ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

SOUTHEASTERN UTILITIES, INC.) CAUSE NO. 43794 U
APPLICATION FOR SMALL UTILITY)
RATE CHANGE) APPROVED:

APR 0 7 2010

BY THE COMMISSION:

James D. Atterholt, Commissioner DeAnna L. Brunner, Administrative Law Judge

On September 24, 2009, Southeastern Utilities, Inc. ("Southeastern Utilities" or "Applicant") filed its Application with the Indiana Utility Regulatory Commission ("Commission") for a small utility rate change ("Application") pursuant to the provisions of Indiana Code § 8-1-2-61.5 and 170 IAC 14-1. On November 9, 2009, the Applicant filed its proof of publication, legal notice, copy of written customer notice, and the authorization from Southeastern Utilities' governing body. On November 10, 2009, the Commission issued a Memorandum stating the Application was complete.

On February 8, 2010, the OUCC filed a report with the Commission (the "Report") as required by 170 IAC 14-1-4. The Report discussed and made several recommendations to the Commission concerning the relief requested by Southeastern Utilities. On February 23, 2010, Applicant filed a written response to the Report, stating that Applicant intended to adopt the OUCC's findings in the Cause.

Pursuant to Indiana Code § 8-1-2-61.5, a formal public evidentiary hearing is not required in rate cases involving small utilities with fewer than 5,000 customers, unless a hearing is requested. No request for a hearing was made, and therefore, a formal public evidentiary hearing was not held.

Based upon the applicable law and the evidence presented herein, the Commission now finds as follows:

Southeastern Utilities in this Cause establishes that legal notice of the Application filing was published in accordance with law and that Southeastern Utilities gave proper notice to its customers of the nature and extent of the relief it is seeking. Therefore, due, legal, and timely notice of the matters in this proceeding was given and published as required by law. Southeastern Utilities is an Indiana investor-owned utility. Accordingly, the provisions of 170 IAC 14-1-2 are applicable to the Application, and Southeastern Utilities is entitled to request an increase in its rates and charges for service pursuant to Indiana Code § 8-1-2-61.5 and 170 IAC 14-1. The Commission, therefore, has jurisdiction over the parties and the subject matter of this Cause.

- 2. Applicant's Characteristics. Southeastern Utilities is a Class C investor-owned wastewater system serving approximately 95 customers in the Bloomfield Lakes Estates subdivision located in Marion County. Applicant operates a 32,500 gallon per day Class I extended aeration plant consisting of a 10,000 gallon surge tank with two pumps and a flow metering system. The collection system consists of a master lift station and 6,988 feet of collection mains constructed from a combination of PVC pipe and clay tiles.
- 3. Existing Rates and Relief Requested. Southeastern Utilities' existing rates and charges were established on January 15, 1997 in Cause No. 40619. Southeastern Utilities has requested a 17.74% across-the-board rate increase pursuant to Indiana Code § 8-1-2-61.5. Southeastern Utilities' proposed rate adjustment would increase its *pro forma* revenue by \$11,158.
- 4. <u>Test Period</u>. The test period selected for determining Southeastern Utilities' revenues and expenses reasonably incurred in providing wastewater utility service to its customers included the twelve (12) months ending December 31, 2008. With adjustments for changes that are fixed, known, and measurable, the Commission finds that this test period is sufficiently representative of Southeastern Utilities' normal operations to provide reliable data for ratemaking purposes.
- **5.** Revenue Requirements. As noted above, Southeastern Utilities requested a \$11,158 or 17.74% across-the-board increase in rates. The OUCC recommended that Applicant's rates should be increased by 12.21% or \$7,680. The table below provides a comparison of the two parties' proposed revenue requirements.

| | A | Applicant | | OUCC | |
|----------------------------------|----|-----------|------|---------|--|
| Rate Base | \$ | 144,361 | \$ | 144,391 | |
| Times: Rate of Return | | 8.094% | | 8.092% | |
| Net Operating Income (NOI) | | 11,685 | 2002 | 11,683 | |
| Less: Adjusted NOI | | 2,765 | | 5,808 | |
| Increase in NOI | | 8,920 | | 5,875 | |
| Times: Revenue Conversion Factor | | 1.251 | | 1.3072 | |
| Recommended Revenue Increase | \$ | 11,158 | \$ | 7,680 | |
| Overall Percentage Increase | | 17.74% | | 12.21% | |
| | | | | | |

