

ORIGINAL

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

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF COMMUNITY UTILITIES OF)
INDIANA, INC. FOR: AUTHORITY TO)
INCREASE ITS RATES AND CHARGES FOR)
WATER AND WASTEWATER UTILITY)
SERVICE; APPROVAL OF NEW SCHEDULES)
OF RATES AND CHARGES APPLICABLE)
THERE TO; AUTHORITY TO RECOVER)
CERTAIN COSTS INCURRED IN)
CONNECTION WITH CAUSE NOS. 44724, 45342)
AND 45389; AUTHORITY TO RECOVER)
COSTS INCURRED AND DEFERRED IN)
CONNECTION WITH THE COVID-19)
PANDEMIC; APPROVAL OF A NEW)
RESIDENTIAL LOW-INCOME RATE FOR)
WATER AND WASTEWATER SERVICE; AND)
OTHER APPROPRIATE RELIEF)**

CAUSE NO. 45651

APPROVED: FEB 01 2023

ORDER OF THE COMMISSION

**Presiding Officers:
Stefanie N. Krevda, Commissioner
Jennifer L. Schuster, Senior Administrative Law Judge**

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On December 7, 2021, Community Utilities of Indiana, Inc. (“Petitioner,” “Community,” or “CUII”) filed a petition with the Indiana Utility Regulatory Commission (“Commission”) seeking authority to increase its rates and charges for water and wastewater utility service and seeking associated relief under Ind. Code §§ 8-1-2-61 and 8-1-2-42.7. CUII also filed its case-in-chief and workpapers on December 7, 2021. On December 22, 2021, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed a Notice of Non-Compliance with the Commission’s Minimum Standard Filing Requirements contained in 170 IAC 1-5-1 *et seq.* (“MSFRs”). On January 14, 2022, Petitioner filed its response and additional case-in-chief evidence designed to comply with the MSFRs.

A petition to intervene in this Cause was filed by Lakes of the Four Seasons Property Owners’ Association (“LOFS”) on February 15, 2022 and granted on February 23, 2022. A public field hearing was held in this Cause at Boone Grove High School, 260 South 500 West, Valparaiso, Indiana on April 12, 2022.

On April 28, 2022, the OUCC and LOFS filed their cases-in-chief with the OUCC filing comments on behalf of the customers. CUII filed its rebuttal testimony on May 27, 2022.

The Commission conducted an evidentiary hearing beginning on June 28, 2022 at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. The parties appeared by counsel and participated in the hearing.

Having considered the evidence of record and the applicable law, the Commission now finds:

1. Notice and Jurisdiction. Due, legal, and timely notice of the public field hearing and evidentiary hearing in this Cause was given and published as required by law. Petitioner is a public utility as defined by Ind. Code § 8-1-2-1. Pursuant to Ind. Code §§ 8-1-2-1 and 8-1-2-42.7, the Commission has jurisdiction over this Petitioner and the subject matter of this Cause.

2. Petitioner’s Organization and Business. Petitioner is a public utility incorporated under Indiana law with its principal office address located at 500 West Monroe, Suite 3600, Chicago, Illinois. CUII was created in 2015 to implement a merger into a single entity of the three separate wholly owned Indiana subsidiaries of Corix Regulated Utilities (US), Inc. (“CRU”) that provided water and sewer services in Indiana: Twin Lakes Utilities, Inc. (“TLUI”), Water Service Company of Indiana, Inc. (“WSCI”), and Indiana Water Service, Inc. (“IWSI”). The merger was approved by the Commission’s July 8, 2015 Order in Cause No. 44587.

CUII provides water service to approximately 5,300 equivalent residential connections (“ERCs”) and wastewater service to approximately 3,500 ERCs through utility plant, property, equipment, and related facilities owned, operated, managed, and controlled by it, which are used and useful for the convenience of the public in the provision of water and wastewater service. Petitioner’s service area includes portions of Jasper, Lake, Newton, and Porter counties.

3. **Existing Rates.** The basic rates and charges for water and wastewater utility service were approved by the Commission on January 24, 2018, in Cause No. 44724. In that case, the Commission also approved single-tariff pricing for Petitioner. The petition initiating Cause No. 44724 was filed with the Commission on December 15, 2015; therefore, in accordance with Ind. Code § 8-1-2-42(a), more than 15 months have passed between CUII's most recent petition for an increase in basic rates and charges and the filing of CUII's petition initiating this Cause.

4. **Relief Requested.** Petitioner requests authority to increase its rates and charges for water and wastewater utility service and approval of new schedules of rates and charges applicable to such water and wastewater utility service. Petitioner also requests authority to recover certain costs incurred in connection with Cause Nos. 45342 and 45389, authority to recover deferred costs associated with the COVID-19 pandemic, approval of a new low-income rate, and approval of other appropriate relief.

5. **Test Year and Rate Base Cut-Off.** As authorized by Ind. Code § 8-1-2-42.7(d)(1), Petitioner proposed a forward-looking test year using projected data for the 12-month period ending September 30, 2023. Petitioner proposed Phase I rates to be effective on or about October 1, 2022 and Phase II rates to be made effective on or about October 1, 2023.

6. **Rate Base.**

A. **Water System.**

i. **Uncontested Issues.**

The parties agreed to the following water system rate base components:

	Phase I <u>9/30/2022</u>	Phase II <u>9/30/2023</u>
Gross Utility Plant in Service at 9/30/2021	\$ 15,990,535	\$ 15,990,535
*TLUI Watermain and Service Line Replacements	1,232,829	1,507,118
*IWSI Watermain Replacements	800,523	1,292,942
Computers	69,352	73,850
Vehicles	-	42,179
General Plant Additions	432,730	826,199
Capitalized Time	30,134	61,172
*Retirements	(1,987,741)	(2,499,753)
Accumulated Depreciation at 9/30/2021	(3,836,156)	(3,836,156)
*Retirements	1,987,741	2,499,753
Computer Restatement	538,883	538,883
Vehicle Restatement	187,495	187,495
Contributions in Aid of Construction at 9/30/2021	(2,822,780)	(2,822,780)
Amortization of CIAC	540,099	540,099
Additional Amortization Expense	14,235	28,470
Accumulated Deferred Income Taxes	(723,082)	(719,742)
Net Plant Acquisition Adjustment	(261,239)	(253,994)
Construction Advances	(6,026)	(6,026)
Customer Deposits	(28,964)	(28,964)

The Commission notes that the OUCC agrees with the TLUI Watermain and Service Line Replacements and IWSI Watermain Replacements and Retirements from Petitioner's direct testimony (indicated by a * above). In addition, Petitioner's rate base was amended on rebuttal with no evidence to support it. Therefore, we approve the parties' originally approved positions, as shown in the table.

We also note that the parties appear to agree with respect to accumulated depreciation methodology, although their calculations differ as their rate base recommendations differ. In addition, the parties agree on the treatment of contributions in aid of construction and the net plant acquisition adjustment.

ii. **Well Nos. 12 and 13.**

a. **Petitioner's Case-in-Chief.** Community included in its proposed water rate base \$351,157 of costs for two new wells within its Twin Lakes service

territory. Petitioner's witness Loren Grosvenor testified both wells are in service and that Community was just finishing the landscaping. Mr. Grosvenor explained the costs of these wells were largely based on the actual cost of installing the new wells and that, as of October 1, 2021, Community had spent \$340,425 to complete the wells. The additional \$10,732 (\$351,157 minus \$340,425) represents landscaping costs still outstanding.

b. OUCC's Evidence. OUCC witness Margaret Stull recommended the exclusion of \$340,425 of costs related to well nos. 12 and 13. She explained that her review of the assets added to utility plant in service ("UPIS") since Community's last rate case revealed that the majority of the cost for these wells had already been included in Community's UPIS.

c. Petitioner's Rebuttal. Petitioner's witness Andrew Dickson accepted Ms. Stull's recommendation to exclude \$340,425 of costs for well nos. 12 and 13. Mr. Dickson also updated Community's forecast of remaining costs for this project from \$10,732 to \$6,061 to reflect \$6,000 in capital outlays and \$61 of associated AFUDC to perform the final landscaping associated with the project.

d. Commission Discussion and Findings. We find these new wells are necessary for Petitioner to continue to have adequate water supply. As Petitioner has agreed with the OUCC's proposal to remove \$340,425 in forecasted costs associated with well nos. 12 and 13, we also find that Petitioner's utility plant in service should include only the projected \$6,061 of additional costs to complete the landscaping for this project.

iii. Twin Lakes Iron Filter Improvement Project.

a. Petitioner's Case-in-Chief. Petitioner's witness Loren Grosvenor testified that the Twin Lakes Water Treatment Plant ("WTP") Iron Filter improvement project, which was pre-approved in Cause No. 45342, includes the South Filter replacement, pumping and piping improvements, SCADA improvements, and the other miscellaneous improvements that the Commission pre-approved in Cause No. 45342. Mr. Grosvenor testified that the estimated cost of the Twin Lakes WTP Iron Filter is \$2,288,764 (per rebuttal), which includes the pre-approved cost of the projects of \$2,079,406, plus expenditures associated with AFUDC, capitalized time ("Cap Time"), and regulatory costs.

b. OUCC's Evidence. OUCC witness Margaret Stull testified that CUII's proposed costs for this project exceeded the amount preapproved by the Commission in Cause No. 45342 by \$276,410 (\$2,355,816 minus \$2,079,406), and according to CUII's "*Pro forma* Capital Investment Workpaper," \$195,601 of costs are unexplained by CUII. She testified that CUII does not state in its case-in-chief how much was incurred for regulatory costs for this project, and she stated that these non-construction costs should only be included in CUII's consolidated water rate base to the extent they are reasonable. She excluded the \$195,601 unexplained costs from her recommended consolidated water rate base because no CUII witness provided substantive evidence to support the additional costs.

c. Petitioner's Rebuttal. On rebuttal, Mr. Dickson testified that he disagreed with Ms. Stull's exclusion of the \$195,601 and opined that Ms. Stull's analysis

does not discuss CUII’s separate project where regulatory costs related to the iron filter replacement project were booked, does not acknowledge the prudence of capitalized time and AFUDC already incurred, and generally does not create an accurate comparison of specific preapproved costs that have (or have not) been exceeded. Mr. Dickson stated that costs incurred related to seeking preapproval in Cause No. 45342 were tracked in a separate project and were not included in the total project cost forecast for the iron filter project. However, he said that CUII did include for recovery costs incurred related to seeking preapproval in Cause No. 45342, and CUII only included a return “of,” not a return “on,” over the course of three years. He testified that AFUDC and cap time were included in the direct case forecast of \$2,355,816.

Mr. Dickson testified that he disagrees with Ms. Stull’s assertion that \$195,601 in forecasted costs for this project are unexplained and provided a breakdown of the expenditure type included in the actual costs incurred and forecasted remaining outlay, as well as an updated forecast on the project. He stated that Ms. Stull did not discuss the reasonableness of CUII’s cap time or AFUDC, instead only removing the portion that she believed to be unexplained. Mr. Dickson opined that all of the cap time and AFUDC have been prudently incurred or will be (in the case of future cap time and AFUDC) and stated that CUII’s total project variance compared to what was approved by the Commission is only 1.76%. The rebuttal outlay is reflected as:

Expenditure Type	Cost to-date	Future Outlay	Total	Cause 45342	Difference	Prudent AFUDC and Capttime Forecast
Capttime	\$49,791	\$761	\$50,553	Not Included	Not Included	\$50,553
Construction	1,404,407	466,296	1,870,704	1,850,198	20,506	
Engineering	245,264	-	245,264	229,208	16,056	
Interest During Construction	79,532	42,712	122,244	Not Included	Not Included	122,244
Iron Filter Replacement Total	\$1,778,995	\$509,769	\$2,288,765	\$2,079,406	\$36,562	\$172,796

Mr. Dickson clarified what is and is not in CUII’s projected forecast on rebuttal (updated to actuals as of May 5, 2022), which includes an additional \$761 of capttime to finish the project, \$42,712 AFUDC to culminate the project, CUII’s difference in construction and engineering costs, which are those included in Cause No. 45342, totals \$36,562 relative to its current forecasted total of \$2,288,764. This forecast explicitly removes \$15,000 for repainting costs. Mr. Dickson testified that the only amount needing explanation is \$36,562 in costs incurred in the construction and engineering phases of this project above and beyond the preapproved amount. Mr. Grosvenor testified that this \$36,562 stems from a few changes made by change order, including the addition of exterior lighting for security and safety (approximately \$3,500), \$8,500 to obtain gas service from NIPSCO, and the addition of two more mixing station pipe stand supports that were deemed necessary (approximately \$3,300). Mr. Grosvenor also stated that CUII incurred approximately \$4,700 for potholing service to identify well discharge locations and \$16,000 for engineering to move the chemical building to a more accessible location that did not require transmission pipe to be moved—a decision that ultimately saved money. Mr. Grosvenor opined that these costs are necessarily and prudently incurred as a part of the pre-approved Iron Filter improvement project and are needed to complete the project.

d. Commission Discussion and Findings. After reviewing the evidence of record, we decline to exclude the \$195,601 in project costs proposed by the OUCC. AFUDC and cap time was preapproved for this project in Cause No. 45342. No party suggested that CUII’s calculation of AFUDC was incorrect or unreasonable, and no party suggested that

CUII's incurrence of cap time was incorrect or unreasonable. Therefore, AFUDC and cap time, the majority of which is included in the amount Ms. Stull contested, already was approved in Cause No. 45342 as reasonable expenditures for AFUDC and cap time, and we find it is appropriately included in Petitioner's rate base in this proceeding.

As to the remaining disputed \$36,562, Mr. Grosvenor testified that approximately \$8,500 of the cost increase was to obtain gas service from NIPSCO. In addition, CUII deemed two more mixing station pipe stand supports to be necessary at a cost of approximately \$3,300. CUII also incurred approximately \$4,700 for potholing service to identify well discharge locations. Finally, approximately \$16,000 of this disputed amount was for engineering to move the chemical building to a more accessible location that did not require transmission pipe to be moved. We find that the additional costs incurred by CUII for completion of the necessary iron filter improvement project (\$36,562) were fully explained, are reasonable, and were prudently incurred. For these reasons, we approve the inclusion of CUII's rebuttal estimate of \$2,288,764 in rate base in connection with the iron filter improvement project.

iv. AMR Meters.

a. Petitioner's Case-in-Chief. Loren Grosvenor testified that CUII plans to replace customer meters in all three of CUII's water systems. He testified that Automatic Meter Reading ("AMR") meters will be used for all meter replacements. Mr. Grosvenor testified that customer meter replacements began in 2021, and CUII estimates 1,564 meters were replaced in 2021, and about 1,653 meters were replaced in 2022. Mr. Grosvenor testified that before 2021, all meters in CUII's systems were Master Meter AMR meters; however, these meters began to fail on a widespread scale in 2020 and 2021. Mr. Grosvenor testified that meters need to be replaced so that CUII can continue to collect accurate water usage readings from customers. Mr. Grosvenor testified that CUII estimated \$450,233 for AMR meter replacements in 2021, and \$367,142 (\$390,588 in rebuttal) for AMR meter replacements in 2022. Mr. Grosvenor testified that all meters for 2021 had been purchased and the estimated costs are reflective of actual costs already incurred. He testified that the cost estimate for 2022 includes direct purchase of materials and capitalized time, which is estimated at one hour per meter replacement.

b. OUCC's Evidence. OUCC witness Carl Seals expressed concern that the proposed meter replacement program appears to be a response to poor planning and execution of prior meter replacements. As an example, he cited the use of three different meter manufacturers since 2013. He testified that, in response to OUCC Data Request 3.01, Petitioner stated that it did not replace a significant number of meters in 2020 due to the COVID-19 pandemic, stating that CUII had stopped activities that required direct interactions with customers from March to December of 2020. The 106 meters replaced during 2020 were installed across an approximate ten-month period in 2013. Accordingly, they were approximately seven years old. Mr. Seals testified that this is not a normal replacement cycle for a water meter. He testified that, according to 170 Ind. Admin. Code 6-1-10, 5/eight-inch meters are to be tested or replaced every ten years or 100,000 cubic feet registered. Given that CUII indicated in response to OUCC Data Requests 3.03 and 3.04 that it did not actually track meter failures, Mr. Seals also indicated uncertainty as to whether estimated meter reads actually indicate the meter is failing: "the problem could be as simple as the meter reading vehicle failing to drive down a particular street, thereby not picking up any reads for that street." For these reasons, Mr. Seals concluded that it is impossible

for the utility to simply conclude that meter estimates automatically equal meter failures as CUII suggested.

Mr. Seals also noted that in 2021 there were 31 accounts in Twin Lakes that received as many as ten sequential estimates throughout the year, suggesting that it took the utility as long as nine months to recognize and respond to a previous period estimated read. He further indicated that delays of as much as nine months in assessing and correcting this problem can cause customer leaks to continue undiscovered. In addition, such delays can cause a failure to recognize and timely report and compensate the utility for legitimate high customer usage, such as the filling of a pool, or heavy lawn irrigation. He added that these unexplained high bills due to failures to accurately read meters create problems for customers as well, as they may be suddenly billed for large amounts of usage of which they were not previously aware, until receiving the “catch-up” bill when the meter is actually read.

Mr. Seals testified that CUII’s parent company Corix began a transition to Neptune meters in 2021, which may allow for a 10-15% discount on market value and annual pricing certainty. Mr. Seals testified that Neptune is a well-established, widely used meter manufacturer.

Mr. Seals stated that if the meters were failing prematurely, then the utility should have sought compensation, replacement, or technical assistance from the manufacturer, and Petitioner has presented no evidence that it has done so. Mr. Seals recommended that, in the future, CUII more carefully collect, analyze, and report data regarding the need for meter replacements and meter reading activities in general, and more aggressively pursue options other than wholesale replacement.

c. LOFS’s Evidence. LOFS witnesses Rick Cleveland and Robert Holden both testified that they disagree with an increase in rates for the replacement of AMR meters. Mr. Holden testified that the costs of the AMR replacement program should be denied because CUII has not provided any explanation of its due diligence regarding warranties applicable to failed meters and has not presented evidence that there are less costly alternatives to its replacement plan, and because those costs should be spread out over a longer period of time. Mr. Cleveland testified to his opinion that CUII’s parent corporation made the decision for all of its subsidiary utilities to transition to new AMR meters to generate a return of and on new assets, and that CUII is blindly following that directive without regard to the actual need, the impact on rates, or the potential for using the existing meters. Mr. Holden and Mr. Cleveland recommend the Commission reject CUII’s request for recovery of AMR costs for these reasons.

d. Petitioner’s Rebuttal. In response to Mr. Seals’s statement that the meter problem could be as simple as the meter reading vehicle failing to drive down a particular street, Mr. Grosvenor testified that this would not be a realistic possibility. Mr. Grosvenor testified that CUII is replacing meters that are failing. He stated that the meters are failing before the end of their 10-year life expectancy, and that the cost of sending the meters back to the manufacturer for repair under the existing warranty is higher than the cost of replacement. Mr. Grosvenor testified that taking that approach would result in spending money on meters that will need to be replaced in the next two to three years based on life expectancy and inconveniencing customers multiple times to reinstall meters. Mr. Grosvenor provided a cost comparison of sending a meter back for repair (\$252.44) and replacing the meter (\$231.25).

Mr. Grosvenor also testified that purchasing meters with CUII's corporate parent provides better pricing than CUII would otherwise get through bulk purchasing power and doing so provides operational benefits.

Mr. Grosvenor testified to how CUII will handle failures of the new Neptune meters going forward, stating that CUII will keep a number of the Neptune meters available and will send the meters back for warranty repairs during the early portion of the warranty period when it makes most financial sense. He testified that replacement of the meters is necessary for CUII to continue to accurately measure customer usage and accurately bill customers and testified to his opinion that the Neptune meters that are being installed are reliable and a good solution.

e. Commission Discussion and Findings. After reviewing the evidence of record on this issue, we agree with the OUCC and LOFS that CUII's proposed meter replacement program appears in part to be a response to poor planning and execution of prior meter replacements. We also take issue with Mr. Grosvenor's calculation of the cost of warranty repair versus replacement of existing meters, which is based on the premise that a repaired meter is returned to the same customer and location from which it was removed¹, which the Commission believes to be inconsistent with the analysis conducted by Mr. Grosvenor and is ultimately flawed. Regardless of the inconsistency, the program proposed by Petitioner is not based on a ten-year life cycle cost prescribed by 170 IAC 6-1-10. Thus, we limit recoverable annual meter replacement costs to \$124,470 (10% of the total meter replacement project cost identified in Rebuttal by Mr. Grosvenor) for Phase I and \$248,940 for Phase II.

We also agree with Mr. Cleveland that CUII's estimated billing procedures have not been reviewed by the Commission and should be, given the large number of estimated reads and the anecdotal evidence of high estimated reads. Therefore, within 90 days of the date of this order, CUII shall submit its estimated billing procedures for Commission review under the 30-day filing process.

v. Other Capitalized Costs.

a. OUCC's Evidence. Ms. Stull noted Petitioner capitalized \$18,297 of costs she asserts should have been recorded as operating expenses during the period incurred. These included filter media replacement, vehicle registrations, large meter testing, a hydrogeology study (south filter evaluation), and other evaluations. She maintained these costs should be excluded from Petitioner's water system rate base. Ms. Stull explained that none of the excluded costs occurred during the base period and, therefore, no operating expense adjustment is necessary.

b. Petitioner's Rebuttal. Mr. Dickson accepted Ms. Stull's adjustment to remove costs associated with customer large meter testing (\$1,950) and the South filter evaluation (\$6,956), but he rejected the adjustment with respect to capitalization of the filter media replacement costs, (\$8,107), testifying that it was required by the North Filter Rehabilitation, which required the removal of the filter's media to replace the strainers. He argued that because the strainers could not be replaced without removing the filter media, the removal of

¹ See Petitioner's Responses to Commission Docket Entry of June 23, 2022, responses to questions 10 and 11.

that media is part of the project. Mr. Dickson also explained that rate base need not be adjusted for the vehicle registrations, (\$1,284) because those items had already been reclassified, resulting in a net zero impact to CUII’s utility plant in service. In other words, the vehicle registrations were not included in the utility plant in service numbers CUII has provided.

c. **Commission Discussion and Findings.** We accept Petitioner’s explanation with respect to the vehicle registrations, (\$1,284), but we reject Petitioner’s argument that its capitalization of operating costs related to filter media replacement is justified because it is part of a capital project, (\$8,107). There was no evidence or suggestion the replacement of the strainers was done on an emergency basis. As such, there is no reason presented as to why Petitioner could not have coordinated the capital replacement of its strainers with the operating expense of changing out its filter media, which it must do periodically. In fact, we may assume that is precisely what happened as it would not have resulted in any different cost or expense than what was experienced. We reject Petitioner’s proposal to turn an out of period operating expense into a capital asset. As the parties have agreed to the removal of costs associated with large meter testing (\$1,950) and the south filter evaluation (\$6,956), we find \$8,906 should be removed from Petitioner’s water UPIS, with an associated adjustment to accumulated depreciation of \$506.

B. Wastewater System.

i. Uncontested Issues.

The parties agreed to the following wastewater system rate base components:

<u>Wastewater Rate Base</u>	Phase I 9/30/2022	Phase II 9/30/2023
Utility Plant in Service at 9/30/2021	\$ 20,319,424	\$ 20,319,424
WSCI Sewer Capital Improvement Program	71,522	116,521
Computers	45,744	48,711
Vehicles	-	27,821
General Plant Additions	238,700	403,972
Capitalized Time	13,578	27,563
Accumulated Depreciation at 9/30/2021	(8,721,479)	(8,721,479)
Computer Restatement	349,981	349,981
Vehicle Restatement	123,670	123,670
Contributions in Aid of Construction at 9/30/2021	(3,767,798)	(3,767,798)
Amortization of CIAC	1,549	1,549
Additional CIAC Amortization Expense	134	268
Net Contributions in Aid of Construction	(3,766,115)	(3,765,981)
Accumulated Deferred Income Taxes	(981,408)	(976,875)
Construction Advances	(3,974)	(3,974)
Customer Deposits	(19,105)	(19,105)

The Commission notes the OUCC agrees with the WSCI SCIP's projected project costs, \$71,522 for Phase I and \$116,521 for Phase II; however, Petitioner's rebuttal rate base for this project was updated with no supportive evidence. Therefore, the Commission approves the CUII and the OUCC's originally agreed position as shown in the table.

ii. Inflow and Infiltration ("I&I") and Sewer Capital Improvement Program ("SCIP").

a. Petitioner's Case-in-Chief. Mr. Lubertozi testified that, in CUII's last rate case, Cause No. 44274, the Commission directed CUII to develop a comprehensive I&I program as part of a broader plan in addressing three key aspects of service quality—wastewater backups in homes, manhole overflows, and discoloration of drinking water. He described that CUII was directed to provide detailed plans to measurably improve performance in these three key aspects using primary components: a comprehensive I&I program and a multi-faceted program to decrease incidences of discolored water. Mr. Lubertozi testified that CUII has continued to focus on a comprehensive I&I removal program, consisting of both assessment and corrective action.

He explained CUII's decision to engage an external engineering firm to provide recommendations for continued reduction to I&I, as well as to assist with a project to remediate all known defects in one of the basins in the LOFS subdivision with the most I&I and then compare historical I&I to post-remediation I&I. Mr. Lubertozi provided an overview of CUII's recent request for proposals ("RFP") to address I&I. He testified that the RFP is designed to identify a consultant to develop a forward-looking plan that will include a detailed summary of all defects identified, recommended rehabilitation, documented repairs, and identification of any defects that remain unresolved; additional, actionable recommendations for rehabilitation work necessary to address any unresolved defects and/or newly identified defects; recommendations for further investigation, rehabilitation, inspections, or other; estimates for how much I&I reduction the consultant estimates is feasibly achievable; and cost estimates for additional investigational, rehabilitation, and improvements recommended.

Petitioner's witness Loren Grosvenor testified that CUII made improvements to its wastewater system over the past several years by implementing the Sewer Capital Improvement Projects ("SCIP"). He testified that the SCIP includes annual cleaning and televising of a minimum 10% of the wastewater collection system, providing video results and documentation from the CCTV contractor to CUII, along with plans for replacements and remediation of sections of the collection system. Mr. Grosvenor testified that this includes identifying work regarding the reduction of I&I and any other issues. Mr. Grosvenor stated that in 2020, CUII lined a total of 8,516 linear feet ("LF") of sewer with defects identified from sewer televising between November 2020 and February 2021. Mr. Grosvenor stated that in 2021, CUII's SCIP work included investigating and engineering for the potential pigging of the Lift Station L forcemain and miscellaneous sewer repairs identified from sewer cleaning and televising. Mr. Grosvenor testified that CUII staff also inspected manholes in July 2021 and 131 manholes were inspected by consulting engineers in September and October 2021 to identify potential manhole repairs. Mr. Grosvenor stated that CUII will continue to inspect and televise sewer mains, inspect manholes, smoke sewers, and repair defects. Mr. Grosvenor testified that, due to the COVID-19 pandemic, home inspections were discontinued in 2020, but CUII anticipates resuming in 2022.

Mr. Grosvenor testified that, since its last rate case, CUII has completed several capital projects that are now in service. Mr. Grosvenor testified that in Twin Lakes, SCIP projects include Cured-in-Place-Pipe (“CIPP”) lining of approximately 2,715 and 8,516 LF of sewer main in 2018 and 2020-2021, respectively; lining of 55 manholes in 2019; replacement of approximately 1,540 LF of watermain and 44 service lines in 2019; and replacement of approximately 3,607 LF of watermain and 56 service lines in 2021. Mr. Grosvenor testified that in Water Service Corporation (“WSC”), SCIP included CIPP lining of approximately 720 LF of sewer main in 2018. Mr. Grosvenor also provided a summary of the SCIP projects CUII still needs to complete between the base year and end of the test year.

Mr. Grosvenor testified that the sewer improvements are necessary to remedy sewer defects identified by CUII and allow CUII to continue to provide adequate and reliable service. Mr. Grosvenor stated that sewer defects can lead to I&I, and I&I can increase operational costs for pumps, blowers, and other wastewater equipment, and also lead to sewer overflows, such as basement backups and manhole overflows. Mr. Grosvenor testified that timely remediation of defects reduces the risk of sudden failures of sewer mains and manholes, which can cause sewer overflows.

