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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SHADY SIDE DRIVE WATER) CAUSE NO. 45014 U
CORPORATION FOR A NEW SCHEDULE OF)
RATES AND CHARGES FOR WATER SERVICE.) APPROVED: APR 11 2018

ORDER OF THE COMMISSION

Presiding Officers:
Sarah E. Freeman, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On November 21, 2017, Shady Side Drive Water Corporation (“Shady Side”) filed a Small Utility Rate Application (“Application”) under Ind. Code § 8-1-2-61.5 and 170 IAC 14-1.

On December 12, 2017, the Water and Wastewater Division of the Indiana Utility Regulatory Commission (“Commission”) issued a Memorandum finding that the Application was complete.

On February 19, 2018, as required by 170 IAC 14-1-4(a), the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report making certain recommendations. Shady Side filed its response to the OUCC’s report on March 15, 2018.

Under Ind. Code § 8-1-2-61.5, a formal public hearing is not required in rate cases involving small utilities with fewer than 5,000 customers, unless a hearing is requested by at least 10 customers, a public or municipal corporation, or by the OUCC. No request for a hearing was received and accordingly, no hearing was held.

Based on applicable law and the evidence presented, the Commission finds as follows:

1. Commission Jurisdiction and Notice. Shady Side is a public utility as defined in Ind. Code § 8-1-2-1(a) and qualifies for treatment as a small utility under Ind. Code § 8-1-2-61.5. The Commission has authority to approve Shady Side’s rates and charges under Ind. Code § 8-1-2-125. Shady Side published legal notice of the filing of this small utility rate case as required by 170 IAC 14-1-2(b). Therefore, we find that notice of this Cause was given and published as required by law. Further, the Commission finds that the Application satisfies the requirements of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. Accordingly, the Commission has jurisdiction over Shady Side and the subject matter of this proceeding.

2. Shady Side’s Characteristics. Shady Side is an Indiana not-for-profit, distribution only, public utility that provides water utility service to approximately 45 residential customers located along a single road known as Shady Side Drive near Lake Monroe in Monroe County, Indiana. Shady Side purchases its entire water supply from the City of Bloomington, whose water treatment facility is located adjacent to Shady Side Drive’s entrance.

3. **Test Period.** The test period selected for determining Shady Side's revenues and expenses reasonably incurred in providing water utility service to its customers includes the 12 months ending December 31, 2016. With adjustments for changes that are fixed, known, and measurable, the Commission finds this test period is sufficiently representative of Shady Side's normal operations to provide reliable data for ratemaking purposes.

4. **Background and Relief Requested.** Shady Side's current rates and charges were approved in the Commission's April 16, 2014 Order in Cause No. 44431 U. In this case, Shady Side requests authority to increase its rates across-the-board by 30.84% to generate an additional \$5,199 in annual revenue.

5. **OUCC Report.** The OUCC's Report was prepared by Jennifer L. Sisson, a Utility Analyst II in the Water/Wastewater Division, and Carl N. Seals, a Utility Analyst in the Water/Wastewater Division. In response to the Application, the OUCC recommended approval of an across-the-board increase in rates of 30.42% over Shady Side's current rates to provide an additional \$5,128 in annual revenue.

The OUCC addressed the following areas of Shady Side's revenue requirement:

A. **Revenue Adjustments.** Noting that Shady Side did not propose any adjustments to its test year operating revenues, the OUCC accepted the test year operating revenues of \$16,858 as representative of the utility's ongoing revenues.

B. **Expense Adjustments.** The OUCC accepted Shady Side's adjustments to purchased water and contractual services. However, it proposed an increase of \$450 to Shady Side's proposed rate case expense to capture the charges incurred by the utility during the OUCC's on-site audit. The OUCC agreed that rate case expense should be amortized over a three-year period.

C. **Taxes Other Than Income.** The OUCC proposed to eliminate the utility receipts tax expense from Shady Side's revenue requirement. Ms. Sisson noted that because Shady Side is a not-for-profit entity, it is not subject to the utility receipts tax expense. She also recommended that Shady Side contact the Indiana Department of Revenue to explain the situation and seek a refund of previously paid utility receipts tax.

D. **Extensions & Replacements.** The OUCC recommended approval of Shady Side's proposed annual extensions and replacements revenue requirement of \$1,887, which is based on the utility's average annual extensions and replacements expenditures for the past three years.

