46204

ACCEPTED and AGREED this 18 th day of November 2014.

Indiana-American Water Company, Inc.

Indiana Office of Utility Consumer Counselor

By: _____
Alan J. DeBoy, President
555 East County Line Road
Suite 201
Greenwood, Indiana 46143

By:  _____
Scott Franson, #27839-49
Deputy Consumer Counselor
115 West Washington Street
Suite 1500 South
Indianapolis, Indiana 46204

Indiana American Water Company
Cause No. 44450
Proposed Settlement Statement of Operating Income

Settlement Appendix A

Line #	Description	Proposed Order Positions		Settlement Positions		Notes on Column C (Settlement Present Rates)
		A INAWC Proposed Order 11/30/15 Phase Present Rates	B OUCC Proposed Order Present Rates	C Settlement Present Rates	D Proposed Rates Adjustment	E = C + D Settlement Proposed Rates
	Operating Income Revenues					
1	Residential	\$ 96,764,248	\$ 101,162,081	\$ 96,775,000		This compromise number is not based on any particular methodology or percentage of declining usage.
2	Commercial	39,174,109	39,174,109	39,174,109		
3	Industrial, OPA, SFR, and Misc.	30,260,356	30,649,584	30,260,356		
4	Public and Private Fire	21,757,570	21,810,560	21,757,570		This is inclusive of fire service adjustment.
5	DSIC	7,528,347	7,990,419	7,900,441		
6	Subtotal Water	\$ 195,484,630	\$ 200,786,753	\$ 195,867,476		\$ 195,867,476
7						
8	Sewer	\$ 394,192	\$ 393,847	\$ 393,847		
9						
10	Late Fees	\$ 1,273,037	\$ 1,308,552	\$ 1,276,576		This represents changes to present rate revenues
11	Other Revenues Non Late Fees	2,584,167	2,584,512	2,584,512		
12	Data Usage	-	653,298	653,298		Company agrees to continue charging usage data fees to municipalities in a manner that produces \$653,298 in annual revenues.
13	Total Revenues	\$ 199,736,030	\$ 205,726,962	\$ 200,775,709	\$ 5,121,575	\$ 205,897,284
14			0			
15	Operating Expenses:					
16	Operation and Maintenance:					
17	Purchased Water	\$ 493,603	\$ 493,603	\$ 493,603		\$ 493,603
18	Fuel & Power	6,737,670	6,975,230	6,737,670		6,737,670
19	Chemicals	1,820,591	1,894,239	1,820,591		1,820,591
20	Waste Disposal	1,228,608	1,228,608	1,228,608		1,228,608
21	Salaries and Wages	15,273,242	15,168,825	15,168,825		15,168,825
22	Pension	951,928	951,928	951,928		951,928
23	Group Insurance	3,747,358	3,747,358	3,747,358		3,747,358
24	Other Benefits	787,568	780,877	780,877		780,877
25	Service Company costs	20,826,305	18,330,458	20,674,435		20,674,435
26	Contract Services	986,793	986,793	986,793		986,793
27	Building Maintenance & Services	945,981	945,981	945,981		945,981
28	Telecommunications	577,628	577,628	577,628		577,628
29	Postage, Printing, & Stationary	54,379	54,379	54,379		54,379
30	Office Supplies & Services	946,629	946,629	946,629		946,629
31	Advertising & Marketing	43,298	43,298	43,298		43,298
32	Employee Related Expense	332,340	332,340	332,340		332,340
33	Miscellaneous Expense	972,343	837,357	837,357		837,357
34	Rents	619,064	611,735	619,064		619,064
35	Transportation	1,375,878	1,375,878	1,375,878		1,375,878
36	Uncollectible Accounts	1,688,293	1,740,244	1,696,872	43,323	1,740,195
37	Customer Accounting	2,610,983	2,659,234	2,610,983		2,610,983
38	Regulatory Expense	517,138	517,138	387,853		387,853
39	Insurance Other Than Group	1,750,844	1,750,844	1,750,844		1,750,844
40	Maintenance Supplies & Services	3,584,891	3,584,891	3,584,891		3,584,891
41						
42	Total Operation & Maintenance Expense:	\$ 68,873,355	\$ 66,535,495	\$ 68,354,685	\$ 43,323	\$ 68,398,008
43	(Sum Lines 17 through 40)					

Indiana American Water Company
Cause No. 44450
Proposed Settlement Statement of Operating Income

Settlement Appendix A

Line #	Description	Proposed Order Positions		Settlement Positions		Notes on Column C (Settlement Present Rates)
		A (NAWC Proposed Order 11/30/15 Phase Present Rates)	B OUCC Proposed Order Present Rates	C Settlement Present Rates	D Proposed Rates Adjustment	E = C + D Settlement Proposed Rates
44	Depreciation	\$ 33,886,709	\$ 41,902,659	\$ 42,366,460		\$ 42,366,460
45	Amortization	1,011,705	771,527	847,677		847,677
46	Removal Costs	8,997,777				-
47	General Taxes	17,295,466				-
48	IURC Fee		252,188	245,702	6,755	252,457
49	Payroll		1,184,953	1,184,953		1,184,953
50	URT		2,718,476	2,649,745	67,641	2,717,386
51	Prop Tax		12,308,476	12,308,476		12,308,476
52	Other Gen Tax		293,278	293,278		293,278
53						
54	Operating Expenses before Income Tax: (Sum Lines 42 through 53)	\$ 130,065,012	\$ 125,967,052	\$ 128,250,976	\$ 117,719	\$ 128,368,695
55						
56	Operating Income before Income Tax: (Line 13 - Line 54)	\$ 69,671,018	\$ 79,759,910	\$ 72,524,733	\$ 5,003,856	\$ 77,528,589
57						
58	State Income Tax			4,151,660	344,354	4,496,014
59	Current State Income Tax	2,712,016	4,669,464			-
60	Deferred State Income Tax	1,268,242				-
61	Federal Tax			17,427,915	1,630,827	19,058,742
62	Current Federal Income Tax	5,320,290	20,110,458			-
63	Deferred Federal Income Tax	11,499,121				-
64	Investment Tax Credits	(218,748)	(218,748)	(218,748)		(218,748)
65						
66	Total Operating Expenses: (Line 54 + Sum Lines 58 through 64)	\$ 150,645,933	\$ 150,528,226	\$ 149,611,803	\$ 2,092,900	\$ 151,704,703
67						
68	Net Utility Operating Income: (Line 13 - Line 66)	\$ 49,090,097	\$ 55,198,736	\$ 51,163,907	\$ 3,028,675	\$ 54,192,581
69						

¹ If not otherwise discussed, settlement figure is for purposes of settlement.

² Figure is for purposes of settlement. Reflects settlement revenue requirement components.

Indiana American Water Company
Cause No 44450
Rate Increase

Settlement Appendix B1

Line #	Item	Ref	Amount	Notes
1	A) Present Rate Utility Operating Income	Appendix A, Line 77, Column C	\$ 51,163,907	
2				
3	B) Utility Operating Income Requirement:			
4				
5	Net Original Cost Rate Base (NOCRB)	Appendix B2, Line 35, Column C	\$ 813,051,628	
6	Rate of Return	Appendix B3, Line 10, Column B	6.598%	
7	Operating Income Requirement for NOCRB		<u>\$ 53,645,146</u>	
8				
9	Fair Value Increment (FVI)		\$ 8,296,987	For Settlement Purposes.
10	Rate of Return	Appendix B3, Line 10, Column B	6.598%	
11	Operating Income Requirement for FVI		<u>\$ 547,435</u>	
12				
13	Total Operating Income Required (Line 7 + Line 11)		<u><u>\$ 54,192,582</u></u>	
14				
15	C) Operating Income Deficiency (Line 13 - Line 1)		\$ 3,028,675	
16				
17	D) Gross Revenue Conversion Factor	Appendix B4, Line 15, Column B	1.69102875	OUC / Company Settlement Value
18				
19	E) Rate Increase = Deficiency After Gross Up (Line 15 x Line 17)		<u><u>\$ 5,121,575</u></u>	Less \$1 to reconcile rounding errors
20				

Line #	Component of Original Cost Rate Base	A Company Position Phase 5 11/30/2015 per Proposed Order	B OUCC Position 3/31/2014 Per Proposed Order	C Settlement as of 11/30/2015 Rate Base Update	D Settlement Notes
1	Utility Plant:				
2	Plant in service	\$ 1,417,964,861	\$ 1,373,255,913	\$ 1,417,221,876	To represent UPIS as of 11/30/2015
3	Construction Work In Progress	-			
4	Reserved for Future Use	-			
5	Business Transformation SOP 98-1 costs	5,224,318			Per settlement, excluded
6	Deferred depreciation (for column B, is net)	8,148,488	5,106,503	8,148,488	Balance at 11/30/2014 per Company Proposed Order
7	Post-in-service AFUDC (for column B, is net)	7,217,169	4,266,311	7,217,169	Balance at 11/30/2014 per Company Proposed Order
8	Total Utility Plant:	\$ 1,438,554,837	\$ 1,382,628,727	\$ 1,432,587,533	
9					
10	Accumulated Depreciation:				
11	Plant in service	\$ 414,684,141	\$ 380,711,139	\$ 428,796,264	To represent balance at 11/30/2015
12	Plant in service - amortization	203,387	162,223	178,680	Balance at 11/30/2014 per Company Proposed Order
13	Reserved for Future Use	-			
14	Business Transformation SOP 98-1 costs	247,680			Per settlement, excluded
15	Deferred depreciation	1,885,916		1,627,561	Balance at 11/30/2014 per Company Proposed Order
16	Post-in-service AFUDC	2,787,376		2,636,770	Balance at 11/30/2014 per Company Proposed Order
17	Total Accumulated Depreciation:	\$ 419,808,499	\$ 380,873,362	\$ 433,239,275	
18					
19	Net Utility Plant:	\$ 1,018,746,337	\$ 1,001,755,365	\$ 999,348,258	
20					
21	Deduct:				
22	Contributions in aid of construction	\$ 120,514,976	\$ 121,350,594	\$ 121,566,031	To represent balance at 11/30/2015
23	Customer advances for construction	63,669,343	54,813,756	66,078,485	To represent balance at 11/30/2015
24	Capacity Adjustment - Somerset	186,065	206,175	198,769	Per Settlement
25	Total Deductions:	\$ 184,370,384	\$ 176,370,525	\$ 187,843,285	
26					
27	Add:				
28	Acquisition Adjustment (net)	\$ 171,752	\$ 253,252	\$ 206,681	Balance at 11/30/2014 per Company Proposed Order
29	Prepaid Pension Asset	5,833,015	-		Per Settlement, reflected in Capital Structure
30	Reserved for future use	-			
31	Materials and supplies	1,363,118	1,569,924	1,339,974	Per Settlement
32	Total Additions:	\$ 7,367,885	\$ 1,823,176	\$ 1,546,655	
33					
34					
35	Original Cost Rate Base - Total Company:	\$ 841,743,838	\$ 827,208,016	\$ 813,051,628	
36					

Indiana American Water Company
Cause No 44450
Cost of Capital

Settlement Appendix B3

Line #	Class of Capital	A	B	C	D = B x C	Settlement Note
		Settlement Amount	Settlement Ratio	Settlement Cost	Settlement Weighted Average Cost of Capital (WACC)	
1						
2	Long Term Debt	\$ 354,987,636	41.80%	6.08%	2.541%	OUCC Proposed Order (= 11/30/2014 per Company Proposed Order)
3	Equity	352,922,680	41.55%	9.75%	4.052%	Column A (Settlement Amount) is per OUCC Proposed Order and 11/30/2014 per Company Proposed Order. Column C (Settlement Cost) is for settlement purposes.
4	Deferred Tax	143,650,219	16.91%	0.00%	0.000%	OUCC Proposed Order (= 11/30/2014 per Company Proposed Order)
5	Accum Dep Muncie Sewer	72,694	0.01%	0.00%	0.000%	Per OUCC Proposed Order
6	Prepaid Pension	(5,541,209)	-0.65%	0.00%	0.000%	Per OUCC Proposed Order (=11/30/2014 Rate Base Value per Company Proposed Order)
7	Post Retire Benefit	2,579,644	0.30%	0.00%	0.000%	Per OUCC and INAWC Proposed Orders
8	Deferred ITC 1971 Pre	12,033	0.00%	0.00%	0.000%	OUCC Proposed Order (= 11/30/2014 per Company Proposed Order)
9	JDITC - Post 1970	618,706	0.07%	7.34%	0.005%	Per OUCC Proposed Order
10	Sum	\$ 849,302,403			6.598%	

Indiana American Water Company
Cause No 44450
Gross Revenue Conversion Factor & Proposed Rates Adjustments

Settlement Appendix B34

Line #	Item	Gross Revenue Conversion Factor			Proposed Rates Adjustment		
		A	B	C	D	E	F
		Rate	Conversion Factor Calculation	Columns A & B Conversion Factor Notes	Percent of Total Conversion Factor	Proposed Rate Adjustment	Propose Rate Note
1	Gross Revenue Change		100.0000%			\$ 2,092,900	Total Gross Up = Appendix B1 Line 18 - Appendix B1 Line 15
2	Bad Debt / Uncollectible	0.8459%	0.8459%	Per OUCC Proposed Order = Company Proposed Order	2.070017%	\$ 43,323	Column E, Line 1 x Column D, current line
3			99.1541%				
4							
5	IURC Fee	0.1329888%	0.1319%	Per OUCC Proposed Order = Company Proposed Order	0.322775%	\$ 6,755	Column E, Line 1 x Column D, current line
6			99.0222%				
7							
8	State Income Tax	6.79%	6.7236%	Per OUCC Proposed Order = Company Proposed Order	16.453441%	\$ 344,354	Column E, Line 1 x Column D, current line
9	Utilities Receipt Tax	1.40%	1.3207%	To tie settlement figure of 1.691029 GRCF, a Utilities Receipts Tax applicability percent of 95.27% was assumed.	3.231908%	\$ 67,641	Column E, Line 1 x Column D, current line
10			90.9779%				
11							
12	Federal Income Tax	35%	31.842%	Per OUCC Proposed Order = Company Proposed Order	77.921859%	\$ 1,630,827	Column E, Line 1 x Column D, current line
13	Net Income		59.1356%			\$ -	Operating Income Generated from Gross Up (Line 1 minus sum of lines 2 through 12)
14							
15	Gross Revenue Conversion Factor		169.1029%	Per Settlement			
16							

**STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF INDIANA-AMERICAN)
WATER COMPANY, INC. FOR (1))
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR WATER AND)
SEWER UTILITY SERVICE, (2))
APPROVAL OF NEW SCHEDULES OF)
RATES AND CHARGES APPLICABLE)
THERE TO, (3) AUTHORITY TO)
ESTABLISH AND IMPLEMENT SYSTEM)
DEVELOPMENT CHARGES, (4))
AUTHORITY TO ESTABLISH AND)
IMPLEMENT CERTAIN CONNECTION)
FEES AND POLICIES AND NEW RULES)
AND REGULATIONS APPLICABLE)
THERE TO, AND (5) AUTHORITY TO)
IMPLEMENT A REVENUE STABILITY)
MECHANISM)**

FILED
December 08, 2014
INDIANA UTILITY
REGULATORY COMMISSION

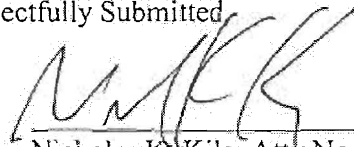
CAUSE NO. 44450

**SUBMISSION OF COMPREHENSIVE SETTLEMENT AGREEMENT AND
SETTLEMENT TESTIMONY**

Petitioner Indiana-American Water Company, Inc. ("Indiana American" or the "Company"), by counsel, respectfully submits (1) the attached Stipulation and Settlement Agreement among the Company, the Indiana Office of Utility Consumer Counselor, the Indiana American Industrial Group, the City of Crown Point, the Town of Schererville, Town of Chesterton, City of Winchester, City of West Lafayette, City of Gary, and Sullivan-Vigo Rural Water Corporation (the "Comprehensive Settlement Agreement") and (2) Verified Settlement Testimony of Gary M. VerDouw in support of the Comprehensive Settlement Agreement.

Respectfully Submitted

By:



Nicholas K. Kile, Atty No. 15203-53

Hillary J. Close, Atty No. 25104-49

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Attorneys for Petitioner

Indiana-American Water Company, Inc.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served this 8th day of December, 2014, by electronic transmission to the following:

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Scott Franson, Deputy Consumer Counselor
Tiffany Murray, Deputy Consumer Counselor
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City of Gary
City of West Lafayette
Town of Chesterton
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Nicholas K. Kile

**STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF INDIANA-AMERICAN)
WATER COMPANY, INC. FOR (1))
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MECHANISM)**

CAUSE NO. 44450

STIPULATION AND SETTLEMENT AGREEMENT

Indiana-American Water Company, Inc. ("Indiana American" or "Petitioner"), the Indiana Office of Utility Consumer Counselor ("OUCC"), the Indiana American Industrial Group ("Industrial Group"), City of Crown Point ("Crown Point"), Town of Schererville, Town of Chesterton, City of Winchester, City of West Lafayette, City of Gary, and Sullivan-Vigo Rural Water Corporation¹ (collectively, the "Settling Parties"), by their respective counsel, respectfully request the Indiana Utility Regulatory Commission ("Commission") to approve this Stipulation and Settlement Agreement ("Stipulation"). The Settling Parties agree that the terms and conditions set forth below represent a fair and reasonable resolution of the issues described herein, subject to incorporation into a final order of the Commission in substantially the form attached hereto as Attachment I, which approves this Stipulation without any modification or condition that is not acceptable to the Settling Parties.