Mr. Grosvenor testified that, in 2022 and 2023, CUII plans to focus on I&I reduction one basin at a time. He stated that CUII has already repaired all Level 4 and Level 5 defects in multiple basins, and CUII now plans to investigate and identify its worst performing basins with respect to I&I and eliminate all known defects. Mr. Grosvenor testified that to accomplish this, each year, CUII will focus on one basin and make all repairs necessary to eliminate I&I. Mr. Grosvenor testified that in some cases, a single basin may take longer than a year, but once the repairs are made to one basin, CUII will move to the next worst performing basin.

Regarding cost estimates, Mr. Grosvenor testified that SCIP projects have been reoccurring, so costs from year-to-year are fairly consistent. Mr. Grosvenor testified that the 2021 projects are largely complete, and costs include engineering for pigging the Twin Lakes Lift Station L forcemain, manhole inspections, a sewer spot repair, and manhole rehabilitation. Mr. Grosvenor testified that the 2022 and 2023 SCIP project costs are currently estimated at a high level to include any potential sewer improvements work identified from sewer cleaning and televising, manhole inspections, and the engineer evaluation of CUII’s I&I program. Mr. Grosvenor testified that investment in the Twin Lakes SCIP for 2021 are estimated at \$197,610 (\$150,663 in rebuttal) and \$521,086 for each of 2022 and 2023. For the WSCI system, Mr. Grosvenor testified that investment in SCIP was \$26,523 in 2021 and is estimated to be \$44,999 in 2022 and 2023 (2022 SCIP was forecasted at \$44,879 in rebuttal).

b. OUCC’s Evidence. OUCC witness James T. Parks discussed several proposed wastewater projects at Twin Lakes. He testified that several of the projects are oversized, or are being proposed not to find and remove the excessive I&I in CUII’s collection system, but possibly to convey the excessive flows directly to the wastewater plant which will amplify peak flows imposed onto the wastewater treatment plant (“WWTP”). Mr. Parks noted that in Cause No. 45389, the Commission denied CUII’s preapproval requests of \$4,148,088 for the Collection System Improvement Program (“CSIP”) and \$19,712,491 for the WWTP replacement project. The Commission found that

CUII should prioritize its I&I program so that we can assess the impact of the I&I removal on any need to expand its WWTP. CUII is not subject to any enforcement action by IDEM, and we find that the current capacity of its WWTP, while approaching its limits, can provide reasonable service to its customers.... CUII has made no meaningful attempt to date to achieve I&I removal as set forth in the 44742 [sic] Order. A robust I&I removal program is long overdue and could alter and help better determine the identity and scale of the improvements needed, according to Mr. Parks's and Mr. Holden's testimony.

In re CUII, Cause No. 45389, at 15 (May 5, 2021).

Mr. Parks testified that other than annual sewer system improvements made under the SCIP, CUII did not address I&I with any other proposed capital project in this cause except for customer lateral replacements.

Mr. Parks testified that CUII's proposed Headworks project does not help locate and reduce excessive I&I entering Petitioner's collection system, which has been a contentious issue in Petitioner's rate cases going back 30 years. He stated peak flows are imposed on the WWTP due to excessive I&I. He reported Petitioner's WWTP is currently sized to treat an average daily flow of 1.1 MGD and a peak hourly flow of 3.58 MGD. Mr. Parks repeated his testimony from Cause No. 45389 that CUII's proposed 14.0 MGD design capacity for Headworks is too large and is a result of CUII not accounting for surcharging of the influent Parshall flume flow meter that cause overreported and inaccurate peak flows. Mr. Parks speculated that although Petitioner has not said so, it may be installing the entire Headworks portion (Influent Junction Chamber, mechanical screens, grit removal, influent meter, and raw sewage pumps) of its WWTP replacement project (with a peak design flow of 14.0 MGD) that was the subject of the Commission's denial in Cause No. 45389 last year.

Mr. Parks testified that in 2007, Strand Associates recommended CUII install flow meters upstream of the WWTP (because the influent meter appears unreliable at high flows), as well as upstream of Lift Stations C, D, and L to determine the relative success of CUII's I&I reduction program. He reported that in Cause No. 45389, CUII proposed installing flow meters and pressure gauges on force mains from Lift Stations B, C, and D. He referenced his testimony supporting these additions and recommended also installing meters and pressure gauges at Lift Stations J and L to obtain accurate flows from the two lift stations discharging at the WWTP. He agreed area velocity meters should be installed in sewers immediately upstream of the WWTP and recommended CUII add meters at known bottlenecks or basement backup areas. Mr. Parks testified that despite these recommendations by CUII, its consultants, and the OUCC, CUII has not installed lift station flow meters and pressure gauges nor meters on the influent sewers upstream of the WWTP. He testified that he still believes CUII should add the meters and pressure gauges, because they are relatively low cost, would greatly assist CUII in tracking flows, help in locating and removing areas with excessive I&I, help assess lift station and force main performance issues, and help assess the effectiveness of I&I removal efforts.

Mr. Parks testified CUII should continue using its recently installed chemical phosphorous system and continue leasing office space and recommended the Commission disallow CUII's proposed \$500,000 chemical/office building project in its entirety. He testified that given the

Commission's clear direction in Cause Nos. 44724 and 45389 that CUII focus on its collection system to find and remove excessive I&I, CUII should not be pursuing lower priority capital projects such as new offices.

Mr. Parks testified CUII does not have a Twin Lakes Sewer System Master Plan addressing Lift Station L's force main replacement. He reported CUII indicated its Master Plan is the Asset Management Plan that has been in draft form since 2015, but will not be updated until 2023 when CUII retains a new Project Manager. Mr. Parks noted that other than lift stations, he could not find any information in CUII's draft AMP about CUII's buried sewer assets such as the Lift Station L force main.

Mr. Parks testified CUII completed Lift Station L and its force main in 2003 to alleviate sewer surcharging that had been causing downstream sanitary sewer overflows. He testified CUII did not remove the I&I causing the surcharging and overflows, instead choosing to pump it directly to the WWTP to bypass the gravity sewers in the problem areas. Mr. Parks testified that foul septic odors and the need to enclose headworks structures followed CUII's choice in the 1990s not to find and remove excessive I&I from the area near Lift Station L.

Mr. Parks testified CUII and Baxter & Woodman did not provide any documentation to support CUII's assertion that Lift Station L and its 4.5-mile-long force main has experienced noticeable loss of capacity over the last several years. He noted this is the first time the OUCC has heard about CUII's claimed loss of capacity. He also noted it appears CUII did not identify this as a hydraulic problem in prior rate cases or the preapproval case. Mr. Parks testified that CUII may be seeking to increase Lift Station L's capacity so that it can accommodate additional wet weather flows from the tributary area to Lift Station L or another lift station such as Lift Station C. Mr. Parks testified CUII's consultant RHMGM recommended CUII focus on removing I&I in the Lift Station L basin and recommended against replacing the eight-inch force main segment with a 12-inch pipe or interconnecting the Lift Station C and L force mains. However, Mr. Parks stated that in this case CUII is requesting funds for the Lift Station L force main replacement and the Lift Station C generator project. He recommended the Commission disallow both projects. If CUII's intent is to pump more I&I directly to the WWTP rather than find it and remove it, Mr. Parks recommended that the Commission order CUII to follow the Commission's clear direction from Cause No. 44724 and Cause No. 45389 to develop and execute a comprehensive I&I program to decrease the entry of water inflow and groundwater infiltration into CUII's separate sanitary sewer system.

Regarding CUII's plan to focus on I&I reduction one basin at a time, Mr. Parks testified CUII did not provide testimony about which basin has the worst I&I, or why it thinks focusing on only one basin at a time is the best way to address I&I, as opposed to finding and repairing the worst I&I sources regardless of basin location. Mr. Parks testified CUII wants to change its long-term approach for I&I removal; previously, CUII's consultant RHMGM assessed sewer and manhole defects that are I&I sources through its annual televising program and then ranked and prioritized the defects for repair. Mr. Parks stated that perhaps this change reflects CUII's admission that its I&I program has not been successful in finding and removing I&I. He reported CUII does not have a Collection System Master Plan and that it appears CUII still does not have a comprehensive I&I program to decrease the entry of water inflow and ground water infiltration into Petitioner's separate sanitary sewer system. Mr. Parks testified that CUII has not provided an estimate of the

total I&I volume in the Twin Lakes sewer system or taken action to determine the level of I&I in its system.

OUCC witness Margaret Stull testified that the OUCC accepts CUII's proposal for its WSCI SCIP, but does not agree with the amounts projected for its Twin Lakes SCIP.² The OUCC recommends the level of costs incurred for its 2021 Twin Lake SCIP as reasonable cost. In other words, the OUCC recommended that CUII's investment in wastewater main improvements be limited to \$197,610 annually. Ms. Stull testified that CUII proposes to more than double its annual expenditures for this program and provided no substantive evidence explaining why this level of expenditure is necessary and reasonable other than the need to reduce inflow into the collections system. Ms. Stull stated that no list of potential projects or details are provided as to which basins will be investigated first, and no cost estimates or other support were provided to justify this increase in spending.

c. LOFS's Evidence. Mr. Cleveland testified that CUII has failed to make meaningful progress toward the Commission's directives to reduce I&I in Cause Nos. 44724 and 45389. Mr. Cleveland stated that he does not believe that CUII has completed a comprehensive I&I program, as directed by the Commission in the final Order in Cause No. 44274. He testified that CUII has yet to move beyond "plans to investigate and identify" the worst performing basins. LOFS witness Holden testified that I&I has been an issue for decades. He stated that CUII lacks a coordinated effort to identify where I&I is and how to address it. Mr. Holden testified that he does not think CUII has met the guidance provided by the Commission to address I&I and implement an effective asset management plan.

Mr. Cleveland testified that CUII's wastewater system is old and needs repairs or improvements, but that its current need is a result of failed maintenance and updates over time. Mr. Cleveland agreed with Mr. Holden's recommendation that CUII should spend more time focusing on eliminating I&I and that it is not appropriate for ratepayers to pay for engineering and regulatory expenses relating to CUII's wastewater treatment plant for which pre-approval was denied in Cause No. 45389.

Mr. Cleveland also submitted Attachment RC-2, which CUII provided in a data request response, which shows 61 reports of backups and overflows since January 2020. Mr. Cleveland stated that backups and discharges remain a significant problem for LOFS residents. Attachment RWH-2 of Mr. Holden's testimony also includes CUII's responses to LOFS Data Requests 1.01 and 1.02, in which CUII was asked to identify the actions CUII has taken to remediate inflow and infiltration since the Commission's order in Cause No. 45389. CUII's response to LOFS 1.01 stated that in 2021, CUII has, among other things, prepared to issue an RFP of a definitive study of I&I solutions; focused on the worst basin in the system (Basin 10) to identify areas in most need of repairs; and made repairs based on televising and engineer recommendations, including a main repair and replacement of CUII-owned portion of a lateral. Attachment RC-2. Mr. Holden testified that he believes CUII is only studying the I&I problems, but not actually fixing them.

d. Petitioner's Rebuttal. In response to the OUCC and LOFS'S criticisms of CUII's I&I program, CUII witness Loren Grosvenor reiterated that CUII

² SCIP is referred to as Comprehensive I/I Program in rate base summary tables below.

plans to focus on reducing I&I one basin at a time, by first investigating and identifying the worst performing basins with respect to I&I and eliminating all known defects. Mr. Grosvenor testified that once repairs are made to that basin, CUII will move to the next worst performing basin. He stated that, in addition to the basin work, CUII will continue to correct Level 4 and Level 5 defects identified through its annual televising and inspections of sewer mains and manholes to remove I&I.

CUII witness O'Dell testified that, in his experience, a successful and comprehensive I&I program is a multiple year or decade-long effort that systematically removes clear water from the sanitary sewer system, basin by basin, which results in less overflows, fewer backups, and eventually, lower WWTP flows. He testified that a typical I&I program includes a phased approach to achieve best results. Mr. O'Dell testified that the first phase of an I&I program takes many years and includes study and analysis of the system, which includes flow monitoring, sanitary sewer televising, manhole inspections, smoke testing, dyed water testing, private lateral inspection, and private property canvassing. He testified that following evaluations, the second phase includes repair and rehabilitation of the identified priority defects, which can also be a multi-year process depending on the severity and quantity of the defects. Mr. O'Dell testified that after several significant projects are completed, the final phase is post-rehab flow monitoring to measure the effectiveness of the program, after which, the cycle is repeated in the next basin.

Mr. O'Dell testified that CUII has focused its I&I program on assessment and corrective action and has acted on many of the typical aspects of phased I&I programs, including flow monitoring, sanitary sewers televising, manhole inspection, smoke testing, dyed water testing, private lateral inspections, and home inspections. Mr. O'Dell testified that in 2018, a flow monitoring study was completed, which helps CUII target the worst I&I basins. Mr. O'Dell testified that moving forward, CUII plans to identify and evaluate the worst performing I&I basins and eliminate cost-benefits positive defects. He testified that CUII will focus on one basin and make necessary repairs to reduce I&I. Mr. O'Dell testified that Baxter & Woodman has already begun the sewer basin study, and that significant rehabilitation work is expected to begin in the summer of 2022.

Mr. O'Dell testified that CUII inspects at least 10% of the manhole structures in the system every year, and since 2013, over 25% of the manholes have been rehabilitated. Mr. O'Dell testified that smoke testing and lateral televising were completed in 2018, and dyed water testing was completed by CUII in 2018 and 2019. Mr. O'Dell stated that home inspections were completed by CUII between 2017 and 2019, resulting in CUII inspecting over 665 homes during that time. Mr. O'Dell testified that CUII has continued to inspect at least 10% of the homes every year, although the program has been temporarily suspended due to COVID-19. Mr. O'Dell also testified that since 2018, CUII has lined/rehabilitated approximately 11,300 linear feet of sanitary sewer, and where lining was not possible, CUII also completed point repairs at sewer locations.

Mr. O'Dell testified that he reviewed LOFS's response to CUII's Data Request 1-3 in Cause No. 45389 (attached to his testimony as Attachment SO-R1). In Attachment SO-R1, LOFS provided a description by LOFS witness Holden of a comprehensive I&I removal program, which included the following:

1. Assessment
 - a. Smoke testing
 - b. Wet weather inspections
 - c. Manhole inspections
 - d. Night flow isolation
 - e. CCTV inspections
 - f. Private home inspections
2. Corrective Action
 - a. Private Side
 - i. Sump pump removal
 - ii. Downspout removal
 - iii. Area drain removal
 - iv. Lateral lining/replacement
 - b. Public Side
 - i. Manhole lining
 - ii. Manhole casting raising/replacement
 - iii. Sewer lining
 - iv. Point repair/segment replacement
 - v. Sanitary sewer/cross connection elimination

Mr. O’Dell testified that he compared CUII’s I&I program to Mr. Holden’s description of a comprehensive I&I removal program and concluded that CUII’s program has all the components Mr. Holden specifies, with the exception of night flow inspection, which CUII has not completed due to safety and staffing concerns. Mr. O’Dell testified that he believes CUII has a comprehensive I&I removal program that meets the standards identified by Mr. Holden. Mr. O’Dell testified that CUII has been taking the proper actions to develop and implement a targeted rehabilitation program to repair defects and reduce I&I, and that CUII has taken more actions than most of the clients he works with through Baxter & Woodman.

Mr. O’Dell also testified that a successful I&I program could reduce flow rates by 30%, but this reduction would not reduce the need for WWTP improvements, and CUII’s I&I program should not prohibit or delay capital projects from moving forward. Mr. O’Dell testified that the most important reasons for I&I are to reduce the frequency and volume of SSOs and basement backups, and that while the reduction of peak flows at a WWTP are typically a positive externality of a successful program, I&I reduction will not reduce the operation and maintenance (“O&M”) challenges at the headworks. Mr. O’Dell testified that capital improvements at a WWTP often go together with I&I removal efforts and should not be halted in this case because of I&I. Mr. O’Dell stated that I&I can never be 100% removed from a system, and that the greatest reduction assumed is 30% from the peak hourly flow.

As to the OUCC’s recommendation that costs of the SCIP program be disallowed, Mr. Grosvenor asserted that the adoption of the OUCC’s disallowance recommendation would prevent CUII from making real progress in reducing I&I, as CUII was directed to do in Cause Nos. 44724 and 45389. Mr. Grosvenor testified that the costs for correcting all the defects in CUII’s worst performing basin (Basin 10) is estimated at \$2.5 million (exclusive of AFUDC and captime).³ See

³ Mr. Dickson’s rebuttal testimony includes the figure inclusive of captime and AFUDC as \$2,619,271.

Attachment LG-R2. Mr. Lubertozi testified that once all known public and private defects are repaired in Basin No. 10, CUII will assess actual costs incurred, and then, using Basin 10 as a proxy, CUII will calculate the costs to make similar improvements in all the remaining basins. Mr. Lubertozi testified that CUII will then determine what is the most reasonable “least cost” approach to eliminate basement backups and SSOs.

Mr. Grosvenor testified that CUII has made measurable progress in reducing I&I and improving its service quality overall in accordance with the Commission’s directives in CUII’s last rate case, Cause No. 44724. Mr. Grosvenor testified that, since 2018, CUII has filed quarterly and annual reports under Cause No. 44724 in accordance with the Commission’s Order, detailing its progress on multiple objectives. Mr. Grosvenor provided a summary of those performance metrics filed in Cause No. 44724, as Attachment LG-R6. Mr. Grosvenor testified that the metrics show a decrease in wastewater backups in customer homes and manhole overflows. He testified that CUII exceeded its target for percentage of manholes inspected in 2018, 2019, and 2020, and met or exceeded its target metric for cleaning and televising sewers (annually by percent) and system flushing. (He testified that the number of verified residential water discoloration complaints annually has remained low.) Mr. Grosvenor stated that the COVID-19 pandemic interrupted progress on some of its performance metrics (for example, home inspections, smoke testing residences, information meetings with residents to discuss SSO, and the Water Discoloration Mitigation Program), but overall, he testified that CUII has made meaningful and measurable progress in many of its objectives, as evidenced by its performance plan reports filed in Cause No. 44724. See Attachment LG-R6.

e. **Commission Discussion and Findings.** Though CUII has generally complied with the specific directives of the 44724 Order, the utility appears to be unwilling to make I&I abatement part of their regular practice and, thus far, has not committed to substantially investing in large-scale improvements that remove I&I from the system. The I&I studies and the various assessment/maintenance programs contemplated under the SIP and implemented by CUII do not substantially remove I&I from the system unless CUII uses those tools to direct where and how capital investment is made and how O&M practices are improved. To date, CUII has not utilized these resources as aggressively as expected. CUII has a long way to go in building a culture focused on I&I abatement despite the many tools and programs provided under the SIP. The Commission expects CUII to utilize sophisticated asset management and I&I abatement programs, given the regional and nationwide resources CUII and its parent company possess. It is not the role nor desire of the Commission to develop and implement I&I abatement solutions for those we regulate. CUII shall improve the minimal levels of collection system maintenance, fully implement a robust asset management program, and significantly reduce its I&I levels. Failure to comply with this directive may be addressed per Ind. Code § 8-1-2-112. With this understanding, we believe that continuing the quarterly meetings and compliance filings ordered in Cause No. 44724 would not be productive or an efficient use of any of the parties’ time going forward. Therefore, we find that the quarterly meetings and compliance filings established by the 44724 Order shall be discontinued as of the date of this order.

To assist the Commission in assessing CUII’s progress regarding I&I, within nine months of this order, CUII shall file a compliance report identifying the system baseline (dry weather) infiltration rate and I&I rates for three design storm recurrence intervals of progressing severity as appropriate. The report shall describe how the reported rates were derived.

After reviewing the evidence of record on CUII's proposed SCIP, we find that the evidence supports CUII's proposal to include in rate base investments in SCIP. Accordingly, we approve CUII's proposal to include in rate base investments in the Twin Lakes SCIP of \$671,749 (\$150,663 + \$521,086) in Phase I and \$1,192,835 for Phase II. We also approve inclusion in rate base of amounts up to the uncontested investment levels for SCIP in the WSCI system of \$71,522 (\$26,523 + \$44,999) in Phase I and \$116,521 in Phase II.

iii. Lateral Replacements.

a. Petitioner's Case-in-Chief. Mr. Grosvenor testified that investigations have identified sewer laterals (Company-side and property owner-side) contribute to I&I in the Twin Lakes sewer system and estimates that, based on lateral televising data from inspections, approximately 10% of the sewer laterals (approximately 315 laterals) need replacement. Mr. Grosvenor testified that the average cost of replacement is \$5,200, excluding engineering and other associated costs, and that total construction capital cost for lateral replacement is estimated at \$2,000,000, which includes a 20% contingency. Mr. Grosvenor stated the CUII estimated lateral replacement cost of \$342,092 in 2022 and \$358,967 for 2023, although lateral replacement or repair is likely going to be ongoing as the collection system ages. Mr. Grosvenor testified that CUII started the budget for this project with a base amount for replacement and escalated it by 5% per year for anticipated inflation per the Consumer Price Index. Mr. Grosvenor stated that CUII plans to complete as many lateral replacements as possible within the estimate for each year.

Mr. Grosvenor testified that CUII's preference would be to replace laterals on both CUII-side and property owner-side in a single construction project, as proposed in these projects. He testified CUII believes it would be able to complete the replacements in a more cost-effective and efficient matter than requiring individual property owners to identify contractors and complete the replacements.

b. OUCC's Evidence. Mr. Parks recommended the Commission disallow CUII's proposed sewer lateral replacement program in its entirety, given the large number of unquantified costs, the impact on customer rates, ownership issues, and other higher CUII priorities for sewer repairs. He discussed customer owned sewer laterals, noting customers are responsible for maintaining and replacing them. He testified that CUII wants to replace both company and the customer sides as a single construction project and seeks Commission approval to include all costs in rate base. He reported CUII first proposed in 2019 at the fifth Technical Conference to replace customer laterals and include the costs in rate base, but that CUII's meeting minutes did not fully reflect the CUII, Commission, LOFS, and OUCC discussion on laterals. He testified that, before the fifth Technical Conference, the OUCC was unaware CUII determined customer laterals were a major I&I problem or that CUII wanted to add replacement costs to rate base. He reported there was no further funding discussion until now.

Mr. Parks testified CUII did not provide evidence about how many of Twin Lakes' 3,100+ home laterals it had televised, how many it found defective, or provide a list of addresses with lateral defects. Mr. Parks questioned whether CUII identified 315 defective laterals, because there is no evidence CUII knows the number of defective customer laterals and how many can be

repaired or must be entirely replaced. He provided CUII's full response to LOFS Data Request No. 1.07 in which CUII denied proposing to include customer owned lateral replacement costs in base rates in this proceeding, despite Mr. Grosvenor's testimony in this cause and previous CUII statements at the fifth Technical Conference.

Mr. Parks testified CUII does not know how much I&I enters the Twin Lakes system, has not provided any I&I volume estimate, how much originates from customer laterals, and has not quantified any reduction in I&I since May 5, 2021. He testified CUII reported that in 2021 it issued an RFP, began to study its "worst" basin to reduce I&I, and made engineer-recommended repairs based on televising, including a main repair and replacement of CUII owned lateral. Mr. Parks testified CUII did not say how it would track lateral replacements in removing I&I and did not provide any estimates for any costs it would incur tracking I&I removal success from replacing defective customer laterals. Mr. Parks testified CUII has not summarized the annual SCIP costs, nor the I&I removed from its system, if any. He stated CUII did not provide information on how many customer-owned defective sewer laterals CUII identified in recent years have been repaired or replaced by customers.

Mr. Parks testified CUII did not provide costs for actual customer lateral repairs, but noted at the 2019 Technical Conference, LOFS attorney Mr. Fitzgerald indicated quotes of \$10,000 to *replace* a lateral and Mr. Grosvenor said CUII had verbal replacement quotes as high as \$25,000. Mr. Parks testified that for customers with a broken pipe section or open joint, only a lower cost spot repair may be needed but for vitreous clay pipe (VCP) with visible cracking, total replacement may be the best option. Mr. Parks testified Mr. Grosvenor's testimony included 2019 sewer lateral replacement cost estimates (company and customer owned). He testified that CUII estimated costs at \$2 million (with 20% contingency added) to replace 315 customer laterals at an average \$5,200 per lateral. He noted these costs do not include televising all laterals, engineering, AFUDC and captime, which for CUII can add significantly to a project's costs. Mr. Parks noted CUII's \$5,200 cost per lateral (construction only) from 2019 appears not to have been updated.

Mr. Parks added he did not have confidence in CUII's estimates, as they are most likely low based on his experience with CUII's estimates for other projects. He noted the many unquantified project components (engineering, televising, AFUDC, and captime), the three-year-old non-updated estimates, and lack of actual contractor proposals or quotes. He testified CUII did not indicate how it will contract for the work, whether it will be awarded to one or multiple selected contractors, or whether the project will be competitively bid.

Mr. Parks estimated the total cost to replace 315 defective customer laterals would be 50% higher (at above \$3 million), increasing customers' monthly bills by over \$8. He testified CUII did not evaluate alternatives to CUII replacing customer laterals, did not say who would own them once replaced, and presented no evidence that prioritizing customer sewer lateral replacement is the best option to remove the most I&I at the lowest cost to ratepayers. Mr. Parks testified that homeowners with well-maintained sewer laterals should not subsidize repairs or replacements of other customers' laterals.

Mr. Parks testified homeowners could hire their own contractors to televise their laterals and determine whether to repair or replace them and could finance replacements with home equity loans. He testified CUII could help educate customers about their lateral responsibilities, could

offer information on hiring contractors and could recommend qualified contractors. He testified CUII's 60-day limit to repair or replace a defective lateral is too short and depending on the severity (I&I amount or backfill entering the sewer), CUII could be more flexible in working with customers that are addressing their laterals, especially since customers must seek contractor proposals, obtain funds, sign repair contracts, and schedule the work.

c. **LOFS's Evidence.** Mr. Cleveland testified that LOFS objects to the proposal to confiscate privately owned sewer laterals and recommends the Commission reject CUII's request to recover through rates repairs and replacements of customer-owned laterals. Mr. Cleveland stated that CUII's proposal seems to suggest CUII would become the owner of the customer's property without compensating the owner and that customer laterals would become part of CUII's rate base. Mr. Cleveland stated this proposal is unfair to customers that have already paid to repair or replace their own laterals. Mr. Holden testified that funding for the project only is included for two years, and residents who do not have their laterals replaced during this time will not see a benefit from the program. Mr. Holden also testified that because the laterals are privately owned, CUII cannot force entry to perform the work. Mr. Holden testified that lateral connections on private property should remain the property of homeowners.

Mr. Cleveland testified that LOFS prefers to incentivize individual homeowners to keep their laterals in good repair by giving homeowners notice and an opportunity to make necessary repairs. He testified that LOFS would support the placement of a lien on the property that could only be removed if the work is performed, which would ensure the customer owned lateral is repaired or replaced before the property is sold to a new owner. Mr. Cleveland testified that LOFS is willing to notify and encourage customers to make necessary lateral repairs, at the request of CUII, which would allow residents to remain owner of their laterals.

d. **Petitioner's Rebuttal.** In response to Mr. Parks's recommendation that the lateral replacements be disallowed, Mr. Grosvenor testified that doing so would handcuff CUII from dealing with I&I in upcoming years and would result in CUII not able to attempt to find and replace laterals contributing to I&I on its system. Accordingly, the 2022 and 2023 cost incurred to complete those projects will not be put into rate base until Phase 2, \$701,059 (\$342,092 plus \$358,967), and only the amount spent will be included in rate base. Regarding Mr. Parks's statement that CUII's cost estimate is likely low, Mr. Grosvenor testified that he does not necessarily disagree with Mr. Parks, particularly for the projects to be completed in 2023. Mr. Grosvenor provided a current quote from one of CUII's contractors, attached as Attachment LG-R1. Mr. Grosvenor testified that if costs continue to increase, the result may be that CUII will only be able to complete the most pressing of the 315 lateral replacements but increasing prices should not be used as a basis to forego necessary work that will reduce I&I on the system.

