

ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Bennett	√		
Freeman	√		
Veleta	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF MARYSVILLE-OTISCO-NABB)
WATER CORPORATION: (1) FOR AUTHORITY)
AND APPROVAL TO INCREASE RATES AND)
CHARGES FOR WATER SERVICE, INCLUDING)
APPROVAL OF NEW SCHEDULE(S) OF RATES)
AND CHARGES FOR WATER SERVICES (2) FOR)
AUTHORITY AND APPROVAL TO ISSUE BONDS,)
NOTES, OR OTHER OBLIGATIONS OF)
INDEBTEDNESS)**

CAUSE NO. 45955

APPROVED: OCT 23 2024

ORDER OF THE COMMISSION

**Presiding Officers:
Wesley R. Bennett, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge**

On September 29, 2023, Marysville-Otisco-Nabb Water Corporation (“MON Water” or “Petitioner”) filed with the Indiana Utility Regulatory Commission (“Commission”) its Verified Petition seeking approval to increase its rates and charges for water service and to issue bonds, notes, or other obligations of indebtedness. Petitioner filed testimony and exhibits constituting its case-in-chief on October 2, 2023.

On January 12, 2024, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its testimony and exhibits. On February 16, 2024, Petitioner filed its rebuttal testimony.

The Presiding Officers requested additional information from Petitioner in a February 23, 2024 docket entry to which Petitioner responded on February 29, 2024.

On February 26, 2024, Petitioner filed an Agreed Motion for Leave to Supplement Cases-in-Chief and to Revise Procedural Schedule, which the Presiding Officers granted by docket entry on March 5, 2024. On March 15, 2024, Petitioner filed supplemental testimony and exhibits. On May 30, 2024, the OUCC filed its supplemental testimony and exhibits. On June 27, 2024, Petitioner filed its supplemental rebuttal testimony.

The Presiding Officers requested additional information from the OUCC in a July 23, 2024 docket entry to which the OUCC responded on July 24, 2024. The OUCC also filed corrected supplemental testimony of Thomas Malan on July 24, 2024.

An evidentiary hearing was held on July 30, 2024, at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the parties’ prefiled testimony and exhibits were offered and admitted into evidence without objection and the parties cross-examined witnesses.

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

1. Notice and Jurisdiction. Notice of the time and place of the hearing conducted in this Cause was given as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a), and as such, the Commission has authority under Ind. Code § 8-1-2-125 to approve Petitioner's rates and charges for water service and under Ind. Code §§ 8-1-2-78 through -81 to authorize issuances of long-term indebtedness. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. Petitioner's Characteristics. MON Water is a not-for-profit water utility that owns and operates a waterworks utility, which provides water sales and service to customers in and around the unincorporated communities of Marysville, Otisco, and Nabb, which are located in Clark and Scott Counties. The water utility system includes two elevated storage tanks and approximately 709,600 linear feet of main, which varies in size from two inches to 12 inches in diameter. The majority of Petitioner's water supply is purchased from the Stucker Fork Conservancy District ("Stucker Fork") and conveyed through a 12-inch transmission main. However, in emergency conditions, water can be purchased from Indiana American Water ("IAW") through a booster station connected by a six-inch water main with asbestos cement pipe.

3. Existing Rates and Relief Requested. MON Water's current rates and charges were established by the Commission's January 14, 2004 Order in Cause No. 42476 U. In this case, Petitioner seeks approval to: (1) increase its rates and charges for water services; (2) amend its schedule of water rates and charges; and (3) issue bonds, notes, or other obligations of indebtedness.

4. Test Year. The test period selected for determining revenues and expenses reasonably incurred in providing water utility services to customers is the 12 months ended December 31, 2022. With adjustments for changes that are fixed, known, and measurable, the Commission finds that this test period is sufficiently representative of normal operations to provide reliable data for ratemaking purposes.

5. The Parties' Initial Evidence.

A. Petitioner's Direct Evidence.

1. Jerome Hentrup. Mr. Hentrup, Secretary of the MON Water Board of Directors described MON Water as a not-for-profit water utility that serves approximately 2,506 customers in the unincorporated communities of Marysville, Otisco, and Nabb. He stated the water provided to customers is primarily sourced from Stucker Fork but that water can also be purchased from IAW. Mr. Hentrup testified that MON Water owns and operates two elevated storage tanks and has a corresponding distribution system consisting of approximately 709,600 linear feet of pipe. He said the oldest water mains within the distribution system are assumed to have been installed in the late 1960s.

Mr. Hentrup testified that on September 27, 2023, Petitioner's Board of Director's approved a resolution authorizing the filing of the petition in this Cause. He opined that MON Water's current rates and charges are insufficient to meet the water utility's revenue requirements based on his general experience, observations, and the obvious condition and the functionality of the system. He said his opinion is further supported by the financing and engineering studies

conducted by Sherman, Barber, & Mullikin, CPAs and Commonwealth Engineers, Inc., respectively.

Mr. Hentrup testified that MON Water seeks to issue secured notes or other obligations of indebtedness to install: (1) a new 300,000 gallon elevated water storage tank on a parcel of land currently owned by MON Water, a gravel drive, and security fencing; (2) improvements to the booster station that transports water from Charlestown, Indiana, including replacement of the existing booster station pump, a variable frequency drive to control the flow, a Mission Cellular System to remotely monitor the booster station, and an emergency generator; and (3) approximately 26,600 linear feet of an eight-inch water main loop (“Water Main Loop”) near Charlestown, Indiana that connects the existing two-inch master meter on Charlestown-Memphis Road to the intersection of Opossum Road and State Road 160.

2. Tracy Wyne. Ms. Wyne, a Certified Public Accountant, Certified Fraud Examiner, and Manager of Sherman, Barber, and Mullikin, CPAs testified regarding the Rate Study prepared for MON Water, which used a test year ending December 31, 2022. She testified that based on the Rate Study, MON Water will need an increase in annual operating revenues of \$590,401, which represents an increase of 63.9% above forecasted present rates to be implemented as an across-the-board increase to all customers. She testified the proposed rate increase is calculated based on MON Water’s expected income and expenses and other cash flows of the forecasted year ending December 31, 2023.

Ms. Wyne identified the contents of the Rate Study and explained the method used to develop the forecasted adjustments to the test year. She stated the adjustments made in the Rate Study include: (1) elimination of non-recurring revenue and expense, (2) normalization of metered residential revenues, (3) increase in purchased water and other supplier charges, (4) reduction in insurance expense, (5) increase to salaries, (6) increase in annual maintenance expense, (7) increase in operational costs, (8) normalization of IURC fees, and (9) adjustments to rate sensitive revenue. Regarding metered residential revenues, Ms. Wyne noted that Petitioner added 30 new customers during the test year. Thus, the Rate Study used an average annual increase of 31 customers for the 12 months following the test year, with customer growth being predicted based on a three-year average of historical growth.