- 6. <u>Test Year Accounting Adjustments</u>. The OUCC, in its report, proposed the following accounting adjustments based on its review of Southeastern Utilities' books and records. In a letter filed with the Commission on February 23, 2010, Applicant accepted the OUCC's proposed accounting adjustments.
 - A. <u>Rate Base</u>. Southeastern Utilities' Application shows an original cost rate base of \$144,361 using utility plant in service of \$191,264 and accumulated depreciation of \$52,261, as shown on Petitioner's financial statements for the period ending December 31, 2008. Also included in Petitioner's rate base is \$5,358 for working capital. The OUCC's working capital calculation differs from Petitioner's due to the changes to

operating expenses. The OUCC also changed Petitioner's working capital calculation by using the *pro forma* present rate operations and maintenance expenses rather than test year operations and maintenance expenses. The resulting Total Original Cost Rate Base proposed by the OUCC is \$144,391. The Commission agrees with the accuracy of the OUCC's calculation and finds that \$144,391 is appropriate.

- B. <u>Pro forma Operating Revenue</u>. Both Southeastern Utilities and the OUCC proposed the *pro forma* present rate annual operating revenue subject to increase be \$62,914. As set forth further below, the Commission agrees with the accuracy of the calculation and finds that \$62,914 is appropriate.
- C. <u>Operating Cost Adjustments</u>. The OUCC agreed with Petitioner's proposed adjustments for *pro forma* Utility Receipts Tax Calculation, and various other test year operating expenses for which no adjustment was necessary. However, the OUCC proposed adjustments to the following:
 - i. <u>Allocation and Cost Management Services</u>. Applicant allocated 22% of its proposed \$85,000 affiliated costs by taking a weighted average of Applicant's rate base times the percent of customers served to yield a *pro forma* cost of \$18,700.

The OUCC made two adjustments to Applicant's Allocation of Services Provided by JDH Engineering, Inc.¹ First, by using the OUCC's proposed rate base number, Southeastern Utilities' allocation of rate base is now 29% of all utilities served by JDH Engineering. The OUCC used the agreed upon and Commission approved utility plant value as explained in the Report of Indiana Office of Utility Consumer Counselor for Sani Tech, Inc., Cause No. 43793-U. The allocation was based on the rate base determination agreed to by the parties in Sani Tech's last rate case, and subsequently approved by the Commission. The OUCC agreed with Applicant's proposed number of customers, which is 20% of the customers served under the JDH Engineering agreement. The OUCC multiplied its percentage of rate base times the percent of customers served to yield the 25% weighted average factor the OUCC used to allocate Applicant's affiliated cost.

JDH Engineering, Inc. is an affiliate company of Southeastern, as are Sani Tech, Inc. and Eastern Hendricks County Utility, both of which have rate cases pending with the Commission. Applicant contracts separately for a Certified Operator and for Lab Services.

Second, the OUCC adjusted the amount of the Annual Service Fee, which for the test year was \$69,000 for the three utilities.² Applicant is now requesting \$85,000 for the three utilities, which is a 23% increase. Southeastern Utilities' test year portion of the Service Fee was \$18,000. Therefore, the OUCC based the allocation of the annual Service Fee on the test year amount of \$69,000 for the three utilities, giving Southeastern Utilities an allocated *pro forma* service fee of \$17,250, a decrease of \$750 under the test year.

The Commission agrees with the OUCC that Applicant's requested increase to an affiliate company appears excessive given the current state of the economy and the relative size of the increase. Applicant has not presented any evidence that either supports or justifies a 23% increase in the cost of services provided by JDH Engineering, Inc. Therefore, the Commission finds that \$17,250 is appropriate.