Mr. Grosvenor testified that CUII is not proposing to include the costs of the customer side of the lateral replacement project in rate base, and that CUII had advised Mr. Parks of his inaccuracy prior to his having filed testimony. Mr. Grosvenor testified that, in response to LOFS Data Request No. 1.07, CUII stated, "CUII is only replacing laterals on CUII-owned side of the main." He testified that CUII plans to encourage customers whose laterals are in poor condition to replace them at the same time as CUII does the work on the utility-owned side because doing so will undoubtedly save the customer money on their portion of the line. Mr. Grosvenor testified

that CUII will look to work with LOFS to come up with ways to encourage customers to replace their portion of the lateral.

Mr. Grosvenor and Mr. Lubertozzi both testified that if CUII is to reduce I&I on its system, it must reduce I&I from laterals.

e. **Commission Discussion and Findings.** After reviewing the evidence of record, we approve Petitioner's proposed lateral replacement cost and the inclusion of associated costs in rate base up to the amounts set forth in Petitioner's rebuttal: \$0 for Phase I and \$701,059 for Phase II. We find Petitioner's proposed lateral replacements reasonable and in the public interest and a component of CUII's I&I program. We find that CUII's proposal to collaborate with LOFS on the lateral replacement program is reasonable and with CUII's clarification that the program only replaces laterals between the mainline and the right-of-way, that the OUCC has not provided a valid reason to deny the project.

iv. **Lift Station L Forcemain.**

a. **Petitioner's Case-in-Chief.** Mr. Grosvenor testified that replacement of the Twin Lakes Lift Station L forcemain is needed because of a hydraulic bottleneck, removal of which would increase pumping capacity of Lift Station L and allow for effective cleaning of the forcemain. He stated that nearly all of the 22,900 LF of the forcemain is 12-inch diameter PVC pipe; however, approximately 1,101 LF is only eight inches in diameter. Mr. Grosvenor testified that CUII hired Baxter & Woodman to analyze the benefits of replacing the eight-inch PVC section and/or cleaning the forcemain. Mr. Grosvenor testified that, based on this analysis, CUII decided that replacing the eight-inch section of the forcemain would enable CUII to improve the pumping capacity of Lift Station L. He also stated that removing the eight-inch section would provide CUII the ability to effectively clean (pig) the forcemain in the future.

Mr. Grosvenor testified that improvements to Lift Station L may be necessary in the future to prevent sewer overflows, and that completing the Lift Station L forcemain replacement would improve the pumping capacity of Lift Station L at a lower cost than those possible future projects, potentially eliminating the need for or reducing the scope of those projects.

Petitioner's Exhibit No. 3, Attachment LG-6 includes Baxter & Woodman's memorandum of analysis of the forcemain replacement project and includes a cost estimate of the project. Mr. Grosvenor testified that it is not anticipated that the proposed air release valves and bypass pumping included in that estimate would be necessary. Mr. Grosvenor testified that CUII adjusted the estimated construction cost to \$350,000 and will solicit bids for the construction work from qualified contractors. He testified that engineering costs are estimated to be \$52,000 from Baxter & Woodman.

b. **OUCC's Evidence.** Mr. Parks recommended that the requested costs for the Lift Station L Project be disallowed. He testified that CUII did not prove a loss of capacity exists in the Lift Station L force main due to the existing eight-inch force main segment, or that there is any operational need to increase the force main capacity.

Mr. Parks testified CUII plans to replace 1,101 feet of eight-inch forcemain with new 12-inch pipe matching Lift Station L force main's predominant size to fix a hydraulic bottleneck,

according to Mr. Grosvenor. Mr. Parks testified CUII did not report this bottleneck in prior rate cases or the preapproval case. He noted in Cause No. 44724, CUII proposed interconnecting Lift Stations C and L's force main *before* the eight-inch segment to *route more flow through the eight-inch segment*. Mr. Parks testified CUII has not explained why a bottleneck exists now when it was not reported before. He testified that since start-up in 2003, the Lift Station L force main has always had this hydraulic restriction from the eight-inch segment, was expressly designed to include it, and it was permitted by the Indiana Department of Environmental Management ("IDEM"). He testified that the force main can convey the Lift Stations L and K pumped flows and stated CUII presented no evidence that these two lift stations are not conveying all sewage received.

In Table 5 of his testimony, Mr. Parks provided CUII's responses to OUCC Data Request 5-52 about CUII's claimed bottleneck and the following single sentence in Baxter & Woodman's Design Memo: "Lift Station L and its 4.5-mile-long force main located in the Twin Lakes Community has shown noticeable loss of capacity over the last several years."⁴ Emphasis added by the OUCC. Mr. Parks testified that the OUCC asked about this sentence to understand what flow problem CUII is trying to solve with the Lift Station L project. CUII's responses listed in Table 5 indicate there was no particular date when CUII first noticed a capacity loss, CUII has not undertaken a study to quantify the capacity loss and has not made improvements to address the loss. CUII also did not provide supporting documentation / studies on which it relied for its statement that there has been a noticeable loss of capacity but instead referred the OUCC back to the same Baxter & Woodman Memorandum. Mr. Parks testified he could not find any evidence supporting the statement that there has been a noticeable loss of capacity.

Mr. Parks testified this is the first the OUCC had heard about the claimed capacity loss. He noted he was aware CUII did not install means to clean force mains (known as pig ports) and that in the Technical Conferences and in the preapproval case (Cause No. 45389), he discussed lack of pig ports and clogged lift station pump impellers as possible contributing causes of longer pump run times. He testified CUII may have interpreted pump run times to indicate higher flows (i.e., I&I) rather than an inability to move sewage due to partially clogged pumps or force mains. He testified Lift Station L was not part of the original 1960s sewers but was added in 2003, well after Lift Station L's tributary area was built-out with homes. He reported CUII built Lift Station L to alleviate sewer surcharging that caused overflows. He testified CUII did not remove the I&I, choosing instead to bypass around the surcharged sewers by building Lift Station L and a new force main directly to the WWTP.

Mr. Parks testified Lift Station L was originally constructed in 2003 as a 700 gallons-per-minute ("gpm") duplex submersible lift station to divert I&I and sewage from 548 homes to the WWTP. CUII installed new higher capacity pumps in 2017 with tested pumping capacities of 1,114 gpm (one pump operating) to 1,320 gpm (both pumps in service). Lift Station L receives wastewater from 529 homes, has standby power and pressure gauges, but no discharge flow meter to track flow rates. Mr. Parks testified CUII should install flow meters at its main Lift Stations, as recommended by Strand Assoc. in 2007 and by the OUCC in 2020, including at Lift Stations J and L so that accurate flows can be obtained from the two lift stations discharging at the WWTP. He stated CUII will only be able to make sound decisions on locating and prioritizing removals of I&I

⁴ Testimony of Loren Grosvenor, Attachment LG-6 - Lift Station L Force Main Cleaning and Replacement Design Memo, Baxter & Woodman.

and in tracking the success of its I&I removal efforts if it has flow monitoring data, including flow data from its major lift stations. Mr. Parks reiterated that he still believes CUII should add the meters and pressure gauges because they are relatively low cost, would greatly assist CUII in tracking flows and locating and removing areas with excessive I&I in its collection system, and would also help assess lift station and force main performance issues and the effectiveness of I&I removal efforts.

Mr. Parks testified Lift Station L's force main was built as three projects from 1998 to 2003 starting with the original eight-inch segment from Lift Station K in 1998. The second segment, built before 2003, was upsized to 12 inches to serve an additional 3,620 people from future developments (never constructed) along Randolph St. The second segment runs from 117th Ave. south to 123rd Ave. and then east to the Twin Lakes WWTP. He testified no customers are connected south of the Lift Station K tie-in point and it is unlikely additional customers along Randolph St. will connect. Lift Station L and the force main's third segment were built in 2003. This 12-inch PVC segment runs west from Lift Station L and connects to the original eight-inch segment which CUII repurposed to flow west to Randolph St. CUII ran a 12-inch PVC force main south to connect into the previously constructed second segment at 117th Ave. Mr. Parks testified the force main's total length and diameters are unclear due to reported length discrepancies from 18,252 LF to 22,900 LF and uncertainty whether 14-inch pipe was installed prior to the WWTP. He testified it appears CUII does not have Record Drawings documenting actual construction and that this shows CUII has poor recordkeeping, which can cause higher planning and design costs.

Mr. Parks testified Lift Station L's capacity has not decreased but rather increased with the lowest capacity pump able to pump 1,144 gpm which is 59% higher than the original 700 gpm in 2003. He testified this is opposite from CUII's assertion of a capacity loss and reflects the higher capacity and higher speed pumps installed in 2017. He testified CUII claims to have continued declining water use and will be focusing its I&I reduction efforts on individual basins. Both will further reduce flows that need to be pumped by Lift Station L.

Mr. Parks testified CUII's consultant, RJN Group ("RJN") conducted inspections and pump capacity tests at eight lift stations, including Lift Station L. He testified that CUII's assertion of a noticeable loss of capacity is directly contradicted by the higher pumping results reported by RJN Group. Mr. Parks testified that absent a CUII explanation for how these higher pump capacities (confirmed by RJN pumping tests) show any capacity decrease exists from the design flows, he could only conclude that Lift Station L has not suffered CUII's asserted capacity loss. Mr. Parks estimated the combined pumping rate from Lift Stations L and K is 1,344 gpm based on the minimum 1,144 gpm from Lift Station L and 200 gpm from Lift Station K, which is comparable to the 1,320-gpm combined pumping rate for both pumps in service at Lift Station L. Mr. Parks testified CUII did not provide any supporting documentation for its capacity loss claim. Mr. Parks testified CUII may be comparing a clean 12-inch force main's capacity to its never cleaned eight-inch, 12-inch, and 14-inch force main. He noted sediment build-up occurs in force mains but design standards account for this by limiting friction factors used in calculations to 120 and requiring a minimum 2 feet per second cleansing velocity.

Mr. Parks testified CUII does not say what capacity it hopes to achieve with its force main project. He testified CUII referred to the Baxter & Woodman Memo, stating that the Report sets forth the primary drivers for replacing the Lift Station L force main. CUII did not answer *why* it

needs more flow capacity than it currently has, only that its proposed capital project will increase it. In Table 6, Mr. Parks tabulated CUII capacity estimates for the existing uncleaned force main at 800 gpm, and soft pigged at 875 gpm to CUII's proposed configuration after hard pigging at 1,050 gpm. He noted CUII did not provide data, calculations, or assumptions it used showing how it generated the estimated flow rates which were not part of the Baxter & Woodman Memo. Mr. Parks testified there is a wide discrepancy between the actual capacities determined by the RJN Group's pump tests (1,144 gpm to 1,320 gpm) that are significantly above CUII's estimated capacities. Mr. Parks testified that CUII's request to replace part of Lift Station L's force main might indicate CUII may be seeking to increase Lift Station L's capacity so it can pump additional wet weather flows from tributary areas to Lift Station L or another lift station (Lift Station C).

Mr. Parks testified that in the preapproval case, Cause No. 45389, CUII proposed spending \$4,148,088 for Phase One Sanitary Sewer Improvements (of three phases) but did not propose projects in the preapproval case to locate and remove excessive I&I. The collection system focus in the preapproval case was on upgrading and expanding Lift Stations B, C, and D and conveying wastewater and I&I directly to the WWTP, which CUII proposed to replace with a new higher capacity WWTP. Mr. Parks reported the Commission denied preapproval because it found that CUII had made no meaningful attempt to achieve I&I removal as set forth in the 44724 Order. The Commission held that a robust I&I removal program was long overdue and could alter and help better determine the identity and scale of the improvements needed.

Mr. Parks recommended CUII install flow meters and pressure gauges at Lift Stations L as previously recommended by CUII's consultant, Strand Associates in 2007 and by the OUCC in 2020, noting that CUII will only be able to make sound decisions on locating and prioritizing removals of I&I and in tracking the success of its I&I removal efforts if it has flow monitoring data, including flow data from its major lift stations.

Mr. Parks recommended CUII pig the Lift Station L force main in its present configuration (eight-, 12-, and 14-inch pipe) with soft brushes to remove solids and lower pumping costs by decreasing friction losses. He stated that CUII could also hard pig the force main with intermediate launching and receiving pits such as from the Lift Station K tie-in point two miles to the WWTP. He recommended CUII rebid the pigging contract through competitive bidding and try to attract more than a single bidder. He testified that pigging costs, sewer cleaning, and televising costs including engineering should be expensed, not capitalized, and should not be included in CUII's SCIP. Mr. Parks also testified CUII should not capitalize CUII staff time for overseeing pigging, sewer cleaning, and televising.

Mr. Parks reported Mr. Grosvenor testified the \$427,206 Lift Station L project began November 1, 2021, and would be completed June 30, 2022, but in discovery CUII updated the schedule with construction to end on September 29, 2022. In discovery, CUII indicated the \$427,206 cost included \$350,000 for construction, \$52,500 for engineering (15% of construction), combined with \$18,328 in captime and \$6,328 in AFUDC. Mr. Parks testified there appears to be project cost discrepancies because the Baxter & Woodman cost estimate was \$470,000, which included a 20% contingency but no AFUDC and captime.

Mr. Parks summarized his Lift Station L review by testifying he did not agree CUII should replace the existing eight-inch force main segment with 12-inch pipe because CUII had not met its

burden of proof to show the project is needed. He stated CUII has not proven a loss of capacity even exists in Lift Station L and its force main or that there is any operational need to increase Lift Station L's force main capacity. No new customers will be added to Lift Station L. Separate testing by another CUII consultant documented Lift Station L's pumping capacity is: 1) higher than when it was installed in 2003; and 2) is significantly greater than the capacity estimates CUII provided to the OUCC. He testified these pump tests contradict CUII's assertion about a loss of capacity. Mr. Parks testified that if CUII's intent is to pump more I&I directly to the WWTP rather than find and remove it, he recommended the Commission order CUII to follow the Commission's clear direction from Cause No. 44724 and Cause No. 45389 to develop and execute a comprehensive I&I program to decrease the entry of water inflow and ground water infiltration into Petitioner's separate sanitary sewer system.

c. **Petitioner's Rebuttal.** In response, CUII witness O'Dell testified that Lift Station L does have a maintenance and capacity issue due to the eight-inch bottleneck segment in Lift Station L's force main. Mr. O'Dell testified that the reduction in pipe size from a 12-inch diameter pipe to an eight-inch diameter pipe restricts the flow and limits the system to pump at an eight-inch diameter capacity only. Mr. O'Dell testified that because the force main is approximately 20 years old and has not been cleaned, there is also likely sewage build up on the walls of the pipe, which reduces capacity. He explained that the reduction in pipe diameter in situations like this makes the force main cost prohibitive to clean, evaluate, and rehabilitate. Mr. O'Dell stated that once the bottleneck is removed, the Lift Station Pigging Project can proceed, which will extend the useful life of the force main, pumps, and pumping station.

In response to Mr. Parks's recommendation to install flow meters to monitor lift station flow, Mr. O'Dell testified that flow meters are not typically installed at lift stations with the capacity of Lift Station L and doing so would be extremely costly (\$50,000+) for the proposed benefit. Mr. O'Dell testified that CUII has a good understanding of its existing flow rates and capacities at Lift Station L, and additional flow metering data would not change the recommendation to remove the eight-inch bottleneck.

In response to Mr. Parks's testimony that CUII lacked record drawings, Mr. O'Dell testified that the information CUII provided Baxter & Woodman was adequate and typical. He testified that although record drawings can provide guidance, they do not significantly reduce engineering costs or change orders costs, and a detailed and thorough topographic survey is more important than detailed record drawings.

Mr. O'Dell testified that the fact that the flow bottleneck has existed since 2003 does not impact the analysis of the bottleneck issue, but rather demonstrates the forcemain has been incapable of receiving proper cleaning or inspection since it was installed. Mr. O'Dell testified that CUII is attempting to remedy this operational challenge with the proposed forcemain project and that further delaying the project would only serve to exacerbate the issues CUII is currently facing.

Mr. O'Dell testified that Mr. Parks's testimony that the pumping capacity of Lift Station has increased and that CUII has under-estimated the flow capacity is not correct and not relevant to the proposed project. Mr. O'Dell testified that the pumps were improved in 2003 and 2017, but since those dates, capacity has not increased. Mr. O'Dell testified that capacity may increase when the bottleneck is removed and the forcemain is cleaned, but the primary purpose of removing the

bottleneck is not to address the capacity issue, but to allow for the ability to properly maintain the existing forcemain to maximize its useful life. Mr. O’Dell testified that the exact flow capacity of the force main has no bearing on the need for the force main to be cleaned and inspected.

Regarding the estimated project cost, Mr. O’Dell stated that the estimated project cost is \$427,206, (which is \$438,848 in rebuttal, see Attachment AD-R01) which is based on a \$379,950 bid received on May 11, 2022, plus a 5% contingency for the project, plus construction engineering. Mr. O’Dell testified that the project is needed to clean and optimize the operation of Lift Station L, and replacement of the eight-inch pipe will allow for proper maintenance and provide maximum capacity to the system, while lengthening the service life of the pumps and force main.

d. Commission Discussion and Findings. After reviewing the evidence of record, we find that the Lift Station L force main replacement would allow for proper operation/maintenance of Lift Station L, thus, extending its useful life. Regardless of whether a bottleneck exists or not, Petitioner will be able to clean the force main in a manner appropriate for the age of the force main. While we decline to require Petitioner to install flow meters, we remind petitioner that flow meters should be utilized as advised per the Ten States Standards, IDEM construction permit and good engineering practice. The Commission concurs with the OUCC that flow metering (or runtime hour meter) combined with the installation of a pressure gauge may yield valuable information to Petitioner at a relatively low cost. The Commission agrees with the OUCC that costs associated with the act of pigging (as opposed to the costs associated with installing pigging ports), sewer cleaning and televising are not capital in nature and should be expensed along with CUII staff time for overseeing the ongoing pigging programs. We find the \$438,848 estimate for the Lift Station L force main replacement is approved for inclusion in rate base.

v. Lift Station C Generator.

a. Petitioner’s Case-in-Chief. Mr. Grosvenor testified that the community has requested that CUII remove the existing trailer-mounted generator at Twin Lakes Lift Station C and replace it with a more attractive, permanent generator. Mr. Grosvenor testified that the current trailer-mounted generator is located in an area visible to many homes and the golf course. Mr. Grosvenor stated that CUII will move the trailer-mounted generator to another location or keep it on stand-by for emergency deployment elsewhere in the system.

Mr. Grosvenor stated the estimated cost of the permanent Lift Station C generator is \$107,742 (\$110,475 in rebuttal), which includes \$20,000 estimated for engineering (evaluation and design), \$45,000 for generator procurement, and \$40,000 for installation. The project is anticipated to begin November 1, 2022.

b. OUCC’s Evidence. Mr. Parks noted Mr. Grosvenor did not list Lift Stations C and L interconnect projects in his testimony, but he indicated the engineering phase of the Lift Station C generator project will evaluate tying Lift Station C into the Lift Station L force main. Mr. Parks testified that when the OUCC asked why CUII needs additional capacity in the Lift Station L force main, CUII responded “in addition to the bases cited in the Memorandum, CUII is evaluating the feasibility of connecting the Lift Station C force main into

the Lift Station L force main, in which case it would be necessary for the Lift Station L force main to have additional capacity.”

Mr. Parks testified that it appears even though CUII does not officially have an interconnect project, it is pursuing two precursor capital projects (Lift Station L force main replacement and Lift Station C generator), both of which support a future project to tie in the Lift Station C force main to the Lift Station L force main. He testified neither project locates and removes excessive I&I causing sewer surcharging, and both projects aim to divert excessive I&I flows and sanitary sewage directly to the WWTP, where the force main discharge will amplify the peak flow imposed on the WWTP. Mr. Parks testified CUII does not describe the quantity of I&I in the Lift Stations C and L tributary areas and does not provide any insight into CUII’s near or long-term plans to find and remove the I&I around Lift Stations C and L. He testified Mr. Grosvenor describes CUII’s plans to focus on I&I reduction in CUII’s worst performing basin each year with respect to I&I and eliminate all known defects.

Mr. Parks testified CUII already designed the Lift Station C and L interconnect in 2016 as part of the SCIP but did not build it. He testified the project included replacing the four pumps in Lift Stations C and L, adding variable frequency drives (“VFDs”), adding a flow metering and valve vault, interconnecting the 6-inch Lift Station C force main with the 12-inch Lift Station L force main, adding a pig launching station at Lift Station C, electrical and controls upgrades and replacing Lift Station C’s portable generator with a new permanent generator.

Mr. Parks testified that the main problems causing CUII to abandon interconnecting the two lift station force mains were that Strand Associates projected Lift Station L flows may need to be increased to 1,500 gpm and possibly to a peak hourly flow of as much as 2,680 gpm and CUII consultant RHMGM indicated that “[c]apacity in the Lift Station L forcemain would be best reserved for any future upgrades in pumping capacity needed for Lift station L.” Mr. Parks testified RHMGM also reported on discussions with CUII about replacing the eight-inch segment of Lift Station L’s force main, stating that upsizing the eight-inch forcemain: 1) would *not* sufficiently alleviate pumping head restrictions *with Lift Stations L, C and K* connected to the forcemain, 2) calculated Lift Station L pumping heads would be 450 ft. TDH at 1,500 gpm, 3) pumps are not manufactured in this range, and 4) the existing forcemain is not designed for these high pressures. Mr. Parks testified CUII should continue to focus on I&I reduction in the Lift Station L tributary basin, but I&I reduction may be insufficient to entirely eliminate a need to upgrade Lift Station L. Mr. Parks summarized the disconnect between CUII consultant recommendations and CUII’s proposed projects, stating that CUII’s consultants recommended CUII focus on removing I&I in the Lift Station L basin and against replacing the eight-inch force main segment with a 12-inch pipe or interconnecting the lift station force mains. Yet in this case, CUII is requesting funds for the Lift Station L force main replacement and the Lift Station C generator project. Mr. Parks recommended the Commission disallow both projects.

Mr. Parks testified CUII included a new permanent generator in the proposed Lift Station C upgrade in Cause No. 45389, but the pump design conditions (flow and discharge pressure) changed for the Lift Station C pumps because CUII no longer proposed to interconnect Lift Station C’s force main with Lift Station L’s force main. In the preapproval case, he recommended the Commission deny CUII’s proposed replacement of Lift Stations B, C, and D and installation of new force mains as the project was premature because CUII had not fully developed and

implemented a comprehensive I&I program to actually remove any excessive I&I in the sewers tributary to Lift Stations B, C, and D. Mr. Parks recommended the Commission disallow both the Lift Station L force main replacement and the Lift Station C Generator projects because both projects are unneeded and CUII has failed to show why they are necessary. For the issue of aesthetics pertaining to the Lift Station C portable generator, which was installed in late 2015 or early 2016, Mr. Parks recommended CUII provide a fence with shrubs or plant shrubs as a visual barrier to minimize the public's view.

c. **LOFS's Testimony.** LOFS did not provide testimony specific to the generator.

d. **Petitioner's Rebuttal.** Mr. Grosvenor responded to the OUCC's recommendation to continue to operate the portable generator at Lift Station C and enclose it with a fence and shrubs by testifying that this would be continuing to use a temporary solution to a permanent problem. PetMr. Grosvenor also reiterated that the Lift Station C generator is located in an area visible to many homes and the golf course and the request for replacement of the trailer mounted generator has come from the community. Mr. Grosvenor additionally testified that replacing the portable generator at Lift Station C will provide CUII with operational flexibility and a resolution to safety concerns associated with the portable generator. Mr. Dickson updated his forecast for this project to \$110,475, as represented in Attachment AD-R01.

e. **Commission Discussion and Findings.** The Commission recognizes that the Petitioner has not made any proposal for inclusion of any costs associated with the interconnection of Lift Stations C and L. The only costs proposed are associated with the installation of a permanent power supply for Lift Station C. After considering the evidence of record, we agree with the OUCC that CUII has not provided any valid justification for the proposed new permanent generator at Lift Station C. While Petitioner's responses to Commission Docket Entry of June 23, 2022, questions number 15 through 18, indicated the generators are tested, the response did not indicate any recurring problem that would necessitate the use of a dedicated generator. We also fail to see the reasoning behind installing permanent generators at every lift station versus using a portable generator that can be moved between lift stations as needed. We fail to understand the reasonableness of Petitioner's choice to house its portable generators at the lift stations where they may be subject to vandalism and are unsightly as described by Mr. Grosvenor, as opposed to housing them at a central, secure site and deploying and retrieving the temporary units as needed. Thus, CUII's request to include the cost of a permanent generator for Lift Station C in rate base is denied.

vi. **Other Capitalized Costs.**

a. **OUCC's Evidence.** Ms. Stull asserts Petitioner capitalized \$157,225 of expenditures that should have been recorded as operating expenses during the period incurred, including expenditures for a lift station study; a boundary survey; jetting, televising, and smoke testing sewer mains; vehicle registrations, and rain barrels. She recommended excluding these costs from Petitioner's wastewater system rate base. Moreover, Ms. Stull added that none of the excluded expenditures occurred during the base period and, therefore, no operating expense should be added to test year operating expense.

b. Petitioner’s Rebuttal. In rebuttal, Mr. Dickson agreed to the removal of costs for a 2018 lift station study and a 2018 improvement plan, totaling \$10,672, with an associated adjustment to accumulated depreciation of \$694. However, Mr. Dickson objected to the removal of items that are deferred maintenance (originally recorded as CWIP in CUII’s old accounting system, and then reclassified to deferred maintenance). He explained that these CWIP balances are not a component of utility plant in service, therefore no adjustment to wastewater rate base is needed. In addition, Mr. Dickson explained that the expenses for the WWTP Boundary Survey need not be removed because those expenses were previously reclassified to a Basin Study project. The allocation of vehicle registrations to wastewater have also been previously removed from utility plant in service, as discussed in the water section regarding other capitalized costs. Finally, Mr. Dickson disagreed with the OUCC’s removal of capitalized rain barrel costs because CUII identified rain barrels as a cost-effective method to address I&I, and rain barrels were made available to the LOFS community.

c. Commission Discussion and Findings. Regarding the deferred maintenance items booked as CWIP, we find these costs are not included in utility plant in service and therefore no adjustments to wastewater rate base are needed. Additionally, we find that the reclassification of the WWTP Boundary Survey costs also results in no need to adjust wastewater rate base.

Regarding the removal of vehicle registration costs, we find that Petitioner’s wastewater rate base need not be adjusted to reflect the vehicle registrations because Petitioner’s reclassification effectively removed these items from its wastewater rate base.

We note that the rain barrels were provided to the LOFS community, so Petitioner no longer owns them. Therefore, it is inappropriate to capitalize the costs of these rain barrels and include in Petitioner’s wastewater rate base. To the extent the costs of these barrels should be considered a means of addressing I&I, we believe recovery of this expense is reasonable and therefore grant an increase in operating expense of \$6,587 to be amortized over a three-year life.

As the parties have agreed to the removal of costs associated with a 2018 lift station study and a 2018 improvement plan, we find it reasonable to remove \$17,259 from Petitioner’s wastewater utility plant in service to reflect a removal of the lift station study (\$8,716), the WSCI improvement plan (\$1,956), the 2018 rain barrels (\$4,311), and the 2017 rain barrels (\$2,276), with an associated adjustment to accumulated depreciation of \$1,112.

C. Headworks/Chemical Building.

i. Petitioner’s Case-in-Chief. Mr. Grosvenor testified to the need for the new Headworks building, stating that the headworks hydraulic capacity is inadequate and leads to surcharges in the collection system. He testified that basement backups in customers’ houses have been observed due to inadequate headworks capacity, and that to prevent rags and other debris from fouling the facilities, an automated mechanical headworks is needed. Mr. Grosvenor testified that rags and other debris can clog or damage pipes, pumps, rotors, and other WWTP equipment. Mr. Grosvenor testified that automated mechanical headworks are typical of other facilities of similar size, and that an automated screen removes the need for manual raking by operators and reduces the potential for screen blinding during peak flow events. Mr. Grosvenor testified that,

with automated mechanical screens, housing the headworks indoors is necessary to protect the screens' moving parts and water lines from freezing, and will also extend the useful life of the equipment. Mr. Grosvenor testified that the headworks will also house the electrical and controls equipment for the headworks, as well as ancillary equipment such as the automated sampler, with additional ventilation and electrical safety requirements.

Mr. Grosvenor testified that the proposed Operations Building will serve several functions, including offices and storage for the phosphorous treatment chemicals and equipment, with the intention of reducing construction costs by using common-wall construction and sharing plumbing, HVAC, and electrical. Mr. Grosvenor testified that the offices are proposed to replace the office space CUII currently rents, which includes three offices and a conference room that can seat eight people.