¹ Schererville, Chesterton, Winchester, West Lafayette, Gary and Sullivan-Vigo Rural Water Corporation are referred to herein collectively as the "Intervenors Schererville et al."

In this proceeding, this Stipulation follows the evidentiary hearing on the parties' prefiled testimony and exhibits as well as post-hearing briefs and proposed orders and the filing of a Stipulation and Settlement Agreement between the Company and the OUCC with respect to the revenue requirements, cost of capital, rate base and certain other matters (referred to herein as the "November 18, 2014 Settlement Agreement"). Those filings have framed the discussions among the Settling Parties, and formed the basis for the Settling Parties to reach agreement on the terms reflected in this Stipulation. A basic component of each party's willingness to enter this agreement is the overall result that is achieved hereby. The Settling Parties have agreed to concessions on individual issues to which the Settling Parties would not be willing to agree but for the overall result produced by this Stipulation and Settlement Agreement. In other words, each party is agreeing to forego or compromise on positions on individual issues in exchange for the overall result produced collectively by all of the concessions. As set forth in Appendices C and D, the parties have negotiated terms that resolve all issues in this proceeding. The agreed upon allocations and rate design are within the ranges of the potential cost-of-service allocation determinations the Commission could make based upon the evidence of record in this Cause. The Settling Parties have agreed that Indiana American will, and the other Settling Parties may, file Settlement Testimony in support of this Stipulation.

All issues not specifically addressed in the enumerated paragraphs below are as reflected in Appendices C and D attached hereto and incorporated herein by reference.

The Settling Parties stipulate and agree as follows:

1. **November 18, 2014 Settlement Agreement.**

The Settling Parties accept the resolution of the revenue requirements, cost of capital, rate base and other matters set forth in the November 18, 2014 Settlement Agreement for purposes of

compromise and settlement and agree that the terms of the November 18, 2014 Settlement Agreement are hereby incorporated by reference in this Stipulation as though fully stated herein, *except* the first statement in Paragraph 7 indicating that rate design and class cost of service study issues will be left for determination by the Commission. The Settling Parties intend for this Stipulation to be a comprehensive settlement of all issues in the case.

2. Allocation of Rate Increase Among Customer Classes and Rate Design.

The agreed allocation of the rate increase provided under the November 18, 2014 Settlement Agreement is set forth in Appendix C. The Settling Parties agree that the Commission should proceed to approve the rate design set forth in Appendix C, which accomplishes the agreed allocation. The approximate results of the agreed rate design are: a 1.2% increase for residential customers, 1.22% for commercial customers, 3.4% for the industrial class as a whole, 3.5% for Sale-for-Resale customers and 13.93% for public fire protection. The agreed rate design includes changes to the 2" meter charge for General Service so that the allocation among commercial and industrial customers is as agreed. The proposed rate design also includes a return to declining rate block structure for large Sale-for-Resale customers, who, up until two cases ago, were subject to declining block rates. Given the efforts to gradualize impacts on Sale-for-Resale and Industrial Group customers, the Settling Parties agree that in light of the proposed and agreed upon rate design and allocation among customer classes, the various cost of service study and allocation disputes raised in this case are moot, and do not need to be resolved at this time. .

The rates set forth in the attached Appendix C are the rates that would be effective after the filing of the November 30, 2015 certification described in the November 18, 2014 Settlement Agreement ("Phase II Rates"), and approval by the Commission. The rates set forth in the attached Appendix D are the rates that will go into effect upon approval of the Petitioner's request of

implementation of interim rates (“Interim Rates”). The Interim Rates shall remain in effect from the date of approval by the Commission until such time as the terms of this Stipulation are approved and a new schedule of rates and charges is approved by the Commission to reflect the Petitioner’s approved revenue requirement as of November 30, 2014 (“Phase I Rates”) based on the Petitioner’s utility plant in service as of that date and the other terms of the November 18, 2014 Settlement Agreement and this Stipulation.

The Settling Parties agree that the Phase I rates shall be based on the agreed upon rate design developed to implement the Phase II rates, adjusted on an across the board basis by rate component to reflect the difference between the Phase I and Phase II revenue requirements and the inclusion of any DSIC charge in base rates with the approval of the Phase I rate, which resets the existing DSIC to zero.

The Settling Parties agree that the existing DSIC will remain in place until a final order is issued in this Cause, approving the Stipulation and November 18, 2014 Settlement Agreement, at which time it will be reset to zero.

3. Capacity Factor Study.

There was dispute over the capacity factor study presented in this case using load research data. The Industrial Group contended that the study should include multiple years of data, which was unavailable for purposes of this case. Given the cost in both time and money of conducting a study using load research over multiple years, the Company agrees in its next case to present a capacity factor study using the process for determining noncoincident peaking factors as outlined in Appendix A to Principles of Water Rates, Fees, and Charges (AWWA Manual M1), 6th Edition, and using multiple years of billing and system demand data. To the extent actual billing and system demand data is available, the Company will use actual data in accordance with Appendix A to the AWWA Manual M1. To the extent actual billing and system demand data is unavailable (e.g., system maximum hour demand), the

Company will use engineering judgment and experience to estimate based upon the data that is available. The overall rate design set forth in this Stipulation is a compromise among the divergent positions taken by the parties on the capacity factor study. Because of the passage of time between this case and the earliest next case and the disagreement over the results of the study presented in this case, the Company agrees not to use the capacity factor study from this case in the next rate case. The Settling Parties agree that the Company may defer reasonable and prudent expenses incurred to conduct the capacity factor study required by this paragraph in an amount not to exceed \$250,000.00 for recovery in the Company's next general rate case. The Settling Parties agreement as to the deferral of such costs does not constitute agreement that the actual costs incurred by Indiana American are reasonable and prudent, and the Settling Parties reserve all rights to challenge, in good faith, the expenses incurred, and the proposed mechanism of recovery, at the time Indiana American seeks recovery of the expenses related to the study.

4. Collaboration.

For purposes of settlement, the Company agrees to arrange a meeting with the OUCC and other interested intervenors prior to July 31, 2015 to explain its prioritization model which is used to select distribution and other system improvements. This meeting will be in similar format to the meeting that was previously conducted with the OUCC. To the extent it wishes to participate, the Commission Staff will also be invited to attend. At this meeting, the Company will demonstrate its prioritization model, provide detailed examples of how various projects are prioritized thereunder, and will answer questions. To the extent there are follow-up questions from the meeting, the Company will work in good faith to answer the follow-up questions and respond to any suggestions for improvements.

To the extent there are any further questions over meter readings now or in the future, Crown Point and Schererville may contact the Company's Vice President of Operations directly to resolve these

questions. The Company will work informally and in good faith to resolve any concerns in meter reading accuracy and differences between customer and Company meter reads. To the extent the questions or concerns are not answered satisfactorily, Crown Point and Schererville retain all their lawful rights, including presenting any billing dispute to the Commission Consumer Affairs Division for resolution as an informal complaint pursuant to 170 IAC 1-1.1-5.

Within one hundred twenty (120) days of the Commission's Order approving this Stipulation, the Company will meet with Crown Point representatives and any other interested SFR customer representatives to discuss the appropriateness, feasibility and workings of alternative rate designs, a demand-commodity rate, other pricing suggestions and how Petitioner can better meet the customers' metering, billing and service interests.

Interested intervenors will be invited to attend the Company's meetings with the OUCC regarding utility benchmarking pursuant to the November 18, 2014 Settlement Agreement.

5. DSIC as a Fixed Charge.

Whether the Company's DSICs should henceforth be calculated as a fixed charge was presented and contested in this Cause. For purposes of settlement, the Settling Parties agree the status quo will be maintained and the issue will not be renewed for consideration by the Commission before the Company's next general rate case. The Settling Parties agree that if the Company or any other party proposes in its next general rate case that the DSIC should be calculated as a fixed charge, no party will argue that such an issue exceeds the scope of a general rate case. Until such time, as the Commission issues an order approving a change in the Company's next general rate case, the Settling Parties agree that the DSIC shall continue to be allocated and recovered in the same manner as it is currently allocated and recovered.

6. DSIC Filing.

The Company commits that it will not file any DSIC or other rate tracker prior to January 1, 2016.

7. Stipulation Effect, Scope and Approval.

The Stipulation is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without any change or condition that is unacceptable to any Settling Party. Each term of the Stipulation is in consideration and support of each and every other term. If the Commission does not approve the Stipulation in its entirety or if the Commission makes modifications that are unacceptable to any Settling Party, the Stipulation shall be null and void and shall be deemed withdrawn upon notice in writing by any party within 15 days after the date of the final order stating that a modification made by the Commission is unacceptable to the Settling Party.

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

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

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

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

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

(signature page follows)

ACCEPTED and AGREED this 8th day of December 2014.

Indiana-American Water Company, Inc.

By: Alan J. DeBoy
Alan J. DeBoy, President
555 East County Line Road
Suite 201
Greenwood, Indiana 46143

Indiana Office of Utility Consumer Counselor

By: _____
Scott Franson, # 27839-49
Deputy Consumer Counselor
115 West Washington Street
Suite 1500 South
Indianapolis, Indiana 46204

Indiana-American Water Company, Inc.
Industrial Group

Town of Schererville
City of Winchester
City of Gary
City of West Lafayette
Town of Chesterton
Sullivan-Vigo Rural Water Company

By: _____
Joseph P. Rompala, #
Lewis & Kappes
One American Square, Suite 2500
Indianapolis, IN 46282

By: _____
L. Parvin Price, #
Bose McKinney Evans LLP
111 Monument Circle, Suite 2700
Indianapolis, IN 46204

City of Crown Point

By: _____
Robert M. Glennon, #
Robert Glennon & Assoc., P.C.
3697 N. Co. Rd. 500 E.
Danville, Indiana 46122

ACCEPTED and AGREED this 8th day of December 2014.

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By: _____

Alan J. DeBoy, President
555 East County Line Road
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ACCEPTED and AGREED this 8th day of December 2014.

Indiana-American Water Company, Inc.

Indiana Office of Utility Consumer Counselor

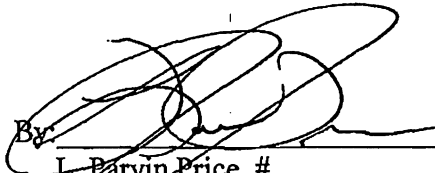
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By: _____
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Indiana-American Water Company, Inc.
Industrial Group

Town of Schererville
City of Winchester
City of Gary
City of West Lafayette
Town of Chesterton
Sullivan-Vigo Rural Water Company

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By:  _____
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City of Crown Point

By: _____
Robert M. Glennon, #
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3697 N. Co. Rd. 500 E.
Danville, Indiana 46122

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN)	
WATER COMPANY, INC. FOR (1))	
AUTHORITY TO INCREASE ITS RATES)	
AND CHARGES FOR WATER AND)	
SEWER UTILITY SERVICE, (2))	
APPROVAL OF NEW SCHEDULES OF)	
RATES AND CHARGES APPLICABLE)	
THERE TO, (3) AUTHORITY TO)	CAUSE NO. 44450
ESTABLISH AND IMPLEMENT SYSTEM)	
DEVELOPMENT CHARGES, (4))	
AUTHORITY TO ESTABLISH AND)	
IMPLEMENT CERTAIN CONNECTION)	
FEES AND POLICIES AND NEW RULES)	
AND REGULATIONS APPLICABLE)	
THERE TO, AND (5) AUTHORITY TO)	
IMPLEMENT A REVENUE STABILITY)	
MECHANISM)	

ORDER OF THE COMMISSION

Presiding Officers:

Carol Stephan, Chairperson

Carolene Mays-Medley, Vice Chairperson

Jeffrey A. Earl, Administrative Law Judge

On January 24, 2014, Indiana-American Water Company, Inc. ("Petitioner," "Indiana American" or "Company") filed its *Petition and Notice of Intent to File in Accordance with Minimum Standard Filing Requirements* ("Petition") with the Indiana Utility Regulatory Commission ("Commission"), seeking authority to increase its rates and charges for water and sewer utility service and for approval of new schedules of rates and charges applicable thereto.

Petitions to intervene in this Cause were filed on January 31, 2014, by the City of Crown Point ("Crown Point"); on February 19, 2014 by the Town of Schererville; on February 20, 2014 by Sullivan-Vigo Rural Water Corporation; on February 28, 2014 by a group of industrial customers of Indiana American ("Industrial Group"); on April 2, 2014 by the City of West

Lafayette, the City of Gary and the City of Winchester and by Ramsey Water Company, Inc.; and on April 22, 2014 by the Town of Chesterton. The Commission issued Docket Entries granting each of said petitions to intervene; thus, all the entities requesting intervention were made parties to this Cause. Throughout this Order, the Towns of Schererville and Chesterton, the Cities of West Lafayette, Gary and Winchester, and Sullivan-Vigo Rural Water Corporation will be referred to collectively as the “Intervenors Schererville et al.”

On February 18, 2014, the Indiana Office of Utility Consumer Counselor (“OUCC” or “Public”) filed a Motion to Strike Petitioner’s Proposed Rate Base Cutoff (“Rate Base Motion”) and a Motion to Strike Petitioner’s Revenue Stability Mechanism (“RSM Motion”). On February 28, 2014, Petitioner filed its response to the OUCC’s Motions. The OUCC and Crown Point filed replies on March 7, 2014.

As provided for in 170 IAC 1-1.1-15, the Commission held a Prehearing Conference at 1:00 p.m. on February 20, 2014, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. Notice of the Prehearing Conference was given and published as required by law. Proofs of publication of the notice have been incorporated into the record and placed in the official files of the Commission. Petitioner, the OUCC, the Town of Schererville, and Crown Point appeared and participated at the Prehearing Conference. No members of the general public appeared or sought to participate. Oral arguments were heard on the OUCC’s Rate Base Motion and RSM Motion, with the opportunity for written response preserved as noted above.

The procedural, scheduling and other matters determined at the Prehearing Conference were memorialized in the Commission’s Prehearing Conference Order approved and issued on March 19, 2014.

With respect to the Rate Base Motion, in the Prehearing Conference Order, the Commission denied the OUCC's Motion as moot and concluded that the rate base for this Cause shall be the actual and projected used and useful property as of November 30, 2015. Because Petitioner's rates will be based on a projected rate base that is not yet in service, the Prehearing Conference Order allowed Petitioner the opportunity to file supplemental evidence on a mechanism to change at one or more intervals during the test period to account for completed projects up to that interval. Petitioner filed Supplemental Testimony of Gary M. VerDouw on April 17, 2014. The OUCC and other intervening parties responded to Mr. VerDouw's Supplemental Testimony on May 12, 2014. Petitioner filed its rebuttal to the OUCC's and intervenors' supplemental testimony on June 9, 2014.

The Prehearing Conference Order also ordered the creation of a subdocket in which to consider Petitioner's requests for the following relief: (1) in the first phase, the proposed system development charges, connection fees, and policies discussed in Paragraph 9 of the Petition, and (2) in the second phase, the proposed revenue stability mechanism discussed in Paragraph 11 of the Petition, and the reconsideration of the Commission's denial of a fair value increment with respect to the premiums paid to complete the acquisitions of Northwest Indiana Water Company, United Water of Indiana, Inc., and United Water West Lafayette, Inc. (the "Northwest and United Fair Value Increments"). In so doing, the Commission determined that the creation of the subdocket rendered the OUCC's RSM Motion moot and therefore that Motion was denied.

Pursuant to Ind. Code § 8-1-2-61(b), a public field hearing was conducted on April 10, 2014, in the City of Gary, which is the largest municipality in Petitioner's service area. During this public field hearing, members of the public provided oral and/or written testimony in this

Cause. On April 8, 2014 a field hearing was also conducted in Franklin, at which time no members of the public provided oral and/or written testimony in this Cause.

Pursuant to notice published as required by law, a public Evidentiary Hearing commenced on June 23, 2014, at 9:30 A.M., EDT, in Judicial Courtroom 222 of the PNC Center, Indianapolis, Indiana. Proofs of publication of the notice of such hearing were incorporated into the record of this proceeding by reference. During the Evidentiary Hearing conducted on June 23 through June 26 and July 7, 2014, evidence constituting Indiana American's case-in-chief and rebuttal was offered and admitted into the record and its witnesses were offered for cross-examination. In addition, evidence constituting the respective cases-in-chief of the Public and the intervening parties was offered and admitted into the record and their witnesses were offered for cross-examination. In addition, we received into evidence Petitioner's responses to various Commission Docket Entry Questions and Commission questions asked during the hearing.

The Commission took administrative notice of its following Orders: *Indiana-American Water Co.*, Cause No. 44230 (IURC 12/19/2012) (the Cause No. 44230 Order); *Indiana-American Water Co.*, Cause No. 44059 (IURC 12/19/2012) (the Cause No. 44059 Order); *Indiana-American Water Co.*, Cause No. 44022 (IURC 6/6/2012) (the 2012 Rate Order); *Indiana-American Water Co.*, Cause No. 43680 (IURC 04/30/2010) (the 2010 Rate Order); *Indiana-American Water Co.*, Cause No. 43187 (IURC 10/10/2007) (the 2007 Rate Order); *Indiana-American Water Co.*, Cause No. 42520 (IURC 11/18/2004) (the 2004 Rate Order); *Indiana-American Water Co.*, Cause No. 42029 (IURC 11/6/2002) (the 2002 Rate Order); *Indiana-American Water Co.*, Cause No. 40703 (IURC 12/11/1997) (the 1997 Rate Order); and *Indiana-American Water Co.*, Cause No. 40103 (IURC 5/30/1996) (the 1996 Rate Order). At the Prehearing Conference, the Commission took administrative notice of its General Administrative

Order issued July 3, 2013 (“GAO 2013-5”). At the Evidentiary Hearing, the Commission also took administrative notice of (1) its Order dated December 27, 2012 in Cause No. 42351 DSIC 7, and (2) the Direct Testimony of Gary A. Naumick from Cause No. 44022.