Ms. Wyne testified that Petitioner is including a five-year extensions and replacements plan in its revenue requirements, which is an annual requirement of \$122,422. She testified that MON Water desires to finance the projects with a loan from the Indiana Finance Authority’s State Revolving Fund (“SRF”) Loan program, as well as a local match, and an American Rescue Plan (“ARP”) Grant for total funding of \$9,485,200. Ms. Wyne testified that the amortization schedules of the proposed SRF notes are to be paid semi-annually over a 35-year period beginning July 1, 2024. She said an additional requirement of \$85,300 has been included to satisfy the requirements for a separate debt service reserve equal to the maximum debt service on the proposed SRF borrowings to be funded over a five-year period and an estimated 4% interest rate was used for the SRF proposed debt service. However, because of potential market fluctuation, project priority ranking by SRF, and supply chain and labor shortage issues, Ms. Wyne testified that MON Water will file a true-up report. She explained that once the bid process is complete, MON Water will know both the cost of the projects and the interest rate(s) available through SRF. She said that within 30 days of closing, MON Water will provide a true-up report describing the final terms and

amount of the debt, the debt service reserve provisions, a revised amortization schedule based on the final debt terms, and a revised tariff.

Ms. Wyne testified that the SRF loan program provides a reasonable, cost-effective means of financing the proposed projects because the longer-term better matches customers' use of the assets to payments for the assets. In addition, SRF's low interest rates and long amortization periods will allow the projects to be completed with a lessened rate impact. Ms. Wyne testified that MON Water's proposed average annual debt service, calculated on a five-year average, is \$425,520.

3. Robert Bellucci. Mr. Bellucci, a Professional Engineer and Vice President/Senior Project Manager at Commonwealth Engineers, Inc. testified regarding the preliminary design of the project, including the preparation of the Preliminary Engineering Report ("PER") and assembly of a hydraulic model of MON Water's drinking water distribution system.

Mr. Bellucci testified that MON Water owns and operates two elevated storage tanks and a corresponding distribution system. The Marysville tank is a 75,000-gallon elevated tank and the Otisco tank is a 250,000-gallon elevated tank. Mr. Bellucci testified that the Stucker Fork connection supplies water to the Marysville elevated storage tank and the IAW emergency connection is connected at the southern end of the distribution system from Charlestown, Indiana. He testified that in the event of a disruption to the Stucker Fork connection, the connection with IAW would be unable to satisfy system demands by itself because of reduced volume and residual pressures. Mr. Bellucci testified that to maintain overall health, safety, and reliability, an additional connection is recommended.

Mr. Bellucci testified the average operating pressure of the distribution system is approximately 75 psi. Mr. Bellucci testified that MON Water's existing distribution system has large areas of pipe that are two, three, and four inches in diameter and these smaller pipes can lead to a low residual pressure that may fall below the Indiana Administrative Code and Ten States Standards threshold of 20 psi. He stated that low residual pressures can lead to system backflow and increased risks to public health, welfare, and safety.

Mr. Bellucci testified that several areas within the distribution system consist of thin-walled polyvinyl chloride ("PVC") and asbestos cement water mains, which are prone to frequent breaks causing unnecessary disruptions in service. He testified that much of the existing distribution system is approaching the end of its useful life. He noted that older piping is more susceptible to leaking, which increases the potential for system water loss. Although the water loss analysis shows Petitioner experiences an approximate 20% water loss, Mr. Bellucci testified that residual pressures would benefit from replacing undersized mains with larger diameter piping. Thus, he recommended replacement of the older four-inch and smaller water mains.

After testifying about the various alternative solutions that were developed and considered to address the needs and deficiencies noted within MON Water's existing distribution system, Mr. Bellucci testified that the Phase 1 project was presented with alternative consideration given to implementation of Phase 1A (construction of a new 300,000-gallon tank and the booster station upgrades) and Phase 1B (installation of the Water Main Loop). Mr. Bellucci recommended

combining the Phase 1A and 1B projects into a single project at a cost of \$9,485,200, which would save MON Water nearly \$400,000 compared to keeping them as separate projects.

B. OUCC's Evidence.

1. Shawn Dellinger. Mr. Dellinger, a Senior Utility Analyst for the Water/Wastewater Division of the OUCC addressed MON Water's requested debt authority and debt service reserve requirements.

Mr. Dellinger testified that he believes that MON Water's estimated 4% interest rate is too low and 4.73% is a more appropriate interest rate based on interest rate changes over the past year. He further testified that given the possibility of an increase in interest rates of approximately 25 basis points, 5% would be a reasonable interest rate assumption for setting initial rates subject to true-up.

Based upon OUCC witness Parks' recommendation to deny approval of the Water Main Loop project, Mr. Dellinger testified the costs of that project (including associated non-construction costs) should be removed from the amount of financing authorized. He said the OUCC does not oppose financing for the elevated storage tank. However, he disagreed with the inclusion of some of Petitioner's non-construction costs, noting some estimates were overstated, would not be incurred unless alternative means of financing were pursued, and were not sufficiently supported. Ultimately, Mr. Dellinger recommended a non-construction cost estimate of \$791,500 for the purpose of establishing a revenue requirement. But because of the possibility of alternative financing, he said the appropriate amount to include in a debt authorization for non-construction costs is \$870,500.

Mr. Dellinger testified that the total amount of financing that should be used to determine Petitioner's appropriate revenue requirement is \$2,650,260. Based on a 5% interest rate and Petitioner's proposed debt profile (no wrapping or interest only period, 35-year term), he recommended an annual debt service revenue requirement of \$165,000, which would be subject to true-up.

Mr. Dellinger testified the OUCC accepts Petitioner's request for an additional \$620,000 of debt authority for cost overruns. However, he said such authority should only be granted with assurances to implement cost containment measures and confine the project scope to the design presented in this case. Mr. Dellinger concluded that based on his analysis, MON Water should be authorized debt authority of \$3,425,000.

Based on an annual debt service revenue requirement of \$165,000, Mr. Dellinger testified the appropriate amount of debt service reserve revenue requirement is \$33,000. He said the debt service reserve should be placed in a restricted account and Petitioner should be required to notify the Commission and OUCC if funds are spent for any reason other than to make the last payment on its current or proposed debt issuances.

Finally, Mr. Dellinger explained the true-up process for Petitioner's proposed annual debt service once the interested rates on the proposed debt are known and recommended the financing authority in this case expire at the end of 2025.

2. James T. Parks. Mr. Parks, a Senior Utility Analyst in the Water/Wastewater Division of the OUCC addressed MON Water's operations and proposed capital projects.

Mr. Parks described MON Water's utility operations. He noted that Petitioner does not currently provide fire protection services to its customers and there are no fire hydrants located within Petitioner's water system. He testified that Petitioner is taking steps to locate and repair water system leaks. He said Petitioner should continue to address non-revenue water in excess of 25%, which occurred in both 2021 and 2023. He also noted that Petitioner is working to complete an asset management plan and recommended Petitioner file a copy of the completed plan with the Commission and OUCC within six months of an order in this case. He also noted that Petitioner does not have an up-to-date water main inventory or a current system-wide map, and recommended Petitioner complete a current asset register and a system-wide map.