Mr. Grosvenor testified that the phosphorous treatment equipment is necessary because of Indiana Department of Environmental Management ("IDEM") requirements for chemical treatment for phosphorus removal. He stated that the equipment is currently maintained in CUII's garage pursuant to a temporary IDEM permit, so there is an urgency to having a new building constructed for the equipment.

Mr. Grosvenor testified in his direct testimony that the cost CUII is proposing in rate base is \$2,296,298. He testified that the estimates for the Headworks were based on the engineering estimates for those projects as provided in Cause No. 45389 and in Quarterly Reports filed in Cause No. 44724. He testified that the total cost for the Headworks building includes: 1) the estimated cost of the facility at a 90% opinion of the probable cost multiplied by an inflation factor of 1.2; 2) an additional 10% for engineering cost; and 3) IDC and Cap Time costs. Mr. Grosvenor testified that Baxter & Woodman provided the high-level estimate for the Chemical/Office Building at \$500,000 (\$4,232,735 in rebuttal for the combined project). Mr. Grosvenor testified that only the costs included in rate base will be costs actually expended to construct the Headworks.

ii. **OUCC's Evidence.** Mr. Parks testified that the headworks project does not help locate or reduce I&I and therefore should not be approved. He stated that CUII has not justified the project's need or provided adequate project information and cost support to justify that its selected project is the best option for ratepayers. Mr. Parks testified that CUII's case-in-chief provides insufficient information for the OUCC to analyze for its request to build a headworks. He stated that CUII should be able to use the existing design drawings from the previous two permitted designs, for which CUII has already fully designed and fully permitted in 2016 and 2020, as the starting point for this design.

Mr. Parks testified that the 14.0 million-gallon-per-day ("MGD") peak hourly flow is too large due to influent flow meter inaccuracies during high flows caused by surcharging of the Parshall Flume. He also noted that CUII's water usage has declined approximately 30% over 20 years.

Mr. Parks recommended that the Commission disallow the \$2,296,298 for the headworks project, opining that CUII's cost estimate is unsupported and probably low, as it does not include components such as site work, site piping, the influent junction chamber, and the grit collector. Mr. Parks stated that the TLUI WWTP has never had automated mechanical screens, but

previously had two bar racks and a comminutor in an uncovered concrete comminutor structure. He testified that CUII removed the comminutor in July 2013. A comminutor, also known as a grinder, shreds, rather than removes, smaller solids that pass through a bar rack, for the purpose of preventing clogged or damaged downstream pipes and equipment, while minimizing floating solids on aeration basins, clarifiers, and other treatment tanks. He stated that bar screens have minimal maintenance issues since they have no moving parts and require only periodic raking to remove accumulated screenings, and that CUII should not have had to install one when the comminutor failed in 2013 unless the existing bar screen had some maintenance problem such as corrosion from sewer gas.

Mr. Parks testified that a cheaper alternative to the proposed headworks would be to reinstall a comminutor to address screenings and prevent potential WWTP hydraulic back-ups. He testified that the American Suburban Utilities' ("ASU") 3.0 MGD Carriage Estates WWTP has two 4,600 gallons-per-minute (6.6 MGD) comminutors, which cost about \$30,000 each. Mr. Parks testified that IDEM renewed the TLUI WWTP National Pollutant Discharge Elimination System ("NPDES") permit in 2018, which noted a bar screen and comminutor.

Mr. Parks testified that CUII provided no evidence that the headworks are the cause of basement backups or sanitary sewer overflows ("SSOs"). He recommended that the Commission disallow the headworks project because CUII has not adequately described what it plans to construct; has not identified the design capacities; has failed to justify the projects' need; has not supported its estimated costs; and has not identified alternatives or performed a life cycle cost-benefit analysis.

Regarding the proposed chemical and office building, Mr. Parks testified that the current way CUII stores chemical feed equipment, alum (aluminum sulfate), and metering equipment is acceptable, which reduces the need for a new chemical building. Mr. Parks testified that CUII is mistaken that IDEM's construction permit is a temporary permit, and he disagreed that the alum storage in the CUII garage presented a hazard to operators.

Mr. Parks opined that the office building is a lower priority project due to CUII's ability to rent spaces in the community. He testified that CUII's case-in-chief includes only a \$500,000 high-level estimate of the chemical and office building without any details. Mr. Parks recommended that the Commission disallow the cost of the project in its entirety and instead encourage CUII to focus on removing I&I from its system as opposed to lower priority capital projects like new offices.

iii. LOFS's Evidence. Mr. Cleveland stated that LOFS does not support CUII's request for increased rates to fund any of the sewer projects proposed in this proceeding. He testified that CUII has not provided enough certainty for its proposed Headworks project to allow for LOFS'S engineers to adequately evaluate the proposed costs. Mr. Cleveland stated that CUII has relied on an outdated cost estimate for the Headworks project from a previous cause and testified that CUII itself stated in a discovery request that the final design of the Headworks has not been completed. Mr. Cleveland testified that CUII's wastewater system is old and needs repairs, but that CUII should have performed the necessary maintenance and updates from the beginning, which would result in not having to spend as much money now. LOFS witness Robert Holden testified that the project is over-engineered for a system of this size and modern

advances in screening design have resulted in unreasonable costs. He testified that facilities of similar size are typically designed without a redundant automated screen and without automated influent gates. Mr. Cleveland and Mr. Holden recommended the Commission deny CUII's request to recover the \$2.3 million Headworks project.

Mr. Holden testified that the costs of the administration/chemical building should be denied. Mr. Holden testified that a combined Chemical and Office Building creates safety concerns regarding the housing of chemical in the same space as CUII employees and is an impractical design that leads to increased costs. He testified that if he had designed the building, he would not have included administrative staff and chemical storage within the same building plan, both due to practical and safety concerns. He recommends that CUII have separate structures, which will likely result in a safer and more cost-effective solution for CUII.

iv. Petitioner's Rebuttal. Ms. Streicher testified that, in response to the feedback and safety concerns raised by the OUCC and LOFS regarding a combined chemical and office building, CUII has proposed a combined headworks and chemical building without office space. She stated that the proposed chemical and office building was a project carried over from Petitioner's WWTP Expansion Project proposed in Cause No. 45389 and that Baxter & Woodman repurposed the design for that facility as this proceeding was ongoing.

Ms. Streicher testified that this approach addresses two major issues identified by Mr. Holden: creating a separate space for chemical storage and completing the long overdue headworks project. She stated that, although the need for office space still exists, CUII's priority is the headworks and chemical building. She testified that the final structure includes a combined headworks and chemical building in a single structure with an associated electrical room. Mr. Grosvenor testified that the combined headworks and chemical building is expected to be placed in service before September 2023.

Ms. Streicher testified that the chemical portion of the building will house a single relocated chemical storage tote with containment suitable for receiving/storing alum to remove phosphorous from the process water. She also stated that a 250-gallon storage tote would provide 10 days of storage, which is the minimum amount of chemical that should be on-site to ensure adequate supply between deliveries. Ms. Streicher testified that the existing pump skid will be relocated to the proposed structure and that the existing eyewash/emergency shower and tempered water blending system will be relocated from the garage to the proposed structure. She stated that HVAC is necessary to protect equipment from freezing and to help control humidity and maintain appropriate working conditions.

Ms. Streicher disagreed with Mr. Parks's assertion that the garage could be a permanent solution for chemical storage. She stated the garage was used as a temporary solution, as CUII was required to provide plans and specifications for a chemical phosphorus removal system under its NPDES permit by August 1, 2019, with system operation complete by June 1, 2021. Ms. Streicher testified that installation of the chemical feed system in the garage significantly reduces the capacity for storage and additional uses for the garage space, causing maintenance and operations equipment to be stored outside, reducing life expectancy, and increasing maintenance costs on the equipment.

Ms. Streicher agreed with Mr. Holden, who discussed the health concerns of human contact or proximity to alum. She testified that storage recommendations from the supplier CUII uses for its alum suggest keeping the material in a dry, cool, and well-ventilated place, away from other materials, which is not the current condition of the chemical stored in the garage. She also disputed the assertion that IDEM would allow CUII to permanently store chemicals in its garage.

Mr. Fischer testified about the revised headworks design, which includes two mechanical screens each rated for 7.0 MGD, two new screenings washer/compactors, modification of the existing 7.0 MGD manually cleaned screen, an electrical room a chemical feed room, and a Parshall Flume flow meter. He testified that the new mechanically cleaned screens will continuously remove large solids from the wastewater entering the WWTP, and each of the two mechanically cleaned screens will automatically lift captured solids and discharge them into a motor-driven washer/compactor. He testified that the washer/compactors will separate the small organic material from the large inorganic solids and that about 95% of the organic material will be washed out and returned to the influent wastewater for treatment in the downstream processes. Mr. Fischer testified that the large solids will be compacted and discharged into receptacles, which will be hauled to a landfill for final disposal. He testified that, with the current design, the influent gates will be automated so that only one of the two mechanically cleaned screens would receive flow until a second screen is needed, which will help keep the offline screen clean and reduce its wear and tear. Mr. Fischer testified that, when the influent flow increases above the 7 MGD capacity of one screen, the other screen would be online, increasing capacity to the full 14 MGD peak hourly flow. He stated that the manually cleaned screens will only be used when one of the two new mechanically cleaned screens is out of service.

Mr. Fischer testified that the existing screen has a capacity of 7 MGD, which is undersized because the predicted peak hourly flow is estimated to be about 14 MGD. He stated that the new headworks is designed to treat 14 MGD peak hourly flow and that a second screen is necessary to provide redundancy in case one screen goes down. Mr. Fischer testified that the 14.0 MGD design peak hourly capacity is appropriate, based on analyses done by other engineers retained by CUII. In response to Mr. Holden's concern that the headworks will be over-engineered for a system of its size, Mr. Fischer testified that the design has been repurposed to save money, and the grit collector and grit washer are not going to be included.

Regarding Mr. Parks's statement about declining water usage, Mr. Fischer testified that customer growth, or the lack thereof, does not appreciably affect the size of the headworks because the headworks must be sized for the peak hourly flow, not the average daily flow. He stated that the number of customers and their water usage determine the average daily flow, but have little effect on the peak hourly flow, which is more a result of I&I. Mr. Fischer also opined that Mr. Parks is incorrect in stating that the design may be based on flow meter inaccuracies, as the design is not based on flow meter measurements.

Mr. Grosvenor testified that, for headworks that do not have automatic screens, the screen must be continuously manually cleaned or "raked" to prevent the screen from becoming clogged or blinded, which leads to surcharging and ultimately, SSOs or basement backups. He stated that, when a blinded screen is cleaned, surcharges at the WWTP can occur due to a sudden rush of wastewater. Automatic screens, conversely, allow a continuous and uniform flow into the treatment process. Mr. Grosvenor's testimony included pictures of the current headworks facility,

and he testified about the risk to CUII's staff during storm events when bar screens are most likely to become plugged. He testified that automated bar screens make cleaning easier, improve the flow conditions at the wastewater treatment plant, and are more efficient, safer, and less prone to result in surcharge events.

Mr. Fischer testified that large solids in wastewater, such as wipes and other sanitary items, can interfere with the treatment process. Mr. Fischer testified that a large portion of these solids settle in the sewer pipes and will be transported to the WWTP during the initial surge in wastewater flow that happens at the beginning of a rainstorm. He stated that, if these large solids are not removed initially when they enter the WWTP, they can plug pipes, pumps, and nozzles; accumulate on submerged cables, guide rails, and motors; and take up space that is needed for treatment in tanks. Mr. Fischer testified that the plugged material must be manually removed by CUII personnel, which is a significant health risk because of the risk of contacting bacteria-laden, biohazardous raw sewage and sludge. Mr. Grosvenor testified that the plugs in CUII's system can be larger than a desk.

Mr. Fischer testified that Mr. Parks's statement that bar screens have minimal maintenance issues and require only periodic ranking is a gross understatement of the maintenance required to ensure that manual bar screens are kept in good working order. He noted that, as flushable materials become more prevalent, manual screens require continuous maintenance, and without continuous maintenance, as a manually cleaned screen collects large solids, it starts to plug. He stated that such a plug causes upstream water to rise, which exerts higher pressure on the screen, which results in pushing the solids through the screen, thereby defeating the purpose of the screen. Mr. Grosvenor testified that historically, smaller plants have been able to rely on manual bar screens to catch debris, but over the last ten to 15 years, there has been a significant increase in the number of disposable wipes in the waste stream, increasing the amount of cleaning needed for the screens to not become blinded.

In response to Mr. Parks's testimony that the TLUI WWTP has never had automated mechanical screens, Mr. Grosvenor argued that that fact does not mean the utility should forever operate as it has in the past. He testified that manual screens require manual cleaning, particularly during rain and storm events. Mr. Grosvenor testified that this means CUII must have personnel on standby during such events to clean the screens, which has contributed to CUII experiencing a large amount of turnover due to such tasks that requires employees to work excessive hours in dangerous conditions. Mr. Grosvenor testified that manual raking is a safety concern, particularly when operators must go out alone at night during rain events, and without an upgrade, he is concerned that about the risk that could lead to an injury of one of the operators.

Regarding Mr. Parks's recommendation that CUII purchase a comminutor rather than build a new headworks, Mr. Fischer testified that the wastewater treatment industry has been moving steadily toward better screening, particularly as the industry transitions to more complex nutrient removal processes. Mr. Fischer testified that the use of comminutors at treatment facilities is not common anymore because in many cases, comminutors simply do not work. He noted that, even when a comminutor is cutting up rags and other solids, the cut-up solids can still re-aggregate and cause problems downstream.

Mr. Grosvenor testified that, as Mr. Parks recommended, CUII is using the existing design drawings from previous cases, and that Baxter & Woodman were working on a redesign of the project after preapproval was denied in Cause No. 45389. He stated that the redesign was completed contemporaneously with this case, and the redesigned plant is similar to the headworks proposed in Cause No. 44724 and Cause No. 45389.

Ms. Streicher testified that the cost of the combined headworks and chemical building under a design-build project delivery method was \$4,031,300 (exclusive of cap time and allowance for funds used during construction (“AFUDC”)), which is higher than the combined estimates presented in CUII’s case-in-chief (headworks (\$2.3 million) and chemical building (\$500,000)), but consistent with Mr. Parks’s estimate for a headworks alone. In response to Mr. Parks’s statement that CUII’s original estimate was missing components such as site work, site piping, an influent junction chamber, and a grit collector, Ms. Streicher testified that CUII eliminated the grit collector, but included an influent junction chamber, a new flow splitter structure with capacity for a future fourth train to be used as high flow event bypass to the package plant; an increase to the pipe diameter to the package plant; the addition of a Parshall Flume and additional piping; and multiple injection points for alum and the associated site work and heat tracing and insulation. Ms. Streicher testified that these additional structures, combined with the extreme increase in the cost of construction over the past several years, increased the overall cost of the headworks and chemical building.

Ms. Streicher agreed with Mr. Parks’s 20% inflation factor and testified that the current inflation rate averages to about 1% per month of inflation. She noted that inflation rates are expected to continue to rise, and construction costs are anticipated to continue to get more expensive for the next several years.

While Mr. Grosvenor stated that there is no way to attribute a particular SSO or basement backup to the surcharges at the headworks system directly, he opined that the backups at the headworks have been a contributing factor to such events. He testified that CUII does not have staffing on site to rake the screens continuously on the weekends, and, if there is a large rain event, the manual screens can become blinded during off hours, leading to surcharges and backups, which may lead to SSOs and basement backups, even though the headworks may not have been identified as the direct cause of the issue. Mr. Grosvenor opined that this situation will continue without automatic screens.

Ms. Streicher testified that CUII’s I&I improvement projects do not negate the need for the headworks and chemical building. Mr. Grosvenor testified that, no matter how much I&I is reduced, without the new headworks, there will be continual blinding of manual screens, blockages, pump wear, and loss of capacity in the tanks with the build-up of materials that should have been removed through proper screening.

v. **Commission Discussion and Findings.** After reviewing the evidence of record, we find that CUII has presented voluminous evidence demonstrating the need for its proposed new headworks and chemical building. CUII’s current headworks has been operated beyond its useful life and creates significant operational and safety risks. The evidence reflects the following:

- The current headworks hydraulic capacity continues to be inadequate. .
- The headworks continues to plague the treatment process with wipes, rags, and other debris.
- A manual bar screen is not a typical component of a modern WWTP. Manually raking the screen presents operational challenges and may expose employees to certain health and safety risks. Mr. Grosvenor stated that, without an upgrade to the headworks, he is concerned that CUII will be taking unnecessary risks.
- The current headworks situation results in NPDES Permit violations. Specifically, on February 13, 2018, CUII received notice from IDEM that solids and prophylactics had been observed in the chlorine contact chamber in the WWTP. The NPDES Inspection Report noted, “Due to the amount and nature of the materials found through the facility, there is an obvious failure of equipment intended to keep this type of material out of the plant,” and further stated that “[a]n improved bar screen or automated screening is needed. Petitioner’s Redirect Exhibit 1 at 5 (emphasis added).
- The headworks has odor issues.

Mr. Parks of the OUCC proposed the installation of a comminutor instead of CUII’s proposed headworks. The evidence of record, however, persuades us that a comminutor will not resolve the problems at the headworks. Mr. Fischer testified that the use of comminutors at treatment facilities is not effective in dealing with common flushed solids such as wipes and is therefore not common anymore, having been replaced by more effective screening processes, such as that proposed by CUII here.

We also find that CUII has supported its request for a dedicated chemical storage room as part of the headworks with substantial evidence of its benefits. The chemical building will create a permanent storage location for chemicals and assist CUII in complying with environmental regulations. The current installation in the garage was offered as a temporary solution to house the temporary system when CUII was required to provide plans and specifications for a chemical phosphorus removal system under its NPDES permit by August 1, 2019.

The installation of the chemical feed system in the garage significantly reduces the capacity for storage and additional uses for the garage space. CUII is now subjecting maintenance and operations equipment to be stored outside, reducing life expectancy, and increasing maintenance costs on the equipment.

The storage of alum in the garage poses a safety risk for employees, as reflected in the safety sheet provided as Petitioner’s Exhibit 9-R, Attachment AS-R3. LOFS’s witness Mr. Holden noted that “[a]lum can cause irritation, burns, and respiratory issues. If inhaled, alum may cause headaches, nausea, and respiratory irritations.” LOFS Exhibit No. 3 at 11. On a permanent basis, CUII’s employees cannot avoid exposure because of the close proximity of the chemicals to employees’ equipment, pumps, or other equipment. The evidence also reflects that no way exists to separate the chemical storage from the rest of the garage due to the way the alum feed system operates.

Based on the evidence of record, we find the headworks and chemical building project is necessary for CUII to continue to provide adequate and reliable service to its customers, and is therefore approved.

The evidence of record shows that replacement of the headworks has been a long-standing need of CUII's system and disapproval of the project would continue to place both the system and CUII employees at risk. We do not believe that the OUCC's proposed alternative to install a comminutor is adequate to address the needs of a modern wastewater system.

We also find that the evidence of record shows the need for the \$500,000 chemical building, as CUII's current temporary setup will be impractical going forward for the reasons discussed above.

Regarding the price of the headworks and chemical building, Mr. Lubertozi clarified on rebuttal that CUII is seeking to include \$2,823,857 in its future test year rate base (which includes the \$527,559 rebuttal position for the estimate of the chemical building), even though CUII provided evidence that cost of the combined headworks and chemical building under a design-build project delivery method is \$4,031,300.

We authorize CUII to include in rate base up to \$2,823,857 for the headworks and chemical building project. However, we agree generally with LOFS and the OUCC that I&I abatement activities could reduce the needed size of the headworks project. Thus, should CUII seek to include additional costs for the headworks in rate base in the future, it should be prepared to provide evidence of continued efforts to reduce I&I and evidence that any cost above \$2,823,857 was necessary despite those efforts.

D. Working Capital. A for-profit utility is allowed the opportunity to earn a return on its investment in working capital, the capital it devotes to the running of its operations. Petitioner calculated its working capital investment using the Federal Energy Regulatory Commission ("FERC") 45-day methodology. Pet. Ex. No. 4, Attachment AD-3, wp-i.

Ms. Stull accepted Petitioner's use of the FERC 45-day method, but she disagreed with Petitioner's inclusion of certain expenses in its working capital calculation—specifically, she disagreed with Petitioner seeking to earn a return on its purchased power expense, purchased water expense, property taxes and the public utility fee. Ms. Stull explained that these expenses are either paid at the same time or after Petitioner has received revenues from its customers for the utility service provided (i.e., in arrears). She noted that property taxes, in particular, are paid up to two years in arrears. Ms. Stull indicated that these exclusions from the calculation of working capital have been approved by the Commission in earlier CUII rate cases, including Cause No. 44724.

On rebuttal, Mr. Dickson agreed with the OUCC's removal of purchased power, purchased water, property taxes, and the public utility fee from the calculation of working capital. We agree the items the OUCC identified should be removed from the calculation of Petitioner's working capital. Therefore, we find Petitioner's forecasted working capital for purposes of establishing rate base, is as follows:

Water Working Capital

	<u>Phase I</u>	<u>Phase II</u>
Maintenance Expense	\$ 1,006,383	\$ 1,072,352
General Expense	982,089	1,028,113
Taxes Other Than Income	48,195	52,966
Less: Purchased Water	(342,654)	(342,654)
Purchased Power	<u>(81,197)</u>	<u>(81,197)</u>
Adjusted Operation & Maintenance Expense	1,612,816	1,729,580
Times: 45 Day Factor	<u>0.125</u>	<u>0.125</u>
Working Capital Requirement	<u>\$ 201,602</u>	<u>\$ 216,198</u>

Wastewater Working Capital

	<u>Phase I</u>	<u>Phase II</u>
Maintenance Expense	\$ 883,474	\$ 910,531
General Expense	657,102	682,219
Taxes Other Than Income	31,789	34,936
Less: Purchased Power	<u>(208,076)</u>	<u>(208,076)</u>
Adjusted Operation & Maintenance Expense	1,364,289	1,419,610
Times 45 Day Factor	<u>0.125</u>	<u>0.125</u>
Working Capital Requirement	<u>\$ 170,536</u>	<u>\$ 177,451</u>

E. Original Cost of Petitioner's Rate Base.

i. Water System Rate Base Calculation.

	Phase I	Phase II
	9/30/2022	9/30/2023
Gross Utility Plant in Service at 9/30/2021	\$ 15,990,535	\$ 15,990,535
Add: TLUI WTP Iron Filter	2,288,764	2,288,764
TLUI Wells # 12 and #13	6,061	6,061
*TLUI Watermain and Service Line Replacements	1,232,829	1,507,118
*IWSI Watermain Replacements	800,523	1,292,942
AMR Replacements	124,470	248,940
Computers	69,352	73,850
Vehicles	-	42,179
General Plant Additions	432,730	826,199
Capitalized Time	30,134	61,172
*Retirements	(1,987,741)	(2,499,753)
Disallowed Capital Costs	(8,906)	(8,906)
Total Utility Plant in Service	<u>18,978,751</u>	<u>19,829,101</u>
Accumulated Depreciation at 9/30/2021	(3,836,156)	(3,836,156)
*Retirements	1,987,741	2,499,753
Accumulated Depreciation on Disallowed Capital Costs	506	506
Computer Restatement	538,883	538,883
Vehicle Restatement	187,495	187,495
Depreciation Expense	(376,228)	(769,463)
Total Accumulated Depreciation	<u>(1,497,759)</u>	<u>(1,378,982)</u>
Contributions in Aid of Construction at 9/30/2021	(2,822,780)	(2,822,780)
Amortization of CIAC	540,099	540,099
Additional Amortization Expense	14,235	28,470
Net Contributions in Aid of Construction	<u>(2,268,446)</u>	<u>(2,254,211)</u>
Net Utility Plant in Service	15,212,546	16,195,908
Accumulated Deferred Income Taxes	(723,082)	(719,742)
Net Plant Acquisition Adjustment	(261,239)	(253,994)
Construction Advances	(6,026)	(6,026)
Customer Deposits	(28,964)	(28,964)
Working Capital	201,602	216,198
Total Original Cost Rate Base	<u>\$ 14,394,837</u>	<u>\$ 15,403,380</u>

ii. Wastewater System Rate Base Calculation.

	Phase I 9/30/2022	Phase II 9/30/2023
Utility Plant in Service at 9/30/2021	\$ 20,319,424	\$ 20,319,424
Add: TLUI WWTP Headworks	-	2,296,298
TLUI Sewer Capital Improvement Program	671,749	1,192,835
WSCI Sewer Capital Improvement Program	71,522	116,521
TLUI Lateral Replacements		701,059
TLUI Lift Station L Forcemain		438,848
TLUI Lift Station C Generator	-	-
TLUI Chemical Building	-	527,559
Computers	45,744	48,711
Vehicles	-	27,821
General Plant Additions	238,700	403,972
Capitalized Time	13,578	27,563
Less: Retirements	(45,598)	(673,758)
Disallowed Capital Costs (O&M exp.)	(17,259)	(17,259)
Total Utility Plant in Service	<u>21,297,860</u>	<u>25,409,594</u>
Accumulated Depreciation at 9/30/2021	(8,721,479)	(8,721,479)
Retirements	45,598	673,758
A/D on Disallowed Capital Costs	(1,112)	(1,112)
Computer Restatement	349,981	349,981
Vehicle Restatement	123,670	123,670
Depreciation Expense	(530,016)	(1,162,825)
Total Accumulated Depreciation	<u>(8,733,358)</u>	<u>(8,738,007)</u>
Contributions in Aid of Construction at 9/30/2021	(3,767,798)	(3,767,798)
Amortization of CIAC	1,549	1,549
Additional Amortization Expense	134	268
Net Contributions in Aid of Construction	<u>(3,766,115)</u>	<u>(3,765,981)</u>
Net Utility Plant in Service	8,798,387	12,905,606
Accumulated Deferred Income Taxes	(981,408)	(976,875)
Construction Advances	(3,974)	(3,974)
Customer Deposits	(19,105)	(19,105)
Working Capital	170,536	177,451
Total Original Cost Rate Base	<u>\$ 7,964,436</u>	<u>\$ 12,083,103</u>

7. **Capital Structure and Rate of Return.**

A. **Capital Structure.** Petitioner’s proposed capital structure for ratemaking purposes is 49.2% debt and 50.8% equity. Mr. Lubertozi explained that this capital structure is based on Petitioner’s parent company’s actual capital structure as of September 30, 2021 and asserted it is a reasonable capital structure for a utility. While no party opposed Community’s application of its proposed capital structure, the OUCC recommended refined numbers out to four decimal places: 49.2028% debt and 50.7972% equity. We find this capital structure to be reasonable and appropriate for setting rates in this case.

B. **Cost of Debt.** Petitioner’s proposed cost of debt for ratemaking purposes is 5.01%. Mr. Lubertozi explained that this cost of debt is based on Petitioner’s parent company’s actual cost of long-term debt as of September 30, 2021. While no party opposed Petitioner’s proposed cost of debt, the OUCC proposed a refined number out to four decimal places – 5.00505%. We find this cost of debt to be reasonable and appropriate for setting rates in this case.

C. **Cost of Equity.** With respect to the cost of common equity to be used to calculate Petitioner’s Weighted Average Cost of Capital, Mr. Lubertozi testified Petitioner and the OUCC mutually agreed to a return on equity of 9.50% in this case. LOFS was not a party to this agreement, but it did not object to or contest the agreement. LOFS witness VerDouw did not take a position on the agreement between Petitioner and the OUCC, but indicated water/wastewater utilities that earn 9.50% usually have few customer service issues.

With respect to the agreed upon 9.50% return on equity (“ROE”), Mr. Lubertozi testified that a review of recent authorized returns on equity in other utility cases supports the view that a 9.50% ROE is within a reasonable range of returns on equity for a utility such as Community. For example, he noted that Regulatory Research Associates recently reported that from January through September 2021, electric distribution-only utility authorized ROEs averaged 9.51%; natural gas utility authorized ROEs averaged 9.54%; and water utility authorized ROEs averaged 9.40%. *See* Attachment SML-4. Two recent water utility rate case orders reflected authorized returns on equity of 9.80%. *See Aqua Indiana—Wedgewood Park*, Cause Nos. 45416 U (Feb. 17, 2021); *Indiana-American Water Co.*, Cause No. 45142 (June 26, 2019).