On July 25, 2014, Petitioner filed its proposed order and brief in support thereof. The OUCC and intervenors, except for Ramsey Water Company, Inc., filed their respective proposed orders and exceptions to Petitioner’s proposed order, as well as briefs in support thereof, on August 19, 2014. On August 29, 2014, the Petitioner filed its reply and the intervenors, except for Ramsey Water Company, Inc., filed cross-answering responses.

On October 29, 2014, Petitioner filed a Notice of Partial Settlement and Request for Attorneys Conference for purposes of establishing a procedural schedule to receive a settlement reached between Petitioner and the OUCC with respect to revenue requirements, cost of capital, rate base and other matters. On November 18, 2014, Petitioner filed the Stipulation and Settlement Agreement entered with the OUCC (the “November 18, 2014 Settlement”) along with supporting testimony of Alan J. DeBoy. On November 21, 2014, the OUCC filed its testimony of Charles E. Patrick in support of the November 18, 2014 Settlement. The November 18, 2014 Settlement did not include the other intervening parties to this Cause, nor did it resolve rate design and class cost of service study related issues.

At an Attorneys’ Conference held on November 21, 2014, the Presiding Officers indicated their preference that the interim rates be approved for implementation by order of the Commission after a hearing. As a result, to give effect to the Company’s and OUCC’s agreement under the November 18, 2014 Settlement with respect to implementation of interim rates at the

settled level effective January 1, 2015, the Commission scheduled a hearing for December 15, 2014 to consider implementation of the interim rates.

On December 8, 2014, Petitioner filed a Stipulation and Settlement Agreement (the “Comprehensive Settlement Agreement”) among Petitioner, the OUCC, the Industrial Group, City of Crown Point, Town of Schererville, Town of Chesterton, City of Winchester, City of West Lafayette, City of Gary, and Sullivan-Vigo Rural Water Corporation (collectively, the “Settling Parties”) with respect to all issues raised in this Cause. The November 18, 2014 Settlement and the Comprehensive Settlement Agreement are herein referred to collectively as the “Settlement.”

On December 15, 2014 a settlement hearing was held and the November 18, 2014 Settlement, the Comprehensive Settlement Agreement and supporting testimony were admitted into the record in this Cause.

Having considered all of the evidence presented in this proceeding, based on the applicable law and being duly advised in the premises, the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal and timely notice of the Petition filed in this Cause was given and published by Petitioner as required by law. Proper and timely 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 sewer service. Due, legal and timely notices of the Prehearing Conference and the other public hearings in this Cause were given and published as required by law. Petitioner is a “public utility” within the meaning of that term in Ind. Code § 8-1-2-1(a)(2) and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. Accordingly, this Commission has jurisdiction over

Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Petitioner is a public utility corporation organized under the laws of the State of Indiana and is engaged in the provision of water utility service to the public in and around numerous communities and counties throughout the State of Indiana. Petitioner also provides sewer utility service in Wabash and Delaware Counties. Petitioner has charter power and authority to engage in the business of providing such water and sewer utility service. Petitioner renders such water and sewer utility service by means of utility plant, property, equipment and related facilities owned, leased, operated, managed and controlled by it which are used and useful for the convenience of the public in the production, treatment, transmission, distribution and sale of water for residential, commercial, industrial, public authority, and sale for resale purposes, for the provision of public and private fire service, and for the provision of sewer service.

3. **Existing Rates.** Petitioner's existing basic rates and charges for water and wastewater utility service were established pursuant to the 2012 Rate Order. Since the conclusion of the 2012 Rate Order, a Distribution System Improvement Charge ("DSIC") was authorized in Cause Nos. 42351 DSIC 7 and 42351 DSIC 8, issued December 27, 2012 and December 18, 2013, respectively.

4. **Test Year.** As authorized by Ind. Code § 8-1-2-42.7(d)(1) ("Section 42.7"), Petitioner proposed a forward-looking test period using projected data. As provided in the Prehearing Conference Order, the test year to be used for determining Petitioner's projected operating revenues, expenses and operating income shall be the 12-month period ending November 30, 2015. The Prehearing Conference Order authorized Petitioner's proposal to use

the 12-month period ending September 30, 2013 as the historical base period.

5. **Settlement.** Petitioner originally proposed that its rates be increased so as to produce additional revenues of \$19,645,449, or a 9.84% increase. In its proposed order, Petitioner modified its request to increase its rates and charges to produce additional operating revenue of up to \$17,318,518 (of which \$106,559 is pro forma additional late fee revenue), or an 8.62% increase in water/sewer revenues, resulting in total annual operating revenue of \$217,054,548, based on rate base as of November 30, 2015. The OUCC proposed a rate decrease to reduce operating revenues by \$6,842,100 or a 3.33% decrease, resulting in total annual operating revenue of \$198,884,862 based on Petitioner's rate base as of November 30, 2014.

Pursuant to the November 18, 2014 Settlement, which is incorporated by reference into the Comprehensive Settlement Agreement, the Settling Parties agreed Petitioner shall be authorized to increase its basic rates and charges for water and sewer utility service in two steps, designed to produce total annual operating revenues of \$205,897,284, subject to certification of utility plant in service and rate base as of the end of the test year (November 30, 2015). The increase provides for additional annual revenues of \$5,121,575. The increase is calculated to produce total net operating income of \$54,192,581, which the parties stipulate is a fair return on the fair value of Petitioner's rate base for purposes of this case. The calculation is set forth in Appendix B to the November 18, 2014 Settlement. Based on additional revenues of \$5,121,575, the overall increase over total operating revenues is 2.55% and the overall increase in revenues subject to increase is 2.59%. The agreed upon increase is to take effect in two steps: one based upon utility plant in service and other components of rate base at the beginning of the test year and the final step to take effect following submission of the actual utility plant in service and

other components of rate base at the end of the test year. The agreed upon increases are from the Company's current authorized revenue, and are subject to adjustment based on any over/under recovery from the interim rates the Petitioner has been authorized to implement, and in accordance with the update and certification process agreed to by the parties.

The agreed overall rate increase is based upon the following items. Detailed schedules showing calculation of each of the Settlement positions are contained in the appendices to the November 18, 2014 Settlement.

A. Residential Revenues. In its case-in-chief, Petitioner proposed test year residential revenues of \$96,764,248. The OUCC disagreed with Petitioner's customer growth and declining usage calculations and ultimately projected residential water revenue for the test year of \$104,036,705 exclusive of DSIC revenues. The Industrial Group also disagreed with Petitioner's projected residential usage and residential revenue calculations, projecting test year residential water revenues of \$104,565,033. For purposes of Settlement, the Settling Parties have agreed to test year residential revenues of \$96,775,000 exclusive of DSIC revenues. The Settling Parties acknowledge in the Settlement that the agreed level of residential revenues is a result of compromise and not the election of a specific calculation methodology or percentage of declining usage.

B. Cost of Equity. Petitioner initially proposed a cost of common equity of 10.8%, which it then updated on rebuttal to 11.05% to reflect changes in market conditions. The OUCC's proposed cost of equity was 8.6%; the Industrial Group proposed 9.25%; the "Intervenors Schererville et al." and Crown Point both proposed 9.0%. As part of the Settlement, the Settling Parties agreed to a cost of common equity of 9.75%.

C. Rate Base. In its case-in-chief, Petitioner proposed the use of a 13-month average for its forward-looking test year rate base. As noted, on February 18, 2014, the OUCC filed a Motion to Strike Petitioner's Proposed Rate Base Cutoff, and Crown Point later joined in that Motion. In the Prehearing Conference Order, the Commission denied the OUCC's Motion as moot and concluded that the rate base for this Cause shall be the actual and projected used and useful property as of November 30, 2015. In its proposed order, Petitioner presented a projected net original cost rate base as of November 30, 2015 of \$850,389,205.

The OUCC proposed in its proposed order findings that Petitioner's rate base consist of all of Petitioner's capital investments through March 31, 2014, including all projects specifically identified in Petitioner's case-in-chief to be completed by November 30, 2014, resulting in an original cost rate base of \$827,208,016.

Other than the rate base cutoff, the OUCC differed from Petitioner in that the OUCC proposed to exclude from rate base the deferred costs of Business Transformation ("BT") granted in Cause No. 44059, the costs of the Warsaw Hidden Lake Treatment Plant Comprehensive Planning Study ("CPS"), Construction Work in Progress ("CWIP"), and Petitioner's prepaid pension asset. For the former two, the OUCC did not contend that the amounts spent were imprudent and nonrecoverable; rather the OUCC maintained that those costs cannot properly be the basis of a return on rate base but rather should be amortized and recovered over a period of time. The Industrial Group initially proposed to disallow the cost of internal labor associated with BT and objected to recovery of certain cost overruns on the basis of a lack of evidence. In its proposed order, the Industrial Group withdrew its proposed disallowance for internal labor based on evidence subsequently entered into the record, but maintained its objection to Petitioner's recovery of its allocated share of BT cost overruns, in the

amount of \$5.8825 Million. Petitioner's projected net original cost rate base provided above reflected Petitioner's acceptance on rebuttal of the OUCC's proposed adjustments to rate base to remove Account 101100 "Reg Asset AFUDC Debt," reduce utility plant in service by \$85,869 related to the acquisition of the New Whiteland system, and reduce utility plant in service by \$600,000 (as well as associated accumulated depreciation) related to the Petitioner's investment in the Northwest Tunnel easement.

Pursuant to the Settlement, subject to the certification process described below, the Settling Parties agreed that Petitioner's rate base shall be based on all utility plant in service as of November 30, 2014, including any recurring investments in investment categories but excluding (1) those costs associated with its Business Transformation program that would otherwise be recorded as expense pursuant to what is commonly known as SOP 98-01 ("BT SOP 98-01 costs"), (2) Comprehensive Planning Studies, (3) Construction Work in Progress, and (4) Prepaid Pension Asset payments.¹ The Settling Parties agreed Petitioner's rate base will include an update for actual accumulated depreciation through November 30, 2014 as well as other components of rate base including contributions in aid of construction ("CIAC"), customer advances, post-in-service allowance for funds used during construction ("AFUDC"), deferred depreciation and Materials & Supplies.

D. Rate Base Certification and Update Mechanism.

In the Prehearing Conference Order we found the rate base cutoff should be November 30, 2015, more commonly known as a terminal rate base, or a rate base cutoff coinciding with the end of the future test year. Our Prehearing Conference Order also found the used and useful

¹ The Prepaid Pension Asset is to be reflected in the capital structure as an offset to zero-cost capital.

standard set forth in Ind. Code § 8-1-2-6 requires that rates charged at any particular point in time will only reflect plant that is actually in service at that time. Given this determination, we directed the parties to present evidence concerning how they would propose to implement rate changes as plant is placed in service.

In response to the Commission's Prehearing Conference Order, Petitioner proposed to change rates quarterly beginning with rates as of the date of this Order based upon projected rate base as of November 30, 2014 and quarterly submissions within 25 days of February 28, 2015, May 31, 2015, August 31, 2015 and November 30, 2015. Petitioner's proposal was that the order in this Cause would reflect projected rate base at the start of the forecasted test-year, the 13-month average capital structure, and forecasted income statement revenue and expenses through November 30, 2015. On this third point, depreciation expense would reflect annualized depreciation expense on plant in service as of November 30, 2014. Each quarter following the Order the Company proposed to adjust two items: utility plant in service and the change in annualized depreciation expense. All other items would be as reflected in the final order. As of the first quarterly filing, all other rate base items, including accumulated depreciation, would be adjusted to reflect a 13-month average of those items. Throughout all stages, capital structure would reflect a 13-month average and the remaining income statement revenue and expenses would reflect the forecasted test-year ending November 30, 2015. VerDouw Supplemental Direct, p. 4.

The Company proposed to make each quarterly filing after the books and records of the Company were closed for the quarter, which would usually occur midmonth. After the closing of the books, the Company's approved rate base would be updated for the actual utility plant in service and depreciation expense calculated by multiplying the actual utility plant in service

balances by asset account by the appropriate deprecation rate for that category. In each of the post-order filings, the Company proposed to submit a revised revenue requirement calculation, updated plant in service by asset account, updated annualized depreciation expense, and updated tariffs in addition to a verification of the utility plant in service. Rates would be changed in an across-the-board fashion. VerDouw Supplemental Direct, pp. 5-6.

In response to Petitioner's proposed implementation mechanism, the OUCC proposed that accumulated depreciation should also be updated quarterly to match the rate base valuation and that contributions in aid of construction ("CIAC") would be based on the March 31, 2014 balances. Crown Point proposed that there only be two steps occurring six months apart. Crown Point also requested that the steps be used as an opportunity to check the revenue and expense result of projected test-year estimates and requested that information concerning actual revenues, actual expenses, and actual rate base be filed. The Industrial Group proposed that the implementation should reflect an offset for customer growth and that incremental rate base adjustments use a 13-month average roll-forward of plant additions and accumulated depreciation. The Industrial Group also recommended that the steps be implemented consistent with the cost of service study, dividing changes in revenue requirement that would fall into the category serving small customers, the categories serving all customers, and customer charges. The "Intervenors Schererville et al." proposed that the implementation be annual, at the conclusion of the test year.

Under the Settlement, the Settling Parties have agreed that prior to implementation of its rate increase, the Company will certify all utility plant in service added since March 31, 2014 as used and useful and shall state the actual value as of November 30, 2014 of all components of rate base including accumulated depreciation. The Company will include in its filing a schedule

that shows the actual utility plant in service by account. The Company will also provide an updated calculation of depreciation expense based upon the original cost of the utility plant in service and deferred depreciation as of November 30, 2014. The Settling Parties agreed that the parties to this Cause will have twenty-one (21) days to review and submit objections to the Company's test year commencement certification filing. If objections cannot be resolved informally, the parties may request a hearing from the Commission.

The Settling Parties further agreed that the Company will then have the opportunity to update its rate base and depreciation expense as of November 30, 2015. Updated rate base is to include all utility plant in service as of November 30, 2015, including updated actual accumulated depreciation and other components of rate base as of November 30, 2015. Depreciation expense is to be updated based upon the original cost of the utility plant in service and deferred depreciation as of November 30, 2015. The parties stipulated, however, that any update to rate base will not cause total rate base in this Cause to exceed \$813,051,628 (the "Rate Base Cap"). The parties further stipulated that the second step change in rates will be based on a cap to additions to Utility Plant in Service during the test year of \$44,884,714 (the "UPIS Cap").

The Settlement provides that the parties to this Cause will have thirty (30) days to review and submit objections to any update submission. If objections cannot be resolved informally, the parties may request a hearing from the Commission.

The Settlement makes clear that to the extent the Company's actual net original cost rate base as of November 30, 2015 exceeds the Rate Base Cap or the actual additions to Utility Plant In Service exceed the UPIS Cap, the Company is not foreclosed from including those additional investments in rate base in a future general rate case. The Settlement states the total forecasted

test year investment in improvements that might qualify for a distribution system improvement charge (DSIC) pursuant to IC 8-1-31 but for their inclusion in rate base in this Cause is \$13,800,000. Petitioner agrees that it may not apply for a DSIC for improvements placed in service before November 30, 2015 unless the Company shall have invested more than \$13,800,000 in distribution system improvements in the test year. Petitioner also agrees that it will not file an application for DSIC prior to January 1, 2016. Any application for DSIC including such additional improvements must identify the plant additions comprising the \$13,800,000 of test year distribution system additions as well as those plant additions for which DSIC recovery is sought.

E. Service Company Expense. Petitioner proposed forecasted *pro forma* Service Company expense of \$20,826,305, based on the Service Company budget, which is projected to remain flat compared to its 2013 budget. VerDouw Direct, p. 32. This is a reduction from the base year level of \$774,634. The OUCC disagreed with basing Petitioner's proposed Service Company expense on the Service Company's 2014 operating expense budget, rather than the 2015 operating expense budget. The OUCC proposed Service Company expense be composed of 11 months of the 2015 budget and 1 month of the 2014 budget to match the test year in this Cause, resulting in pro forma test year Service Company expense of \$17,979,148 after adjusting for the removal of the costs of the Service Company Business Development Department. Stull Direct, p. 56.

The Settlement provides the level of forecasted pro forma Service Company expense allocated to the Company for the test year is \$20,674,435, which equals the Company's proposed expense level, less Business Development expense.

F. Business Transformation. Indiana American sought to include its Business Transformation (“BT”) costs, which were the subject of settlements reached in Cause Nos. 44059 and 44230, in its rate base in this Cause. We took administrative notice of our Orders issued on December 19, 2012 in Cause Nos. 44059 and 44230 approving Stipulations and Settlement Agreements regarding the BT project. The Orders contain a full discussion of the scope of the project which will not be repeated here. In Cause No. 44059, we approved the following:

Petitioner shall be and hereby is authorized to defer for future recovery those costs associated with Business Transformation that would be recorded as expense pursuant to generally accepted accounting principles, SOP 98-01, estimated to be approximately \$6,800,000, which deferred costs should be amortized over ten (10) years.