E. **Interest Income.** The OUCC accepted Shady Side's inclusion of \$1,413 of interest income as an offset to its projected revenue requirement.

The OUCC also raised several concerns related to the utility's long-term sustainability, succession planning, and cash flow issues. Ms. Sisson testified that because future customer growth appears limited, rising operational and infrastructure improvement costs may cause Shady Side's rates to become cost prohibitive for its customers. She noted that if Shady Side's rates are approved as recommended by the OUCC, they will be 122% higher than the City of Bloomington's water rates. Mr. Seals also noted the relatively high cost of meter reading incurred per customer, due in significant part to the utility's small size. Additionally, he expressed concern with possible delays in

responding to customer inquiries or emergencies because the Water Facilities Manager works approximately 86 miles, and lives approximately 23 miles, from the utility.

Ms. Sisson testified that Shady Side does not have a succession plan for continued operation of the utility. She noted that the utility is currently managed by two couples who are also customers of the utility. She expressed concern that at some point, these four individuals may become unable or unwilling to continue operation of the utility. She also noted that Shady Side had cash liquidity issues during the test year and relied on a short-term loan from the President of the Board of Directors.

Consequently, the OUCC recommended that Shady Side investigate options to address rising operation costs, assure the utility's sustainability, and plan for management succession. The OUCC noted that one such option may be the sale of the utility to the City of Bloomington.

6. Shady Side's Response to the OUCC's Report. Shady Side expressed agreement with the OUCC's adjustments and recommendations, except with regard to pursuing a sale of the utility to the City of Bloomington. Shady Side indicated that it had discussed this option with the City of Bloomington, but the City expressed no interest in acquiring the utility.

7. Commission Discussion and Findings.

A. Rates and Revenue Requirement. Under Ind. Code § 8-1-2-125, rates for a not-for-profit utility are calculated by first determining the amount of the adjusted net operating expenses based on the utility's current rates. The adjusted amounts are based on known recurring expenses, updated to include changes that are fixed, known, and measurable, and expected to occur within 12 months of the end of the test year.

The table below shows revenue requirements from Shady Side's Application, the OUCC's recommendation, and the difference.

	Per Applicant	Per OUCC	Difference
Operating Expenses	\$ 21,005	\$ 21,155	\$ 150
Taxes Other Than Income	572	350	(222)
Extensions and Replacements	1,887	1,887	-
Working Capital	-	-	-
Total Revenue Requirements	23,464	23,392	(72)
Less: Interest Income	1,413	1,413	-
Net Revenue Requirements	22,051	21,979	(72)
Less: Revenues at Current Rates			
Subject to Increase	16,858	16,858	-
Sub-total	5,193	5,121	(72)
Add: Additional IURC Fee	6	7	1
Net Revenue Increase	\$ 22,057	\$ 21,986	\$ (71)
Recommended Percentage Increase	30.84%	30.42%	

Shady Side did not object to the OUCC's proposed adjustments. Therefore, based on the evidence presented, we find that the OUCC's proposed revenue requirement and rate increase are reasonable and in the public interest.

B. Other OUCC Concerns. While it appears that Shady Side is being reasonably managed and operated at present, we encourage Shady Side to explore and address the issues raised by the OUCC to ensure its customers receive, and continue to receive, safe and reliable water service at just and reasonable rates. At a minimum, Shady Side should develop a succession plan.

C. Effect on Rates. A residential customer using 5,000 gallons per month would experience an increase of \$12.71 per month from \$41.79 to \$54.50.

D. Alternative Regulatory Program ("ARP"). If Shady Side elects to participate in the Small Utility ARP in accordance with the procedures approved in Cause No. 44203, the eligible operating expenses to which the Annual Cost Index will be applied are \$17,967. Taxes Other Than Income of \$350 and Extensions and Replacements of \$1,887 are also eligible expenses to which the Annual Cost Index will be applied. All other components of Shady Side's revenue requirement will remain unchanged.

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

1. Shady Side is authorized to increase its monthly recurring rates and charges by 30.42% for an annual revenue increase of \$5,128.

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

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

HUSTON, FREEMAN, OBER, WEBER, AND ZIEGNER CONCUR:

APPROVED: APR 11 2018

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



Mary M. Becerra
Secretary of the Commission