Mr. Parks provided an overview of MON Water's proposed capital projects. He recommended approval of the Phase 1A projects, noting the 300,000-gallon tank will be funded with a \$1.5 million ARP grant and will provide additional water storage so Petitioner can meet Ten States Standards storage capacity requirements. He also recommended Petitioner's borrowing authority should be based on the \$3,364,100 estimated construction cost for the projects.

As for the Phase 1B project, Mr. Parks recommended denial of financing authority because Petitioner had not justified the Water Main Loop project is needed to provide another emergency water supply connection from IAW during outages of supply from Stucker Fork, there are other lower cost alternatives, and the main reason for the project appears to be to serve potential developments near Charlestown.

Mr. Parks identified several inconsistencies and deficiencies associated with the Water Main Loop in Petitioner's PER. He testified that both IAW's and Petitioner's existing water mains at the two-inch master meter are four-inch diameter, which are not large enough by themselves to provide fire protection service to potential subdivisions. However, he said the proposed eight-inch Water Main Loop should enable Petitioner to deliver sufficient water velocities to the subdivisions. But Mr. Parks said the cost to install the Water Main Loop and the new fifth connection with IAW to extend water service to the new subdivisions should be paid by the developers in accordance with the Commission's main extension rules.

Mr. Parks testified that, based on discovery responses, the Water Main Loop will not replace existing two, three, and four-inch water mains because those existing mains will not be retired from service. Mr. Parks explained that with main replacement projects, typically all existing service connection are switched over to the new main and the original mains are retired from service. Because retiring the original mains removes older and undersized mains that may be prone to main breaks and water losses, Mr. Parks recommended Petitioner be required to switch over all services to new water mains.

Mr. Parks addressed several issues with the hydraulic model used by Petitioner's engineer, including the minimum pressure limits required by Indiana regulations and errors in pipe inventory due to Petitioner's incomplete or inaccurate water system mapping. He also noted that Petitioner did not identify any emergency supply alternatives other than the proposed Water Main Loop. Mr.

Parks suggested Petitioner could install the remaining 10,500 linear foot section of 12-inch water transmission main along State Road 3 between Petitioner's existing booster station (connected to IAW's system) and Harry Hughes Road, which would result in a continuous 12-inch transmission main between both purchased water suppliers. Mr. Parks explained that although this solution was identified and funded in Petitioner's last rate case, Cause No. 42476 U, Petitioner had not completed the project. Mr. Parks testified that completing the project would help address the main break issue on the original 1965 vintage six-inch asbestos cement water mains.

Based on Petitioner's discovery responses, Mr. Parks stated the Commission should consider the real purpose of Petitioner's proposed Water Main Loop is to serve proposed developments near Charlestown and not because of the need to establish another emergency supply connection to IAW's Charlestown system. As such, he said Petitioner should procure funds for such infrastructure by following the Commission's main extension rules under 170 IAC 6-1.5 when extending service to new subdivisions. Mr. Parks said Petitioner should develop main extension agreements and the estimated costs to design and construct the main extension, where all costs except a three-year revenue allowance are the responsibility of the developers and should be paid to Petitioner. Mr. Parks also identified other alternatives for serving the new subdivisions, including possible service by IAW who may be better situated to serve due to location.

Mr. Parks also expressed concern about Petitioner's need for a second emergency connection, stating Petitioner should cooperate with Stucker Fork to address outages at the Stucker Fork primary supply mains and update its Emergency Response Plan by adding procedures that are to be taken for outages. He noted that neither Petitioner's case nor the PER described the nature of outages on Stucker Fork's supply mains. While Petitioner's discovery responses identified three Stucker Fork outages in the last five years, Mr. Parks found it concerning that Petitioner did not know the reasons the outages were prolonged. He also pointed out that he was able to confirm Petitioner purchased water from IAW through the existing emergency connection during those three outages.

3. Thomas W. Malan. Mr. Malan, a Utility Analyst in the Water/Wastewater Division of the OUCC addressed Petitioner's revenues and expenses and provided recommendations regarding Petitioner's accounting practices and restricted accounts.

Mr. Malan testified that he agreed with Petitioner's proposed operating revenue adjustments but because Petitioner did not recognize that late fees will increase with its rates, he also included \$7,109 of late fee revenue as revenues subject to increase in his calculations. Mr. Malan testified that he also agreed with Petitioner's proposed operating expense adjustments but disagreed with the characterization of some of the expenses as contractual services—repairs and maintenance expense, asserting that those costs are more properly characterized as capital expense and included in the extensions and replacements revenue requirement. He also recommended additional operating expense adjustments to remove: (1) labor and travel cost that will be recovered through MON Water's tap fee; (2) costs that are capital in nature; and (3) expenses that are not recoverable in rates.

Upon making these adjustments and including the recommendations of the other OUCC witnesses, Mr. Malan testified that the OUCC recommends the Commission approve an across-the-board rate increase of 29.14% to generate an additional \$271,323 of operating revenues per year.

Mr. Malan also recommended Petitioner establish a restricted account for tank painting and extensions and replacements as required by the Commission's January 14, 2004 Order in Cause No. 42476 U. He recommended placing into the restricted account an annual amount of \$48,479 for Petitioner's existing tanks and \$23,500 for the proposed new tank. He also recommended Petitioner be required to report the balance of the restricted account along with any withdrawals as part of its annual report to the Commission.

C. Petitioner's Rebuttal Evidence.

1. Tracy Wyne. Ms. Wyne testified that many of the OUCC's proposed changes and corrections to her testimony and the Rate Study are nominal and do not have any material impact on MON Water's petition. While she largely agreed with the OUCC's recharacterization of certain expenses and fees, she disagreed with the recommendation that Petitioner deposit all funds collected in association with new tank maintenance into a restricted account for tank painting. She testified that creating a restricted account for one item is unnecessary because MON Water pledges to use all revenues to satisfy each of the revenue requirements and that the administrative burden to maintain and report on funding one expense outweighs the perceived benefit.

Ms. Wyne testified that because MON Water's requested rate increase was based on historical data, as adjusted for fixed, known, or measurable changes during the forecast period, she did not share the OUCC's concerns regarding affordability for customers. She also expressed disagreement with the OUCC's recommended loan repayment period of 35 years as not appropriate for an above-ground project financed by an SRF loan. Ms. Wyne testified that a 20-year term is more appropriate and estimated the annual debt service requirements to be approximately \$230,000.¹

Ms. Wyne further testified that the 4% interest rate used in the Rate Study was the best-known rate for such indebtedness when the case was filed. While she agreed the final interest rate would likely be higher than that estimate, she said that adjustments of this type are typically addressed in a true-up filing once funding is secured.