Petitioner shall be and hereby is authorized to record all other costs associated with Business Transformation in Account No. 340300-Computer Software.

Cause No. 44059 Order, p. 10. In Cause No. 44230, we approved the following:

Petitioner is hereby authorized to continue the accrual and capitalization and to defer depreciation on the Business Transformation project after its in-service dates and until the issuance of a rate order including Business Transformation in Petitioner’s rates according to the terms described in the foregoing findings, to record such post-in-service AFUDC and deferred depreciation as a regulatory asset in Account 186, Miscellaneous Deferred Debits; to amortize such regulatory asset over the estimated remaining service life of the Business Transformation assets, such amortization commencing on the date of the first rate order including Business Transformation in Petitioner’s rates; to recover such amortization and to include the unamortized portion of the regulatory asset created herein in Petitioner’s rate base in rate cases; and to delay commencement of amortization of the costs deferred pursuant to the Settlement Agreement in Cause No. 44059 until the date of the first rate order including Business Transformation in Petitioner’s rates.

Cause No. 44230 Order, p. 7. The question of future recovery of a return of and return on the Business Transformation costs and associated post-in-service AFUDC was deferred until this case:

Recovery of these [SOP 98-01] costs should be allowed only to the extent such recovery is approved in a subsequent rate case. The question of recovery of a return on the amortized balance is reserved for a future rate case. . . . [W]hether Petitioner will be permitted a return on or of such costs [recorded in Account No. 340300-Computer Software] shall be reserved for a future rate case.

* * * *

Subject to the caveat that such authority [post-in-service AFUDC and deferred depreciation] is granted only to the extent that Business Transformation is ultimately approved in rate base (or, in the case of deferral of amortization of deferred expenses under Paragraph 4 of this Stipulation, recovered through amortization) by the Commission, the OUCC and the Industrial Group will not oppose Petitioner's grant of [such] approval.

Cause No. 44059 Stipulation and Settlement Agreement, pp. 3-4.

The OUCC did not oppose recovery of the deferred SOP 98-01 costs and did not oppose the inclusion in rate base of the balance of the costs of BT, nor did they contest the prudence of the investment in BT. As noted above, the OUCC did oppose, however, the inclusion in rate base of the unamortized deferred SOP 98-01 costs and the inclusion of post-in-service AFUDC associated with SOP 98-01 costs. Instead the OUCC proposed these deferred costs be amortized over 10 years and the associated post-in-service AFUDC be disallowed. The Industrial Group initially proposed disallowance for internal labor, and later withdrew that proposal upon the presentation of additional evidence, but maintained its objection to the Petitioner's recovery of its allocated share of BT cost overruns, in the amount of \$5.8825 Million.

For purposes of the Settlement, the Settling Parties agreed that all BT related assets (including plant in service, deferred depreciation, post-in-service AFUDC, the BT Comprehensive Planning Study and BT SOP 98-01) are to be depreciated or amortized, as the case may be, over thirteen years. As Mr. DeBoy noted in his settlement testimony, this is a change from the 10-year depreciation rate for BT assets approved in Indiana American's last rate case (Cause No. 44022) and the 10-year amortization rate for BT SOP 98-01 assets approved in the preapproval case (Cause No. 44059).

G. Comprehensive Planning Studies. The OUCC had recommended removal of \$92,195 from rate base in this Cause related to the Warsaw comprehensive planning study ("CPS") a portion of which Petitioner has included as part of the costs incurred and capitalized in connection with the Warsaw Hidden Lake Water Treatment Facility. The OUCC proposed instead that the CPS costs for Warsaw be amortized over 15 years. As part of the Settlement, the Petitioner agreed to remove the Warsaw CPS costs from rate base, but the Settling Parties agreed to amortize the costs related thereto over fifty (50) years. As noted above, the Settling Parties agreed to amortize the BT CPS costs over thirteen (13) years.

H. Regulatory Expense. Although there was no opposition filed to the Company's proposed Rate Case Expense, for purposes of the Settlement, the Settling Parties have agreed to amortize Rate Case Expense over four (4) years.

I. Atrazine. In its case-in-chief, Petitioner proposed a 50/50 split between customers and shareholders of the proceeds of settlement of a class action suit related to atrazine run off (*City of Greenville v. Syngenta*) in the amount of \$948,000. Petitioner also proposed to amortize the customers' share of the settlement amount (\$474,000) over a period of five years,

resulting in an annual amortization amount of \$94,840. Mr. VerDouw testified that amount would be included in amortization expense as an offset to the expense for carbon that was used to treat the atrazine runoff. VerDouw Direct, pp. 35-36. The OUCC opposed Petitioner's proposed split of the atrazine settlement proceeds, advocating that the entire amount of the proceeds be allocated to the benefit of the customers and amortized over three years instead of five. Patrick Direct, p. 36. The "Intervenors Schererville et al." also opposed Petitioner's proposed split of the proceeds of the atrazine settlement and recommended that if Petitioner's proposal to split the funds between shareholder and customers is accepted, then half of the cost of litigation and half of the prior cleanup costs should be carried by Petitioner as well. Sommer Direct, p. 18. Crown Point also opposed Petitioner's proposed sharing of the Atrazine settlement proceeds and recommended that the full amount be used to offset 2014 and 2015 expenses by amortizing the settlement proceeds over two years. Guerrettaz Direct, p. 18.

The Settlement provides that all proceeds of the Atrazine settlement will be split 50/50 between customers and the Atrazine account will be amortized over three (3) years.

J. Cost of Service Study and Rate Design. Kerry A. Heid testified concerning Petitioner's Cost of Service Study and Rate Design. Mr. Heid conducted and presented a Cost of Service Study ("COSS") based on the American Water Works Association ("AWWA") Base-Extra Capacity method to allocate costs to customer classes. Heid Direct, p. 7. Mr. Heid's COSS used maximum day and maximum hour coincident demand ratios determined from the Black & Veatch Customer Class Capacity Factor Study ("Black & Veatch Study") sponsored by Petitioner's Witness Michael C. Borchers.

The OUCC and other intervenors each proposed modifications to Petitioner's COSS and proposed rate design and filed cross-answering testimony in response to each other's proposals.

The Comprehensive Settlement Agreement resolves all customer class allocation and rate design disputes in this Cause. The Comprehensive Settlement Agreement provides that given the efforts to gradualize impacts on Sale-for-Resale and Industrial Group customers, the Settling Parties agree that in light of an agreed upon rate design and allocation among customer classes, the various cost of service study and allocation disputes raised in this case are moot, and do not need to be resolved.

Indiana American offered testimony of Gary M. VerDouw in support of the Comprehensive Settlement Agreement, which sponsors the agreed allocation and rate design schedules. Mr. VerDouw specifically addressed the increase allocated to the public fire protection class, which is higher than the system average. He explained that for several rate cases, Indiana American's approved rate design has held down the public fire protection increase below the level indicated by its cost of service studies, resulting in a growing subsidy of significant proportion by the other customer classes. Today, almost all of the Company's customers are on the public fire protection surcharge by meter size and therefore this increase is being spread ratably across nearly all customers (other than Sale for Resale, which is calculated separately). The proposed increase for public fire protection pursuant to the Settlement is still below the requested increase included in Petitioner's case-in-chief, however. Given the modest increase in revenues agreed upon under the Settlement, Mr. VerDouw testified the Company believes this is the ideal case in which to address the significant subsidy afforded public fire protection historically.

K. Capacity Factor Study. There was dispute over the capacity factor study presented in this case using load research data. The Industrial Group contended that the study should include multiple years of data, which was unavailable for purposes of this case. Given the cost in both time and money of conducting a study using load research over multiple years, pursuant to the Settlement the Company agrees in its next case to present a capacity factor study using the process for determining noncoincident peaking factors as outlined in Appendix A to Principles of Water Rates, Fees, and Charges (AWWA Manual M1), 6th Edition, and using multiple years of billing and system demand data. To the extent sufficient actual billing and system demand data is available, the Company will use actual data in accordance with Appendix A to the AWWA Manual M1. To the extent actual billing and system demand data is unavailable (e.g., system maximum hour demand), the Company will use engineering judgment and experience to estimate based upon the data that is available. The overall rate design set forth in the Settlement is a compromise among the divergent positions taken by the parties on the capacity factor study. Because of the passage of time between this case and the earliest next case and the disagreement over the results of the study presented in this case, the Company agrees not to use the capacity factor study from this case in the next rate case. The Settling Parties agree that the Company may defer reasonable and prudent expenses incurred to conduct the capacity factor study required by the Agreement in an amount not to exceed \$250,000 for recovery in the Company's next general rate case. The Agreement also provides that the agreement on deferral of the costs to conduct a new capacity factor study does not constitute agreement that the costs actually incurred are reasonable and prudent, and preserves the Settling Parties right to challenge the expenses and proposed recovery mechanism in the Company's next rate case.

L. Usage Data Revenues. Petitioner proposed a pro forma adjustment of (\$653,298) to eliminate revenues associated with providing usage data to third parties. In the alternative, Petitioner proposed that, if the Commission were to determine that Petitioner should continue to charge for this service, the Commission should approve a uniform charge that would be included in the Company's tariff. Roach Direct, p. 32. Petitioner currently has various data billing arrangements at varying fee levels. The OUCC opposed the removal of \$653,298 in usage data reading revenues, contending that the projected test year amount of usage data reading revenues should be included in Petitioner's revenue requirement. The Industrial Group contended that Petitioner had not adequately justified the elimination of the usage data revenue.

The Settlement provides that the Company will continue to include usage data reading revenues above the line. However, the Settling Parties agree that the Company may apply for a uniform tariff for usage data through the Commission's thirty-day filing procedure on a revenue neutral basis, which application would remain subject to any defenses that may be raised.

M. Change to Monthly Billing in Northwest District. Petitioner proposed to move Northwest residential customers to monthly billing and to increase the current bimonthly customer charge to twice the monthly customer charge until the move to monthly billing is accomplished. The OUCC and other intervenors objected to the increase to the current bimonthly charge. The OUCC proposed instead that the Northwest bi-monthly customer charge not be increased until Petitioner has switched these customers to monthly billing, and that any revenue shortfall shall be deferred for recovery in a regulatory asset account for recovery in the next general rate case.

The Settlement provides that prior to the switch to monthly billing for the Northwest residential customers, the bi-monthly customer charge will not be increased to twice the monthly charge. The Company agreed to inform the Commission when it has switched the residential customers in the Northwest District to monthly billing through a 30-day filing submitting changes to the Company's rules and tariff to eliminate bimonthly billing. The Settling Parties agreed that the Company shall defer any revenue shortfall associated with the switch to monthly billing in a regulatory asset account for recovery in the next general rate case.

N. Wabash Phase-In. In this case, Petitioner proposes an additional step in its gradual transition to single tariff pricing ("STP"). For general water service, Petitioner proposes moving the Wabash Operation, which recently received a new treatment facility and is currently in the Area Two tariff rate, to the Area One tariff rate. This would leave Mooresville and Winchester in the Area Two tariff rate. In order to mitigate the "rate shock" that might otherwise be experienced by ratepayers in the Wabash Operation as a result of the move to Area One rates, Petitioner is proposing the rate increase for Wabash be phased-in over a two-year period with a portion of the revenue increase for Wabash to be deferred over the same period and recorded as a regulatory asset and recovered in the Petitioner's next general rate case. Hereinafter, we will refer to the phase-in proposal for Wabash as the Wabash Phase-In.

None of the parties opposed Petitioner's proposal to move Wabash to Area One rates over a 24-month period. The Settlement provides that the Company's Wabash Phase-In should be approved, including the deferral of a portion of the revenue increase over the same period, to be recorded as a regulatory asset in Account 186. In Petitioner's first general rate case following completion of the Wabash Phase-in, Petitioner will be entitled to recover a return of and a return on the balance in the regulatory asset account, amortized over thirty-six months.

O. Subdocket. As noted above, as part of its case-in-chief, the Company proposed to establish and implement a Revenue Stability Mechanism ("RSM") and sought approval of a fair value increment fair value increment associated with the Company's acquisition of Northwest Indiana Water Co. ("Northwest") and United Water West Lafayette, Inc. and United Water Indiana, Inc. (collectively, "United"). On rebuttal, the Company also proposed an Earnings Sharing Mechanism ("ESM"). All three proposals (the "Phase 2 Proposals") were moved to Phase 2 of the subdocket (Cause No. 44450 S-1). The OUCC and Industrial Group both filed Motions to Dismiss with respect to the Phase 2 Proposals, which motions were joined by the other intervenors, except Ramsey Water Company, Inc. For purposes of settlement, Petitioner stipulates and agrees to withdraw the Phase 2 Proposals.

Mr. DeBoy explained in his settlement testimony that the November 18, 2014 Settlement Agreement does not address the requested relief in Phase 1 of the subdocket, as the parties have already made their post-hearing filings and only one item remains in dispute (the Company's proposal to eliminate developer refunds). That issue is left for the Commission to decide in the subdocket.

P. Rate Moratorium. As part of the Settlement, the Company has agreed not to file a petition seeking a general increase in basic rates and charges prior to January 1, 2018, except for a request for emergency rate relief pursuant to Indiana Code § 8-1-2-113.

Q. DSIC Accounting. Indiana American proposed a change in the treatment of retirements within the confines of the DSIC calculation. Petitioner's witness Greg Roach explained that Petitioner had requested in Cause No. 42351 DSIC 8 that retirements be accounted for in the same fashion as the Commission recently ordered for Indiana Michigan

Power Company (“I&M”) in Cause No. 44182, or as the Commission more recently ordered for Northern Indiana Public Service Company (“NIPSCO”) in Cause No. 42350 ECR-21. The OUCC opposed this request and contended that the method for addressing retirements ordered in Cause No. 42351 DSIC 1 should be continued.

The Settlement provides that the Company will not change its treatment of retirements for purposes of calculating the DSIC, and the method for addressing retirements ordered in Cause No. 42351 DSIC-1 will be continued.

R. Additional Comprehensive Planning Studies. The OUCC had proposed that Petitioner be required to complete new comprehensive planning studies for its Newburgh, Seymour and Wabash districts by December 31, 2015. The Settlement provides that these three comprehensive planning studies will not be required.

S. Collaboration. As part of the Settlement, the Company has committed to a number of “collaborative efforts” to address concerns raised by the OUCC and Crown Point. These include agreements to (1) meet with the OUCC and any interested intervenors to discuss utility performance benchmarking; (2) meet with the OUCC and any interested intervenors to discuss water loss prevention measures and water audits; (3) meet with the OUCC and any interested intervenors to discuss efficiency and best practices (including water footprinting, Integrated Water Resource Management (IWRM), ISO 14001, Institute for Sustainable Infrastructure (ISI) rating system, vulnerability assessments, and sustainability commitments from Tier 1 and Tier 2 suppliers); (4) prior to July 31, 2015, arrange a meeting with the OUCC and other interested intervenors to explain the Company’s prioritization model which is used to select distribution and other system improvements, with such meeting open to Commission Staff

to the extent it wishes to participate; (5) permit direct contact between Crown Point and Schererville with Indiana American's Vice President of Operations in order to resolve any further questions over meter readings now or in the future; (6) work informally and in good faith to resolve any concerns in meter reading accuracy and differences between customer and Company meter reads; and (7) within 120 days of Commission approval of the Settlement, meet with Crown Point representatives and any other interested SFR customer representatives to discuss the appropriateness, feasibility and workings of alternative rate designs, a demand-commodity rate, other pricing suggestions and how Petitioner can better meet the customers metering, billing and service interests.

6. **Approval of Settlement.** Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition*, 664 N.E.2d at 406.

Furthermore, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d330, 331 (Ind. 1991)). The Commission's own procedural rules require that settlements be

supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement, we must determine whether the evidence in this cause sufficiently supports the conclusions that the Settlement is reasonable, just, and consistent with the purpose of Ind. Code § 8-1-2-1 et seq., and that such agreement serves the public interest.

Our review of the reasonableness of the Settlement is aided by the parties' express agreement on the rate base and implementation and update methodology to be used in determining Petitioner's rate increase, the agreed upon allocation of the increase and agreed upon rate design, as well as the Settling Parties' express agreement on the cost of common equity and each adjustment used to determine the adjusted financial results at present and settlement rates. All of the agreed-upon pro forma adjustments are supported by and explained in the Appendices to the Stipulation and Settlement Agreement and supporting settlement testimony. Therefore, we are able to examine the basis for all of the components of the increase in base rates and charges provided for in the Settlement and hereby find they are reasonable for purposes of settlement and supported by the evidence of record.

The Settlement provides for a four-year rate moratorium. Further, new rates would be significantly less than what Petitioner sought in its case. Approval of the Settlement eliminates the risks, uncertainty and consumption of time and resources that would otherwise be required for the Commission to issue its final order in this proceeding. The Settlement resolves various disputed issues about Petitioner's revenue forecasts, rate base updates and implementation of rates under Section 42.7, and the appropriate return on equity. The agreement reached among the Settling Parties with respect to rate base cutoff and updates was a reasonable resolution to address the concerns raised by the OUCC that Petitioner's rate base must satisfy Indiana's "used and useful" standard, while maintaining consistency with the Commission's ruling in the

Prehearing Conference Order that rate base is to be valued as of the end of the test year, November 30, 2015. The Settlement also addresses certain issues among the Settling Parties for purposes of future proceedings.