The OUCC and Petitioner agreed to a return on equity of 9.5%, and no party opposed a return on equity of 9.50% for Petitioner in this case. We find this return on equity to be reasonable and appropriate for setting rates in this case.

D. **Fair Rate of Return.** We find that the following represents a reasonable capital structure, cost of capital, weighted average cost of capital, and a fair rate of return for CUII in this case:

Description	Percent	Cost	WACC
Long Term Debt	49.2028%	5.00505%	2.46262%
Common Equity	50.7972%	9.50000%	4.82574%
	100.0000%		7.28836%

8. Operating Revenues.

A. CUII’s Case-in-Chief. Mr. Dickson testified that the forecast for Test Period operating revenues was based on a forecast of the projected water and wastewater sales, based on CUII’s sales forecast. He explained that CUII used data from its base period (12 months ended September 30, 2021), and prepared sales forecasts for each customer class over the two-year period from the end of the base period through the Test Period, along with the number of customers for each customer class. He stated that the projected revenues for the Test Year forecast were calculated by applying the tariff charges to these sales forecast numbers, with two adjustments: first, CUII normalized the bill counts from its base period to better represent its expectations for bill counts in the future; and second, CUII applied an annual consumption decline percentage to the base period usage per bill to reflect ongoing patterns in volumetric usage by CUII customers.

i. Normalization of Bill Counts. With respect to the normalized bill counts, Mr. Dickson explained that CUII normalizes the billing units from this base year by averaging the last three months’ bill counts, and forecasts usage per bill based on the base year.

ii. Consumption Decline Adjustment. With respect to an annual consumption decline adjustment, Mr. Dickson testified that as an outcome of ongoing decline in the rate of consumption by CUII’s customers, a subsequent usage decline adjustment is layered on top of these normalized units, based on analysis of the historical trends in the usage per equivalent residential connection (“ERC”) used by CUII customers—the same analysis used in CUII’s last rate case, Cause No. 44724.

With regard to the consumption decline adjustment, Mr. Dickson testified that, due to an ongoing rate of consumption decline, forecasted consumption includes a usage normalization adjustment specific to each territory. The usage normalization adjustment was developed by averaging the annual change in consumption per customer from 2009 to 2021, producing usage declines per ERC for each territory as follows:

Former Service Territory	Usage Decline per ERC
Twin Lakes	-2.16%
Water Service Company of Indiana	-1.62%
Indiana Water Service, Inc.	-1.82%

Mr. Dickson explained that data from 2009 to 2021 is used to assess the annual level of consumption per customer. CUII then assesses trends in this figure, such as calculating the compound annual growth rate and investigating the average change in consumption every 12 months. This average change is used as CUII’s forecast for consumption decline in its test year. Mr. Dickson stated that CUII has verified the veracity of this trend through a similar investigation of winter period usage, which similarly demonstrates declining usage per ERC. He further testified that this corroboration of trend indicates that the decline witnessed in CUII’s analysis is founded in changes in indoor usage, rather than drought or weather-related changes in total usage.

iii. Customer Growth Adjustment. Mr. Dickson testified that CUII considered but rejected the need for a customer growth adjustment, because CUII is not aware of

any planned expansions during the Linking or Test Periods that would result in a material change to its billing units. Consequently, he concluded, it is reasonable to use the normalized Base Period customer count to forecast sales and revenues.

iv. **Miscellaneous Revenues.** Mr. Dickson testified that miscellaneous revenues are expected to match those of the base year, as CUII does not currently have a DSIC or SSIC in effect that would significantly alter miscellaneous revenue collections.

B. **OUCC's and LOFS's Evidence.** Neither the OUCC nor intervenor LOFS took issue with either CUII's general sales forecast methodology, its bill count normalization adjustment, or its miscellaneous revenues.

i. **Declining Consumption Adjustment.** With respect to CUII's declining consumption adjustment, the OUCC accepted CUII's calculations based on immateriality. Pub. Mr. VerDouw, however, objected to both the consumption decline adjustment and the customer growth assumption. With respect to the declining consumption adjustment, Mr. VerDouw took issue with the use of a 13-year period to develop an average annual decline in consumption; he also testified that consumption decline is affected by factors other than usage efficiencies, namely weather and the COVID-19 pandemic. According to Mr. VerDouw, his analysis for the years 2019-2021 showed no decrease in residential water consumption. Accordingly, he recommended that no consumption decline adjustment be adopted.

ii. **Customer Growth Adjustments.** With respect to CUII's customer growth assumption, the OUCC accepted CUII's calculations based on immateriality. Regarding CUII's customer growth assumptions, LOFS witness VerDouw advocated for a customer growth adjustment for a truck stop that is to be constructed in CUII's service territory. He stated that the truck stop customer has obtained an IDEM sanitary discharge approval, and therefore must be ready to move on the project.

C. **CUII's Rebuttal.**

i. **Declining Consumption Adjustment.** In rebuttal, Mr. Dickson testified that CUII has experienced persistent consumption decline, despite increasing average temperatures and decreasing precipitation in the warm half of the year (April through September) in the portion of Indiana that CUII serves, according to National Oceanic and Atmospheric Administration ("NOAA") data. He noted that increasing temperatures and decreasing precipitation would typically encourage additional outdoor usage in those months, not a decline in consumption. Additionally, Mr. Dickson pointed out that, according to the Flume Index, water usage across the nation has continued to decrease since its peak in Q2 2020. Mr. Dickson testified that in the same time period as its consumption decline analysis, average summer temperatures (April through September) have increased, and average precipitation has decreased. Accordingly, despite conditions that are typically correlated with increased water usage (i.e., hot temperatures, lower precipitation), CUII continued to experience declining consumption. Mr. Dickson noted that CUII has observed persistent consumption decline across its service territories, which is oftentimes even greater in magnitude when looking only at indoor water usage (winter usage is often used as a proxy for indoor-only water demand). Mr. Dickson reiterated that CUII has used the exact same

methodology that the Commission has previously approved for determining its level of consumption decline.

Mr. Dickson took issue with Mr. VerDouw's analysis, noting that Mr. VerDouw's 2021 average usage does not include usage for September through December, which would be months with a more typical or lower level of usage relative to the warmer, summer months that are included (especially, June through August). Thus, he concluded, Mr. VerDouw's 2021 average usage is skewed high by the available data. Second, Mr. Dickson pointed out that Mr. VerDouw ignores the trend in declining winter usage present in the same 2019 through 2021 usage per residential customer data Mr. VerDouw presents. Mr. Dickson further testified that Mr. VerDouw neglects the impact of weather in his own analysis, and Mr. VerDouw further excuses the clear decrease in commercial consumption as attributable to "different factors than residential consumption." Mr. Dickson noted that, while CUII does not dispute the assertion regarding the cause of this decline, it exists nonetheless, as does CUII's declining residential consumption, and CUII can and should rationally expect it to continue the same trend in the short to medium term. He concluded that CUII's declining consumption forecast is the result of a reasonable analysis and is a reasonable component of its forecast of test year revenues in this case.

ii. **Customer Growth Adjustment.** Regarding Mr. VerDouw's customer growth adjustment, Mr. Dickson disagreed with Mr. VerDouw's assertion that "[i]f IDEM has approved its sanitary discharge demand request, the customer must be ready to move on the project." He testified that this specific site has been under construction for approximately three years, and CUII does not have a reasonable expectation as to when this customer will begin to demand service, and thus has not included an adjustment for this customer. Mr. Dickson also noted that Mr. VerDouw has assumed a four-inch meter will be used by this customer, without explanation as to how he has come to such a conclusion, nor has he provided evidence regarding the temporal relationship he implies between the approval from IDEM for a sanitary discharge demand request and when a customer will begin imposing such demands. Yet in cross-examination, LOFS presented Mr. Dickson with an exhibit showing a three-inch meter (*see* LOFS C-X Ex. 16) which is another indication that there is little certainty about service to this potential new customer. Mr. Dickson concluded that no adjustment for customer growth is necessary in this case due to the uncertainty of demand and timing of demand from this potential customer."

D. **Commission Discussion and Findings.** The parties agree about CUII's general sales forecast methodology, its bill count normalization adjustment, and its miscellaneous revenues. CUII and the OUCC are also in agreement with respect to CUII's customer growth assumption and its proposed declining consumption adjustment. Intervenor LOFS, however, contests CUII's position on declining consumption and customer growth.

i. **Declining Consumption Adjustment.** LOFS's objection to CUII's declining consumption adjustment is based upon an incomplete analysis, as it does not include usage for September through December, months with a typical or lower level of usage relative to summer months. This incomplete analysis thus skews Mr. VerDouw's results. As pointed out by Mr. Dickson, Mr. VerDouw's analysis also ignores the trend in his own data which shows declining winter usage per residential customer; nor does his analysis consider the impact of weather. Finally, Mr. VerDouw's analysis ignores the decrease in commercial customer consumption, instead simply characterizing such decrease as "attributable to different factors."

In contrast, CUII's analysis demonstrates a measurable decline in usage by its customers, and this decline manifests itself even in the face of weather which would logically increase consumption. Thus, the decline in usage does not appear to be weather related. We find it reasonable to take this decline into consideration in establishing rates, particularly where the utility is using a forecasted test period. The record shows Petitioner's analysis included detailed work papers providing adjustments for each of Petitioner's operating divisions. We find this analysis is transparent and provides a suitable basis to adjust future consumption. Accordingly, the Commission finds Petitioner's proposed usage adjustment is reasonable and should be approved.

ii. **Customer Growth Adjustment.** While we believe it is reasonable and in the public interest to estimate associated customer growth when setting rates, any customer growth adjustment must be supported by substantial evidence. In the case of this potential new customer, the evidence shows that, while it recently received an IDEM approval for sanitary discharge, there is no evidence that this IDEM approval will necessarily lead to the completion of construction and the operation of the anticipated truck stop. Rather, the evidence shows that this truck stop has been under construction for approximately three years, and there is no evidence that the truck stop will go into commercial operation by the end of the Test Period. For these reasons, we decline to adopt LOFS's proposed customer growth adjustment.

iii. **Pro Forma Present Rate Operating Revenues.** Based on the above, the Commission finds Petitioner's pro forma operating revenues at present rates for the 12 months ended September 30, 2022 (Phase I) are \$2,535,301 for water and \$2,474,003 for wastewater. Petitioner's pro forma operating revenues at present rates for the 12 months ended September 30, 2023 (Phase II) are \$3,739,290 for water and \$2,770,896 for wastewater.

9. **Operating Expenses.** Several of Petitioner’s proposed O&M expenses were either not challenged by the parties, or Petitioner accepted the OUCC’s or LOFS’s proposed adjustments in rebuttal. We find the following expense amounts agreed to by the parties to be reasonable.⁵

<u>Undisputed Operating Expenses</u>	<u>Water</u>	<u>Wastewater</u>
<u>Maintenance Expense</u>		
Purchased Power	81,197	208,076
Maintenance and Repair	158,095	276,091
Maintenance Testing	19,503	30,295
Chemicals	25,930	116,829
Transportation	27,944	18,432
<u>General Expenses</u>		
Corporate Overhead Allocation	415,197	273,860
Rent	9,784	6,453
Insurance	96,469	63,628
Office Supplies & Other Office Expense	23,365	15,412
Office Utilities	14,180	9,353
Miscellaneous	31,277	20,630
Amortization of CIAC	(14,235)	(134)
Amortization of Acquisition Adjustment	(8,537)	-
Amortization of Excess ADIT	(14,734)	(9,385)
Amortization of ITC	(1,127)	(744)

After the rebuttal phase and the evidentiary hearing held in this case, it appears that the following operating expense items are in dispute: (1) payroll and benefits expense; (2) capitalized labor, (3) purchased water expense; (4) bad debt expense; (5) COVID-19 deferrals; (6) engineering and legal costs incurred in connection with Cause Nos. 45342 and 45389 (water and wastewater preapproval cases); (7) rate case expense; (8) regulatory expense; (9) depreciation expense; (10) payroll tax expense; (11) property tax expense; and (12) income taxes. We discuss these remaining disputed operating expense adjustments below.

A. Payroll and Benefits Expense.

i. Maintenance Salaries and Wages.

a. Petitioner’s Case-in-Chief. Mr. Dickson testified that employee benefit costs are increasing due to CUII’s headcount increase, increased pay rates, increase in total expected benefit costs, the 401k factor applied to payroll expense, total medical benefit cost increases.

⁵ The Parties agreed to \$276,091 as reflected in the table above. The commission added rain barrel amortization of \$2,196 to this amount as previously discussed.

Mr. Dickson testified that salary and wages expense is calculated by employee and is based on current and anticipated levels of staffing and overtime assumptions for hourly employees based on historical data. He testified that employee benefit costs are calculated by dividing total North region benefits forecasts for 2022 and 2023 by the forecasted total North region full time employees eligible to receive benefits. The “per employee” benefit number is then applied to the forecasted full-time employees who service CUII. Costs for base payroll, benefits, and payroll taxes are allocated to CUII using the ERCs of each operating subsidiary each employee is expected to service. In addition, he explained that 401k costs are included at 3% of eligible employee base pay to cover the cost of Corix’s non-elective annual 401k contribution, and 4% to cover CUII’s per paycheck match. Finally, he stated that payroll taxes are forecasted by employee using current FICA, FUTA, and SUTA percentages and thresholds.

Mr. Grosvenor stressed that CUII has experienced a large amount of turnover because its employees have been able to seek and obtain higher salaries from manufacturers in northwest Indiana. He noted that the Lead Operator that left most recently specifically stated in his exit interview that CUII needs to raise wages to stay competitive. Conversely, he noted there are few, if any, applicants with the type of experience needed to immediately join CUII’s staff and perform all of the tasks we need them to complete. This lack of experience creates difficulties in training new employees and helping get them certified. In Mr. Grosvenor’s opinion, offering competitive salaries to current and new personnel is crucial to ensuring the safe and efficient operation of the system.

Mr. Grosvenor testified that CUII recently increased operator salaries to help retain its employees. Those increases are reflected in the total salaries and wages expenses used to forecast salaries and wages for this proceeding.

Petitioner’s witness Robert Guttormsen⁶ testified about the Test Period payroll and benefits costs. He explained that the promotion of its seven current field technicians to operator level positions by 2023 which are necessary to maintain an effective operational workforce to ensure that CUII can continue to supply safe and reliable water and wastewater service. Specifically, Mr. Guttormsen explained the need to hire two new incremental employees in 2022 (Operator II and Apprentice) to alleviate pressure on current staff and reduce turnover, and necessary to maintain an effective operation workforce.

b. OUC’s Evidence. Ms. Stull agreed that Community should be authorized to increase its revenue requirement for maintenance salaries and wages expense but disagreed with some aspects of Community’s request. More specifically, Ms. Stull disagreed with the level of salary increases Community estimated. Ms. Stull also disagreed that Community’s rates should include a revenue requirement for two unfilled operational positions; expenses related to the promotions of field technicians. Ms. Stull noted that Community proposes to increase its \$566,012 base period maintenance salaries and wages expense by 64.95% (\$367,621), resulting in *pro forma* maintenance salaries and wages expense of \$933,633. Of that amount, \$562,568 would be charged to water operations and \$371,065 would be charged to wastewater operations. Ms. Stull noted Community proposes to hire additional maintenance employees and proposes salary increases in both 2022 and 2023. Increasing field technician and

⁶ Mr. Guttormsen’s testimony was adopted by Mr. Dickson on January 28, 2022.

operator⁷ pay by approximately 50% (\$31.90 / \$21.00). Ms. Stull noted Community's discussion of the number of additional maintenance employees it plans to hire is not consistent, that Mr. Guttormsen indicated Community plans to hire *two* new "operations" employees – an operator II and an apprentice, but Mr. Grosvenor testified that Community currently has *four* open positions: 1) another lead operator; 2) a water-wastewater operator I; 3) an operation apprentice (a high school student enrolled in a work study program); and 4) a field technician.

Ms. Stull also discussed the quality of proof Community provided to justify these increases. She noted she was frustrated in her efforts to assess Community's current staffing levels as no information regarding base period employees was provided in Community's workpapers, nor was there any information provided as to whether existing positions were vacant at the end of the base period. Ms. Stull also testified that Community's workpapers do not indicate current hourly rates or projected hourly rates for its current and proposed maintenance employees, only hard-coded numbers for proposed employee salaries and wages expense. She noted however, that Mr. Guttormsen does make a general statement on page 4 of his testimony that "the promotions drive the current average wage rate for the hourly field tech from \$21.00 to \$31.90."

Ms. Stull testified that, while she agrees reasonable wage increases should be included in forecasted salaries and wages, she did not conclude the wage increases proposed by Community should be considered reasonable or necessary. She testified Community provided no substantive evidence to support the 50% increase in pay Community projected, noting only a vague discussion by Mr. Grosvenor regarding employee turnover experienced by Community and the need for competitive wages. Ms. Stull also did not accept Community's proposal to promote all its field technicians and increase pay by approximately 50%, pointing out that there was no evidence the job duties for these positions will be changing or any testimony explaining what new duties or responsibilities will be required of the employees being promoted from field technician to operator. Ms. Stull rejected Community's proposal to promote all field technicians and its proposal to increase their pay rates by approximately 50%. Likewise, Ms. Stull asserted that nothing in Community's case-in-chief supported or demonstrated the need for Mr. Guttormsen's proposal to hire two additional employees. Ms. Stull added that it did not appear that Community decreased its overtime assumptions based on the addition of two new employees, despite Mr. Guttormsen's statement that the Operator II and Apprentice positions are necessary to alleviate the pressure on current staff.

Ms. Stull testified that, while the need to incur overtime cannot be eliminated altogether, hiring additional employees should reduce the need for overtime. Ms. Stull also believed Community's proposed salaries and wage expense included overtime expense. She noted that according to Mr. Guttormsen, "[h]istorical data is used to calculate overtime assumptions for hourly employees, which is 11.04% for CUII operations." Guttormsen, p. 8. She explained that Mr. Guttormsen's testimony provided no other information, nor did Community's salary and wage

⁷ While Mr. Guttormsen stated that only field technicians will be receiving these 50% raises, it is clear from a review of Mr. Guttormsen's workpapers that other maintenance employees are also receiving these large pay increases.

workpapers that identifies the number of overtime hours included in its projected maintenance salary and wage expense.

Based on information obtained from the U.S. Bureau of Labor Statistics (“BLS”), Ms. Stull recommended annual raises of 5% for each employee in 2022 and 2023.⁸ Five percent represents the high end of the “3-5% wage level increase . . . standard across all operating companies at CRU and consistent with inflation expectations.” Ms. Stull explained that the most recent data available from the BLS is for May 2021 (OUCC Attachment MAS-5). The appropriate occupation code is 51-8031 “Water and Wastewater Treatment Plant and System Operators.” Based on the data she obtained for Indiana, the mean salary in May 2021 was \$23.02 and the median salary was \$22.75. She testified she considered the mean salary rate of \$23.02 to be reflective of current market conditions as of the end of the base period. She then adjusted the salaries and wages for those employees that were below this rate as of the end of the base period but kept the salaries for the those making more than \$23.02.

Ms. Stull recommended a \$61,549 increase to base period maintenance salaries and wages expense of \$566,012, resulting in *pro forma* maintenance salaries and wages expense of \$627,561, of which \$378,168 would be charged to water operations and \$249,393 would be charged to wastewater operations.

c. Petitioner’s Rebuttal. Mr. Dickson testified that CUII has struggled with retention of employees historically, and it has open positions at present that are emblematic of the tightness of the labor market in which CUII participates. In his case-in-chief testimony, Mr. Dickson testified that CUII had four open maintenance positions: lead water/wastewater operator (filled by existing CUII employee obtaining the requisite training, resulting in a need to backfill his position), operator II, field tech II, and an operations apprentice. The operator II and operations apprentice are new positions. At the evidentiary hearing, he testified that CUII had two open positions, operator II and operations apprentice. Further, the Director of Engineering and Asset Management and Regional Director of FP&A positions are vacant. He testified that CUII looks to fill all five of these positions in 2022. Mr. Dickson noted that even at full employment of current positions, CUII remained understaffed. He stated that all maintenance employees have experienced untenable workloads, resulting in some of the turnover that CUII has experienced, because of the difficulty CUII has had in filling these two new positions. He testified that the elimination of these positions only serves to worsen existing struggles CUII is experiencing with retention. Further, he noted that there are additional useful operational tasks that CUII’s staff could be undertaking, as Mr. Grosvenor testified—specifically, the current staffing level makes it difficult to complete manhole inspections, home inspections and GIS data collection and CUII also would like to do some work that we currently are outsourcing, such as excavation and leak repair, which CUII has been unable to address with its existing positions.

Mr. Dickson explained that CUII’s expectation for its current field technicians is that they obtain licenses to advance to the level of experience and expertise needed to perform more complicated processes without supervision. He explained that it is a necessity for CUII, with the size of staff that it has, that its staff be well trained and able to function with less supervision over time. According to Mr. Dickson, this is not just an expectation, but a necessity for CUII staff to

⁸ Ms. Stull recommended annual raises of 5% for each employee; however, in Phase II she made no adjustments.

achieve the level of competency required by the forecasted promotion, for CUII to continue to provide adequate services to customers. CUII's customers benefit from a well-trained staff. He noted that all existing field technicians are expected to complete requisite training to perform independent of direct supervision. In practice, he stated, field technicians are operators in training – the expectation is that within two years, field technicians complete training to become operator I's. Growth of employees is not only a good management practice for employee retention but is also an operational necessity for CUII. Employees at their current level of training cannot complete all tasks required to operate CUII's facilities, applying pressure to CUII's senior operational staff to oversee newer employees. With additional turnover, the process starts over; education and promotion are required by CUII to maintain and retain an adequate workforce.

Mr. Grosvenor also took issue with the OUCC's objection to the promotion of its field technicians. He characterized the OUCC's position as an apparent effort to save money at the expense of offering safe and reliable service. He stated that CUII is stretched as thin as he could ever recall and emphasized that CUII urgently needs employees that are qualified to perform tasks necessary for the safe and reliable operation of the WWTP. He stressed that certified operators are critical to this process. Right now, he stated CUII has six field technicians who have shown commitment to the utility and a desire to learn. In Mr. Grosvenor's opinion, it makes sense to promote and continue to grow these employees to meet the critical needs of the system and to help retain employees as they become an essential part of operations.

Mr. Grosvenor also responded to the OUCC's statement that CUII had not explained the new duties or responsibilities that will be required of employees promoted from field technician to operator. He noted that his direct testimony included both the job description of a Wastewater Operator I and the job description of a Field Technician. Further, he testified that a Wastewater Operator must be licensed through a program overseen by the IDEM. Licensed operators can perform preventative maintenance, inspections, cleaning, repairs and long-range system upgrades at the wastewater treatment plant. Field Technicians, on the other hand, are responsible for water meter reading to facilitate customer billing and for performing minor meter and/or system maintenance. He testified that having more licensed Operators will take significant burdens off himself and the Lead Operators, who cannot be available everywhere and at all times of the day. Moreover, he noted that when a Field Technician is licensed as an Operator, it gives the employee a greater sense of responsibility because their license is on the line when they perform their job duties, adding value for both CUII and its customers.

Mr. Grosvenor explained that being a Field Technician is generally viewed a step to becoming an Operator. Given the fact that CUII is small, he stated it is preferable to have employees that can perform all functions, from meter reading and repair to routine wastewater treatment plant maintenance tasks. Further, he stated that in recruiting Field Technicians, CUII advises them that CUII will support them in being trained and licensed to become Operators. Thus, he stated, there generally is an expectation on the part of all parties that a Field Technician will become an Operator, and without this room for growth, it could be difficult to hire field technicians.

Additionally, Mr. Grosvenor reiterated that CUII is facing an unprecedented level of turnover. He testified that given the level of competition in the market, adopting a policy of not promoting Field Technicians would increase: (i) the likelihood of losing qualified Field

Technicians who would become dissatisfied with the lack of opportunity for advancement; and (ii) continued staffing shortages of licensed Operators. As to the latter issue, he testified that CUII has lost multiple experienced plant Operators to higher paying opportunities and with current market conditions continuing, CUII is likely to lose more qualified Operators.

Moreover, Mr. Grosvenor reiterated that there are few, if any, applicants with the type of experience and certification needed to immediately be an Operator. As a practical matter, he noted that CUII does not get many applicants for positions that are licensed Operators. He stated that in almost every case where CUII hires a Field Technician, it would have preferred to have hired someone with an Operator certification. However, those individuals are simply not available. In his opinion, it is critical that CUII train Field Technicians to fill those roles.

Regarding the two new operations staff positions, Mr. Grosvenor disagreed with the OUCC's position that these positions are not necessary. He testified that CUII is operating at a low staffing level, and it is imperative to add staff. As indicated above, CUII has eight operations employees. However, this does not always translate to eight available qualified team members available. As a practical matter, due to the rapid turnover, there are always new employees who must be trained. This means not only that the trainee is not yet a completely effective employee, but it also means that other members of the staff must take time away from their jobs to train the individual. In addition, CUII must work around employee PTO and other time off. Simply put, according to Mr. Grosvenor, CUII is operating at minimal staffing levels and needs to make additions to operate the system more effectively.

Mr. Grosvenor noted that CUII has recently replaced the recently vacated Lead Operator position by promoting an existing employee. This means, CUII now is short two Operators, or Field Technicians, depending on the type of applicants. He stated that CUII plans to hire an apprentice that it could transition to a full-time permanent job. He testified that the thought behind the apprenticeship program is that CUII is seeing a lack of applicants with experience in this field, and it wants to promote interest from the younger generation in the trades. In Mr. Grosvenor's view, it is crucial that CUII fill its open operations staff positions in the immediate future.

Mr. Dickson also testified that CUII has already adjusted the pay rates for its maintenance staff to reflect analysis performed by CUII's human resources department, which found that CUII's staff were being paid below the market midpoint. This pay guidance is based on data from the AWWA Compensation Study. Mr. Dickson stated that, not only is the AWWA's study credible, it also allows CUII to consistently benchmark itself with a trusted source.

Mr. Dickson testified that, to triage the employee retention issues that CUII has experienced, an adjustment to reflect labor market conditions and pay distributions was rational and prudent; CUII needs to maintain wages that are competitive. CUII is actively competing against not just water and wastewater system operators for talent, but also competing against steel and other manufacturers in the area who are recruiting workers with the same skillset and licensing as CUII's and those employers are paying a premium for that talent, in a higher cost area of Indiana. He noted that Indiana state data, such as that cited by Ms. Stull, does not reflect that intrastate variance, nor the competitiveness of the labor market that CUII experiences near Gary and the greater Chicago area.

Mr. Grosvenor also emphasized that disallowance of pay increases, as proposed by the OUCC, will result in further attrition of qualified employees and degrade the quality of service provided to customers. He reiterated that CUII has experienced a large amount of turnover because employees have been able to seek and obtain higher salaries from manufacturers in northwest Indiana. He stated that the Lead Operator that left most recently specifically stated in his exit interview that CUII needs to raise wages to stay competitive.

Mr. Dickson noted a modification to its overtime assumptions to reflect an on-call pay change that was instituted in February 2022. He stated that, in general, CUII has increased the pay for employees to be equal to one hour of overtime (1.5x) to better reflect the responsibility and availability required of employees to be on-call. This does not reflect the changes to the call-out rate, which is also increasing to reflect the burden of addressing spontaneous customer needs when on call, particularly on weekends. These changes are a necessity for CUII to not only compensate employees fairly, but to be able to retain employees that have been trained and can perform the work that running water and sewer utilities demand of their operations staff. A corresponding decrease has been instituted to CUII's overtime rate to remove on-call pay from the calculation and address it separately.

Mr. Dickson emphasized that CUII is seriously understaffed. Current staff are overworked and cannot complete all work that CUII would like performed to meet its dual goals of excellent service and a positive work environment. CUII's four open maintenance positions of lead operator, field tech II, operator II, and operations apprentice are needed to meet the basic employment needs of CUII. These hires will not have an impact on CUII's overtime rate for two reasons: (1) CUII calculates its overtime rate based on historical data during which there were only two open positions (operator II and operations apprentice) and (2), the additional headcounts will perform additional work that CUII has not been able to perform without full staffing.