Ms. Wyne agreed that certain non-construction costs related to the United States Department of Agriculture – Rural Development financing should be removed if MON Water obtains SRF financing. She also generally agreed with the recharacterization of regulatory assistance, administrative (general), local attorney, and rate consultant costs as rate case expense but noted the costs are typically allowable expenses to be paid from SRF funds. Ms. Wyne testified that allowing those expenses to be included in non-construction costs and financed by the issuance

¹ We note that this is a change from Petitioner's direct case which proposed a 35-year loan repayment for the additional debt. See Pet. Ex. 3 at 7.

of bonds or other obligations would reduce the impact on the customer. Otherwise, the \$100,000 would be amortized over the expected life of the rates, which is commonly five years.

Ms. Wyne testified the debt service reserve revenue requirements will depend on the debt issued. She stated that assuming a 20-year payment term, it is her opinion that the annual debt service reserve requirement would be closer to \$46,000 for SRF financing. She noted the proposed funding in the Rate Study includes both the tank and water main projects, whereas the OUCC's proposed debt service reserve revenue requirement of \$33,000 includes only the tank project.

2. Eric Smith. Mr. Smith, a Professional Engineer and Vice President/Director of Water Resources at HWC Engineering, Inc. ("HWC"), testified that he agreed with many, but not all, of the OUCC's recommended changes and corrections. He agreed that a continuous water main should have been shown between the water mains on Fox Road and Whittinghall Road and that the depiction in the PER demonstrating a gap between the water mains along these two roads was made in error. He further noted that the water mains on Fox Road and Whittinghall Road have experienced significant maintenance and operation issues, suffering 26 water main breaks since 2014.

Regarding the water main along Charlestown-Memphis Road, Mr. Smith testified that this water line is a thin-walled PVC pipe installed in the 1970s directly on bedrock. He testified that, as a result, the water main has experienced leaks, forcing MON Water to incur an overall unaccounted-for water loss of approximately 26%, which translates to approximately \$117,035 in lost revenue. Mr. Smith testified that replacing this main will reduce overall unaccounted-for water loss and improve the system as a whole.

As for the OUCC's identification of other contradictory or inaccurate statements in the PER, Mr. Smith testified that HWC agrees that the eight-inch main terminates at the proposed 300,000-gallon elevated water storage tank along Highway 160. He also agreed that the proposed tie-in location to IAW's system will be connected at the two-inch master meter along Charlestown-Memphis Road. Further, Mr. Smith agreed the premise that the existing mains along Fox Road and Whittinghall Road would not be retired but would be reconnected to the new Water Main Loop is contradictory and the appropriate next step is to retire the existing water mains and connect all existing service lines to the new water mains. Mr. Smith testified that, after clarification from Petitioner, he understands MON Water plans to turn off the two-inch master meter connection on Charlestown-Memphis Road once the four-inch meter is installed, and to connect the eight-inch developer-installed water mains to the current four-inch line on Charlestown-Memphis Road.

Mr. Smith testified he was not able to determine if a 12-inch water main along State Road 3 is a better option than an eight-inch water main along the proposed Phase 1B route in the PER but noted the existing water mains along the Phase 1B route are prone to breaking and need to be replaced. He testified that upsizing to eight-inch water mains will allow for the replacement of both failing mains and provide sufficient fire flow to existing and future connections.

6. The Parties' Supplemental Evidence.

A. Petitioner's Supplemental Direct Evidence. Mr. Smith testified that he and his engineering firm gathered data and performed an additional modeling analysis to correct

deficiencies and inaccuracies in the original PER model and recommend improvements to the water system. He said that HWC completed hydrant flow testing and confirmed elevations throughout the system, updated the system map to correctly represent the existing distribution system, corrected the proposed tank location, and revised assumptions, peaking factors, and friction coefficients to properly calibrate the hydraulic model.

Mr. Smith testified that HWC also added system alternatives to replace the existing six-inch asbestos cement line with a new 12-inch main between the existing booster pump station and the recently installed 12-inch transmission main near the intersection of State Road 3 and Harry Hughes Road as suggested by the OUCC. He testified that based on the updated hydraulic model, either the eight-inch Water Main Loop, which is the selected project in the PER, or a 12-inch water main along State Road 3 provide similar benefits to the system.

As for the difference between using the Stucker Fork primary connection or the IAW Charlestown emergency connection, Mr. Smith provided Exhibit B to Petitioner's Exhibit 4 showing system wide pressure maps for the proposed eight-inch loop using the two scenarios. However, he said pressure maps for a 12-inch main extension were not created because they would be essentially the same as those for the eight-inch loop.

Mr. Smith provided current construction cost estimates for both the Water Main Loop and the 12-inch water main in Exhibit C to Petitioner's Exhibit 4. While the cost to install the 12-inch water main (approximately \$3,942,000) is less than the Water Main Loop (approximately \$7,000,000) because of the shorter route, he said the Water Main Loop provides a greater overall benefit to the system by addressing the on-going occurrences of leaks and breaks in the existing two-inch and four-inch mains that the eight-inch loop would replace. Mr. Smith testified that the 12-inch water main alternative does not provide the same long-term benefit and savings as the Water Main Loop because it does not allow for the replacement of water mains that will require future maintenance, repair, and replacement. Thus, Mr. Smith recommended proceeding with the eight-inch Water Main Loop alternative because it would provide an emergency connection to an alternative supply source, replace historically problematic water mains, and provide sufficient fire flow to existing and future connections.

B. OUCC's Supplemental Evidence.

1. James T. Parks. Mr. Parks testified that his recommendations concerning Petitioner's request for financing authority for the Phase 1A and Phase 1B projects remain the same. He continued to recommend the Commission approve financing authority for the Phase 1A projects and deny financing authority for the Phase 1B project because Petitioner did not justify the necessity of the Water Main Loop to provide an emergency water supply connection, the project is unnecessary, and the new reasons for the project (i.e., to address water loss and main breaks) do not adequately support the necessity and prudence of the project. Mr. Parks stated the real purpose of the project appears to be to provide water service to potential developments near Charlestown, and such service should be provided in accordance with the Commission's main extension rules.

Mr. Parks noted that Petitioner originally asserted the Water Main Loop was needed primarily to provide an alternative supply to serve as an emergency back-up. However, he said

water utilities operate without a redundant water supply and that he was unaware of any water utility with a 100% backup supply as MON Water proposes. He suggested Petitioner's engineer prepared the PER for funding purposes and to hydraulically model the system to justify the Water Main Loop on the basis of needing an emergency supply rather than analyzing MON Water's distribution system to propose projects from a technical or asset management perspective.

Mr. Parks testified that Petitioner appears to have modified its justification for the Water Main Loop and now asserts the project will reduce overall unaccounted-for water loss and improve the system performance as a whole. He said that although Mr. Smith testified about water main breaks over the last 10 years and the types of pipe the project would replace, he did not provide any evidence to support his claims about the number of main breaks, pipe type or conditions, pipe installation, percentage of water loss, and lost revenue. Nor, he said, did Mr. Smith explain how the Water Main Loop is necessitated by these factors.