The Settlement provides for a reasonable increase, for resolution of many complicated issues arising from the first fully forecasted test year case filed under Section 42.7, and a moratorium on a general rate case filing that assures a longer life of the base rates approved in this case than the customers historically have seen and would otherwise enjoy. We find the Settlement is in the public interest and should be approved. With regard to future citation of the Settlement, we find the Settlement and our approval of it should be treated in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434 (IURC 3/19/1997).

7. **Quantifications of Original Cost Rate Base.** Based on the evidence, including the Settlement, and the findings made above, the Commission finds that the original cost of Petitioner's water and sewer utility properties as of November 30, 2015 is as follows:

ORIGINAL COST RATE BASE

<u>UTILITY PLANT IN SERVICE</u>	\$1,432,587,533
LESS: ACCUMULATED DEPRECIATION	(433,239,275)
NET UTILITY PLANT	999,348,258
LESS: CONTRIBUTIONS IN AID OF CONSTRUCTION	(121,566,031)
LESS: CUSTOMER ADVANCES	(66,078,485)
LESS: CAPACITY ADJUSTMENT – SOMERSET	(198,769)
ADD: ACQUISITION ADJUSTMENT	206,681
ADD: MATERIALS AND SUPPLIES (13 MONTH AVERAGE)	<u>1,339,974</u>
NET ORIGINAL COST RATE BASE	\$813,051,628

T. Capital Structure and Overall Weighted Cost of Capital.

Based upon Settlement and the foregoing findings, we find that Petitioner's capital structure and weighted cost of capital is as follows:

<u>Class of Capital</u>	<u>Pro Forma Amount</u>	<u>% of Total</u>	<u>(%) Cost</u>	<u>Weighted Cost</u>
Long-term debt	\$354,987,636	41.80%	6.08%	2.541%
Common equity	352,922,680	41.55%	9.75%	4.052%
Deferred income taxes	143,650,219	16.91%	0.00%	0.000%
Accumulated depreciation on contributed utility plant for Muncie Sewer	72,694	0.01%	0.00%	0.000%
Prepaid Pension	(5,541,209)	-0.65%	0.00%	0.000%
Post Retirement Benefits, net	2,579,644	0.30%	0.00%	0.000%
Accumulated deferred investment tax credits – Pre 1971	12,033	0.00%	0.00%	0.000%
Job development Investment tax credits (JDITC) – Post 1970	618,706	0.07%	7.34%	0.005%
Preferred Stock	0	0.00%	0.00%	0.000%
Total capitalization	<u>\$849,302,403</u>	<u>100.00%</u>		<u>6.598%</u>

8. **Authorized Rate Increase** On the basis of the Settlement and the supporting

evidence presented in these proceedings and subject to the certification and update mechanism provided in the Settlement, we find that Petitioner should be authorized to increase its rates and charges to produce additional operating revenue of up to \$5,121,575, or a 2.55% increase in total operating revenues, resulting in total annual operating revenue of \$205,897,284. This is the overall increase we authorize based upon Petitioner's rate base as of November 30, 2015. This revenue is reasonably estimated to afford Petitioner the opportunity to earn net operating income of \$54,192,581, as follows:

Operating Revenues	\$205,897,284
O&M Expenses	\$ 68,398,008
Depreciation/Amortization	\$ 43,214,137
Income Taxes	\$ 23,336,008
Other Taxes	\$ 16,756,550
Total Operating Expenses	\$151,704,703
Net Operating Income	\$ 54,192,581

9. **DSIC as a Fixed Charge.** Petitioner proposed in its case-in-chief that on a going forward basis its DSIC charge be applied only as a fixed charge. Pursuant to the Settlement, this issue will be deferred until Petitioner's next general rate case. We find that this provision is

reasonable and in the public interest and should be approved.

10. **Confidentiality** Petitioner filed a motion for protective order showing documents to be submitted to the Commission pursuant to 170 IAC 1-5-15 were to be treated as confidential and protected from disclosure to the public under Ind. Code § 5-14-3-4 and Ind. Code § 8-1-2-29. The Industrial Group also filed a motion for protective order with respect to workpapers to be treated as confidential and protected from disclosure to the public under Ind. Code § 5-14-3-4, Ind. Code § 8-1-2-29, and Ind. Code § 24-2-3-2. The Presiding Officers granted Petitioner's motion on the record at the Prehearing Conference held on February 20, 2014, finding such information to be preliminarily confidential after which such information was submitted under seal. The Presiding Officers made a similar preliminary finding of confidentiality with respect to the Industrial Group's confidential workpapers. We find all such information is confidential and is exempt from public access and disclosure by the Commission under Ind. Code § 5-14-3-4 and Ind. Code § 8-1-2-29.

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

1. Each of the November 18, 2014 Settlement and the Comprehensive Settlement Agreement shall be and hereby is approved in its entirety.
2. Subject to the certifications and update procedure set forth in the Stipulation, Petitioner shall be and hereby is authorized over the course of the future test year to adjust and increase its rates and charges for water and sewer utility service to produce an increase in total operating revenues of up to approximately 2.55% in accordance with the findings herein which rates and charges shall be designed to produce total annual operating revenues of up to \$205,897,284, which are expected to produce annual net operating income of up to \$54,192,581.

3. Petitioner shall be and hereby is authorized to implement the authorized rate increase in two steps to be implemented as set forth in Ordering Paragraphs 4 and 5 below.

4. For the first step, Petitioner shall file new schedules of rates and charges with the Water/Wastewater Division of the Commission on the basis set forth in Finding No. 8, together with a schedule by NARUC subaccount detail of the actual utility plant in service as of November 30, 2014, an affidavit that such investment is actually in service, and a calculation of actual depreciation expense thereon and the balance of deferred depreciation as of November 30, 2014. Petitioner's new schedules of rates and charges shall be effective upon filing after approval by the Water/Wastewater Division and shall apply to water and sewer usage from and after the date of filing. Any objections to Petitioner's submission must be filed within twenty (21) days of submission.²

5. For the second step, within thirty (30) days of the conclusion of the test year, Petitioner shall file new schedules of rates and charges with the Water/Wastewater Division of the Commission to update its rate base as of the end of the test year. The second step will be based upon actual net original cost rate base that does not exceed \$813,051,628 and a cap to additions to Utility Plant in Service during the test year of \$44,884,714. Petitioner shall include a schedule by NARUC subaccount detail of the actual utility plant in service as of November 30, 2015, an affidavit that such investment is actually in service, and a calculation of actual depreciation expense thereon and the balance of deferred depreciation as of November 30, 2015. Any objections to Petitioner's submission must be filed within thirty (30) days of submission.

6. All schedules of rates and charges submitted under Ordering Paragraphs 4 and 5, shall be developed according to the agreed upon rate design as filed with the Comprehensive Settlement Agreement and otherwise in the manner described by the terms of the Comprehensive Settlement Agreement, including the agreed upon allocation among customer classes.

7. Petitioner's proposal to switch the Northwest District to monthly billing and defer any revenue shortfall associated with the switch to monthly billing in a regulatory asset account for recovery in the next general rate case shall be and hereby is approved, and Petitioner shall be and hereby is authorized to record as a regulatory asset the deferred revenues resulting therefrom in Account 186 pursuant to Finding No. 5(M). Petitioner shall inform the Commission when it has switched the residential customers in the Northwest District to monthly billing through a 30-day filing submitting changes to the Company's rules and tariff to eliminate bimonthly billing.

8. Petitioner's proposal to phase-in the move of the Wabash District to Area One rates over a twenty-four month period shall be and hereby is approved, and Petitioner shall be and hereby is authorized to record as a regulatory asset the deferred revenues resulting therefrom in Account 186 pursuant to Finding No. 5(N).

9. The information filed by Petitioner and the Industrial Group in this Cause pursuant to their respective Motions for Protective Orders is deemed confidential pursuant to Ind. Code § 5-14-3-4, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

² Pursuant to the Settlement, Petitioner submitted this compliance filing on December 12, 2014.

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

**STEPHAN, MAYS-MEDLEY, HUSTON, WEBER AND ZIEGNER CONCUR:
APPROVED:**

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

Brenda A. Howe,
Executive Secretary to the Commission

INDS01 1487213v5

**INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
TOTAL REVENUE PROOF - WATER AND SEWER***

**APPENDIX C
SCHEDULE 1
PAGE 1 OF 3**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Area 1			Area 2			
	Monthly Bills	Proposed Charges	Proposed Revenues	Monthly Bills	Proposed Charges	Proposed Revenues	Total Revenues
			(1) * (2)			(4) * (5)	(3) + (6)
Base Water Rates							
Monthly Customer Charges							
5/8-inch	2,484,235	\$14.87	\$36,940,576	67,182	\$14.87	\$998,992	\$37,939,568
3/4-inch	1,265	\$20.72	\$26,205	187	\$20.72	\$3,872	\$30,077
1-inch	88,900	\$24.34	\$2,163,816	1,292	\$24.34	\$31,436	\$2,195,252
1 1/2-inch	6,541	\$35.19	\$230,171	492	\$35.19	\$17,329	\$247,500
2-inch	53,569	\$69.07	\$3,700,023	762	\$69.07	\$52,635	\$3,752,658
3-inch	3,438	\$98.83	\$339,731	80	\$98.83	\$7,897	\$347,628
4-inch	3,156	\$146.55	\$462,505	25	\$146.55	\$3,606	\$466,112
6-inch	1,375	\$245.63	\$337,714	25	\$245.63	\$6,084	\$343,798
8-inch	229	\$366.39	\$83,849	0	\$366.39	\$0	\$83,849
10-inch	71	\$563.09	\$40,134	0	\$563.09	\$0	\$40,134
12-inch	0	\$871.88	\$0	0	\$871.88	\$0	\$0
Total Monthly Customer Charge Revenues	2,642,778		\$44,324,724	70,044		1,121,852	\$45,446,576
							0
Bi-Monthly Customer Charges							
5/8-inch	382,040	\$22.74	\$8,687,589	0	\$22.74	\$0	\$8,687,589
3/4-inch	1,929	\$31.79	\$61,335	0	\$31.79	\$0	\$61,335
1-inch	11,139	\$39.53	\$440,341	0	\$39.53	\$0	\$440,341
1 1/2-inch	3,563	\$61.22	\$218,157	0	\$61.22	\$0	\$218,157
2-inch	3,524	\$131.26	\$462,544	0	\$131.26	\$0	\$462,544
3-inch	275	\$188.50	\$51,744	0	\$188.50	\$0	\$51,744
4-inch	46	\$283.95	\$12,968	0	\$283.95	\$0	\$12,968
6-inch	18	\$482.10	\$8,584	0	\$482.10	\$0	\$8,584
8-inch	6	\$723.64	\$4,342	0	\$723.64	\$0	\$4,342
10-inch	0	\$1,117.03	\$0	0	\$1,117.03	\$0	\$0
12-inch	0	\$1,734.61	\$0	0	\$1,734.61	\$0	\$0
Total Bi-Monthly Customer Charge Revenues	402,540		\$9,947,604	0		0	\$9,947,604
							0
Commodity Charges - Retail							
Block 1 (First 15 Mgal)	14,603,082	\$4.5647	\$66,658,688	283,766	\$3.7900	\$1,075,473	\$67,734,162
Block 2 (Next 3,725 Mgal)	10,997,629	\$3.5257	\$38,773,792	185,552	\$2.7804	\$515,901	\$39,289,693
Block 3 (Over 3,740 Mgal)	2,177,416	\$2.0100	\$4,376,607	2,128	\$1.8275	\$3,889	\$4,380,495
Commodity Charges - Sale for Resale							
Block 1 (First 30,000 Mgal)	2,466,087	\$2.8300	\$6,979,025	0	\$2.8300	\$0	\$6,979,025
Block 2 (Over 30,000 Mgal)	1,166,316	\$2.5961	\$3,027,836	0	\$2.5961	\$0	\$3,027,836
Total Commodity Charge Revenue	31,410,530		\$119,815,948	471,445		\$1,595,263	\$121,411,211
			0			0	0

* Reflects the existing DSIC being reset to zero.

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
TOTAL REVENUE PROOF - WATER AND SEWER

APPENDIX C
SCHEDULE 1
PAGE 2 OF 3

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Area 1 and Area 2						Total Revenues
	Monthly Bills	Proposed Charges	Proposed Revenues				(3) + (6)
Private Fire Protection			(1) * (2)				
2-inch	1,159	\$3.17	\$3,670				\$3,670
2 1/2-inch	0	\$5.69	\$0				\$0
3-inch	681	\$9.20	\$6,267				\$6,267
4-inch	8,271	\$19.60	\$162,129				\$162,129
6-inch	22,729	\$56.94	\$1,294,245				\$1,294,245
8-inch	11,869	\$121.34	\$1,440,191				\$1,440,191
10-inch	1,189	\$218.22	\$259,568				\$259,568
12-inch	750	\$352.49	\$264,251				\$264,251
Hydrants	13,609	\$56.94	\$774,911				\$774,911
	60,257		\$4,205,232				\$4,205,232
Public Fire Protection							0
Inside Hydrants Subject to Muni. Pmt.	25,613	\$65.98	\$1,689,972				\$1,689,972
IC 8-1-2-103 Charge-Retail:							
5/8-inch	2,895,184	\$4.74	\$13,727,088				\$13,727,088
3/4-inch	5,176	\$7.11	\$36,813				\$36,813
1-inch	101,750	\$11.85	\$1,206,084				\$1,206,084
1 1/2-inch	13,275	\$23.71	\$314,705				\$314,705
2-inch	52,706	\$37.93	\$1,999,183				\$1,999,183
3-inch	3,291	\$71.12	\$234,062				\$234,062
4-inch	2,732	\$118.53	\$323,777				\$323,777
6-inch	1,154	\$237.07	\$273,662				\$273,662
8-inch	176	\$379.31	\$66,773				\$66,773
10-inch	(15)	\$616.38	(\$9,262)				(\$9,262)
12-inch	0	\$1,019.39	\$0				\$0
	3,075,430		\$19,862,858				\$19,862,858
			0				0

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
TOTAL REVENUE PROOF - WATER AND SEWER

APPENDIX C
SCHEDULE 1
PAGE 3 OF 3

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Area 1 and Area 2						Total Revenues
	Monthly Bills	Proposed Charges	Proposed Revenues				(3) + (6)
Public Fire Protection (cont.)			(1) * (2)				
IC 8-1-2-103 Sale for Resale:							
5/8-inch	0	\$3.40	\$0				\$0
3/4-inch	0	\$5.23	\$0				\$0
1-inch	24	\$9.03	\$217				\$217
1 1/2-inch	0	\$18.87	\$0				\$0
2-inch	0	\$30.54	\$0				\$0
3-inch	0	\$54.45	\$0				\$0
4-inch	65	\$92.99	\$6,055				\$6,055
6-inch	188	\$193.11	\$36,276				\$36,276
8-inch	24	\$312.90	\$7,509				\$7,509
10-inch	47	\$513.40	\$24,143				\$24,143
12-inch	0	\$859.01	\$0				\$0
	348		\$74,201				\$74,201
Miscellaneous Revenues							\$4,514,386
Total Water Revenues			\$198,156,367			\$2,717,115	\$205,462,068
Total Water Cost of Service							\$205,316,055
<u>SEWER BASE RATES</u>							
MUNCIE							
Residential	4,537	\$76.50	\$347,081				
Commercial	0	\$76.50	\$0				
SOMERSET							
Residential	972	\$76.50	\$74,342				
Commercial	161	\$76.50	\$12,342				
Total Sewer Revenues			\$433,765				\$433,765
Total Sewer Cost of Service			\$581,229				\$581,229
<u>COMBINED WATER AND SEWER</u>							
Total Water and Sewer Revenues			\$198,590,131			\$2,717,115	\$205,895,833
Water and Sewer Cost of Service							\$205,897,285
Over (Under) Recovery - \$							(\$1,452)
- %							-0.0007%

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE

APPENDIX C
SCHEDULE 2
PAGE 1 OF 5

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Area 1				Area 2						
	Usage (Mgal)	Proforma Bills	Proposed Rates		Usage (Mgal)	Proforma Bills	Proposed Rates		Total Revenues	Cost of Service	Revenues as % of COS
			Rate (\$/Mgal)	Revenue	Rate (\$/Mgal)		Rate (\$/Mgal)	Revenue			
Residential											
Monthly Customer Charges											
5/8-inch		2,315,228	\$14.87	\$34,427,435		61,549	\$14.87	\$915,232	\$35,342,666		
3/4-inch		584	\$20.72	\$12,094		48	\$20.72	\$998	\$13,093		
1-inch		21,900	\$24.34	\$533,035		97	\$24.34	\$2,355	\$535,390		
1 1/2-inch		134	\$35.19	\$4,719		12	\$35.19	\$424	\$5,143		
2-inch		941	\$69.07	\$64,977		0	\$69.07	\$0	\$64,977		
3-inch		32	\$98.83	\$3,174		0	\$98.83	\$0	\$3,174		
4-inch		12	\$146.55	\$1,764		0	\$146.55	\$0	\$1,764		
6-inch		-	\$245.63	\$0		0	\$245.63	\$0	\$0		
Bi-Monthly Customer Charges											
5/8-inch		367,082	\$22.74	\$8,347,449		0	\$22.74	\$0	\$8,347,449		
3/4-inch		1,193	\$31.79	\$37,921		0	\$31.79	\$0	\$37,921		
1-inch		5,529	\$39.53	\$218,564		0	\$39.53	\$0	\$218,564		
1 1/2-inch		300	\$61.22	\$18,337		0	\$61.22	\$0	\$18,337		
2-inch		279	\$131.26	\$36,658		0	\$131.26	\$0	\$36,658		
3-inch		-	\$188.50	\$0		0	\$188.50	\$0	\$0		
4-inch		-	\$283.95	\$0		0	\$283.95	\$0	\$0		
6-inch		-	\$482.10	\$0		0	\$482.10	\$0	\$0		
Commodity Charges											
Block 1 (First 15 Mgal)	11,814,605		\$4.5647	\$53,930,129	234,278		\$3.7900	\$887,913	\$54,818,042		
Block 2 (Next 3,725 Mgal)	751,218		\$3.5257	\$2,648,532	9,192		\$2.7804	\$25,557	\$2,674,089		
Block 3 (Over 3,740 Mgal)	-		\$2.0100	\$0	0		\$1.8275	\$0	\$0		
Total Residential	12,565,823	2,713,213		\$100,284,788	243,470	61,706		\$1,832,478	\$102,117,266	\$102,582,659	99.55%