- ii. <u>Depreciation</u>. Applicant used a 2.5% composite depreciation rate. However, Applicant has used accelerated depreciation rates on some of its plant items. Applicant did not provide a depreciation study, and there has been no prior approval for something other than the composite rate. The OUCC based their recommended depreciation expense on depreciable utility plant in service in the amount of \$144,718 included in Applicant's books as of December 31, 2008. The OUCC recommends the 2.5% composite depreciation rate to both mitigate the rate impact to the ratepayers, and to better reflect the useful life of utility plant in service. The OUCC calculated a *pro forma* depreciation expense of \$3,618, yielding a decrease to the test year expense of \$219. The Commission agrees with the OUCC's use of the Commission approved composite rate of 2.5% for wastewater utilities with a treatment plant and finds that a negative \$219 adjustment is appropriate.
- iii. <u>Property Taxes</u>. The Applicant proposed no adjustment to the \$2,000 test year property tax expense. The OUCC determined that the test year accrual amount of \$2,000 was reasonable based on property tax notices sent to Southeastern Utilities. However, these same property tax notices indicate an actual 2009 property tax expense of \$2,293, a \$293 increase over the test year accrual. Therefore, the Commission finds that \$2,293 is appropriate.
- iv. <u>Present Rate IURC Fee</u>. The Applicant proposed the IURC Fee be increased to \$76. The OUCC proposed \$68 by using the currently effective IURC Fee rate of .001073599. The Commission agrees with the accuracy of the OUCC's calculation and finds that \$68 is appropriate.

The Annual Service Fee is covered by an affiliate Contract for Utility Management Services with JDH Engineering, Inc., which relates in large part to fulfilling general office duties.

- v. <u>Rate Case Expense</u>. Applicant requested an amortization of rate case expenses over a period of three (3) years. Applicant's last rate case was filed in June 2002,³ nearly eight (8) years ago. The OUCC argued that eight (8) years between rate filings is not indicative of a frequent filing history and proposed a five (5) year amortization period. The Commission agrees that Applicant's history does not support a three (3) year amortization of rate case expense and finds that the OUCC's determination of a five (5) year amortization period is appropriate. Therefore, the Commission accepts the OUCC's proposed \$1,000 test year increase.
- vi. <u>State Income Tax</u>. The Applicant proposed a state income tax rate of 4.5%. The OUCC used the current state income tax rate of 8.5%. The Commission agrees with the accuracy of the OUCC's calculation and finds that 8.5% is appropriate.
- vii. <u>Cost of Capital</u>. Applicant requested a 10% cost of common equity, which would result in a weighted cost of capital of 8.092%. The OUCC did not dispute the cost of equity requested. The Commission agrees with the accuracy of the Applicant's calculation and finds that a weighted cost of capital of 8.092% is appropriate.
- 7. <u>Conclusion</u>. The Commission finds that the OUCC's recommendations and proposed adjustments as reflected above are reasonable and accurate and therefore should be accepted. Based on the evidence presented, the Commission finds the revenue requirements as set forth in the following table should be approved.

Revenue Requirements

| Original Cost Rate Base | \$144,391 |
|---------------------------------------|-----------|
| Times: Weighted Cost of Capital | 8.092% |
| New Operating Income Required | 11,684 |
| Less: Adjusted Net Operating Income | 5,808 |
| Additional NOI Required | 5,876 |
| Times Gross Revenue Conversion Factor | 1.3072 |
| Recommended Revenue Increase | \$7,680 |

The proposed Net Operating Income is derived as shown below:

At Applicant's request, the rate case filed on June 28, 2002, Cause No. 42264 U, was dismissed without prejudice by the Commission.

| Revenue | \$ | 71,160 |
|---|----|--------|
| Less: Operation and Maintenance Expense | | 49,951 |
| Depreciation | | 3,618 |
| Taxes Other Than Income | | 3,276 |
| Income Taxes | | 2,631 |
| Total Expenses | - | 59,476 |
| Net Operating Income | \$ | 11,684 |

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

- 1. Consistent with the above findings, Southeastern Utilities is hereby authorized to increase its rates and charges by \$7,680 annually, so as to produce total annual revenue of \$71,160, which represents a 12.21% across-the-board increase in its wastewater rates and charges. This increase will yield a new monthly charge for wastewater service of \$61.71.
- 2. Prior to placing into effect the rates and charges approved herein, Southeastern Utilities shall file with the Water/Sewer Division of the Commission a schedule of rates and charges in a manner consistent with this order and the Commission's rules for filing such schedules. When approved by the Commission's Water/Sewer Division, such schedule shall become effective and cancel all prior rates and charges.
 - 3. This Order shall be effective on and after the date of its approval.

ATTERHOLT, MAYS AND ZIEGNER CONCUR; HARDY AND LANDIS ABSENT:

APPROVED: APR 0 7 2010

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

Brenda A. Howe

Secretary to the Commission