Mr. Parks testified that he reviewed Petitioner's main break database for 2018 to 2023. He noted the cause of a break was not always identified and lost water volumes were not documented except in 2023. He said Petitioner reported seven main breaks, including one caused by a contractor, occurred on Petitioner's oldest six-inch asbestos cement mains along State Road 3 during 2018 to 2023. He said that during this same time period, there were three main breaks (or approximately 0.5 breaks per year) and two or three additional breaks caused by contractors along the proposed route of the Water Main Loop. He compared this to the 26 main breaks indicated by Mr. Smith over a ten-year period (or 2.6 breaks per year) and noted that main break frequency has been decreasing for mains along the proposed Water Main Loop route.

Mr. Parks discussed two leaks caused by a contractor on a bridge project on the Charlestown-Memphis Road. He noted that to address the leaks, Petitioner relocated a section of the four-inch main and replaced an existing four-inch main with a four-inch PVC main instead of installing eight-inch main as Petitioner proposes in this Cause. He stated this indicates a lack of an asset management plan for prioritization and coordination of main replacements. Mr. Parks also noted that the water mains on Fox Road and Whittinghill Road appear to have been installed in 1988 and not 1970, and Petitioner did not have as-built drawings for the Charlestown-Memphis Road water mains indicating their installation date. He also noted that Mr. Smith did not indicate how he knew existing pipes were installed directly on bedrock.

Mr. Parks testified that although Mr. Smith indicates Petitioner's 26% overall unaccounted-for water loss translates to \$117,035 in lost revenue, Mr. Smith did not indicate how much water and revenue loss is from the mains it is proposing to replace. He estimated the 4.5-mile section accounts for about 1.4% of the lost revenue or less than \$1,600 annually. He also noted, based on Petitioner's recorded costs, repair costs averaged less than \$1,500 per main break. Comparing the revenue requirement for the Water Main Loop to the annual combined cost for lost water and main break repairs, he said Petitioner proposes to spend \$462,174 annually on the Water Main Loop to save \$2,350 annually on lost water and main break repairs.

Finally, Mr. Parks testified that the Water Main Loop project is a main extension subject to the Commission's main extension rules because it will extend water service through new mains to developments that would otherwise not be able to receive service. He explained that MON Water's

existing mains are undersized and cannot convey the water demand and fire flow from the new subdivisions' 500 homes. He reiterated that MON Water does not, and has not ever, provided fire protection services. Noting that Petitioner only identified and evaluated one option—the Water Main Loop—for the new subdivisions to receive water service, Mr. Parks discussed three other options.

2. Thomas W. Malan. Mr. Malan testified that Petitioner's supplemental evidence does not alter either the OUCC's proposed revenue or operating expense adjustments because the OUCC continues to recommend denial of the Water Main Loop project. With respect to the proposed debt issuance, Mr. Malan continued to recommend a 5% interest rate as an appropriate assumption for Petitioner's borrowing. He testified that the amount of borrowing authority Petitioner seeks is somewhat unclear. He said, based on Petitioner's PER that was received through informal discovery, Petitioner should require \$7,315,464 with a loan term of 20 years at 2% resulting in annual debt service of \$447,390 and debt service reserve of \$44,739 funded over ten years. Mr. Malan also noted that SRF requires a debt service reserve to be funded within five years.

Based on his review of Petitioner's supplemental evidence and the OUCC's recommendation to deny Petitioner's requested funding for the Water Main Loop project, Mr. Malan recommended Petitioner's revenue requirement be based on a principal amount of \$2,510,095 for a term of 20 years at 5%.² He said this results in an annual debt service revenue requirement of \$201,417 and an annual debt service reserve revenue requirement of \$40,283. Mr. Malan testified that the OUCC decreased the recommended borrowing amount by \$140,165 to reflect a decrease in the estimated cost of complying with the Build America Buy America ("BABA") Act from 10% of project costs to 5% of project costs as shown by Petitioner's March 2024 PER. He also testified that while Mr. Dellinger accepted Petitioner's assertion that a 35-year repayment period was appropriate, the OUCC's reduction of the loan term from 35 years to 20 years is in response to Petitioner's representation in table ES-14 of its revised PER that a more appropriate repayment period would be 20 years.

Assuming a 20-year debt service repayment period, Mr. Malan testified that Petitioner would have to seek an overall rate increase of 83.61% to produce \$778,482 of additional operating revenue to service borrowing authority of \$7,315,464. Thus, he said, Petitioner's requested rate increase is not sufficient to service this amount of debt and maintain a going concern for the utility. A utility's primary function is to provide safe, reliable drinking water at an affordable rate.

Mr. Malan recommended the Commission approve an across-the-board rate increase of 33.84% to generate an additional \$315,087 of operating revenue per year.

C. Petitioner's Supplemental Rebuttal Evidence.

1. Tracy Wyne. Ms. Wyne testified that she agreed with many of the OUCC's changes and corrections to her original rebuttal testimony, noting that many were nominal and did not have any material impact on MON Water's petition.

² The OUCC recommended Petitioner be authorized to borrow up to \$3,130,095. OUCC Ex. 6.

Ms. Wyne testified that she agreed with the OUCC's proposed elimination of certain non-construction costs on the tank project because the costs do not apply to SRF financing. With the elimination of these costs, she testified the non-construction costs are \$791,500. While Ms. Wyne did not specifically agree or disagree with the OUCC's reduction of the BABA, she provided two separate project cost schedules that respectively outline a 5% BABA contingency and a 10% BABA contingency.

Ms. Wyne testified that her amortization schedule was based on the same assumptions used by the OUCC, including no wrapping or interest-only period and utilization of level payments. Ms. Wyne testified that while she agreed with the OUCC that a 20-year amortization is appropriate for the tank project, she disagreed that a 20-year amortization for the Water Main Loop project would be appropriate. She testified that SRF has traditionally offered extended loan terms of up to 35 years for projects that are in the ground and that it is common for SRF to divide the financing into separate series of notes based on the assets being constructed.

With regard to the Water Main Loop project, Ms. Wyne testified that the appropriate interest rate for a 35-year financing would be 5.3%, assuming that the interest rate for a 20-year financing would be 5%. She said the SRF adds an additional ten basis points to the rate for each five-year incremental increase in the term of the loan. Ms. Wyne stated that she assumed the remaining non-construction costs would be included in the 35-year portion of the financing. She also noted that no portion of the grant funds or local match have been applied to the Water Main Loop project as they were only considered in determining the amount of borrowing for the tank project.

Ms. Wyne testified that MON Water requests borrowing authority of up to \$8,600,000. She said the requested rate increase for both projects, assuming MON Water accepts a BABA contingency of 5%, is 74.5%, which represents a 10.6% increase from Petitioner's initial request of a 63.9% rate increase. Ms. Wyne testified that this 10.6% difference is primarily related to the increase in the interest rate assumptions.