Mr. Dickson stated that, in total, CUII's 2022 annualized salary and wage expense, at existing wage rates, is \$1,135,018 (\$683,914 water, \$451,104 sewer). This is a \$17,193 increase from CUII's direct case position for the linking period and does not reflect the opportunity and expectation for CUII maintenance personnel to reach the level of pay forecasted in CUII's direct case, through training and certification; namely, the expectation that all Field Tech II employees will reach a level of competency that will justify promotion to Field Tech III. Mr. Dickson stated this is not just an expectation, but a necessity for CUII staff to achieve the level of competency required by the forecasted promotion to continue to provide adequate services and referred to Mr. Guttormsen's testimony for greater detail surrounding this adjustment.

Mr. Grosvenor added color to CUII's employee turnover problem in the form of a spreadsheet showing the employees that have left CUII since 2016. The individuals shown are full-time employees, exclusive of part-time employees and interns. Over the course of that period, 22 employees left CUII, which amounts to approximately four per year. This is a significant number for a utility the size of CUII, that currently has only eight full-time employees. This means that every year, CUII is losing half of its qualified workforce. In Mr. Grosvenor's opinion, this is not an ideal way to operate a utility. He asked that the Commission approve the salaries and wage expense as proposed as CUII has a crucial need for qualified staff and are unable to attract and retain such individuals in the current market and is concerned that adoption of Ms. Stull's

recommendations would exacerbate that problem. He concluded that increasing wages is absolutely necessary if CUII is going to be able to attract and retain a qualified workforce.

d. Commission Discussion and Findings. Rate schedules CUII filed with its direct case reflect per books Maintenance Salaries and Wages Expense of \$566,012. CUII proposes \$933,633 for Phase I and \$933,633 in Phase II for a total increase of 65%.⁹ In Phase I, CUII proposes to promote seven Field Techs to Field Tech III's, and then, promote these seven positions to Operator I's in Phase II. CUII also proposes to add two new positions in Phase I, an Operator II and an Operations Apprentice. This will provide CUII with 12 of 12 Maintenance positions as operators. The 12 operators include Mr. Grosvenor, two existing Lead Operators, the proposed promotion of seven Field Tech III's, the proposed new Operator II position and the new Operations Apprentice. The Commission agrees that inclusion of a new Operator and Operations Apprentice is reasonable. However, the Commission does not agree that CUII needs all its Maintenance employees to be operators and does not agree with the level of pay included in its request for the 12 Maintenance positions.

The Commission is aware of the challenges in the labor market and agrees the inclusion of two new positions is necessary to facilitate staffing needs and to reduce overtime. The Commission is also aware of the need to provide pay increases to reduce the significant turnover CUII has experienced and will address pay using the market information provided in Dickson's confidential rebuttal exhibit AD-R08. Between the additional employees granted and the additional pay provided, the Commission expects turnover will be reduced which will also reduce the amount of overtime needed. Thus, the Commission reduces overtime by one half.

With respect to the operator positions, the Commission does not believe it is reasonable for all maintenance staff to be operators and to be paid as operators. Further, it is not likely it will be feasible for all employees to obtain the operator training and licensing CUII proposes. Also, by maintaining maintenance positions, employees will retain an opportunity for upward mobility as experience is obtained, licensing acquired, and operator positions become available. The Commission finds it reasonable to include six of its 12 maintenance positions as operators including the Operations Apprentice. Five positions are already included as operators including Mr. Grosvenor, two Lead Operators, the new Operator II position, and the Operations Apprentice. Therefore, the Commission supports the promotion of one Field Tech III to Operator I in Phase II.

The confidential rebuttal exhibit AD-R08 includes a market analysis of seven positions, Field Tech I, II, and III, Water-Wastewater Operator I, II, and III, and Area Manager. This document includes pay guidance at entry point, market midpoint, and maximum. While the utility provided this document to support its request, the salaries and wages requested are higher than this document supports. The Commission uses the data on this document to calculate salaries and wages for the positions determined above. Since CUII competes for labor in the Chicago area, the Commission believes it is reasonable to provide compensation on the higher side of the Market Midpoint for many positions.

⁹ Given other evidence provided by CUII, it is not clear why Phase I and Phase II are equal in the rate schedules.

Because the Commission agreed to include all seven of the Field Tech positions at the highest pay level, Field Tech III, it is reasonable to calculate pay based on the market midpoint. This hourly rate was used to determine Phase I pay for each of the seven Field Tech III positions. A 5% increase was applied to the six Field Tech III positions not promoted to Operator I to calculate Phase II pay. The new Operator II, the two existing Lead Operators, and Mr. Grosvenor's pay was calculated using an average of the market midpoint and maximum rates for Phase I with a 5% increase applied to Phase II. The one Field Tech III promoted to Operator I in Phase II was calculated using an average of the market midpoint and maximum rate, plus 5% for Phase II pay. The Operations Apprentice pay was calculated using the Operator I Entry Point rate plus 5% for Phase II pay. These changes result in total Maintenance Salaries and Wages Expense of \$688,754 for Phase I, of which \$415,043 is allocated to the water utility and \$273,711 is allocated to the wastewater utility, and \$796,998 for Phase II, of which \$480,237 is allocated to the water utility and \$316,761 is allocated to the wastewater utility. While the amounts do not generate the 65% increase Petitioner requested, the increase allowed represents a significant 41% increase.

ii. General Salaries and Wages.

a. Petitioner's Case-in-Chief. Mr. Guttormsen testified about the Test Period payroll and benefits costs. He explained that payroll costs are increasing, driven by several factors, including:

- leadership wages, related to promotions in CUII's finance department;
- addition of a Vice President of Business Development & Regulatory Affairs, responsible for high level strategic planning, facilitation, and execution of the North business unit's growth initiatives in Illinois and Indiana, and responsible for advising on legislative, policy, and regulatory changes;
- addition of a Midwest project manager, responsible for all water and wastewater utility construction projects in Kentucky, Illinois, and Indiana from initial contract negotiations through warranty termination, which is instrumental to ensuring optimal project planning, compliance, and overall asset management which directly benefits CUII; and
- addition of a senior financial analyst, to perform a wide range of analysis, reporting, budgeting, and long-range planning activities, and to support and lead many aspects of Indiana's regulatory process, necessary to ensure smooth financial operations continue for CUII and will help ensure the overall financial health of utility operations.

Mr. Dickson generally described how the pro forma adjustments were made, then refers to wp-b of Attachment AD-3 and the testimony of witness Guttormsen for greater detail surrounding this adjustment which are the accounting assumptions. Mr. Guttormsen's testimony did not specifically mention general salaries and wage detailed explanation.

b. OUC's Evidence. Ms. Stull also addressed Community's proposed 64.95% (\$134,208) increase to base period general salaries and wages expense of \$206,634, resulting in *pro forma* general salaries and wages expense of \$340,842. Of this amount, \$205,377 would be charged to water operations and \$135,465 to wastewater operations. Ms. Stull explained that the OUC recommended a smaller \$55,334 increase to base period general salaries and wages expense resulting in *pro forma* maintenance salaries and wages expense of \$261,968.

Of this amount, \$157,862 should be charged to water operations and \$104,106 should be charged to wastewater operations.

Ms. Stull explained that CUII proposed to include in rates salaries and wage expense associated with three corporate leadership positions: a vice president of business development and regulatory affairs (34.64% allocated to CUII); a Midwest project manager (27.10% allocated to CUII); and (3) a senior financial analyst (34.64% allocated to CUII). Ms. Stull noted that Community also proposes salary increases for both 2022 and 2023 of 3% to 5%. Ms. Stull generally accepted Community's proposed salary increases for 2022 and 2023. She also accepted the allocated costs associated with the addition of a financial analyst and Midwest project manager, but she disagreed with the inclusion of a vice president of external affairs and business development. Based on the duties of this position, which include business development activities and external affair activities, Ms. Stull testified that the costs of the position should not be recovered from ratepayers.

Ms. Stull explained why business development activities are non-recoverable, noting that the Commission has previously found in Cause No. 44022 that business development costs should be borne by shareholders, not ratepayers. She noted Mr. Guttormsen's argument that ratepayers benefit from growth resulting from business development opportunities presupposes there will be growth because the position, which is without any guarantee of growth or that any of the benefits listed by Mr. Guttormsen will occur. Further, Ms. Stull asserted that growth benefits shareholders as much or more than ratepayers, and it should be shareholders that bear the costs of those efforts. Finally, Ms. Stull noted the benefits cited by Mr. Guttormsen sound very much like the benefits ratepayers are already supposed to be receiving through the shared services provided by Water Service Corporation ("WSC") and for which Community has already included \$689,058 (i.e., the corporate overhead allocation from WSC).

Ms. Stull also listed responsibilities and duties of the position, which she asserted are related to business development and, therefore, the associated costs should not be recoverable from ratepayers. These included "High level strategic planning, facilitation, and execution of the North business unit's growth initiatives in Illinois and Indiana;" "Direct, prepare, and present business case proposals to other Executive business partners within the Corix Group of Companies;" "Development and execution of the overall organization's growth strategy;" "Motivate leadership and other stakeholders to take ownership of business development;" "Advise the President on legislative, policy, and regulatory changes advantageous to CUII's goals;" "Seeks partners to implement these changes;" and "Identifies, establishes, and maintains crucial relationships at local, state, and federal levels." Ms. Stull asserted those responsibilities directly benefit shareholders with no discernable benefit to ratepayers. She added that "identif[y]ing, establish[ing], and maintain[ing] crucial relationships at local, state, and federal levels." sounds very much like lobbying.

Ms. Stull added that Community has not supported recovery of these costs with substantive evidence showing recovery of these costs is reasonable and prudent and benefits ratepayers. She asserted that notwithstanding the listed duties, Mr. Guttormsen did not explain why the position is needed or whether anyone is currently performing these duties and, if so, why they cannot continue to do so. Ms. Stull also pointed out that over one-third of the cost of this position will be allocated

to Indiana, a state with only three small water and wastewater utilities. Ms. Stull asserted the cost of that position should not be included in general salaries and wages expense.

c. Petitioner's Rebuttal. Mr. Dickson testified that CUII has not filled the Senior Financial Analyst, Project Manager, or vice president of business development positions. Regarding the position of vice president of business development, Mr. Lubertozi and Mr. Dickson testified that the work product of this position, namely acquisitions within Indiana and Illinois, will substantially benefit existing CUII customers through the proliferation of the customer base across which revenue requirements are spread, and through a dollar cost averaging of rate base per customer with savvy acquisitions. The quality and quantity of acquisitions is directly related to the amount of time that CUII can invest in pursuing investments. The purpose of this position is to augment both factors, resulting in net benefits for existing CUII customers. CUII's share of this position's salary is only 34.64% of the total expense, and the net benefit to CUII's customers will exceed the allocated wage expense over time. Mr. Dickson emphasized that this position is needed to provide an opportunity for CUII to grow its customer base, thus providing a larger denominator across which investment costs may be spread. He asserted the addition of the vice president of business development will ensure a robust pursuit of development opportunities that benefit CUII's customers. Mr. Lubertozi denied that this position will involve lobbying.

d. Commission Discussion and Findings. The parties' positions indicate that there is generally one issue in dispute with respect to payroll and benefits expense, the addition of a VP of Business Development position. Ms. Stull agreed to the addition of the Midwest Project Manager and Senior Financial Analyst.

The Commission has previously found that business development costs should be borne by shareholders, not ratepayers. *See Indiana-American Water Co., Inc.*, Cause No. 44022 at 70 (June 6, 2012) ("The Commission finds no evidence that the Business Development activities provide a benefit to ratepayers — in fact, the Commission is concerned that ratepayers may be subsidizing business development with limited offsetting benefits. Therefore, we conclude that Petitioner's Business Development expense . . . should be disallowed."). Under these circumstances, CUII's shareholders should bear the initial risk of business development and acquisitions, as they stand to gain greater rewards from doing so. Therefore, after considering the evidence of record and applicable law, we agree with the OUCC's assessment and deny CUII's proposed allocated expense relating to employment of a new vice president of business development and regulatory affairs. We note that this finding does not prevent consideration of rate recovery for an established vice president position producing achieved results in a future base rate case.

We find the *pro forma* revenue requirement for the vice president of business development and regulatory affairs (34.64% allocated to CUII) shall not be included in Petitioner's *pro forma* revenue requirement. We find the allocated costs associated with the addition of a financial analyst and Midwest project manager shall be included in Petitioner's revenue requirement. These changes result in total General Salaries and Wages Expense of \$255,769 for Phase I of which \$154,126 is allocated to the water utility and \$101,643 is allocated to the wastewater utility and \$273,209 for Phase II of which \$164,624 is allocated to the water utility and \$108,585 is allocated to the wastewater utility. While the amounts do not generate the 65% increase Petitioner requested, the increase allowed represents a significant 32% increase.

iii. **Pensions and Employee Benefits.** Ms. Stull explained why she disagreed with Community’s proposed 48.42% or \$106,483 increase to base period pensions and employee benefits expense of \$219,936. Ms. Stull explained that while she accepted the costs proposed by Community for its various employee benefits, her recommended pension and employee benefits expense is based on the headcount and salaries and wages expense she recommended. Accordingly, she recommended a \$26,281 increase to base year pensions and employee benefit expense of \$219,936, resulting in *pro forma* pensions and employee benefits expense of \$246,217.

The Commission-approved pensions and employee benefits are in accordance with the approved salaries and wages, resulting in a \$61,249 increase, (\$36,906 water, \$24,343 wastewater) to base year pensions and employee benefit expense of \$219,936, resulting in Phase I *pro forma* pensions and employee benefits expense of \$281,185, of which \$169,430 is water and \$111,755 is wastewater, and for Phase II \$316,066, of which \$190,448 is water and \$125,618 is wastewater.

B. Capitalized Labor.

i. **Petitioner’s Case-in-Chief.** Mr. Dickson testified that operating expense charged to plant is forecasted based on anticipated capital investments from Operations. Operating expenses charged to plant, otherwise referred to as capitalized time or cap time, is calculated based on the following components: (1) capital project cap time, which represents the hours to be worked on each forecasted capital project; and (2) capital additions/replacements cap time, which represents the hours to be worked for general plant additions/replacements. According to Attachments AD-1 and AD-3, Petitioner proposes total capitalized labor of \$159,573, of which \$86,022 is charged to water operations and \$73,551 is charged to wastewater operations.

ii. **OUCC’s Evidence.** Ms. Stull criticized the lack of any specific testimony regarding proposed capitalized time rates in Petitioner’s case-in-chief. Ms. Stull stated that Mr. Dickson did not explain what is meant by “IN operator cap time” nor did he state the capitalized time rates proposed or how those rates were calculated. Petitioner’s witness Guttormsen, Petitioner’s primary witness discussing payroll and benefits, did not mention capitalized time, much less the capitalized time rates being proposed or an explanation of how those rates were calculated. Ms. Stull stated the capitalized time rates proposed by Petitioner were (1) \$45.82 per hour as of September 30, 2021, (2) \$47.19 per hour as of January 1, 2022, and (3) \$48.61 per hour as of January 1, 2023. Ms. Stull further explained the capitalized time workpapers provided in Attachments AD-1 and AD-3 have only hard-coded amounts for the various capitalized time rates proposed and she was unable to replicate the same rates calculated by Petitioner.

As the OUCC recommends rates be based on lower salary and wage increases, Ms. Stull’s recommended capitalized time rates were follows: (1) \$35.28 per hour as of September 30, 2021, (2) \$37.98 per hour as of April 1, 2022, and (3) \$40.11 per hour as of April 30, 2023. She explained these rates are based on the average hourly rates for maintenance employees, excluding the state operations manager, as proposed by the OUCC. Based on these capitalized time rates, Ms. Stull recommended total capitalized labor costs of \$136,697 (base period of \$128,965) + \$7,732, of which \$70,081 is charged to water operations and \$66,616 is charged to wastewater operations.

iii. **LOFS's Evidence.** LOFS did not present testimony on the issue of capitalized labor.

iv. **Petitioner's Rebuttal.** On rebuttal, Mr. Dickson did not specifically discuss capitalized labor, but CUII's capitalized labor adjustment on rebuttal was based on CUII's updated forecast for salary and wage expense; Mr. Dickson's updated adjustment did not utilize Ms. Stull's methodology.

v. **Commission Discussion and Findings.** After considering the evidence of record, the Commission concurs with the OUCC's method of calculating the capitalized labor adjustment using the Commission's allocated salary rates based on the average hourly rate for maintenance employees. CUII did not provide any explanation on rebuttal regarding any disagreement with the OUCC's approach to calculating the average hourly rate for maintenance employees. As adjusted based on the salary and wage increase approved above, we approve a proforma capitalized labor expense for water of \$76,359 in Phase I and \$75,584 in Phase II and for wastewater \$50,319 in Phase I and \$66,312 in Phase II.

10. **Purchased Water Expense.**

A. **Petitioner's Case-in-Chief.** Mr. Dickson testified that CUII proposes an \$11,023 increase to base period purchased water expense of \$365,903, resulting in pro forma purchased water expense of \$376,925. This expense is charged entirely to water operations and includes a 3% anticipated inflation increase per year. CUII purchases water from Indiana American Water Co. ("Indiana American") at a current rate of \$2.79 per thousand gallons. Mr. Dickson's workpapers show the projected water expense calculation as the projected purchase water multiplied by the water service charge and DSIC multiplied by the projected cost per thousand gallon which includes an adjusted inflation factor.

B. **OUCC's Evidence.** Ms. Stull testified that the OUCC disagrees with CUII's forecasted water volumes and applied inflation factor and believes its proposed rate is unreasonable given CUII's assumptions regarding declining consumption. She also noted that CUII could file a purchased water tracker for future adjustments. She testified that the OUCC's recommended purchased water expense is composed of two parts: meter charges and volumetric charges. The OUCC included \$19,908 ($\$829.51 \times 2 \times 12$) for fixed monthly charges including meter charges for two 6-inch meters and the DSIC charge along with \$317,607 ($\$0.27867 \times 1,139,724$) for volumetric charges determined by multiplying base year purchased water volumes adjusted for CUII's declining consumption of 1.82% for IWSI. This results in a purchased water expense of \$337,515, a difference of \$39,410 from Petitioner.

C. **Petitioner's Rebuttal.** Mr. Dickson testified on rebuttal that, while he disagreed with Ms. Stull's forecast, he generally found her approach to purchased water reasonable. He noted that CUII originally used invoices paid in the base period to identify purchased water used then; however, he stated that the actual service period on those bills can differ. Mr. Dickson noted that, in his Attachment AD-R09, CUII identifies the service period and usage of bills since 2016. CUII experienced its lowest usage in this period in 2021, 118,103 kilogallons, and its highest usage in 2017, 133,720 kilogallons. Mr. Dickson cited declining

consumption and improvements to unaccounted for water (“UFW”) losses, which went from 14.2% in 2020 to 10.8% in 2021.

Mr. Dickson noted that CUII adjusted its estimates on rebuttal, resulting in a test year forecasted volume of 115,816 kilogallons and purchased water expense of \$342,654, only \$5,139 different from Ms. Stull’s proposal (\$337,515). CUII has assumed an annual decrease of 1.82%, which is the same 1.82% that Ms. Stull identifies in her testimony for IWSI (the only CUII system using purchased water) and that CUII applied in its direct case forecast for 2023. Mr. Dickson also testified that CUII agrees that, if rates remain the same from Indiana American between now and the effective date of rates from this rate case, CUII’s water tracker should be set to zero, eliminating the potential for double recovery.

D. Commission Discussion and Findings. Based on the evidence of record, the Commission finds that CUII’s methodology for calculating its purchased water forecast of \$342,654 (as adjusted on rebuttal) is reasonable and is, therefore, approved.

11. Bad Debt Expense (Uncollectibles). CUII and the OUCC agreed on the Phase I bad debt proforma amount of \$58,868 of which \$29,841 is allocated to water and \$29,027 is allocated to wastewater. On behalf of LOFS, Mr. VerDouw disagreed with the adjustment since the uncollectible percentage should be dropping as the COVID-19 pandemic passes. However, he did not propose a specific percentage or dollar amount for the adjustment. Without any specific number for the bad debt adjustment from LOFS, the Commission used the figure agreed to by CUII and the OUCC.

12. COVID-19 Deferred Costs.

A. Petitioner’s Case-in-Chief. Mr. Dickson (adopting Mr. Guttormsen’s testimony) testified concerning CUII’s COVID-19-related expenses, including legal fees, customer communication expense, and foregone late payment and reconnection charges. CUII has proposed recovery of \$189,432 of COVID-19-related expenses to be amortized over three years, yielding an annual expense of \$63,144. Of this amount, \$38,048 (60.26%) is proposed to be charged to water operations and \$25,096 (39.74%) to be charged to wastewater operations. Mr. Dickson stated that CUII has not included any COVID-19 costs in rate base and exclusively proposes to recover a return of, not on, costs incurred. He testified that the deferred costs were prudently and necessarily incurred.

B. OUCC’s Evidence. Ms. Stull testified that CUII suspended late payment charges on March 11, 2020 and resumed these charges on August 8, 2021. However, she noted that the Commission, in Cause No. 45380, authorized utilities to use regulatory accounting only from March 2020 through October 12, 2020, when the Commission’s moratorium on charging late fees and reconnection fees expired. She recommended CUII be permitted to recover waived reconnection charges and waived late payment charges only up to and through October 2020; costs for customer communication; and legal costs, all which total \$31,701 amortized over five years. This results in an annual amortization expense of \$6,340 of which \$3,820 is charged to water operations and \$2,520 is charged to wastewater operations.

C. **Petitioner’s Rebuttal.** On rebuttal, Mr. Dickson revised the amount it seeks to recover to \$75,207 of foregone late payment charges, \$3,171 of customer communication charges, \$4,528 in legal fees, and \$63 in foregone reconnection charges, for a total of \$82,968. He disagreed with Ms. Stull’s proposal to amortize these expenses over five years, testifying that this time period was too long and that CUII’s proposal of a three-year amortization period is more likely to represent the life of the rates being set in this case.

D. **Commission Discussion and Findings.** After reviewing the evidence of record, we agree with the OUCC on the amount of recovery of foregone late payment charges with one minor change. The Commission’s orders in Cause No. 45380 were clear that utilities could recover the cost for foregone late payment charges incurred only from March 2020 through October 12, 2020. We also agree with the OUCC’s proposal of five-year amortization to minimize expense to ratepayers. We agree with CUII’s small increase in legal fees from its rebuttal testimony. Thus, we find that CUII may recover \$24,791 of foregone late payment charges, \$3,171 of customer communication expense, \$4,528 of legal fees, and \$63 of foregone reconnection charges for a total of \$32,553 to be amortized over five years. This results in a total charge of \$6,510, with \$3,923 charged to water operations and \$2,587 charged to wastewater operations.

13. **Water and Wastewater Preapproval Engineering and Legal Costs.**

A. **Petitioner’s Case-in-Chief.** Mr. Lubertozi testified that Community has included the costs incurred to litigate Cause No. 45342 (\$176,144) as a deferred O&M expense amortized over three years. With respect to Cause No. 45389, Mr. Lubertozi testified that CUII has included for recovery engineering costs needed to prepare requests for proposals, bids, and other engineering and design related costs, as a deferred O&M item amortized over 40 years, which is consistent with CUII’s wastewater depreciation rate. Additionally, CUII has included the legal costs incurred to litigate Cause No. 45389 (\$258,319) as a deferred O&M expense amortized over three years. Similarly, Mr. Dickson testified CUII is proposing recovery of its engineering and legal costs incurred in pursuit of preapproval of its wastewater projects over a 40-year period and over a three-year period, respectively. Mr. Dickson stated that the 40-year life matches the authorized depreciation life of CUII’s wastewater assets (2.5% annual depreciation) and the three-year period is more reflective of the expected duration between rate cases. He testified recovery of these costs will make CUII’s shareholders whole, over time, for the engineering and legal costs CUII had already paid for up until the ruling in those preapproval proceedings and will enable CUII’s shareholders an opportunity a return of, but not on, these expenses.

Mr. Lubertozi testified that the engineering costs relate to both the CSIP and the Wastewater Treatment Plant Projects (“WTPP”). When interest during construction and capitalized time are included, CUII incurred \$367,000 related to the CSIP and \$1,233,000 related to the WTPP. Before interest during construction and capitalized time, a total of approximately \$318,525 was spent for engineering and design of the CSIP. The \$318,525 includes costs related to utility locates and geotechnical engineering to supplement the design efforts, and engineering. The engineering included design of upgrades at three lift stations (B, C, and D) and construction of new forcemain for all three lift stations. Permitting efforts were initiated during design. Complete plans, specifications, and bidding documents were prepared. Bids were solicited for the project. These bids were used in the pre-approval process. Before interest during construction and capitalized time, a total of approximately \$1,100,289 was spent for engineering and design of the

WWTP. The \$1,100,289 includes costs related to utility locates, geotechnical engineering, sampling, electrical equipment to supplement the design efforts engineering in support of the pre-approval process, including preparation of reports, and design engineering. The engineering included design of the wastewater treatment plant expansion, including a new headworks, a new oxidation ditch, two new clarifiers, a new sludge building with equipment, a new operations building, and repurposing of several existing structures to support the new treatment processes. Permitting efforts were initiated during design. Complete plans, specifications, and bidding documents were prepared. Bids were solicited for the project. These bids were used in the pre-approval process.

Mr. Lubertozi argued that CUII incurred these costs in response to the 44724 Order, in which required CUII to “Develop and Implement a System Improvement Plan (SIP) focused on Three Key Aspects of Service Quality for Petitioner’s Water and Wastewater System.” The Three Key Aspects included the following: (1) decrease total incidences of wastewater backups in homes, (2) decrease total incidences of manhole overflows, and (3) decrease total complaints of discoloration of drinking water.

Mr. Lubertozi opined that these engineering costs were incurred in compliance with Commission directives and, as such, they should be eligible for recovery in this rate case.

B. OUC’s Evidence. Ms. Stull did not accept Community’s proposed recovery of either legal or engineering costs. She noted that in Cause No. 45389, the Commission did not approve recovery of those costs. She also stated that there is no precedent for utilities to recover past legal expenses for proceedings that sought preapproval for construction, especially if the projects were denied by the Commission. Further, she stated that the purpose of pre-approval filings is to reduce the risk to shareholders that an investment will be disallowed, and consequently, the costs of these filings should be borne by the shareholders. Regarding the engineering costs in Cause No. 45389, Ms. Stull further testified that recovery of these costs is not reasonable because the Commission’s denial of the projects resulted in no “used and useful” asset from these expenditures. Additionally, she stated that the Commission did not direct CUII to incur these costs.

C. LOFS’s Evidence. Messrs. VerDouw and Holden testified that Community’s engineering costs incurred in connection with Cause No. 45389 should be disallowed because the projects were not approved. In addition, Mr. VerDouw testified that the Commission should scrutinize the legal costs incurred by Community in both Cause Nos. 45389 and 45342 and only allow recovery of appropriate costs.

D. Petitioner’s Rebuttal. On rebuttal, Mr. Dickson stated that CUII has updated its costs to now include \$367,089 in costs are associated with engineering for the CSIP and \$1,232,722 in association with the WWTP. He testified that CUII maintains that it should be permitted to recover these expenses in the amounts of \$831,025 in Phase I, and \$1,612,595 in Phase II.

Mr. Lubertozi opined on rebuttal that, while it was CUII’s decision to present the rejected CSIP and WWTP projects in a preapproval case, the 44724 Order *required* that the projects be proposed to the Commission in some type of proceeding for its approval, accompanied by engineering studies and competitive bids.

In response to the Presiding Officers’ June 23, 2022 docket entry, CUII provided detailed legal invoices related to the fees incurred in both preapproval cases.

E. Commission Discussion and Findings.

i. **Cause No. 45342.** Mr. Lubertozi provided updated testimony in this case on April 27, 2022 and a corrected workpaper k on April 29, 2022 in which he stated that the amount of legal expenses sought for recovery from Cause No. 45342, CUII’s water preapproval case, was \$176,144. Mr. Lubertozi’s workpaper k does not provide any information on how this number was calculated.