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE

APPENDIX C
SCHEDULE 2
PAGE 2 OF 5

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Area 1				Area 2						
	Usage (Mgal)	Proforma Bills	Proposed Rates		Usage Rate (\$/Mgal)	Proforma Bills	Proposed Rates		Total Revenues	Cost of Service	Revenues as % of COS
			Rate (\$/Mgal)	Revenue			Rate (\$/Mgal)	Revenue			
Commercial											
Monthly Customer Charges											
5/8-inch		168,067	\$14.87	\$2,499,159		5,597	\$14.87	\$83,225	\$2,582,384		
3/4-inch		669	\$20.72	\$13,856		139	\$20.72	\$2,874	\$16,729		
1-inch		65,248	\$24.34	\$1,588,146		1,147	\$24.34	\$27,913	\$1,616,058		
1 1/2-inch		6,114	\$35.19	\$215,136		456	\$35.19	\$16,061	\$231,197		
2-inch		48,935	\$69.07	\$3,379,974		666	\$69.07	\$46,004	\$3,425,978		
3-inch		3,080	\$98.83	\$304,429		80	\$98.83	\$7,897	\$312,326		
4-inch		2,063	\$146.55	\$302,374		13	\$146.55	\$1,848	\$304,221		
6-inch		786	\$245.63	\$193,159		13	\$245.63	\$3,137	\$196,296		
8-inch		133	\$366.39	\$48,565		0	\$366.39	\$0	\$48,565		
10-inch		24	\$563.09	\$13,654		0	\$563.09	\$0	\$13,654		
12-inch		-	\$871.88	\$0		0	\$871.88	\$0	\$0		
Bi-Monthly Customer Charges											
5/8-inch		14,958	\$22.74	\$340,140		0	\$22.74	\$0	\$340,140		
3/4-inch		737	\$31.79	\$23,414		0	\$31.79	\$0	\$23,414		
1-inch		5,610	\$39.53	\$221,777		0	\$39.53	\$0	\$221,777		
1 1/2-inch		3,258	\$61.22	\$199,453		0	\$61.22	\$0	\$199,453		
2-inch		3,245	\$131.26	\$425,886		0	\$131.26	\$0	\$425,886		
3-inch		275	\$188.50	\$51,744		0	\$188.50	\$0	\$51,744		
4-inch		46	\$283.95	\$12,968		0	\$283.95	\$0	\$12,968		
6-inch		18	\$482.10	\$8,584		0	\$482.10	\$0	\$8,584		
8-inch		6	\$723.64	\$4,342		0	\$723.64	\$0	\$4,342		
10-inch		-	\$1,117.03	\$0		0	\$1,117.03	\$0	\$0		
12-inch		-	\$1,734.61	\$0		0	\$1,734.61	\$0	\$0		
Commodity Charges											
Block 1 (First 15 Mgal)	2,646,704		\$4.5647	\$12,081,412	47,716		\$3.7900	\$180,843	\$12,262,255		
Block 2 (Next 3,725 Mgal)	7,626,545		\$3.5257	\$26,888,529	92,186		\$2.7804	\$256,310	\$27,144,839		
Block 3 (Over 3,740 Mgal)	170,613		\$2.0100	\$342,932	0		\$1.8275	\$0	\$342,932		
Total Commercial	10,443,863	323,271		\$49,159,633				\$626,111	\$49,785,744	\$49,278,146	101.03%

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE

APPENDIX C
SCHEDULE 2
PAGE 3 OF 5

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Area 1				Area 2						
	Usage (Mgal)	Proforma Bills	Proposed Rates		Usage Rate (\$/Mgal)	Proforma Bills	Proposed Rates		Total Revenues	Cost of Service	Revenues as % of COS
			Rate (\$/Mgal)	Revenue			Rate (\$/Mgal)	Revenue			
Industrial-Large											
Monthly Customer Charges											
5/8-inch		-	\$14.87	\$0		0	\$14.87	\$0	\$0		
3/4-inch		-	\$20.72	\$0		0	\$20.72	\$0	\$0		
1-inch		-	\$24.34	\$0		0	\$24.34	\$0	\$0		
1 1/2-inch		-	\$35.19	\$0		0	\$35.19	\$0	\$0		
2-inch		-	\$69.07	\$0		0	\$69.07	\$0	\$0		
3-inch		-	\$98.83	\$0		0	\$98.83	\$0	\$0		
4-inch		12	\$146.55	\$1,759		0	\$146.55	\$0	\$1,759		
6-inch		60	\$245.63	\$14,738		0	\$245.63	\$0	\$14,738		
8-inch		-	\$366.39	\$0		0	\$366.39	\$0	\$0		
10-inch		-	\$563.09	\$0		0	\$563.09	\$0	\$0		
12-inch		-	\$871.88	\$0		0	\$871.88	\$0	\$0		
Commodity Charges											
Block 1 (First 15 Mgal)	1,080		\$4.5647	\$4,930	0		\$3.7900	\$0	\$4,930		
Block 2 (Next 3,725 Mgal)	268,200		\$3.5257	\$945,579	0		\$2.7804	\$0	\$945,579		
Block 3 (Over 3,740 Mgal)	1,639,509		\$2.0100	\$3,295,414	0		\$1.8275	\$0	\$3,295,414		
Total Industrial-Large	1,908,789	72		\$4,262,420				\$0	\$4,262,420	\$4,472,659	95.30%

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE

APPENDIX C
SCHEDULE 2
PAGE 4 OF 5

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Area 1				Area 2						
	Usage (Mgal)	Proforma Bills	Proposed Rates		Usage Rate (\$/Mgal)	Proforma Bills	Proposed Rates		Total Revenues	Cost of Service	Revenues as % of COS
			Rate (\$/Mgal)	Revenue			Rate (\$/Mgal)	Revenue			
Industrial-Other											
Monthly Customer Charges											
5/8-inch		940	\$14.87	\$13,982		36	\$14.87	\$535	\$14,517		
3/4-inch		12	\$20.72	\$255		0	\$20.72	\$0	\$255		
1-inch		1,728	\$24.34	\$42,052		48	\$24.34	\$1,168	\$43,220		
1 1/2-inch		293	\$35.19	\$10,316		24	\$35.19	\$845	\$11,160		
2-inch		3,693	\$69.07	\$255,072		96	\$69.07	\$6,631	\$261,703		
3-inch		325	\$98.83	\$32,128		0	\$98.83	\$0	\$32,128		
4-inch		1,004	\$146.55	\$147,066		12	\$146.55	\$1,759	\$148,824		
6-inch		341	\$245.63	\$83,674		12	\$245.63	\$2,948	\$86,622		
8-inch		72	\$366.39	\$26,490		0	\$366.39	\$0	\$26,490		
10-inch		-	\$563.09	\$0		0	\$563.09	\$0	\$0		
12-inch		-	\$871.88	\$0		0	\$871.88	\$0	\$0		
Bi-Monthly Customer Charges											
5/8-inch		-	\$22.74	\$0		0	\$22.74	\$0	\$0		
3/4-inch		-	\$31.79	\$0		0	\$31.79	\$0	\$0		
1-inch		-	\$39.53	\$0		0	\$39.53	\$0	\$0		
1 1/2-inch		6	\$61.22	\$367		0	\$61.22	\$0	\$367		
2-inch		-	\$131.26	\$0		0	\$131.26	\$0	\$0		
3-inch		-	\$188.50	\$0		0	\$188.50	\$0	\$0		
4-inch		-	\$283.95	\$0		0	\$283.95	\$0	\$0		
6-inch		-	\$482.10	\$0		0	\$482.10	\$0	\$0		
8-inch		-	\$723.64	\$0		0	\$723.64	\$0	\$0		
10-inch		-	\$1,117.03	\$0		0	\$1,117.03	\$0	\$0		
12-inch		-	\$1,734.61	\$0		0	\$1,734.61	\$0	\$0		
Commodity Charges											
Block 1 (First 15 Mgal)	140,692		\$4.5647	\$642,218	1,772		\$3.7900	\$6,717	\$648,935		
Block 2 (Next 3,725 Mgal)	2,351,666		\$3.5257	\$8,291,151	84,174		\$2.7804	\$234,035	\$8,525,186		
Block 3 (Over 3,740 Mgal)	367,294		\$2.0100	\$738,260	2,128		\$1.8275	\$3,889	\$742,149		
Total Industrial-Other	2,859,652	8,414		\$10,283,031				\$258,525	\$10,541,557	\$10,304,944	102.30%

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE

APPENDIX C
SCHEDULE 2
PAGE 5 OF 5

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Area 1				Area 2						
	Usage (Mgal)	Proforma Bills	Proposed Rates		Usage Rate (\$/Mgal)	Proforma Bills	Proposed Rates		Total Revenues	Cost of Service	Revenues as % of COS
			Rate (\$/Mgal)	Revenue			Rate (\$/Mgal)	Revenue			
Sale for Resale											
Monthly Customer Charges											
5/8-inch		-	\$14.87	\$0		0	\$14.87	\$0	\$0		
3/4-inch		-	\$20.72	\$0		0	\$20.72	\$0	\$0		
1-inch		24	\$24.34	\$584		0	\$24.34	\$0	\$584		
1 1/2-inch		-	\$35.19	\$0		0	\$35.19	\$0	\$0		
2-inch		-	\$69.07	\$0		0	\$69.07	\$0	\$0		
3-inch		-	\$98.83	\$0		0	\$98.83	\$0	\$0		
4-inch		65	\$146.55	\$9,543		0	\$146.55	\$0	\$9,543		
6-inch		188	\$245.63	\$46,143		0	\$245.63	\$0	\$46,143		
8-inch		24	\$366.39	\$8,793		0	\$366.39	\$0	\$8,793		
10-inch		47	\$563.09	\$26,480		0	\$563.09	\$0	\$26,480		
12-inch		-	\$871.88	\$0		0	\$871.88	\$0	\$0		
Commodity Charge											
Block 1	2,466,087		\$2.8300	\$6,979,025	0		\$2.8300	\$0	\$6,979,025		
Block 2	1,166,316		\$2.5961	\$3,027,836	0		\$2.5961	\$0	\$3,027,836		
Total Sale for Resale	3,632,402	348		\$10,098,405 0				\$0 0	\$10,098,405	\$10,168,384	99.31%
Total Metered Water	31,410,530	3,045,318		\$174,088,276				\$2,717,115	\$176,805,391	\$176,806,792	100.00%

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREA 1 RATES

WORKPAPER 1 TO APPENDIX C
SCHEDULE 2
PAGE 1 OF 5

	(1)	(2)	(3) Proposed Rates		(5)	(6)
	Usage (Mgal)	Proforma Bills	Rate (\$/Mgal)	Revenue	Remaining COS	Revenues as % of COS
Residential						
Monthly Customer Charges						
5/8-inch		2,315,228	\$14.87	\$34,427,435		
3/4-inch		584	\$20.72	\$12,094		
1-inch		21,900	\$24.34	\$533,035		
1 1/2-inch		134	\$35.19	\$4,719		
2-inch		941	\$69.07	\$64,977		
3-inch		32	\$98.83	\$3,174		
4-inch		12	\$146.55	\$1,764		
6-inch		-	\$245.63	\$0		
Bi-Monthly Customer Charges						
5/8-inch		367,082	\$22.74	\$8,347,449		
3/4-inch		1,193	\$31.79	\$37,921		
1-inch		5,529	\$39.53	\$218,564		
1 1/2-inch		300	\$61.22	\$18,337		
2-inch		279	\$131.26	\$36,658		
3-inch		-	\$188.50	\$0		
4-inch		-	\$283.95	\$0		
6-inch		-	\$482.10	\$0		
Commodity Charges						
Block 1 (First 15 Mgal)	11,814,605		\$4.5647	\$53,930,129		
Block 2 (Next 3,725 Mgal)	751,218		\$3.5257	\$2,648,532		
Block 3 (Over 3,740 Mgal)	-		\$2.0100	\$0		
Total Residential	12,565,823 0	2,713,213 0		\$100,284,788	\$100,750,181	99.54%

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREA 1 RATES

WORKPAPER 1 TO APPENDIX C
SCHEDULE 2
PAGE 2 OF 5

	(1)	(2)	(3)		(4)	(5)	(6)
	Usage (Mgal)	Proforma Bills	Proposed Rates			Remaining COS	Revenues as % of COS
			Rate (\$/Mgal)	Revenue			
Commercial							
Monthly Customer Charges							
5/8-inch		168,067	\$14.87	\$2,499,159			
3/4-inch		669	\$20.72	\$13,856			
1-inch		65,248	\$24.34	\$1,588,146			
1 1/2-inch		6,114	\$35.19	\$215,136			
2-inch		48,935	\$69.07	\$3,379,974			
3-inch		3,080	\$98.83	\$304,429			
4-inch		2,063	\$146.55	\$302,374			
6-inch		786	\$245.63	\$193,159			
8-inch		133	\$366.39	\$48,565			
10-inch		24	\$563.09	\$13,654			
12-inch		-	\$871.88	\$0			
Bi-Monthly Customer Charges							
5/8-inch		14,958	\$22.74	\$340,140			
3/4-inch		737	\$31.79	\$23,414			
1-inch		5,610	\$39.53	\$221,777			
1 1/2-inch		3,258	\$61.22	\$199,453			
2-inch		3,245	\$131.26	\$425,886			
3-inch		275	\$188.50	\$51,744			
4-inch		46	\$283.95	\$12,968			
6-inch		18	\$482.10	\$8,584			
8-inch		6	\$723.64	\$4,342			
10-inch		-	\$1,117.03	\$0			
12-inch		-	\$1,734.61	\$0			
Commodity Charges							
Block 1 (First 15 Mgal)	2,646,704		\$4.5647	\$12,081,412			
Block 2 (Next 3,725 Mgal)	7,626,545		\$3.5257	\$26,888,529			
Block 3 (Over 3,740 Mgal)	170,613		\$2.0100	\$342,932			
Total Commercial	10,443,863 (0)	323,271 0		\$49,159,633	\$48,652,035	101.04%	

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREA 1 RATES

WORKPAPER 1 TO APPENDIX C
SCHEDULE 2
PAGE 3 OF 5

	(1)	(2)	(3) (4)		(5)	(6)
	Usage (Mgal)	Proforma Bills	Proposed Rates Rate (\$/Mgal)	Revenue	Remaining COS	Revenues as % of COS
Industrial-Large						
Monthly Customer Charges						
5/8-inch		-	\$14.87	\$0		
3/4-inch		-	\$20.72	\$0		
1-inch		-	\$24.34	\$0		
1 1/2-inch		-	\$35.19	\$0		
2-inch		-	\$69.07	\$0		
3-inch		-	\$98.83	\$0		
4-inch		12	\$146.55	\$1,759		
6-inch		60	\$245.63	\$14,738		
8-inch		-	\$366.39	\$0		
10-inch		-	\$563.09	\$0		
12-inch		-	\$871.88	\$0		
Commodity Charges						
Block 1 (First 15 Mgal)	1,080		\$4.5647	\$4,930		
Block 2 (Next 3,725 Mgal)	268,200		\$3.5257	\$945,579		
Block 3 (Over 3,740 Mgal)	1,639,509		\$2.0100	\$3,295,414		
Total Industrial-Large	1,908,789 0	72 0		\$4,262,420	\$4,472,659	95.30%

INDIANA-AMERICAN WATER COMPANY
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SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREA 1 RATES

WORKPAPER 1 TO APPENDIX C
SCHEDULE 2
PAGE 4 OF 5

	(1)	(2)	(3)		(4)	(5)	(6)
	Usage (Mgal)	Proforma Bills	Proposed Rates			Remaining COS	Revenues as % of COS
			Rate (\$/Mgal)	Revenue			
Industrial-Other							
Monthly Customer Charges							
5/8-inch		940	\$14.87	\$13,982			
3/4-inch		12	\$20.72	\$255			
1-inch		1,728	\$24.34	\$42,052			
1 1/2-inch		293	\$35.19	\$10,316			
2-inch		3,693	\$69.07	\$255,072			
3-inch		325	\$98.83	\$32,128			
4-inch		1,004	\$146.55	\$147,066			
6-inch		341	\$245.63	\$83,674			
8-inch		72	\$366.39	\$26,490			
10-inch		-	\$563.09	\$0			
12-inch		-	\$871.88	\$0			
Bi-Monthly Customer Charges							
5/8-inch		-	\$22.74	\$0			
3/4-inch		-	\$31.79	\$0			
1-inch		-	\$39.53	\$0			
1 1/2-inch		6	\$61.22	\$367			
2-inch		-	\$131.26	\$0			
3-inch		-	\$188.50	\$0			
4-inch		-	\$283.95	\$0			
6-inch		-	\$482.10	\$0			
8-inch		-	\$723.64	\$0			
10-inch		-	\$1,117.03	\$0			
12-inch		-	\$1,734.61	\$0			
Commodity Charges							
Block 1 (First 15 Mgal)	140,692		\$4.5647	\$642,218			
Block 2 (Next 3,725 Mgal)	2,351,666		\$3.5257	\$8,291,151			
Block 3 (Over 3,740 Mgal)	367,294		\$2.0100	\$738,260			
Total Industrial-Other	2,859,652	8,414 0		\$10,283,031	\$10,046,419	102.36%	