2. Eric Smith. Mr. Smith disagreed with Mr. Parks' statement that the Water Main Loop is an extension to serve up to 500 new homes in a planned development. He stated there is a known development, Walnut Creek, that is currently in design but the plans for that development show a metered connection with IAW and a water main extension is already planned to be installed and paid for by the developer. Mr. Smith testified that the main serving this development is planned to connect to the proposed Water Main Loop, which will improve hydraulic performance in the MON Water system at no cost to its users. He was unaware of any other planned developments but testified that there is an existing development, Hawks Landing, to the west that was approved in 2006 and began construction in 2007. He said the developer has installed the required six-inch water supply infrastructure within the subdivision and built approximately 50 of the 100 anticipated homes. Mr. Smith testified that construction of the Water Main Loop, while not directly for this development, would improve the hydraulic conditions by reduced pressure drops during higher demands (non-fire flow), increased flow capabilities, and services to users in the development.

Mr. Smith testified that HWC's amendment to the PER was focused on clarifying errors and inconsistencies in the original PER for potential SRF funding. However, he also addressed the

OUCC's suggested alternatives to the Water Main Loop. As to installing the remaining 10,500 feet of 12-inch water distribution main along State Road 3, Mr. Smith said this alternative does not address the long-term system needs to upsize all two-inch to four-inch mains to a minimum of six-inch diameter. In addition, based on some additional modeling analysis, increasing the booster pump station discharge line from the existing six-inch to 12-inch would not improve system pressures.

With respect to replacing the two-inch and three-inch water main sections along the existing loop with four-inch to eliminate flow bottleneck, Mr. Smith testified that replacing these sections would provide minimal improvement to the existing system that would not justify the cost of installation. He said any water main line sections should be replaced with a minimum six-inch diameter, should be continuous, and preferably connect to the existing eight-inch to 12-inch water mains in the system to extend the adequately sized network.

Mr. Smith testified that the final two alternatives presented by Mr. Parks are related to new development, which is inconsequential to the MON Water system's performance and its existing customers. Mr. Smith testified that Option 3, connecting the new development directly to IAW's new interconnect, is the current plan supported by HWC and MON Water. And Option 4, increasing the size of the new interconnect or increasing the existing four-inch water main loop and existing two-inch meter on Charlestown-Memphis Road between the existing meter and the development, only focuses on a single development rather than the needs of the entire system.

Mr. Smith testified that HWC's revised model analysis included revising the water main map to accurately reflect the existing water main system, performing hydrant flow tests for model calibration, and revising certain assumptions from the original model. He also explained that the fire flow rate was excluded from HWC's model because fire flows are generally not provided nor available except in select locations near larger mains.

Regarding HWC's modeling of the proposed 300,000-gallon storage tank capacity, Mr. Smith said that all of his modeling analysis includes the planned 300,000-gallon storage tank. He also stated that the linear footage error in the cost estimate for the Water Main Loop was corrected to 24,000 feet before submitting the PER and the amendments for potential SRF funding. He also confirmed that HWC updated the model map to include the 3,000 foot segment of pipe from the intersection of Fox Road/Opossum Trot and Highway 160.

Mr. Smith testified the Water Main Loop would provide the following benefits: (1) a fully connected network of six-inch, eight-inch, and 12-inch water main between all existing source of supply connections, storage tanks, and the planned new IAW interconnect, providing improved hydraulic performance in the system; (2) 100% emergency supply from IAW in case of an extended Stucker Fork outage and improvement to a supplemental water supply for future growth; and (3) contribution to the long-term goal of replacing all undersized water mains with six-inch or larger mains to eventually be able to provide fire flow. Mr. Smith testified that installation of the Water Main Loop and subsequent replacement of two-inch and four-inch mains along the route also significantly improves pressure drops experienced during higher demand periods given the increased volume and flow capabilities.

7. Commission Discussion and Findings.

A. Borrowing Authority. Under Ind. Code §§ 8-1-2-76 through -81 and Ind. Code § 8-1-4-1, the Commission may approve a public utility's proposal to issue bonds, notes, or other evidence of indebtedness payable more than one year from their execution. Petitioner seeks authority to issue bonds, notes, or other obligations of indebtedness in an amount not to exceed \$8,600,000. MON Water seeks to finance its proposed Phase 1A (construction of a new 300,000-gallon tank and the booster station upgrades) and Phase 1B (installation of the Water Main Loop) projects with a loan from the SRF as well as a local match and an ARP Grant. Petitioner proposes to amortize the loan with SRF over 20 years for the Phase 1A projects and 35 years for the Phase 1B project.

1. The Projects.

a. Phase 1A Projects. Phase 1A consists of a new 300,000-gallon elevated storage tank and booster station improvements at an estimated \$3,223,795 construction cost and \$4,015,295 total project cost to achieve storage volumes equal to Petitioner's projected average daily demand in the year 2043. The new storage tank is partially funded by a \$1.5 million ARP grant already awarded by Clark County. The OUCC recommended the Commission approve Petitioner's requested financing authority and associated debt service and debt service revenue requirements for the remainder of the funds needed for the Phase 1A projects.

Based on the evidence presented, we find the Phase 1A projects are reasonable and their need well-supported. There being no dispute about these projects, we find Petitioner should be authorized financing authority necessary to engage in the long-term borrowing for the Phase 1A projects along with the debt service and the debt service reserve revenue requirement associated with that borrowing as discussed further below.

b. Phase 1B Project. Phase 1B consists of a new eight-inch water main along Fox, Whittinghill, and Charlestown-Memphis Roads from the Opossum Road and State Road 160 intersection south. The project will support a connection to IAW, providing an alternate supply to the existing 12-inch connection at Charlestown. The estimated cost of the Phase 1B project is approximately \$7 million. Pet. Ex. 4 at 6 and Exhibit C.

Petitioner asserts that this Water Main Loop project is reasonable and necessary because it will improve hydraulic performance in the system, provide a 100% emergency back-up supply of water from IAW, and contribute to the utility's long-term goal of replacing aging, undersized water mains. The OUCC, however, opposes the project and argues that a 100% back-up supply of water is unnecessary, Petitioner has not sufficiently demonstrated that the utility's unaccounted-for water loss and main break history justifies the expense of this project, and the project is a main extension project subject to the Commission's main extension rules.

We agree with the OUCC that Petitioner has not demonstrated that the Water Main Loop project is needed to provide an emergency back-up supply of water. As OUCC witness Parks pointed out, MON Water already has four interconnections to IAW's system and the need for a fifth interconnection to provide a 100% emergency back-up water supply is not supported by historical operations nor the industry standard of care for back-up supply. Rather, the evidence

shows that during the three Stucker Fork extended outages that have occurred in the last five years, IAW has been able to provide sufficient water supplies for purchase by Petitioner.³ Construction of the new 300,000-gallon water storage tank should also provide additional resiliency and improved hydraulics to Petitioner's future provision of water. In addition, at the hearing, Petitioner's witness Smith acknowledged that the proposed interconnection with IAW is not an emergency connection. Tr. at A-30.