On June 23, 2022, the Presiding Officers issued a docket entry requesting, among other things, legal invoices from Cause Nos. 45342 and 45389. *See* June 23, 2022 Docket Entry at 6, Request No. 19 (“Please provide itemized invoices supporting CUII’s request to recover legal fees for Cause Nos. 45389 and 45342.”). In response to this request, CUII provided a disorganized, possibly incomplete (see gaps in invoice dates below), heavily redacted selection of invoices (including several duplicates) from Barnes & Thornburg LLP (“B&T”) and Ice Miller LLP (“Ice”) that do not appear to match the dollar amount requested by Mr. Lubertozi. The invoices provided are summarized in the chart below (excluding duplicates):

Invoice Date	Page Numbers (Part 1 of 2 Docket Entry Response)	Case	Amount	Firm
2/28/2020	209-211	45342	\$7,244.00	B&T
3/31/2020	251-254	45342	\$17,960.90	B&T
6/30/2020	192-196	45342	\$23,425.00	B&T
7/31/2020	73-83	45342	\$45,429.50	B&T
7/31/2020	153-156	45342	\$14,445.00	Ice
8/31/2020	107-113	45342	\$32,827.00	B&T
9/30/2020	214-216	45342	\$1,194.00	Ice
9/30/2020	258-262	45342	\$10,234.50	B&T
10/30/2020	203-205	45342	\$124.50	B&T
12/31/2020	183-184	45342	\$2,213.50	B&T
		TOTAL	\$155,097.90	

In addition to the dollar amount discrepancy, the invoices themselves leave much to be desired. The B&T invoices are so heavily redacted that, in many places, it is unclear what work was being performed. *See, e.g.*, June 27, 2022 Response to Docket Entry, Part 1 of 2, at 211 (January 27, 2020 attorney time entries including 2.2 hours for “[r]eviewed [REDACTED] in preparation for call regarding [REDACTED]” and 5.2 hours for “[REDACTED] prepared for and participated in call with CUII to discuss [REDACTED].”). CUII never filed a motion seeking confidential treatment of the redacted information, nor did it provide unredacted invoices to the Commission.

Many of the individual diary entries are extremely vague, and attorneys have regularly utilized block billing, making it impossible to tell how much time was spent on specific tasks. *See, e.g., id.* at 79 (June 2, 2020 attorney time entries of 5.2 hours for “[a]t work throughout day reviewing and revising rebuttal testimony. Participated in multiple conference calls with CUII to discuss [REDACTED]” and 2.1 hours for “[r]ebuttal calls.”) In many cases the work of the attorneys appears to have been duplicative. *See, e.g., id.* (similar time entries from three separate attorneys for 2.7, 3.7, and 1.1 hours on June 1, 2020 related to rebuttal testimony revisions).

It is also unclear why Ice was involved in Cause No. 45342 when no Ice attorneys appeared in that case and three attorneys from B&T were already working on the case.

CUII bears the burden of demonstrating the reasonableness of expenses it has incurred. If we find that the evidence does not support a finding that the expenses were reasonably incurred, we are not required to allow the utility to recover them in rates.

Thus, we find that the evidence provided by CUII to support its request to recover \$176,144 in legal expenses for Cause No. 45342 fails to persuade us the legal expenses were reasonably incurred, and we thus deny CUII’s request to include in rate base its expenses from Cause No. 45342.

ii. Cause No. 45389. We also disagree with CUII and Mr. Lubertozzi that the WWTP and CSIP proposed in that case were somehow “required” by the 44724 Order, in which we ordered CUII to “develop a comprehensive I&I program to decrease wastewater backups in homes and manhole overflows and to eliminate water inflow and ground water infiltration into Petitioner’s wastewater collection system.” 44724 Order at 76.

In our Order on Reconsideration in Cause No. 45389, we stated:

We did not find, as suggested by CUII, that CUII has done *nothing* to address I&I. Rather, we found that CUII has not addressed its problems with I&I to the point where preapproval of its multi-million-dollar proposals was justified under Ind. Code § 8-1-2-23.

The OUCC and LOFS provided credible evidence in this Cause that suggested ways that CUII could further reduce or eliminate the need for the Proposed Improvements, and we found that evidence to be persuasive. In addition, we found that there was no evidence that CUII cannot provide reasonable and adequate service at this time. For these reasons, we denied CUII’s request for preapproval. CUII’s arguments on reconsideration do not provide any reason for us to change this result. CUII has not satisfied the requirements of Ind. Code § 8-1-2-23 by showing that “an expenditure of any amount is reasonably necessary to assure reasonable and adequate service.” *American Suburban Utilities, Inc.*, Cause No. 41254, at 14 (April 14, 1999).

CUII, Cause No. 45389, at 1-2 (July 14, 2021) (emphasis in original).

The 44724 Order further clarifies:

In the SIP, Petitioner shall provide detailed plans to measurably improve performance in the Three Key Aspects through use of two primary components: a comprehensive inflow and infiltration (“I&I”) program and a multi-faceted program to decrease incidences of discolored water, as described below.

44724 Order at 76. The \$1,100,289 in improvements proposed and subsequently engineered under CUII’s direction and of which CUII sought preapproval in Cause No. 45389 are not directly related to any attempt to implement a comprehensive I&I program or to decrease indices of discolored water. Those costs were incurred with the intent of replacing CUII’s aged WWTP and increasing treatment capacity without first making a substantive attempt to quantify and eliminate I&I as directed in the 44724 Order, resulting in a WWTP that may be substantially overbuilt and not used and useful.

Nothing in the 44724 Order can be reasonably construed as a specific request that CUII undertake the WWTP improvements and CSIP proposed in Cause No. 45389. For example, the 44724 Order never mentions increasing the size of the WWTP, upgrading lift stations, or installing new force mains. The 44724 Order instructed CUII to implement a comprehensive program to significantly reduce its I&I, which could potentially reduce or eliminate the need for increased capacity at the WWTP. Therefore, we conclude that the \$1,100,289 in engineering was not prudently incurred as the sizing requirements of needed WWTP improvements (if any are, in fact, needed) are *still* unknown due to CUII’s continued failure to work toward the abatement of I&I. Thus, we deny CUII’s request to recover its engineering expenses from Cause No. 45389.

In addition, CUII’s legal invoices related to Cause No. 45389 submitted in response to the Presiding Officers’ docket entry suffer from the same defects as those submitted for Cause No. 45342: vague, redacted diary entries; duplicate invoices; invoices not organized in any logical way, such as chronologically; and seemingly duplicative work among attorneys on the same tasks. Also like CUII’s request to recover legal expenses from Cause No. 45342, the number Mr. Lubertozzi cites as the total amount requested to be recovered from Cause No. 45389 in his workpaper k, \$258,319, does not match the Commission’s calculated total of what appear to be invoices related to Cause No. 45389 submitted in response to the docket entry, \$255,287.58.¹⁰

For these reasons, we find that CUII has not presented persuasive evidence that its expenses in Cause No. 45389 were reasonably incurred and deny its request to include in rate base its legal and engineering expenses from Cause No. 45389.

¹⁰ Parsing which expenses related to Cause No. 45389 was even more complicated than in Cause No. 45342, as B&T seemed to have utilized two separate matter numbers associated with the projects for which preapproval was sought in that case, one for the collection system project and one for the wastewater treatment plant project. B&T also submitted invoices that included bills for other CUII matter numbers apparently unrelated to either preapproval case.

14. Rate Case Expense.

A. Petitioner's Case-in-Chief. Mr. Kilbane testified that Petitioner's total forecasted rate case expense for this proceeding was \$353,213, including 1) \$300,000 in legal expenses; 2) \$32,500 in MSFR preparation support; 3) \$10,000 in ROE analysis support; 4) \$6,459 for travel expenses; and 5) \$4,254 for customer notifications. Mr. Kilbane explained the MSFR preparation support costs are based on Petitioner's agreement with ScottMadden consultants. Mr. Kilbane stated the ROE analysis support represents the costs incurred before Petitioner and the OUCC entered into a settlement agreement as to an appropriate ROE. Mr. Kilbane explained travel costs were based on the expected transportation cost and hotel cost of each witness expected to attend the evidentiary hearing and assumed a two-day hearing. Mr. Kilbane stated notice costs were based on current postage rates and Petitioner used the same paper stock cost as was used in Petitioner's last rate case. Mr. Kilbane stated Petitioner is proposing an amortization period of three years because Petitioner expects that period to be in line with the timing of rate case filings in future years. He explained this case is being filed approximately four years after the Order was issued in Petitioner's last rate case because of the requested pre-approval cases filed and because Petitioner did not want to file a rate case during the COVID-19 pandemic. Mr. Kilbane testified Petitioner anticipates filing rate cases on a much more regular schedule. Community proposes annual rate case amortization expense of \$117,738, with \$70,944 allocated to water operations and \$46,794 allocated to wastewater operations.

B. OUCC's Evidence. Ms. Stull recommended \$318,807 in rate case costs to be amortized over five years, resulting in annual rate case expense of \$63,761. Of this amount, \$38,420 is charged to water operations and \$25,341 is charged to wastewater operations. Ms. Stull accepted Community's estimated legal fees (\$300,000), customer notice expense (\$4,254), cost of equity consultant (\$10,000), and other miscellaneous costs (\$1,000). She testified, however, that she disagreed with Community's estimated travel costs and with the outside consultant fees related to preparing the filings made in accordance with the MSFRs by ScottMadden consultants. Specifically, Ms. Stull recommended travel costs be reduced from \$6,459 to \$4,553, to reflect one less internal witness in Community's case-in-chief (due to the adoption of Mr. Guttormsen's testimony by Mr. Dickson) and that, since the ROE has been settled among the parties, an outside ROE witness will not need to travel to the hearings. Additionally, Ms. Stull recommended elimination of the outside consultant MSFR costs because the alleged work performed on the MSFR workpapers was not necessary or prudent, especially considering how deficient these workpapers were.

Regarding the appropriate amortization period, Ms. Stull noted Petitioner's last rate case was filed in December 2015 and the current case was filed six years later in December 2021. She recommended a five-year amortization period as a better estimate of the life of the rates being set in this case, rather than the three-year period proposed by Community. Ms. Stull explained that using an amortization period that is too short can lead to over-collection of rate case costs and imposes an unfair burden on ratepayers. She noted that in Cause No. 44724, rate case costs were amortized over only four years, allowing Community to recover over \$200,000 of rate case costs that were not approved. Ms. Stull explained that her recommendation of a five-year amortization period would minimize any over-recovery of these costs while also allowing Community to recover its costs in a reasonable period of time.

C. **Petitioner’s Rebuttal.** Mr. Kilbane provided an updated estimate of Community’s rate case expense, increasing its proposed rate case costs by \$47,067 from \$353,213 to \$400,280, reflecting the cost of additional rebuttal witnesses added to this case. Mr. Kilbane explained the increase in estimated rate case costs was due to (1) the hearing is now scheduled for two separate dates, which will require two trips to Indianapolis for some witnesses, and (2) Community engaged the engineering firm of Baxter and Woodman to provide rebuttal testimony on several wastewater issues. Mr. Kilbane agreed with Ms. Stull’s recommended reductions to travel costs but asserted that the non-sequential hearing dates will increase travel costs. He stated the updated travel cost estimate is \$6,159, less than the initial estimate of \$6,459. Mr. Kilbane disagreed with Ms. Stull’s recommendation regarding the exclusion of consultant fees for MSFR workpaper preparation and opined these costs are reasonable and prudent and should be recoverable. Mr. Kilbane further explained that Community needed to bring in three additional witnesses from Baxter and Woodman (\$50,000) to respond to Mr. Parks’s testimony. Finally, Mr. Kilbane disagreed with Ms. Stull’s recommended five-year amortization period for rate case costs and reiterated the reasons for Community’s proposed three-year amortization period.

D. **Commission Discussion and Findings.** After considering the evidence of record, the Commission finds that the un-itemized \$50,000 “consulting expense” added by CUII on rebuttal should be disallowed. In addition, we find that the \$32,500 for expenses related to the MSFRs should also be disallowed. Regardless of whether the expenses were incurred in drafting CUII’s deficient initial MSFR submission or its heavily amended second pass at the MSFRs, we are not convinced that such expenses were necessary when CUII’s staff should have been able to compile this information without such heavy involvement from an outside consultant.

In sum, we approve \$318,807 in rate case costs to be amortized over five years, resulting in annual rate case expense of \$63,761. Of this amount, \$38,420 is charged to water operations and \$25,341 is charged to wastewater operations, which we find to be reasonable given CUII’s history of rate case filings.¹¹

15. **Regulatory Expense.**

A. **Petitioner’s Case-in-Chief.** Mr. Dickson presented evidence that CUII forecasted the cost of filing two annual water trackers per year at \$5,000 per filing (\$10,000 per year); the cost of one distribution system improvement charge (“DSIC”) case per year at \$10,000; and the cost of filing one sewer system improvement charge (“SSIC”) case per year at \$10,000, for a total of \$30,000 regulatory expense adjustment requested by CUII per year for Commission filings.

B. **OUCC’s Evidence.** Ms. Stull did not accept Community’s assumptions regarding either the frequency with which Community estimates it will file these cases or the costs Community projects. Ms. Stull recommended no regulatory expense be included in *pro forma* general operating expenses. Regarding capital trackers, Ms. Stull stated Community provided no evidence to support its proposal, as it provided no support for how it projected the frequency or

¹¹ CUII’s last base rate case, Cause No. 44764, was filed in December 2015, approximately six years before CUII’s initial filing in this Cause.

cost of these filings. She noted that Community has filed no DSIC or other capital tracker filings since Cause No. 44724.

Regarding water tracker filings, Ms. Stull stated that a review of prior water tracker filings submitted by Community reveals that it files its own water trackers with the Commission rather than using a consultant or law firm to file on its behalf. Ms. Stull explained there are no additional costs to be recovered when a water tracker filing is submitted as all the costs of internal labor that would be needed to prepare these filings is already being recovered in this rate case through operating expenses or through capitalized labor included in rate base. Ms. Stull noted that Community has only filed one water tracker since its last rate order was issued in 2017, not two trackers per year as Petitioner has projected for purposes of this revenue requirement. Ms. Stull considered it unlikely Community would experience more than one rate increase per year from its wholesale water provider, Indiana American Water Inc. (“IAWC”). She explained that IAWC cannot submit more than one DSIC in any given year.

C. Petitioner’s Rebuttal. Mr. Dickson asserted on rebuttal that Community has historically experienced frequent changes in rates from Indiana American. He stated that Community experienced a change on March 14, 2018, May 10, 2018, July 4, 2018, April 12, 2019, and July 1, 2019 (30-day filing #50324), which equates to an average of 2.5 rate changes per year, for each of which Community is expected to file a water tracker within 30 days. Mr. Dickson asserted Community’s forecast of two water tracker filings per year is conservative and reasonable, given the historical frequency of rate changes that it has experienced.

Mr. Dickson also testified that, while Community files its own water trackers, it still requires the use of a minimal amount of outside legal counsel assistance. He stated that this assistance helps Community achieve accurate and efficient filings. He concluded that \$2,500 in expense to consult with CUII’s legal team to ensure accurate and efficient filings is reasonable.

Mr. Dickson noted that Community has agreed not to file a purchased water tracker to track costs already included in its purchase water expense but should not be impeded from filing the necessary water trackers to recover purchased water costs not reflected in this case. He pointed out that Ms. Stull’s denial of regulatory costs associated with such filings stands in contradiction to her argument surrounding cost escalation factors in Community’s purchased water cost: either Community should escalate its purchased water costs, as it did in its direct filing, or a regulatory expense forecast for assistance with water tracker filings should be acceptable. Mr. Dickson asserts that regulatory expense for water trackers must be included for the rate changes Community will experience.

While Ms. Stull further disputes Community’s forecast of one DSIC and one SSIC filing per year, citing the lack of such filings since Community’s last rate case (Cause No. 44724), Mr. Dickson testified that Community has specific SCIP (sewer capital improvement project) and watermain replacement projects scheduled for each year, which have been alluded to throughout testimony. These projects generally involve activity recoverable through these DSIC and SSIC mechanisms, and Mr. Dickson stated that Community intends to seek recovery of those projects through these mechanisms to reduce the frequency for full rate cases and their associated rate case expense. He stated that should CUII’s request for recovery of the reasonable \$10,000 per DSIC or SSIC filing be denied, it will only serve to expedite the frequency at which Community must file

rate cases, which are an order of magnitude larger than Community's forecasted regulatory costs for these mechanisms. Finally, Mr. Dickson testified that Community's estimation of costs related to these filings has been provided by its legal counsel, whose experience with such filings has driven its estimation. Community maintains that the annual expense related to two water tracker filings, one DSIC filing, and one SSIC filing is reflective of its best forecast of the frequency of filing for these mechanisms, the costs associated with each, and provides the best cost savings available to Community (and ultimately, Community customers).

D. Commission Discussion and Findings. As the OUCC noted, Petitioner has filed only one water tracker since its last rate order was issued in January of 2018. CUII has never filed a DSIC, SSIC, and two water trackers all within the same year for multiple years, as is contemplated by CUII's testimony on this matter. The Commission finds that CUII's inclusion of cost estimates for these filings are not reasonable. Thus, after considering the evidence of record, we do not approve the regulatory expense adjustments.

16. Depreciation Expense.

A. Petitioner's Case-in-Chief. Mr. Guttormsen testified concerning forecasted depreciation expense. Mr. Guttormsen stated Community is proposing to use the composite depreciation rates of 2% for water plant and 2.5% for sewer plant, the Commission's composite rates for water and wastewater utilities in Indiana. Mr. Guttormsen testified that depreciation and amortization expense were determined by multiplying the composite depreciation rates by forecasted gross plant in service. He noted that forecasted projects, general capital spending, and capitalized time are all included in the calculation of annualized depreciation and amortization. He stated that increases in depreciation expense from Cause No. 44724 to the base year and the forecasted test year are a direct result of actual and planned capital infrastructure necessary to continue to provide safe and reliable water and wastewater service to Indiana customers. Mr. Guttormsen testified that adjustments were made to reflect Community's restatement of the plant balances for computers and vehicles (i.e., short-lived assets that are in service but have no book value), producing a level of accumulated depreciation that matches that allowed by these composite rates. He explained these short-lived assets are held on an affiliate's books and depreciated over approximately eight years and five years for computers and vehicles, respectively. He added that the Commission's authorized composite depreciation rates depreciate all assets over 50 years for water divisions and 40 years for wastewater divisions for ratemaking purposes, and Community cannot adjust the depreciation rates for assets which are not held on its books. Accordingly, Mr. Guttormsen recommended that Community again be allowed to reestablish plant values for these short-lived assets as was approved in Cause No. 44724.

To that end, Community proposed an \$81,319 increase to base period depreciation expense of \$320,676, resulting in *pro forma* Phase I depreciation expense of \$948,347. Phase I depreciation expense of \$401,995 is charged to water operations, and \$546,352 is charged to wastewater operations. Community proposed a \$320,642 increase to Phase I depreciation expense, resulting in *pro forma* Phase II depreciation expense of \$1,268,989. Phase II depreciation expense is charged \$639,251 to water operations and \$629,738 to wastewater operations.

B. OUCC's Evidence. Ms. Stull accepted Community's methodology for calculating its depreciation expense; however, the OUCC eliminated land and land rights from the

calculation of depreciation expense. Ms. Stull applied this methodology to the OUCC’s recommended utility plant in service for water and wastewater operations. Ms. Stull recommended *pro forma* depreciation expense of \$908,165 in Phase I, charged \$387,421 to water operations and \$520,744 to wastewater operations. Ms. Stull recommended *pro forma* depreciation expense of \$933,914 in Phase II, charged \$410,485 to water operations and \$523,429 to wastewater operations.

C. **Petitioner’s Rebuttal.** Mr. Dickson testified Community updated its plant in service in its rebuttal position and accordingly its depreciation expense calculation. Mr. Dickson also noted that Community found a reference error in its Phase II water depreciation expense, thus its direct case Phase II water depreciation was overstated. Mr. Dickson stated Community’s Phase I depreciation expense is \$890,887 (\$374,366 water, \$516,521 sewer) and Phase II depreciation expense is \$1,059,571 (\$424,622 water, \$634,950 sewer).

D. **Commission Discussion and Findings.** We agree with the OUCC that land and land rights should be eliminated from the calculation of depreciation expense. Based on the evidence of record, we approve the following depreciation expense for Phases I and II:

Phase I	Water	Sewer
Utility Plant in Service at 9/30/22 as adjusted	\$ 18,978,751	\$ 21,297,860
Less: Land and Land Rights	(167,362)	(97,221)
Depreciable UPIS	18,811,389	21,200,639
Times: Composite Depreciation Rate	2.00%	2.50%
<i>Pro Forma</i> Depreciation Expense	\$ 376,228	\$ 530,016
Phase II	Water	Sewer
Utility Plant in Service at 9/30/22 as adjusted	\$ 19,829,101	\$ 25,409,594
Less: Land and Land Rights	(167,362)	(97,221)
Depreciable UPIS	19,661,739	25,312,373
Times: Composite Depreciation Rate	2.00%	2.50%
<i>Pro Forma</i> Depreciation Expense	\$ 393,235	\$ 632,809

Thus, we approve depreciation expense for water services of \$376,228 for Phase I and \$393,235 for Phase II and depreciation expense for wastewater services of \$530,016 for Phase I and \$632,809 for Phase II.

17. Payroll Tax Expense.

A. **Petitioner’s Case-in-Chief.** Mr. Dickson testified Community forecasts a material change in its salary and wage expense resulting in elevated payroll tax expense going from the base period to the linking period. Community applied a 7.65% payroll tax rate to its total *pro forma* salaries and wages expense. This tax rate includes 6.2% for FICA and 1.45% for Medicare. In total, Community proposes a \$44,880 increase to base period payroll tax expense of

\$59,113, resulting in *pro forma* payroll tax expense of \$103,992. Of this amount, \$62,661 is charged to water operations and \$41,331 is charged to wastewater operations.

B. OUCC's Evidence. Ms. Stull accepted Community's methodology for calculating *pro forma* payroll tax expense. However, Ms. Stull's recommended payroll tax expense differs because her recommended salaries and wage expense differs from that proposed by Community. Ms. Stull recommended an \$18,527 increase to base period payroll tax expense, resulting in *pro forma* expense of \$77,640. Of this amount, \$46,786 is charged to water operations and \$30,854 is charged to wastewater operations.

C. Petitioner's Rebuttal. Mr. Dickson noted that Ms. Stull agrees with the methodology for calculating payroll taxes and explained that CUII applied this same methodology to its rebuttal level of salaries and wage expense. Mr. Dickson added the only cause for difference between the OUCC's and CUII's positions with respect to Payroll Tax Expense is their different proposed Salary and Wages expense.

D. Commission Discussion and Findings. We note that the parties agree on the methodology for calculating payroll tax expense, including the tax rates to be applied. Based on our salary and wage expense findings above, we find that \$48,195 of payroll tax expense should be included in Petitioner's revenue requirement for Phase I and \$52,966 for Phase II water utility and \$31,789 for Phase I and \$34,936 for Phase II wastewater utility.

18. Property Tax Expense.

A. Petitioner's Case-in-Chief. Mr. Dickson testified that CUII's forecasted property tax expense is based on the most recent historical property tax data, which was then adjusted to reflect projected property tax rates and forecasted plant in service. Specifically, Community calculated its effective property tax rate by dividing base year property tax expense by the September 30, 2021 balance in utility plant in service. This resulted in an effective 0.44% water property tax rate and an effective 0.23% wastewater property tax rate. As reflected in workpaper wp-o, Community proposed *pro forma* Phase 1 property tax expense of \$137,780, of which \$87,880 was charged to water operations and \$49,900 was charged to wastewater operations. For Phase II, Community proposed *pro forma* property tax expense of \$150,410, of which \$92,924 was charged to water operations and \$57,486 was charged to wastewater operations.

B. OUCC's Evidence. Ms. Stull disagreed with Community's proposed property tax expense. She testified property tax expense is based on net utility plant included in rate base and that the amount of property tax expense included in rates for each phase should be consistent with the rate base included in that phase. Ms. Stull noted that Community included property tax expense that was incorrectly based on its Phase II net utility plant in service balance and concluded the inclusion of Phase II property tax expense in Phase 1 rates was incorrect. Ms. Stull recommended Phase 1 property tax expense of \$107,223, of which \$79,332 is charged to water operations and \$27,991 is charged to wastewater operations. Ms. Stull recommended Phase II property tax expense of \$103,735, of which \$84,406 is charged to water operations and \$19,329 is charged to wastewater operations.

C. **Petitioner’s Rebuttal.** Mr. Dickson disagreed with Ms. Stull’s recommendations regarding the calculation of Phase 1 property tax expense and opined that Community is entitled to a fully forecasted level of taxes other than income (TOTI) for the 12 months ending September 30, 2023, in Phase I rates. Despite his disagreement on this point, Mr. Dickson based his proposed Phase II property tax expense on the balance of net utility plant in service at the end of the linking period. Mr. Dickson pointed out that Ms. Stull’s workpaper indicates a decrease of \$12.5 million dollars in CUII’s sewer Phase II plant in service, which appears to be a reference error, as it refers to Net Rate Base in Schedule 7S rather than Gross Utility Plant in Service, as do the rest of the OUCC’s property tax calculations. With this correction, and a similar correction to the accumulated depreciation reference, the OUCC’s proposed Phase II property tax expense appears to be \$112,644 (\$84,406 water, \$28,238 sewer), as compared to CUII’s calculated Phase II property tax expense of \$150,725.

D. **Commission Discussion and Findings.** The parties appear to disagree on both the property tax rates and the methodology for calculating property tax expense. However, Petitioner’s proposed property tax rates were calculated rather than based on property tax assessments. Mr. Dickson has asserted that when a utility uses a forward-looking test year, income statement costs should be based on the test year.¹² We disagree with this assertion. First, test year expenses related to rate base (i.e., depreciation expense, CIAC amortization, and property tax expense) should be synchronized with the rate base determination for that phase. Therefore, the test year expenses related to rate base (Phase I) will be based on the rate base determination as of the beginning of the forward-looking test year. Second, property taxes in Indiana are generally not payable for nearly two years after an assessment has been made. Therefore, any property taxes derived from Petitioner’s rate base as of the end of its test year will not actually be due until 2025, and Petitioner would not need to begin collecting this expense from its customers until 2024, after the end of its forward-looking test year. This fact would make Petitioner’s original proposal even more unreasonable.

Petitioner’s forward-looking test year is the basis on which Petitioner’s rates beginning with Phase II are to be based. To that end, for Phase II rates it will be unnecessary for Petitioner to *estimate* its *pro forma* property tax expense as Petitioner’s forward-looking test year will have been completed and its actual test year property tax expense will have been experienced and will be known. For this reason, Petitioner’s *pro forma* property tax expense in Phase II should be revised to reflect actual property tax expense incurred during the test year, and we so order.

¹² In its proposed order, Petitioner asserted that orders in other future test period cases “confirm[] that one Test Period level of operating expense should be included in both Phase I and Phase II, while rate base itself, along with accumulated depreciation and capital structure, should be updated between Phases I and II.” Petitioner then referred us to *In re Duke Energy Ind., LLC*, Cause No. 45253 (June 29, 2020); *Verified Petition of Southern Indiana Gas & Elec. Co.*, Cause No. 45447 (Oct. 6, 2021); *Petition of Indiana-American Water Co.*, Cause No. 45142 (June 26, 2019); *In re N Ind. Pub. Serv. Co.*, Cause No. 44988 (Sept. 18, 2018). Petitioner included no page numbers for the listed orders which are together several hundred pages. Three of these are settled cases. None of these cases dealt squarely with the contested issue of whether a utility must be or should be permitted to collect in its Phase I rates property taxes on plant that will not be completed and in service until Phase II (i.e., the end of the test year). We see no reason to be bound by this vague assertion of precedent, and we find that property tax expense can and should be updated in synchronicity with rate base.

Based on our findings above regarding utility plant in service and using the property tax rates proposed by the OUCC, we find the following property tax expense adjustments to be reasonable.