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREA 1 RATES

WORKPAPER 1 TO APPENDIX C
SCHEDULE 2
PAGE 5 OF 5

	(1)	(2)	(3) Proposed Rates		(5)	(6)
	Usage (Mgal)	Proforma Bills	Rate (\$/Mgal)	Revenue	Remaining COS	Revenues as % of COS
Sale for Resale						
Monthly Customer Charges						
5/8-inch		-	\$14.87	\$0		
3/4-inch		-	\$20.72	\$0		
1-inch		24	\$24.34	\$584		
1 1/2-inch		-	\$35.19	\$0		
2-inch		-	\$69.07	\$0		
3-inch		-	\$98.83	\$0		
4-inch		65	\$146.55	\$9,543		
6-inch		188	\$245.63	\$46,143		
8-inch		24	\$366.39	\$8,793		
10-inch		47	\$563.09	\$26,480		
12-inch		-	\$871.88	\$0		
Commodity Charge						
Block 1	2,466,087		\$2.8300	\$6,979,025		
Block 2	1,166,316		\$2.5961	\$3,027,836		
Total Sale for Resale	3,632,402 0	348 0		\$10,098,405 0	\$10,168,384	99.31%
Total Metered Water	31,410,530 0	3,045,318		\$174,088,276	\$174,089,677 (0) (\$1,401)	100.00%

**INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREA 2 RATES**

**WORKPAPER 2 TO APPENDIX C
SCHEDULE 2
PAGE 1 OF 5**

	(1)	(2)	(3)		(5)	(6)
	Usage (Mgal)	Proforma Bills	Proposed Rates		Proposed at STP	Revenues as % of STP
			Rate (\$/Mgal)	Revenue		
Residential						
Monthly Customer Charges						
5/8-inch		61,549	\$14.87	\$915,232		
3/4-inch		48	\$20.72	\$998		
1-inch		97	\$24.34	\$2,355		
1 1/2-inch		12	\$35.19	\$424		
2-inch		-	\$69.07	\$0		
3-inch		-	\$98.83	\$0		
4-inch		-	\$146.55	\$0		
Bi-Monthly Customer Charges						
5/8-inch		-	\$22.74	\$0		
3/4-inch		-	\$31.79	\$0		
1-inch		-	\$39.53	\$0		
1 1/2-inch		-	\$61.22	\$0		
2-inch		-	\$131.26	\$0		
3-inch		-	\$188.50	\$0		
4-inch		-	\$283.95	\$0		
6-inch		-	\$482.10	\$0		
Commodity Charges						
Block 1 (First 15 Mgal)	234,278		\$3.7900	\$887,913		
Block 2 (Next 3,725 Mgal)	9,192		\$2.7804	\$25,557		
Block 3 (Over 3,740 Mgal)	-		\$1.8275	\$0		
Total Residential	243,470	61,706 0		\$1,832,478	\$2,040,866	89.79%

**INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREA 2 RATES**

**WORKPAPER 2 TO APPENDIX C
SCHEDULE 2
PAGE 2 OF 5**

	(1)	(2)	(3)	(4)	(5)	(6)
	Usage (Mgal)	Proforma Bills	Proposed Rates		Revenue at STP	Revenues as % of STP
			Rate (\$/Mgal)	Revenue		
Commercial						
Monthly Customer Charges						
5/8-inch		5,597	\$14.87	\$83,225		
3/4-inch		139	\$20.72	\$2,874		
1-inch		1,147	\$24.34	\$27,913		
1 1/2-inch		456	\$35.19	\$16,061		
2-inch		666	\$69.07	\$46,004		
3-inch		80	\$98.83	\$7,897		
4-inch		13	\$146.55	\$1,848		
6-inch		13	\$245.63	\$3,137		
8-inch		-	\$366.39	\$0		
10-inch		-	\$563.09	\$0		
12-inch		-	\$871.88	\$0		
Bi-Monthly Customer Charges						
5/8-inch		-	\$22.74	\$0		
3/4-inch		-	\$31.79	\$0		
1-inch		-	\$39.53	\$0		
1 1/2-inch		-	\$61.22	\$0		
2-inch		-	\$131.26	\$0		
3-inch		-	\$188.50	\$0		
4-inch		-	\$283.95	\$0		
6-inch		-	\$482.10	\$0		
8-inch		-	\$723.64	\$0		
Commodity Charges						
Block 1 (First 15 Mgal)	47,716		\$3.7900	\$180,843		
Block 2 (Next 3,725 Mgal)	92,186		\$2.7804	\$256,310		
Block 3 (Over 3,740 Mgal)	-		\$1.8275	\$0		
Total Commercial	139,902	8,110		\$626,111	\$714,010	87.69%

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREA 2 RATES

WORKPAPER 2 TO APPENDIX C
SCHEDULE 2
PAGE 3 OF 5

	(1)	(2)	(3)		(4)	(5)	(6)
	Usage (Mgal)	Proforma Bills	Proposed Rates		Revenue at STP	Revenues as % of STP	
			Rate (\$/Mgal)	Revenue			
Industrial-Large							
Monthly Customer Charges							
5/8-inch		-	\$14.87	\$0			
3/4-inch		-	\$20.72	\$0			
1-inch		-	\$24.34	\$0			
1 1/2-inch		-	\$35.19	\$0			
2-inch		-	\$69.07	\$0			
3-inch		-	\$98.83	\$0			
4-inch		-	\$146.55	\$0			
6-inch		-	\$245.63	\$0			
8-inch		-	\$366.39	\$0			
10-inch		-	\$563.09	\$0			
12-inch		-	\$871.88	\$0			
Commodity Charges							
Block 1 (First 15 Mgal)	0		\$3.7900	\$0			
Block 2 (Next 3,725 Mgal)	0		\$2.7804	\$0			
Block 3 (Over 3,740 Mgal)	0		\$1.8275	\$0			
Block 4			\$0.0000	\$0			
Block 5			\$0.0000	\$0			
Total Industrial-Large	-	-		\$0	\$0	N/A	
		0					

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREA 2 RATES

WORKPAPER 2 TO APPENDIX C
SCHEDULE 2
PAGE 4 OF 5

	(1)	(2)	(3)		(5)	(6)
	Usage (Mgal)	Proforma Bills	Proposed Rates		Revenue at STP	Revenues as % of STP
			Rate (\$/Mgal)	Revenue		
Industrial-Other						
Monthly Customer Charges						
5/8-inch		36	\$14.87	\$535		
3/4-inch		-	\$20.72	\$0		
1-inch		48	\$24.34	\$1,168		
1 1/2-inch		24	\$35.19	\$845		
2-inch		96	\$69.07	\$6,631		
3-inch		-	\$98.83	\$0		
4-inch		12	\$146.55	\$1,759		
6-inch		12	\$245.63	\$2,948		
8-inch		-	\$366.39	\$0		
Bi-Monthly Customer Charges						
5/8-inch		-	\$22.74	\$0		
3/4-inch		-	\$31.79	\$0		
1-inch		-	\$39.53	\$0		
1 1/2-inch		-	\$61.22	\$0		
2-inch		-	\$131.26	\$0		
3-inch		-	\$188.50	\$0		
4-inch		-	\$283.95	\$0		
6-inch		-	\$482.10	\$0		
8-inch		-	\$723.64	\$0		
Commodity Charges						
Block 1 (First 15 Mgal)	1,772		\$3.7900	\$6,717		
Block 2 (Next 3,725 Mgal)	84,174		\$2.7804	\$234,035		
Block 3 (Over 3,740 Mgal)	2,128		\$1.8275	\$3,889		
Block 4	-		\$0.0000	\$0		
Block 5	-		\$0.0000	\$0		
Total Industrial-Other	88,074	228 0		\$258,525	\$323,549	79.90%

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREA 2 RATES

WORKPAPER 2 TO APPENDIX C
SCHEDULE 2
PAGE 5 OF 5

	(1)	(2)	(3)	(4)	(5)	(6)
	Usage (Mgal)	Proforma Bills	Proposed Rates		Revenue at STP	Revenues as % of STP
			Rate (\$/Mgal)	Revenue		
Sale for Resale						
Monthly Customer Charges						
5/8-inch		-	\$14.87	\$0		
3/4-inch		-	\$20.72	\$0		
1-inch		-	\$24.34	\$0		
1 1/2-inch		-	\$35.19	\$0		
2-inch		-	\$69.07	\$0		
3-inch		-	\$98.83	\$0		
4-inch		-	\$146.55	\$0		
6-inch		-	\$245.63	\$0		
8-inch		-	\$366.39	\$0		
10-inch		-	\$563.09	\$0		
12-inch		-	\$871.88	\$0		
Commodity Charge						
Block 1	-		\$2.8300	\$0		
Block 2			\$2.5961	\$0		
Total Sale for Resale	-	- 0		\$0 0	\$0	N/A
Total Metered Water	471,446	70,044		\$2,717,115	\$3,078,426	88.26%

0

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREAS 1 & 2

WORKPAPER 3 TO APPENDIX C
SCHEDULE 2
PAGE 1 OF 5

	(1)	(2)	(3)		(5)	(6)
	Usage (Ccf)	Proforma Bills	Proposed Rates		Cost of Service	Revenues as % of COS
			Rate (\$/Mgal)	Revenue		
Residential						
Monthly Customer Charges						
5/8-inch		2,376,776		\$35,342,666		
3/4-inch		632		\$13,093		
1-inch		21,996		\$535,390		
1 1/2-inch		146		\$5,143		
2-inch		941		\$64,977		
3-inch		32		\$3,174		
4-inch		12		\$1,764		
6-inch		-		\$0		
Bi-Monthly Customer Charges						
5/8-inch		367,082		\$8,347,449		
3/4-inch		1,193		\$37,921		
1-inch		5,529		\$218,564		
1 1/2-inch		300		\$18,337		
2-inch		279		\$36,658		
3-inch		-		\$0		
4-inch		-		\$0		
6-inch		-		\$0		
Commodity Charges						
Block 1 (First 20 Ccf)	12,048,883			\$54,818,042		
Block 2 (Next 4,980 Ccf)	760,410			\$2,674,089		
Block 3 (Next 5,000 Ccf)	-			\$0		
Block 4	-			\$0		
Block 5	-			\$0		
Total Residential	12,809,293 0	2,774,919 0		\$102,117,266	\$102,582,659	99.55%

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREAS 1 & 2

WORKPAPER 3 TO APPENDIX C
SCHEDULE 2
PAGE 2 OF 5

	(1)	(2)	(3)		(5)	(6)
	Usage (Ccf)	Proforma Bills	Proposed Rates		Cost of Service	Revenues as % of COS
			Rate (\$/Mgal)	Revenue		
Commercial						
Monthly Customer Charges						
5/8-inch		173,664		\$2,582,384		
3/4-inch		807		\$16,729		
1-inch		66,395		\$1,616,058		
1 1/2-inch		6,570		\$231,197		
2-inch		49,602		\$3,425,978		
3-inch		3,160		\$312,326		
4-inch		2,076		\$304,221		
6-inch		799		\$196,296		
8-inch		133		\$48,565		
10-inch		24		\$13,654		
12-inch		-		\$0		
Bi-Monthly Customer Charges						
5/8-inch		14,958		\$340,140		
3/4-inch		737		\$23,414		
1-inch		5,610		\$221,777		
1 1/2-inch		3,258		\$199,453		
2-inch		3,245		\$425,886		
3-inch		275		\$51,744		
4-inch		46		\$12,968		
6-inch		18		\$8,584		
8-inch		6		\$4,342		
10-inch		-		\$0		
12-inch		-		\$0		
Commodity Charges						
Block 1 (First 20 Ccf)	2,694,420			\$12,262,255		
Block 2 (Next 4,980 Ccf)	7,718,731			\$27,144,839		
Block 3 (Next 5,000 Ccf)	170,613			\$342,932		
Block 4	-			\$0		
Block 5	-			\$0		
Total Commercial	10,583,764 0	331,381 0		\$49,785,744	\$49,278,146	101.03%

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREAS 1 & 2

WORKPAPER 3 TO APPENDIX C
SCHEDULE 2
PAGE 3 OF 5

	(1)	(2)	(3)		(4)	(5)	(6)
	Usage (Ccf)	Proforma Bills	Proposed Rates			Cost of Service	Revenues as % of COS
			Rate (\$/Mgal)	Revenue			
Industrial-Large							
Monthly Customer Charges							
5/8-inch		-		\$0			
3/4-inch		-		\$0			
1-inch		-		\$0			
1 1/2-inch		-		\$0			
2-inch		-		\$0			
3-inch		-		\$0			
4-inch		12		\$1,759			
6-inch		60		\$14,738			
8-inch		-		\$0			
10-inch		-		\$0			
12-inch		-		\$0			
Commodity Charges							
Block 1 (First 20 Ccf)	1,080			\$4,930			
Block 2 (Next 4,980 Ccf)	268,200			\$945,579			
Block 3 (Next 5,000 Ccf)	1,639,509			\$3,295,414			
Block 4	-			\$0			
Block 5	-			\$0			
Total Industrial-Large	1,908,789 0	72 0		\$4,262,420		\$4,472,659	95.30%

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREAS 1 & 2

WORKPAPER 3 TO APPENDIX C
SCHEDULE 2
PAGE 4 OF 5

	(1)	(2)	(3)		(4)	(5)	(6)
	Usage (Ccf)	Proforma Bills	Proposed Rates			Cost of Service	Revenues as % of COS
			Rate (\$/Mgal)	Revenue			
Industrial							
Monthly Customer Charges							
5/8-inch		976		\$14,517			
3/4-inch		12		\$255			
1-inch		1,776		\$43,220			
1 1/2-inch		317		\$11,160			
2-inch		3,789		\$261,703			
3-inch		325		\$32,128			
4-inch		1,016		\$148,824			
6-inch		353		\$86,622			
8-inch		72		\$26,490			
10-inch		-		\$0			
12-inch		-		\$0			
Bi-Monthly Customer Charges							
5/8-inch		-		\$0			
3/4-inch		-		\$0			
1-inch		-		\$0			
1 1/2-inch		6		\$367			
2-inch		-		\$0			
3-inch		-		\$0			
4-inch		-		\$0			
6-inch		-		\$0			
8-inch		-		\$0			
10-inch		-		\$0			
12-inch		-		\$0			
Commodity Charges							
Block 1 (First 20 Ccf)	142,465			\$648,935			
Block 2 (Next 4,980 Ccf)	2,435,840			\$8,525,186			
Block 3 (Next 5,000 Ccf)	369,421			\$742,149			
Block 4	-			\$0			
Block 5	-			\$0			
Total Industrial	2,947,726 0	8,642 0		\$10,541,557	\$10,304,944	102.30%	

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
COMPARISON OF PROPOSED REVENUES TO COST OF SERVICE - AREAS 1 & 2

WORKPAPER 3 TO APPENDIX C
SCHEDULE 2
PAGE 5 OF 5

	(1)	(2)	(3)		(4)	(5)	(6)
	Usage (Ccf)	Proforma Bills	Proposed Rates			Cost of Service	Revenues as % of COS
			Rate (\$/Mgal)	Revenue			
Sale for Resale							
Monthly Customer Charges							
5/8-inch		-		\$0			
3/4-inch		-		\$0			
1-inch		24		\$584			
1 1/2-inch		-		\$0			
2-inch		-		\$0			
3-inch		-		\$0			
4-inch		65		\$9,543			
6-inch		188		\$46,143			
8-inch		24		\$8,793			
10-inch		47		\$26,480			
12-inch		-		\$0			
Commodity Charge							
Block 1	2,466,087			\$6,979,025			
Block 2	1,166,316			\$3,027,836			
Total Sale for Resale	3,632,402 0	348 0		\$10,098,405 0		\$10,168,384	99.31%
Total Metered Water	31,881,975	3,115,362		\$176,805,391		\$176,806,792	100.00%
	0					0	

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
TOTAL REVENUE PROOF - WATER AND SEWER*