Even if there exists a need to enhance the emergency back-up supply of wholesale water, Petitioner has not adequately considered other, potentially lower cost alternatives. Mr. Parks identified one lower cost alternative—a project proposed and used by Petitioner to justify its extensions and replacements revenue requirement in its last rate case, but which was never constructed (i.e., completion of a 12-inch water main along State Road 3 connecting to both of Petitioner's wholesale water suppliers).⁴ Mr. Parks testified that completion of this main would result in a continuous 12-inch transmission between both purchased water suppliers.

Mr. Smith agreed that both the Water Main Loop and the alternative 12-inch main along State Road 3 provide similar benefits to system pressures, but he asserted the Water Main Loop provided a greater overall benefit to the system by addressing water main leaks and breaks and replacing undersized water mains. Pet. Ex. 4 at 4, 6. However, as OUCC witness Parks observed, Petitioner did not provide any evidentiary support for its claims about the number of main breaks, pipe types or conditions, pipe installations on bedrock, the percentage of water loss, or lost revenue as related to the pipes proposed to be replaced by the Water Main Loop. The evidence also shows that based on Mr. Parks' review of Petitioner's database of main breaks from 2018 to 2023, it appears that main break frequency had decreased along the route of the proposed Water Main Loop. Additionally, the cost difference between Petitioner's proposed Water Main Loop project and the OUCC's proposed 12-inch main alternative is slightly more than \$3 million. Aside from Petitioner's assertion that the replacement of existing mains would help alleviate Petitioner's estimated water loss, which translates to an annual cost of \$117,035 system-wide, Petitioner presented no evidence attempting to quantify the value of the alleged benefits of Petitioner's proposed project.

Mr. Parks also noted that a portion of the water mains to be replaced by the Water Main Loop were placed into service in 1988 and were newer than Petitioner's oldest six-inch asbestos cement mains from 1965 that were prone to breaks and would be replaced with the OUCC's identified alternative 12-inch main. Pub. Ex. 4 at 24 and Tr. at B-17. He also raised concerns with the pressures used in Petitioner's hydraulic modeling and the potential for burst pipes. Tr. at B-17. The evidence is unclear as to whether the Water Main Loop project cost estimate includes costs for piping and fittings of the appropriate pressure class. Thus, we share the OUCC's concern as to whether Petitioner has adequately considered the effect increased system pressures may have outside of the project limits and the potential to exacerbate the existing water loss problem.⁵

³ We also note that Petitioner did not provide an explanation or reason for why the Stucker Fork outages occurred, what steps Stucker Fork was taking or had taken to address the outages, or the likelihood of future outages.

⁴ Mr. Smith testified the Water Main Loop would cost approximately \$7,000,000 and the 12-inch loop would cost approximately \$3,942,000. Pet. Ex. 4 at 6.

⁵ OUCC witness Parks expressed concern over the almost doubling of system pressures increasing to 222 psi and other existing mains in the surrounding area having a pressure rating of only 160 psi. Tr. at B-9 to B-10.

The OUCC argues the proposed Water Main Loop project is a main extension subject to the Commission's main extension rules because it will extend water service through new mains to developments that would otherwise not be able to receive service. Although MON Water does not provide fire protection services, Mr. Smith's testimony reflects line sizing and hydraulics that support providing fire flow as significant elements of the proposed Water Main Loop project. However, Petitioner's evidence also reflects that planned development in the area has already engaged in main extension agreements to provide adequate service with a different service provider. The Commission acknowledges that the complex hydraulics, the apparent but unstated desire to provide fire protection service in the future, and the fact the area appears to be ripe for development results in a situation where the proposed Water Main Loop project may provide a volume of water that exceeds the needs of Petitioner's existing customer base and could be utilized to promote growth. While we do not find that the Water Main Loop project should be subject to the Commission's main extension rules, we do believe there is a need for more transparent evidence regarding anticipated growth and need for fire protection as well as improved planning to clarify the issue of who should fund these main extensions. We encourage Petitioner to be mindful of the Commission's main extension rules at 170 IAC 6-1.5 when planning future main extensions and to ensure such extensions are made in compliance with those rules.

Based on the evidence presented, we find that MON Water has failed to demonstrate the reasonableness of the proposed Water Main Loop project. Petitioner has not shown that the Water Main Loop project is necessary or that the mains to be replaced by the project are in any greater need of replacement than those in another portion of Petitioner's system. We also find that Petitioner has not demonstrated that its proposed project has been adequately vetted from a technical standpoint. We further believe that Petitioner could have benefitted from having in place: (1) a fully documented and maintained asset management plan; (2) an area masterplan for areas of anticipated growth showing needed infrastructure at the build-out condition; and (3) a plan and/or associated policies to help transition the utility to provide fire protection service. Each of these planning documents would have helped to provide additional definition and support for its proposed projects. Accordingly, we decline to approve financing authority for the Phase 1B project.

2. Debt Authorization. Petitioner requested financing authority of \$8,600,000 to complete both Phase 1A and 1B projects. Since we have determined that the cost of the Phase 1B project should not be included in Petitioner's financing authority, our recalculation of fees and contingencies shall be based on approving financing authority only for the Phase 1A projects. We agree with and incorporate the OUCC's position regarding fees that will not be incurred in the SRF borrowing. We also find that because Petitioner changed the expected BABA contingency amount to 5% in its supplemental evidence, this is the appropriate amount to include in the calculation of our authorization. Therefore, Petitioner is authorized to borrow up to \$3,130,095 of long-term debt, consisting of the \$2,510,095 of long-term debt for the Phase 1A projects and other costs plus Petitioner's requested borrowing contingency of \$620,000. The borrowing authority shall be subject to the conditions and reporting requirements set forth below in this Order.

3. Revenue Requirement Related to Debt. Having determined the expected borrowing should be up to \$3,130,095, we must also determine an appropriate interest rate, term, and structure of the loan for establishing a revenue requirement. Although there were

some disagreements regarding the assumptions for financing of the Water Main Loop project, there were no substantial disagreements regarding the financing assumptions for the Phase 1A projects. Petitioner and the OUCC agree that the term of the loan for the water storage tank and booster station projects is for 20 years. They also agree that 5% is an appropriate interest rate for determining initial rates and charges. Based on the OUCC's assumptions for the method of calculation, we find Petitioner's annual debt service revenue requirement is \$201,417 and, because the SRF requires funding for the debt service reserve over five years, Petitioner's annual debt service reserve revenue requirement is \$40,283.

4. Conditions on Debt Authority. Petitioner must true-up its proposed annual debt service to reflect the actual cost of debt once the interest rates and costs for the Phase 1A projects and various estimated fees on the proposed debt are established. Subject to Commission approval, the true-up requirement need not occur if both parties state in writing to the Commission that the increase or decrease indicated by the report need not occur.

Within 30 days of closing its debt issuance, Petitioner shall file a true-up report explaining the terms of the loan, the actual balance borrowed, the amount of debt service reserve required, bid tabulations, and an itemized account of all issuance costs (e.g., bond counsel, rate consultant), including issuance costs actually incurred to that date. This report will also include a revised tariff, amortization schedule, and calculation of the rate impact in a form similar to the OUCC's schedules filed in this Cause. The OUCC shall have 21 days within which to object or otherwise respond to the true-up report. Petitioner shall likewise have 21 days within which to respond thereto.