	Water System	
	<u>Phase I</u>	<u>Phase II</u>
Utility Plant in Service	\$ 18,978,751	\$ 19,829,101
Less: Accumulated Depreciation	<u>(1,497,759)</u>	<u>(1,378,982)</u>
Net Book Value	17,480,992	18,450,119
Times: Effective Property Tax Rate	0.44%	0.44%
<i>Pro forma</i> Property Tax Expense	<u>\$ 76,916</u>	<u>\$ 81,181</u>

	Wastewater System	
	<u>Phase I</u>	<u>Phase II</u>
Utility Plant in Service	\$ 21,297,860	\$ 25,409,594
Less: Accumulated Depreciation	<u>(8,733,358)</u>	<u>(8,738,007)</u>
Net Book Value	12,564,502	16,671,587
Times: Effective Property Tax Rate	0.23%	0.23%
<i>Pro forma</i> Property Tax Expense	<u>\$ 28,898</u>	<u>\$ 38,345</u>

19. Income Tax Expense.

A. Petitioner’s Case-in-Chief. Mr. Dickson testified that Community’s tax department provided the appropriate state and federal income tax rates and the amortization of investment tax credit (“ITC”). Mr. Dickson explained the income tax expense was derived in Community’s financial model for the Test Period forecast by applying statutory income tax rates to applicable taxable book income and then applying book-to-tax adjustments according to the Internal Revenue Code. Mr. Dickson stated Community’s income tax expense in the test period is forecasted to be \$460,904 (Proposed Rate Consolidated Phase II). According to Attachment AD-1, Schedule B, Community proposed the following present rate income tax expenses:

	Present Rate Income Tax Expense					
	Phase I			Phase II		
	Water	WW	Total	Water	WW	Total
Federal Income Tax	\$ (157,983)	\$ (59,349)	\$ (217,332)	\$ 145,495	\$ 82,485	\$ 227,980
State Income Tax	<u>(38,762)</u>	<u>(14,562)</u>	<u>(53,324)</u>	<u>35,698</u>	<u>20,238</u>	<u>55,936</u>
Total	<u>\$ (196,745)</u>	<u>\$ (73,911)</u>	<u>\$ (270,656)</u>	<u>\$ 181,193</u>	<u>\$ 102,723</u>	<u>\$ 283,916</u>

Pet. Ex. No. 4 at 42; Attachment AD-1 and AD-3 and Workpaper wp-g.

B. OUCC’s Evidence. Ms. Stull testified that, other than the differences in proposed revenue and expense items, there was no difference between her calculation of federal and state income taxes and Community’s calculations. Ms. Stull recommended the following present rate income tax expenses:

Present Rate Income Tax Expense						
Phase I			Phase II			
	Water	WW	Total	Water	WW	Total
Income Taxes - Federal	(57,368)	34,500	(22,868)	149,838	34,214	184,052
Income Taxes - State	(14,076)	8,465	(5,611)	36,764	8,395	45,159
Total	(71,444)	42,965	(28,479)	186,602	42,609	229,211

Ms. Stull explained that excess ADIT refers to the excess accumulated deferred income taxes (“ADIT”) that resulted from the reduction of the federal income tax rate to 21% because of the Tax Cuts and Jobs Act of 2017. She stated the Commission found Community’s excess protected ADIT on December 31, 2017 to be \$723,570 after tax gross-up. In Cause No. 45032 S20, the Commission found the appropriate amortization period for Community’s protected excess ADIT was 30 years based on the remaining life of its utility assets as of December 31, 2017. The Commission ordered Community to reduce its rates to reflect \$24,119 ($\$723,570 / 30$ years) of excess ADIT amortization. While Community did not include this excess ADIT amortization in its case-in-chief, Ms. Stull stated she included it in her operating expenses.

C. Petitioner’s Rebuttal. Mr. Dickson testified that Community has updated its income tax calculations using the same methodology, accepted by Ms. Stull, to reflect Community’s rebuttal revenue and expense items. There are otherwise no changes to its calculation of income taxes. Mr. Dickson also testified he agreed with Ms. Stull’s inclusion of excess ADIT amortization (-\$24,119; \$14,734 water, \$9,385 sewer).

D. Commission Discussion and Findings. We note that the parties agree regarding the treatment of excess ADIT amortization and have included in the determination of their *pro forma* operating expenses. While there are differences in the parties’ calculations of income taxes, those differences stem from differences in rate base and overall expense levels, rather than differences in methodology or tax rates. Accordingly, we find that Petitioner’s present rate income tax expense is as follows:

Present Rate Income Tax Expense						
Phase I			Phase II			
	Water	WW	Total	Water	WW	Total
Income Taxes - Federal	(57,801)	28,721	(29,080)	150,810	46,460	197,270
Income Taxes - State	(14,182)	7,047	(7,135)	37,002	11,399	48,401
Total	(71,983)	35,768	(36,215)	187,812	57,859	245,671

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

	Phase I	Phase II
Operating Revenues	\$ 2,535,301	\$ 3,744,267
O&M Expense	1,006,383	1,072,352
General Expenses	982,089	1,028,113
Depreciation Expense	376,228	393,235
Amortization of CIAC	(14,235)	(14,235)
Amortization of Acquisition Adjustment	(8,537)	(8,537)
Taxes Other Than Income	128,308	138,868
Income Taxes - Federal	(57,801)	150,810
Income Taxes - State	(14,182)	37,002
Amortization of Excess ADIT	(14,734)	(14,734)
Amortization of ITC	(1,127)	(1,127)
Total Operating Expenses	<u>2,382,392</u>	<u>2,781,747</u>
Net Operating Income	<u>\$ 152,909</u>	<u>\$ 962,520</u>

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

	Phase I	Phase II
Operating Revenues	\$ 2,474,003	\$ 2,833,329
O&M Expense	883,474	910,531
General Expenses	657,102	682,219
Depreciation Expense	530,016	632,809
Amortization of CIAC	(134)	(134)
Taxes Other Than Income	63,807	78,022
Income Taxes - Federal	28,721	46,460
Income Taxes - State	7,047	11,399
Amortization of Excess ADIT	(9,385)	(9,385)
Amortization of ITC	(744)	(744)
Total Operating Expenses	<u>2,159,904</u>	<u>2,351,177</u>
Net Operating Income	<u>\$ 314,099</u>	<u>\$ 482,152</u>

22. Authorized Rate Increase.

A. Water Utility. The Commission finds Petitioner is permitted to increase its water rates and charges for Phase I by 48.84% to produce additional operating revenue of \$1,208,966, total annual operating revenues of \$3,744,267, and net operating income of \$1,049,148, and increase Phase II by 5.86% to produce additional operating revenue of \$216,010, total annual operating revenues of \$3,960,277, and net operating income of \$1,122,655 as depicted below:

	Phase I	Phase II
Operating Revenues	\$ 3,744,267	\$ 3,960,277
O&M Expense	1,006,383	1,072,352
General Expenses	996,597	1,030,705
Depreciation Expenses	376,228	393,235
Amortization of CIAC	(14,235)	(14,235)
Amortization of Acquisition Adjustment	(8,537)	(8,537)
Taxes Other Than Income	129,832	139,140
Federal Income Tax	180,440	193,377
State Income Taxes	44,272	47,446
Amortization of Excess ADIT	(14,734)	(14,734)
Amortization of ITC	(1,127)	(1,127)
Total Operating Expenses	<u>2,695,119</u>	<u>2,837,622</u>
Net Operating Income	<u>\$ 1,049,148</u>	<u>\$ 1,122,655</u>

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

B. Wastewater Utility. The Commission finds Petitioner is permitted to increase its wastewater rates and charges for Phase I by 14.87% to produce additional operating revenue of \$359,326, total annual operating revenues of \$2,833,329, and net operating income of \$580,478; and increase Phase II by 19.37% to produce additional operating revenue of \$537,561, total annual operating revenues of \$3,370,890, and net operating income of \$880,660 as depicted below.

	Phase I	Phase II
Operating Revenues	\$ 2,833,329	\$ 3,370,890
O&M Expense	883,474	910,531
General Expenses	661,414	688,670
Depreciation Expenses	530,016	632,809
Amortization of CIAC	(134)	(134)
Taxes Other Than Income	64,260	78,700
Federal Income Tax	99,530	152,393
State Income Taxes	24,420	37,390
Amortization of Excess ADIT	(9,385)	(9,385)
Amortization of ITC	(744)	(744)
Total Operating Expenses	<u>2,252,851</u>	<u>2,490,230</u>
Net Operating Income	<u>\$ 580,478</u>	<u>\$ 880,660</u>

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

C. Ultimate Finding. Based on the evidence of record and giving appropriate weight to the need for Petitioner to discharge its public duties, the Commission finds that the rates authorized above, subject to the rate phase-in process described herein, are just and fair and should allow Petitioner the opportunity to earn a reasonable return on its property dedicated to providing water and wastewater utility services to the public.

23. Customer Bill Impact. A residential customer using 5,000 gallons of water monthly pays \$42.44 under CUII's current rates. After the rate increases approved in this Cause, a customer using 5,000 gallons of water per month will have a monthly bill of \$63.17 in Phase I and \$66.87 in Phase II, representing increases over the current rate of \$20.73 in Phase I and \$24.43 in Phase II.

A residential customer using 5,000 gallons of wastewater service monthly pays \$61.34 under CUII's current rates. After the rate increases approved in this Cause, a customer using 5,000 gallons of wastewater service per month will have a monthly bill of \$70.46 in Phase I and \$84.11 in Phase II, representing increases over the current rate of \$9.12 in Phase I and \$22.77 in Phase II.

24. Estimated Billing Practices.

A. LOFS's Evidence. LOFS raised the issue of estimated bill practices by CUII. Mr. Cleveland testified that the community is concerned with CUII's metering proposal and its estimated billing practices. He testified that CUII has not received Commission approval for its estimated billing procedures as required by 170 IAC 6-1-13(C), nor has CUII established good cause exists for estimating bills. Mr. Cleveland testified that even if good cause existed, there exists one case in which a residential customer's estimated bill was \$425.65 in a single month during a period when she and her husband were out of town. Mr. Cleveland testified that he does not believe CUII is handling estimated billing on a fair and reasonable basis and recommended the Commission order CUII to cease issuing estimated bills until it receives approval from the Commission of its estimated billing practices.

B. Petitioner's Rebuttal. Mr. Lubertozi testified that the Commission's rules allow the use of estimated bills for good cause. He testified that over the past two years, during the COVID-19 pandemic, CUII has made use of estimated billing to protect the health and safety of both employees and customers. Mr. Lubertozi testified that estimating bills rather than exposing employees/customers to COVID-19 during a global pandemic constitutes good cause. On redirect examination, Mr. Lubertozi explained that approximately 90% of its meters are located inside customers' homes; this made following up with meter non-reads problematic from a health and safety perspective for CUII customers and employees during the worst of the COVID-19 pandemic. Regarding the \$425.65 bill, Mr. Lubertozi testified that particular customer's bill was estimated for nine months due to COVID-19 and the fact that her meter was no longer sending read information. He testified that in April 2021, her meter was exchanged and a true-up bill of \$425.65 was sent, which was the difference between the actual read and the estimated read for nine months.

C. Commission Discussion and Findings. Estimated bills are permitted under 170 IAC 6-1-13(C), which reads:

A water utility may estimate the bill of any customer pursuant to a billing procedure approved by the Commission or for other good cause, including, but not limited to: request of customer; inclement weather; labor or union disputes; inaccessibility of a customer's meter if the utility has made a reasonable attempt to read it; and other circumstances beyond the control of the utility, its agents and employees.

A water utility is not required to seek Commission approval prior to estimating the bill of a customer if there exists good cause. While the COVID-19 pandemic constituted good cause in this case for some estimated bills, this resulted in the one particularly egregious true-up bill of \$425.65 after nine months of estimated bills. Based on the evidence of record, CUII did not offer options to the customer impacted, which we note as poor customer service. We believe further analysis of CUII's estimated billing practices is warranted under the circumstances. As noted above, we have required CUII to submit its estimated billing procedures for review under the Commission's 30-day filing process within 90 days of this order

25. Cost of Service Study.

A. Petitioner's Case-in-Chief. Mr. Dickson testified that CUII did not prepare a cost-of-service study for this case. He stated that the cost-of-service study presented in its last rate case (Cause No. 44724) was still relevant and added that Petitioner has relied on the same rate design foundation to produce its rate design in this case. He testified that the only divergence from Petitioner's existing rate design is the introduction of a low-income rate, which CUII has proposed to be a residential-only rate and has designed it accordingly. He noted that this change is neutral in relation to the definition of class revenue requirements; to maintain that neutrality on a class cost of service basis, a separation of Petitioner's residential and commercial classes is included in CUII's proposed design in this case (for both water and wastewater).

B. LOFS's Evidence. LOFS took issue with the application of CUII's proposed rate increase in this Cause via an across-the-board percentage increase. LOFS witness VerDouw testified that CUII's cost-of-service study is almost six and a half years old and would be considered stale. He stated that CUII is requesting increases in water and wastewater rates that are driven in large increases in both capital spend and in operating expenses that would most likely change the outcome of any cost-of-service study done prior to those large increases in capital and expenses. He testified that the proper way to determine a rate design for CUII's current case and recommended rate increase would be to provide an updated cost-of-service study to spread any proposed or actual rate increase across rate classes based on current asset and expense information.

C. Petitioner's Rebuttal. In rebuttal, Mr. Dickson testified that, given Petitioner's size, it is reasonable to balance the cost of a new cost-of-service study against the benefits, particularly when Petitioner is proposing an across-the-board rate increase, as it is here. He noted that other small utilities follow a similar practice, and that the Commission's rules permit such. *See, e.g., Gibson Water Authority*, Cause No. 45535 (Nov. 17, 2021); *Community Natural Gas Co., Inc.*, Cause No. 45214 (Dec. 18, 2019); *Citizens Wastewater of Westfield, LLC*, Cause No. 44835 (May 31, 2017); *see also* 170 IAC 1-5-15(d).

D. Commission Discussion and Findings. After reviewing the evidence of record, we agree with CUII that a new cost-of-service study is not needed in this case. While CUII has proposed large capital expenditures in this Cause, there is no evidence indicating that CUII has experienced any relevant changes to the distribution of customers within any customer class nor any relevant changes to use within a particular customer class. We agree that the costs of performing a new study outweigh any benefits under the circumstances present here. However, we recommend that CUII stay apprised of its customer profile to determine when a cost-of-service study may be necessary in the future.

26. Low-Income Rate and Rate Design. Mr. Dickson testified that CUII's only proposed rate design change is the addition of an opt-in low-income rate for certain residential customers.

A. Petitioner's Case-in-Chief. Mr. Dickson testified that CUII's proposed low-income rates for water and wastewater are a residential-only rates and are neutral regarding class revenue requirements. He stated that the low-income rate would be an opt-in rate for eligible residential customers with income at or below the federal poverty level. For example, in 2022, that

would mean an income of \$18,310 or less for a family of two, and \$27,750 or less for a family of four. Mr. Dickson testified that a low-income customer would receive an approximate 62% discount on the volumetric portion of their bills. The rate paid by residential customers that do not qualify for the low-income rate will increase by 5% to pay for the discount provided to low-income customers. Mr. Dickson described the application process to receive the low-income rate.

Mr. Dickson testified that CUII has limited the number of gallons that are eligible to be charged at the low-income rate to the residential class average usage to ensure that typical, but not above-average, usage benefits from this discounted rate. He stated that CUII estimates 7.8% of usage in its system will be eligible for the low-income rate. He testified that the wastewater tariff charge for general customers would be \$4.565 (per 1,000 gallons), and the water tariff charge would be \$4.675 (per 1,000 gallons).

B. OUCC's Evidence. Mr. Bell testified that the OUCC is concerned with CUII's proposal to fund the low-income rate without financial contribution from CUII shareholders. He opined that, although CUII's low-income rate would make water and wastewater service more affordable to customers who apply and qualify, it does so entirely at the expense of all of CUII's other residential customers who either do not qualify for the low-income rate or who qualify but choose not to enroll in the low-income program. He argued that this contravenes the policies described in Ind. Code § 8-1-2-0.5 of protecting the affordability of utility services for present and future generations of Indiana citizens, as non-participating residential customers will fund 100% of the low-income rate, making their water and wastewater rates *less* affordable. Mr. Bell noted that CUII, a for-profit company, is free under Ind. Code § 8-1-2-46(c) to fund a low-income program itself and/or through voluntary contributions from its customers. He opined that, just because a low-income program tariff *may* be approved under Ind. Code § 8-1-2-46, that does not mean that every such program a utility proposes is in the public interest or should be approved.

C. LOFS's Evidence. Mr. Mr. Cleveland testified that the LOFS community objects to CUII's proposed low-income rate because it further increases the rates for CUII's other customers. Mr. VerDouw testified that, with the low-income rate, the residential customers not eligible for the rate will experience an overall increase of 94.63% for water and 56.23% for wastewater. As noted in Mr. Dickson's rebuttal, without the low-income rates, CUII's proposed rate increases for water and wastewater customers are 87.59% and 51.47%, respectively.

D. Petitioner's Rebuttal. On rebuttal, Mr. Dickson argued that a typical customer's rate increase from the proposed low-income rate would be "minimal:" a rate increase of \$2.80 per month for a customer using 5,000 gallons of water per month and \$2.90 per month for a typical wastewater customer of 5,000 gallons per month.

E. Commission Discussion and Findings. In the past, the Commission has approved two settlements of rates cases that included low-income programs that were funded in part by non-voluntary contributions from other ratepayers. However, those programs differ significantly from the program CUII has proposed, both in the amount charged per customer and the amount of the utility's contribution to the program. In *CWA Authority, Inc.*, Cause No. 45151, we approved a program that was funded via a \$0.45 monthly charge per customer and a \$200,000 annual utility contribution. In *Indiana-American Water Company, Inc.*, Cause No. 45142, we approved a three-year pilot low-income program that was funded through both customer rates and

contributions from the utility. In both Cause Nos. 45151 and 45142, the low-income programs were part of a case settlement. Here, neither the OUCC nor LOFS has agreed to CUII's proposed program.

CUII proposes to have its ratepayers fund 100% of its low-income program without any utility contribution. As proposed, CUII customers will pay orders of magnitude more to fund this program than the other two low-income programs we have approved: \$2.80 (water) and \$2.90 (wastewater) per month for customers using 5,000 gallons of water or wastewater. For CUII customers who use the utility for both water and wastewater, this amounts to paying \$68.90 more per year per customer. We vehemently disagree with Mr. Dickson that this increase to a customer's rate is "minimal."

In response to Mr. Bell's suggestion that the low-income program should be funded by shareholder contributions, Mr. Dickson opined that any imposition of a requirement for CUII or its shareholders to subsidize the rates of its customers would be confiscatory; CUII is entitled to its authorized return. Clearly, it would not be confiscatory for CUII or its shareholders to voluntarily fund a portion of Petitioner's low-income program. Nor would it be for CUII's customers to voluntarily subsidize other customers through a round-up or opt-in program. Nevertheless, CUII chose to design a program that has its non-qualifying residential ratepayers fund 100% of its low-income program without any utility contribution. We are concerned that CUII's proposal unreasonably shifts the longstanding responsibility of the utility for providing just and reasonable rates to all customers onto its non-qualifying residential ratepayers.

For these reasons, after considering the evidence of record, we find that CUII's proposed low-income program is not in the public interest and is therefore denied.

27. Tariffs.

A. Reconnection Charge.

i. Parties' Evidence. Mr. Dickson testified that CUII has updated its water reconnection charge to \$62.62 to reflect updated costs that it incurs to perform those reconnections, including CUII's updated capitalized time rate and the most recent IRS standard mileage reimbursements.

Ms. Stull of the OUCC recommended a reconnection charge of \$55.00. She testified that she accepted the hours and mileage proposed by CUII and the methodology of the calculation, but used a capitalized overtime rate of \$40.11, which resulted in a calculation of \$56.91. Therefore, she recommended \$55.00 as a reasonable charge.

Mr. VerDouw testified for LOFS that he recommended a reconnection charge of \$63.37, an increase that reflects the 2022 updated IRS standard mileage rate (updated to \$0.585 in 2022).

On rebuttal, Mr. Dickson maintained that CUII's capitalized overtime rate was appropriate and reiterated its proposed \$62.62 reconnection charge.

ii. Commission Discussion and Findings. Based on the evidence of record and our salary and wage findings discussed above, we find the OUCC's calculation of the

reconnection charge reasonable and its calculation methodology appropriate. Updating the OUCC’s calculation for the 2022 updated IRS mileage rate of \$0.585, we approve a reconnection charge of \$54.00.

Description		Cost per Unit	Units	Total Cost
Operator Time	(Hours)	\$ 36.00	1.00	\$ 36.00
Transportation Costs	(Miles)	\$ 0.5850	30.00	17.55
				<u>\$ 53.55</u>
Proposed Reconnection Charge				<u>\$ 54.00</u>

B. Other Tariff Changes.

i. **Petitioner’s Case-in-Chief.** Mr. Dickson testified that Community proposes several changes to its tariff. To simplify its meter testing fees, Mr. Dickson explained that Community has made it such that there is only one schedule for all of Community, rather than separate schedules of meter testing fees for the various former areas within Community or for “Outside Readers.” Mr. Dickson also stated that this update is intended to comply with 170 IAC 6-1-11. Mr. Dickson also explained that Community eliminated the complexity of the connection charge schedules. Instead of a separate schedule for Twin Lakes customers, all Community customers will now be able to hire a contractor to make their connection, subject to a \$50 inspection fee. Finally, Mr. Dickson explained that Community has updated its billing and payment option information to reflect the appropriate address for checks and money orders to be mailed and has updated the online payment address.

ii. **OUCC’s Evidence.** Ms. Stull testified that the OUCC accepts Community’s proposed tariff language changes. However, Ms. Stull recommended Community include language with its meter testing fees informing the customer that a report should be received within 10 days of the test and that the customer will have five days to file an appeal. Ms. Stull cited 170 IAC 6-1-11(d), which states “[a] written report giving the results of the test shall be made to the customers within ten (10) days after the test is complete.” 170 IAC 6-1-11(c) states “[a]n appeal, in regard to the results of the customer’s meter test shall be filed with the commission under section 12 of this rule within five (5) days of the date of the report.”

iii. **Petitioner’s Rebuttal.** Mr. Dickson agreed with the OUCC’s proposed tariff language and will add the requested language to its tariff after receiving a final order in this case.

iv. **Commission Discussion and Findings.** The Commission finds the proposed tariff language to be reasonable and hereby authorizes Petitioner to so amend its tariff.

28. Phase-In of Rates. Both CUII and the OUCC proposed two-step rate phase-in proposals, and, through testimony, the parties came to a consensus about how the rate increase authorized by this Order should be implemented.

After reviewing the evidence of record, we find that CUII should implement its Phase I and Phase II rate increases, as follows. Phase I rates should be implemented upon the issuance of this Order. Phase I and Phase II rate implementations should be subject to refund based upon the following true-up process. Each component of rate base and capital structure should be updated to actual as of September 30, 2022 (for Phase I) and as of September 30, 2023 (for Phase II). These updates should compare the actual amounts approved by the Commission in this Order and should explain any variances of 5% or greater. For both Phase I and Phase II, rate base reflected in Phase I and Phase II rates shall be capped at the amounts of Phase I and Phase II rate base approved by the Commission in this Order (with the understanding that CUII is not precluded by the foregoing provision from seek recovery of any amounts over such caps in future cases).

The following procedural schedule shall be used for the Phase I and Phase II rate implementations and true-up processes:

- As of the date of this Order, CUII may implement its Phase I rates, subject to refund based upon the final outcome of CUII's Phase I rate base and capital structure compliance filings and any objections thereto.
- No later than 30 days after the date of this Order, CUII shall submit its Phase I rate compliance filing, including the following information: actuals as of September 30, 2022 for: (1) updated utility plant in service listing by asset account, clearly identifying any disallowed plant or other adjustments; (2) updated utility plant in service listing by project number; (3) detailed general ledger transaction listing supporting utility plant additions; (4) updated accumulated depreciation by asset account, clearly identifying any disallowed plant or other adjustments. All of the these supporting schedules should be provided in Excel format with formulas intact.
- Within 60 days of the date of this Order, CUII shall submit the following additional Phase I information: (1) comparisons between actual and approved rate base and capital structure components, (2) updated revenue requirement, and (3) updated tariff. CUII should also provide a certification that the Phase I plant is in service and verification that the construction costs have been incurred and paid.
- Within 30 days of the filing of the additional Phase I information, OUCC and LOFS shall file any objections to CUII's Phase I rates.
- As of October 1, 2023, CUII may implement its Phase II rates, subject to refund based upon the final outcome of CUII's Phase II rate base and capital structure compliance filings and any objections thereto.
- No later than November 30, 2023, CUII shall submit its Phase II rate compliance filing, including the following information: (1) comparisons between actual and approved rate base and capital structure components, (2) updated revenue requirement, and (3) updated tariff. CUII should also provide a certification that the Phase II plant is in service and

verification that the construction costs have been incurred and paid. With this compliance filing, CUII should also provide the following supporting documentation for actual asset additions from October 1, 2022 through September 30, 2023: (1) utility plant in service listing by asset account, clearly identifying any disallowed plant or other adjustments; (2) utility plant in service listing by project number; (3) detailed general ledger transaction listings supporting utility plant additions; and (4) accumulated depreciation by asset account, clearly identifying any disallowed plant or other adjustments. All of the supporting schedules should be provided in Excel format with formulas intact.

- Within 30 days of the Phase II compliance filing, OUCC and LOFS shall file any objections to CUII's Phase II rates.

The Commission may schedule a hearing if necessary to resolve disputed issues concerning CUII's Phase I and/or Phase II rate base and capital structure. The parties shall work together to satisfy any additional information requirements the OUCC and LOFS may have, provided they are relevant not unduly burdensome. Any customer credits due to resolution of disputed issues shall be made via bill credits, within 60 days of such resolution or within such other time as the Commission may establish.

29. Confidentiality. Petitioner filed Motions for Protection and Nondisclosure of Confidential and Proprietary Information on December 7, 2021, December 8, 2021, January 14, 2022, and May 27, 2022, which were supported by affidavits showing documents to be submitted to the Commission were trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4), (9), and 24-2-3-2. The Presiding Officers issued docket entries on January 21, 2022, and June 8, 2022, finding such information to be preliminarily confidential, after which such information was submitted under seal. No party objected to the confidential and proprietary nature of the information submitted under seal in this proceeding. We find the information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall continue to be held confidential and protected from public access and disclosure by the Commission.

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

1. Petitioner is authorized to place into effect rates and charges for water utility service rendered by it in the territories served by it in the State of Indiana in accordance with this Order, including a Phase I annual increase to its rates and charges of \$1,203,989 which represents an increase in operating revenues of 48.64%. Said rates will produce total annual operating revenues of \$3,739,290 and, on the basis of annual operating expenses of \$2,693,252, will result in annual utility operating income \$1,046,038 and a Phase II annual increase to its rates and charges of \$215,480 which represents an increase in operating revenues of 5.86%. Said rates will produce total annual operating revenues of \$3,954,770 and, on the basis of annual operating expenses of \$2,838,235, will result in annual utility operating income \$1,116,535 Petitioner is authorized to file with the Commission a new schedule of rates and charges which will properly reflect, establish, and provide the operating revenues herein authorized. Said schedule of rates and charges should be in accordance with this Order.

2. Petitioner is authorized to place into effect rates and charges for wastewater utility service rendered by it in the territories served by it in the State of Indiana in accordance with this Order, including a Phase I annual increase to its rates and charges of \$1,203,989 which represents an increase in operating revenues of 12.29%. Said rates will produce total annual operating revenues of \$2,770,896 and, on the basis of annual operating expenses of \$2,227,469, will result in annual utility operating income \$543,427 and a Phase II annual increase to its rates and charges of \$600,552 which represents an increase in operating revenues of 22.14%. Said rates will produce total annual operating revenues of \$3,371,778 and, on the basis of annual operating expenses of \$2,489,841, will result in annual utility operating income \$881,607 Petitioner is authorized to file with the Commission a new schedule of rates and charges which will properly reflect, establish, and provide the operating revenues herein authorized. Said schedule of rates and charges should be in accordance with this Order

3. Petitioner's request to implement a low-income rate is denied.

4. Within 90 days of the date of this Order, CUII shall submit its estimated billing procedures for Commission review under the 30-day filing process.

5. Within nine months of the date of this Order, CUII shall file a compliance report identifying the system baseline (dry weather) infiltration rate and I&I rates for three design storm recurrence intervals of progressing severity as appropriate. The report shall describe how the reported rates were derived.

6. Petitioner shall add to its meter testing tariff language informing the customer that the customer should receive the report within ten days of the test and that the customer will have five days to file an appeal.

7. Petitioner shall implement an asset tracking plan to monitor the installation and maintenance of its water meters, providing proof of such program and the tracking of all meters installed one year from the date of this order.

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

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

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

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

APPROVED: FEB 01 2023

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

**Dana Kosco
Secretary of the Commission**