APPENDIX D
SCHEDULE 1
PAGE 1 OF 3

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Area 1			Area 2			
	Monthly Bills	Proposed Charges	Proposed Revenues	Monthly Bills	Proposed Charges	Proposed Revenues	Total Revenues
			(1) * (2)			(4) * (5)	(3) + (6)
Base Water Rates							
Monthly Customer Charges							
5/8-inch	2,484,235	\$ 14.30	\$35,524,562	67,182	\$ 14.30	\$960,698	\$36,485,261
3/4-inch	1,265	\$19.56	\$24,738	187	\$19.56	\$3,655	\$28,393
1-inch	88,900	\$23.29	\$2,070,472	1,292	\$23.29	\$30,080	\$2,100,551
1 1/2-inch	6,541	\$34.20	\$223,696	492	\$34.20	\$16,842	\$240,537
2-inch	53,569	\$65.70	\$3,519,495	762	\$65.70	\$50,067	\$3,569,562
3-inch	3,438	\$95.71	\$329,006	80	\$95.71	\$7,648	\$336,654
4-inch	3,156	\$143.16	\$451,807	25	\$143.16	\$3,523	\$455,330
6-inch	1,375	\$243.95	\$335,404	25	\$243.95	\$6,042	\$341,447
8-inch	229	\$366.55	\$83,885	0	\$366.55	\$0	\$83,885
10-inch	71	\$566.84	\$40,401	0	\$566.84	\$0	\$40,401
12-inch	0	\$884.74	\$0	0	\$884.74	\$0	\$0
Total Monthly Customer Charge Revenues	2,642,778		\$42,603,465	70,044		1,078,555	\$43,682,020
							0
Bi-Monthly Customer Charges							
5/8-inch	382,040	\$ 21.61	\$8,255,884	0	\$ 21.61	\$0	\$8,255,884
3/4-inch	1,929	\$30.13	\$58,132	0	\$30.13	\$0	\$58,132
1-inch	11,139	\$38.03	\$423,632	0	\$38.03	\$0	\$423,632
1 1/2-inch	3,563	\$59.84	\$213,240	0	\$59.84	\$0	\$213,240
2-inch	3,524	\$124.86	\$439,991	0	\$124.86	\$0	\$439,991
3-inch	275	\$182.85	\$50,193	0	\$182.85	\$0	\$50,193
4-inch	46	\$277.77	\$12,686	0	\$277.77	\$0	\$12,686
6-inch	18	\$479.34	\$8,535	0	\$479.34	\$0	\$8,535
8-inch	6	\$724.55	\$4,347	0	\$724.55	\$0	\$4,347
10-inch	0	\$1,125.13	\$0	0	\$1,125.13	\$0	\$0
12-inch	0	\$1,760.94	\$0	0	\$1,760.94	\$0	\$0
Total Bi-Monthly Customer Charge Revenues	402,540		\$9,466,640	0		0	\$9,466,640
							0
Commodity Charges - Retail							
Block 1 (First 15 Mgal)	14,603,082	\$4.3679	\$63,784,802	283,766	\$3.6056	\$1,023,147	\$64,807,949
Block 2 (Next 3,725 Mgal)	10,997,629	\$3.3380	\$36,710,087	185,552	\$2.6396	\$489,782	\$37,199,869
Block 3 (Over 3,740 Mgal)	2,177,416	\$1.9121	\$4,163,438	2,128	\$1.7350	\$3,692	\$4,167,129
Commodity Charges - Sale for Resale							
Block 1 (First 30,000 Mgal)	2,466,087	\$2.6800	\$6,609,112	0	\$2.6800	\$0	\$6,609,112
Block 2 (Over 30,000 Mgal)	1,166,316	\$2.4736	\$2,884,999	0	\$2.4736	\$0	\$2,884,999
Total Commodity Charge Revenue	31,410,530		\$114,152,437	471,445		\$1,516,621	\$115,669,058

* Reflects the existing DSIC at 4.57%.

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
TOTAL REVENUE PROOF - WATER AND SEWER

APPENDIX D
SCHEDULE 1
PAGE 2 OF 3

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Area 1 and Area 2						Total Revenues
	Monthly Bills	Proposed Charges	Proposed Revenues				(3) + (6)
Private Fire Protection			(1) * (2)				
2-inch	1,159	\$ 3.17	\$3,674				\$3,674
2 1/2-inch	0	\$5.69	\$0				\$0
3-inch	681	9.20	\$6,268				\$6,268
4-inch	8,271	\$19.60	\$162,109				\$162,109
6-inch	22,729	\$56.94	\$1,294,202				\$1,294,202
8-inch	11,869	\$121.35	\$1,440,253				\$1,440,253
10-inch	1,189	\$218.23	\$259,580				\$259,580
12-inch	750	\$352.50	\$264,262				\$264,262
Hydrants	13,609	56.94	\$774,885				\$774,885
	60,257		\$4,205,232				\$4,205,232
Public Fire Protection							0
Inside Hydrants Subject to Muni. Pmt.	25,613	\$ 65.47	\$1,676,910				\$1,676,910
IC 8-1-2-103 Charge-Retail:							
5/8-inch	2,895,184	\$ 4.67	\$13,520,511				\$13,520,511
3/4-inch	5,176	\$7.00	\$36,233				\$36,233
1-inch	101,750	\$11.67	\$1,187,425				\$1,187,425
1 1/2-inch	13,275	\$23.34	\$309,837				\$309,837
2-inch	52,706	\$37.34	\$1,968,043				\$1,968,043
3-inch	3,291	\$70.02	\$230,441				\$230,441
4-inch	2,732	\$116.70	\$318,768				\$318,768
6-inch	1,154	\$233.40	\$269,428				\$269,428
8-inch	176	\$373.44	\$65,740				\$65,740
10-inch	(15)	\$606.84	(\$9,119)				(\$9,119)
12-inch	0	\$1,003.61	\$0				\$0
	3,075,430		\$19,574,218				\$19,574,218
			0				0

INDIANA-AMERICAN WATER COMPANY
IURC CAUSE NO. 44450
SETTLEMENT COST OF SERVICE STUDY
TOTAL REVENUE PROOF - WATER AND SEWER

APPENDIX D
SCHEDULE 1
PAGE 3 OF 3

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Area 1 and Area 2						Total Revenues
	Monthly Bills	Proposed Charges	Proposed Revenues				(3) + (6)
Public Fire Protection (cont.)			(1) * (2)				
IC 8-1-2-103 Sale for Resale:							
5/8-inch	0	\$3.40	\$0				\$0
3/4-inch	0	\$5.23	\$0				\$0
1-inch	24	\$9.03	\$217				\$217
1 1/2-inch	0	\$18.87	\$0				\$0
2-inch	0	\$30.54	\$0				\$0
3-inch	0	\$54.45	\$0				\$0
4-inch	65	\$92.99	\$6,055				\$6,055
6-inch	188	\$193.11	\$36,276				\$36,276
8-inch	24	\$312.90	\$7,509				\$7,509
10-inch	47	\$513.40	\$24,143				\$24,143
12-inch	0	\$859.01	\$0				\$0
	348		\$74,201				\$74,201
Miscellaneous Revenues							\$4,514,386
DSIC Revenues							7,714,970
Total Water Revenues			\$190,001,992			\$2,595,176	\$204,900,725
Total Water Cost of Service							\$ 205,295,900
<u>SEWER BASE RATES</u>							
MUNCIE							
Residential	4,537	\$ 69.46	\$315,140				
Commercial	0	\$ 69.46	\$0				
SOMERSET							
Residential	972	\$ 69.46	\$67,501				
Commercial	161	\$ 69.46	\$11,206				
Total Sewer Revenues			\$393,847				\$393,847
<u>COMBINED WATER AND SEWER</u>							
Total Water and Sewer Revenues							\$205,294,572
						with Misc. Revenue -->	\$ 205,295,900
Over (Under) Recovery - \$							(\$1,328)
- %							-0.0006%

PETITIONER'S EXHIBIT S-2

INDIANA-AMERICAN WATER COMPANY, INC.

IURC CAUSE NO. 44450

SETTLEMENT TESTIMONY

OF

GARY M. VERDOUW

**SPONSORING JOINT EXHIBIT 2
(INCLUDING APPENDICES C AND D)**

**SETTLEMENT TESTIMONY
OF
GARY M. VERDOUW**

CAUSE NO. 44450

Q. Please state your name and business address.

A. My name is Gary M. VerDouw and my business address is 727 Craig Road, Saint Louis, Missouri 63141.

Q. What is your position?

A. I am employed by American Water Works Service Company (“AWWSC” or “Service Company”) as the Director of Rates – Central Division. The Service Company is a subsidiary of American Water Works Company, Inc. (“American Water”) that provides support services to American Water’s subsidiaries, including Indiana-American Water Company, Inc. (“Indiana American” or the “Company”).

Q. What is the purpose of your testimony?

A. I will sponsor the Stipulation and Settlement Agreement (herein the “Comprehensive Settlement,” and the “Comprehensive Settlement Agreement”) that has been signed by the Company and by the Indiana Office of Utility Consumer Counselor (the “OUCC”), the Indiana-American Industrial Group (the “Industrial Group”), the City of Crown Point (“Crown Point”), the Town of Schererville, the Town of Chesterton, the City of West Lafayette, the City of Winchester, the City of Gary and Sullivan-Vigo Rural Water Corporation (collectively, the “Intervenors Schererville et al.” and together with the

PETITIONER'S EXHIBIT S-2

1 Company, the OUCC, the Industrial Group and Crown Point, the “Settling Parties”),
2 which agreement is identified as Joint Exhibit 2 and includes the appendices containing
3 the cost of service and rate design schedules supporting the settled positions. I will
4 explain why the Comprehensive Settlement is in the public interest.

5 **Q. What does the Comprehensive Settlement Agreement provide?**

6 A. I will provide an overview of the key terms of Settlement. The Agreement itself provides
7 a much more detailed explanation of the concessions that the Settling Parties are making.
8 The Comprehensive Settlement Agreement incorporates the terms of the November 18,
9 2014 Settlement Agreement between the OUCC and the Company, thereby joining the
10 other Settling Parties in the agreed resolution of the revenue requirements, cost of capital,
11 rate base and other matters set forth therein. The Comprehensive Settlement Agreement
12 sets forth the agreed allocation of the rate increase provided under the November 18,
13 2014 Settlement Agreement and the rate design the Settling Parties agree should be
14 approved by the Commission in this Cause, which accomplishes the agreed allocation.
15 The Comprehensive Settlement Agreement also contains commitments by the Company
16 to undertake a new capacity factor study using the AWWA Manual M1 process outlined
17 in Appendix A thereto, as well as commitments to undertake certain collaborative efforts,
18 all as described in greater detail elsewhere in my testimony. The Comprehensive
19 Settlement Agreement also sets forth the Company’s agreement that it will not file a
20 DSIC application prior to January 1, 2016.

21 Overall, the Comprehensive Settlement Agreement represents a reasonable outcome from

PETITIONER'S EXHIBIT S-2

1 the considerable efforts on the part of each of the Settling Parties to reach resolution on
2 all issues in a manner suitable to all parties involved.

3 **Q. How does the Comprehensive Settlement Agreement resolve the cost of service**
4 **study and rate design issues presented in this Cause?**

5 A. The results of the agreed rate design are: a 1.2% increase for residential customers,
6 1.22% for commercial customers, 3.4% for the industrial class as a whole, 3.5% for Sale-
7 for-Resale customers and 13.93% for public fire protection. To achieve the agreed
8 allocation, the agreed rate design includes changes to the 2" meter charge for General
9 Service and also includes a return to declining rate block structure for large Sale-for-
10 Resale customers. The latter represents a return to the rate structure that was in place
11 prior to Cause No. 43680. The rates shown in Appendix C to the Comprehensive
12 Settlement Agreement are the rates that would be effective after the filing of the
13 November 30, 2015 certification described in the November 18, 2014 Settlement
14 Agreement ("Phase II Rates"), and approval by the Commission. The rates shown in
15 Appendix D to the Comprehensive Settlement Agreement are the rates that will go into
16 effect upon approval of Indiana American's request for approval of interim rates
17 ("Interim Rates"). The Interim Rates will be in effect from the date they are approved by
18 the Commission until such time as the terms of the Comprehensive Settlement
19 Agreement are approved and a new schedule of rates and charges is approved by the
20 Commission to reflect the Company's approved revenue requirement as of November 30,
21 2014 ("Phase I Rates") based on the Company's utility plant in service as of that date and

PETITIONER'S EXHIBIT S-2

1 the other terms of the November 18, 2014 Settlement Agreement and the Comprehensive
2 Settlement Agreement. The Comprehensive Settlement Agreement provides that the
3 Phase I rates shall be based on the agreed rate design developed to implement the Phase
4 II rates, adjusted on an across-the-board basis by rate component to reflect the difference
5 between the Phase I and Phase II revenue requirements and the inclusion of any DSIC
6 charge in base rates with the approval of the Phase I rate, which will reset the existing
7 DSIC to zero. The Settling Parties have agreed that the existing DSIC will remain in
8 place until a final order is issued in this Cause, approving the Comprehensive Settlement
9 Agreement and the November 18, 2014 Settlement Agreement, at which time the DSIC
10 will be reset to zero.

11 **Q. Why is the agreed allocation to the public fire protection class higher than the**
12 **system average?**

13 A. In our last case, the rates for Industrial and Sale for Resale customers were increased
14 significantly more than the system average. In this case, it is necessary to hold the
15 increases to these classes much closer to the system average. The same is not true of
16 public fire protection. For several rate cases, Indiana American's approved rate design
17 has held down the public fire protection increase below the increase indicated by our
18 COSS studies, resulting in a growing subsidy of significant proportion by the other
19 customer classes. Today, almost all of the Company's customers are on the public fire
20 protection surcharge by meter size, and therefore this increase is being spread ratably
21 across nearly all customers (other than Sale for Resale, which is calculated separately).

PETITIONER'S EXHIBIT S-2

1 The proposed increase for public fire protection pursuant to the Settlement is still below
2 the requested increase included in Petitioner's case-in-chief, however. Given the modest
3 increase in revenues agreed upon under the November 18, 2014 Settlement, the Company
4 believes this is the ideal case in which to address the significant subsidy afforded public
5 fire protection historically.

6 **Q. Does the Comprehensive Settlement Agreement address all of the various disputes**
7 **raised by the parties with respect to the cost of service study presented in this**
8 **Cause?**

9 A. The Comprehensive Settlement Agreement does not specifically address each of the
10 items related to the cost of service study, but instead represents a global settlement of the
11 issues by acknowledging that the development of an agreed upon rate design makes
12 resolution of those specific issues unnecessary.

13 **Q. In your opinion, is the agreed rate design reasonable?**

14 A. Yes, for the reasons described above and because the agreed upon allocations and rate
15 design are within the ranges of the potential cost-of-service allocation determinations the
16 Commission could make based upon the evidence of record in this Cause.

17 **Q. What has the Company committed to do with respect to the capacity factor study?**

18 A. For purposes of the Comprehensive Settlement, the Company has agreed in its next case
19 to present a capacity factor study using the process for determining non-coincident
20 peaking factors as outlined in Appendix A to Principles of Water Rates, Fees, and

PETITIONER'S EXHIBIT S-2

1 Charges (AWWA Manual M1), 6th edition, and using multiple years of billing and system
2 demand data. The Company has committed to using actual billing and system demand
3 data to the extent available. Where actual billing and system demand data is unavailable,
4 the Company will use engineering judgment and experience to estimate based upon the
5 data that is available. The Settling Parties agree the Company may defer the reasonable
6 and prudent expenses incurred to conduct the capacity factor study required by the
7 Comprehensive Settlement Agreement up to \$250,000.00 for recovery in the Company's
8 next general rate case. The Comprehensive Settlement Agreement also preserves the
9 right of the Settling Parties to challenge in good faith, the expenses incurred, and the
10 proposed mechanism of recovery, at the time Indiana American seeks recovery of the
11 expenses related to the study.

12 **Q. What collaborative efforts has the Company agreed to undertake pursuant to the**
13 **Comprehensive Settlement Agreement?**

14 A. As part of the Comprehensive Settlement, to address concerns raised primarily by Crown
15 Point, and in addition to the undertakings promised by the Company in the November 18,
16 2014 Settlement Agreement, the Company has committed to (1) include any interested
17 intervenors in any meetings with the OUCC to discuss utility performance benchmarking,
18 as addressed in the November 18, 2014 Settlement Agreement; (2) prior to July 31, 2015,
19 arrange a meeting with the OUCC and other interested intervenors to explain the
20 Company's prioritization model which is used to select distribution and other system
21 improvements, with such meeting open to Commission Staff to the extent it wishes to

PETITIONER'S EXHIBIT S-2

1 participate; (3) permit direct contact between Crown Point and Schererville with Indiana
2 American's Vice President of Operations in order to resolve any further questions over
3 meter readings now or in the future; (4) work informally and in good faith to resolve any
4 concerns in meter reading accuracy and differences between customer and Company
5 meter reads; and (5) within 120 days of Commission approval of the Settlement, meet
6 with Crown Point representatives and any other interested SFR customer representatives
7 to discuss the appropriateness, feasibility and workings of alternative rate designs, a
8 demand-commodity rate, other pricing suggestions and how Petitioner can better meet the
9 customers metering, billing and service interests.

10 **Q. Is the Comprehensive Settlement Agreement in the public interest?**

11 A. Yes it is.

12 **Q. What relief are you requesting?**

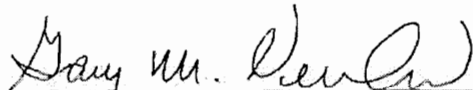
13 A. I am requesting that the Commission issue an order in substantially the form attached to
14 the Comprehensive Settlement Agreement as *Attachment 1*, approving both the
15 November 18, 2104 Settlement Agreement and the Comprehensive Settlement
16 Agreement without modification and would urge that the Commission do so as soon as
17 possible.

18 **Q. Does this conclude your settlement testimony?**

19 A. Yes, at this time.

VERIFICATION

I, Gary M. VerDouw, Director of Rates - Central Division for American Water Works Service Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.



Gary M. VerDouw

Date: December 8, 2014