If there is more than three months between implementation of rates and closing on debt, thereafter, the revenue requirement for current debt reflecting the total overcollection will be placed in a restricted account and used to prefund the debt service reserve account.

Petitioner's debt service reserve shall be placed in a restricted account. Petitioner shall file a report under this Cause if Petitioner spends any funds from its debt service reserves for any reason other than to make the last payment on its current or proposed debt issuances. The report will be filed within five business days of any such transaction and shall: (1) state how much Petitioner spent from its debt service reserve; (2) explain why it spent funds from its debt service reserve; (3) cite to any applicable loan documents that allow it to spend funds from its debt service reserve; (4) describe its plans to replenish its debt service reserve; and (5) describe any saving measures it has implemented to forestall spending funds from its debt service reserve.

Unless extended by order of the Commission, unused financing authority authorized herein shall expire three years from the date of this Order.

B. Rates and Charges. Under Ind. Code § 8-1-2-125, rates for a not-for-profit utility are calculated by first determining the amount of the adjusted net operating expenses based on the utility's current rates. The adjusted amounts are based on known recurring expenses, updated to include changes that are fixed, known, and measurable, expected to occur within 12 months of the end of the test year. Under this statute, a reasonable and just charge for MON Water's water service is a charge that will produce sufficient revenue to pay all legal and other necessary expense incident to the operation of Petitioner's utility system, including the following:

- (1) Maintenance and repair costs.
- (2) Operating charges.
- (3) Interest charges on bonds or other obligations
- (4) Provision for a sinking fund for the liquidation of bonds or other evidences of indebtedness.
- (5) Provision for a debt service reserve for bonds or other obligations in an amount not to exceed the maximum annual debt service on the bonds or obligations.
- (6) Provision of adequate funds to be used as working capital.
- (7) Provision for making extensions and replacements.
- (8) The payment of any taxes that may be assessed against the not-for-profit.

Ind. Code § 8-1-2-125(d). In addition, Ind. Code § 8-1-2-125(d) provides:

The charges must produce an income sufficient to maintain the not-for-profit utility's property in sound physical and financial condition to render adequate and efficient service. A rate too low to meet these requirements is unlawful.

The only dispute between the parties regarding Petitioner's overall proposed net revenue requirement related to the debt service and debt service reserve associated with Petitioner's proposed Water Main Loop project. Based on our decision above regarding that project, we find Petitioner shall be authorized to increase its rates and charges for water service across-the-board by 33.84%, to generate additional revenues of \$315,087.

Operating Expenses	\$ 850,267
Extensions and Replacements	172,567
Working Capital	-
Debt Service	201,417
Debt Service Reserve	40,283
Total Revenue Requirements	1,264,534
Less: Interest Income	969
Other Income	4,672
Net Revenue Requirements	1,258,893
Less: Revenues subject to increase	931,040
Other revenues at current rates	13,228
Net Revenue Increase Required	314,625
Add: Additional IURC Fees	462
Recommended Increase	<u>\$ 315,087</u>
Recommended Percentage Increase	<u>33.84%</u>

C. Restricted Accounts. The OUCC recommended Petitioner establish separate restricted accounts for tank maintenance and painting and provide information on the amounts deposited into, and paid from, these accounts as part of its annual report filing with the Commission. Petitioner disagreed with the OUCC's recommendation, arguing the administrative burden to maintain and report on funding these expenses outweigh the perceived benefit and pledging to use all revenues to satisfy each of the revenue requirements.

Generally, the Commission has required a utility to establish restricted accounts for maintenance funds when, based on a consideration of the utility's history and current operating conditions, the utility neglects system maintenance or redirects funds intended for specific investments. Although the Commission required MON Water to place extension and replacement funds into a restricted account for capital improvements in its last rate case, Cause No. 42476 U, no evidence was presented in this case showing that MON Water was not properly managing its utility system or making necessary repairs and investments.

Rather than require MON Water to establish restricted accounts, we find that MON Water shall include in its annual utility report to the Commission a supplemental report detailing the capital improvements made to its system. This annual reporting of capital improvements will allow the Commission and the OUCC to track the improvements being made by the utility and will provide transparency and accountability without imposing the more restrictive measures proposed by the OUCC.

D. Asset Management Plan and Other Operational Improvements. Mr. Parks recommended several operational enhancements that should be undertaken or completed by MON Water. Mr. Parks recommended completion of an asset register and system-wide map showing actual lengths of Petitioner's water mains by pipe types and the actual numbers of valves, flushing hydrants, and fire hydrants. He also recommended Petitioner complete its asset management plan and upon completion submit copies to the Commission and the OUCC within six months of this Order.

We agree that these tools and procedures (if created, implemented, and maintained) will improve Petitioner's operations and project planning efforts. The evidence demonstrates that MON Water does not have a reasonably accurate asset register or a system-wide map, which are prerequisites to creating an asset management plan. A utility cannot actively and effectively manage its assets if it cannot readily define what or identify where those assets are located. Thus, we find that MON Water shall complete an asset register and system-wide map of its mains, valves, and hydrants.

As for the asset management plan, we note that Ind. Code § 5-1.2-10-16 requires a utility obtaining financing from the Indiana Financing Authority to have developed an asset management plan. Petitioner has also indicated that it is in the process of completing such a plan. Given the OUCC's recommendation and the Indiana statutory requirements for SRF financing, we find Petitioner shall complete its asset management plan within six months from the date of this Order and file a notice of completion under this Cause.

8. Effect on Rates. A residential customer using 4,000 gallons per month will experience an increase from \$28.12 to \$37.64.

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

1. Petitioner is authorized to increase its rates and charges for water service for all customers by 33.84%, to generate additional revenues of \$315,087, subject to the true-up provisions approved in this Order upon closing on its authorized long-term debt.

2. Petitioner is authorized to engage in long-term borrowing with the SRF in an amount not to exceed \$3,130,095 in aggregate principal amount as approved in this Order. This Order constitutes Petitioner's certificate of authority to issue the long-term debt authorized herein and shall expire three years from the date of this Order.

3. Within 30 days of completion of Petitioner's approved long-term debt issuance, MON Water shall file a true-up report under this Cause, with a copy concurrently served upon the OUCC, and the parties shall be afforded the opportunity to timely respond to such filing as authorized in this Order.

4. MON Water shall include in its annual utility report to the Commission a supplemental report detailing the capital improvements made to its system.

5. MON Water shall complete an asset register and system-wide map of its mains, valves, and hydrants. MON Water shall also complete its asset management plan within six months from the date of this Order and file a notice of completion under this Cause.

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

7. This Order shall become effective on and after the date of its approval.

HUSTON, BENNETT, FREEMAN, VELETA, AND ZIEGNER CONCUR:

APPROVED: OCT 23 2024

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

Dana Kosco
Secretary of the Commission