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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF ) CAUSE NO. 43952 U  
SOUTHERN MONROE WATER CORPORATION )  
FOR A NEW SCHEDULE OF RATES AND ) APPROVED: MAY 11 2011  
CHARGES. )

**BY THE COMMISSION:**

**Carolene Mays, Commissioner**

**Gregory R. Ellis, Administrative Law Judge**

On September 17, 2010, Southern Monroe Water Corporation ("Southern Monroe" or "Petitioner") filed its Small Utility Rate Application ("Petition") with the Indiana Utility Regulatory Commission ("Commission") pursuant to the provisions of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. On October 28, 2010, the Commission determined that the Application was complete.

On January 26, 2011, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its report ("Report") with the Commission as required by 170 IAC 14-1-4. The Report detailed its review of the Petition and made several recommendations to the Commission concerning the relief requested by Petitioner.

Pursuant to 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 ten customers, a public or municipal corporation, or the OUCC. No request for a hearing was received by the Commission. Accordingly, no hearing has been held.

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

**1. Notice and Commission Jurisdiction.** The evidence presented by Southern Monroe in this Cause establishes that legal notice of the filing of the Petition was published in accordance with applicable law, and that Southern Monroe gave proper notice to its customers of the nature and extent of the relief it is seeking. Therefore, due, legal, and timely notice of the matters in this proceeding was given and published as required by law. Southern Monroe is an Indiana not-for-profit utility. Accordingly, the provisions of 170 IAC 14-1-2 are applicable to the Petition, and Southern Monroe is entitled to request an increase in its rates and charges for service pursuant to Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. The Commission, therefore, has jurisdiction over Petitioner and the subject matter of this Cause.

**2. Petitioner's Characteristics.** Petitioner is a Class B not-for-profit water utility serving approximately 3,340 customers within Monroe County, south of Bloomington, Indiana. Petitioner has its principal office at 5790 S. Fairfax Road, Bloomington, Indiana. Petitioner purchases its water wholesale from the City of Bloomington ("Bloomington"). Petitioner's purchases amount to approximately 244,000,000 gallons annually. Petitioner's distribution system consists of nearly eighty (80) miles of pipe, two booster stations, four storage tanks, 3,400 meters (radio-reads), 300 flushing hydrants, 55 fire hydrants, and 307 valves. Southern Monroe was

originally organized in 1964. Southern Monroe is operated by three employees and managed by a Board of Directors. Because Petitioner operates as a not-for-profit utility, its revenue requirements are determined by Ind. Code § 8-1-2-125.

3. **Test Year.** The test year selected for determining Southern Monroe's revenues and expenses reasonably incurred in providing water service to its customers included the twelve (12) months ended December 31, 2009. With adjustments for changes that are fixed, known, and measurable, the Commission finds that this test year is sufficiently representative of Southern Monroe's normal operations to provide reliable data for ratemaking purposes.

4. **Existing Rates and Relief Requested.** Southern Monroe's existing rates and charges were established in the Commission's June 25, 1980 Order in Cause No. 36029. In its April 19, 1989 Order in Cause No. 38749, the Commission authorized Southern Monroe to refinance its then existing indebtedness. In the current application, Southern Monroe originally requested an increase of 17.88% or \$143,187 in its rates and charges to cover increased operating expenses and provide for capital improvements.

5. **OUCC Report.** The OUCC filed its Report on Southern Monroe's Petition on January 26, 2011. The Report indicates the OUCC has conducted a thorough analysis of the Utility's application, reviewed the Utility's books and records, reviewed historical documents, and discussed various issues with team members. As a result, the OUCC recommends several adjustments to Southern Monroe's Petition.

A. **Revenue Adjustments.** Petitioner included adjustments to normalize revenue for the test year. The revenue normalization increased pro-forma residential and commercial water revenue by \$582 and \$2,782 respectively or \$3,364 total. The OUCC argued the test year sales calculations used by the Petitioner were understated when compared to sales reported in Petitioner's 2009 Annual Report. The OUCC calculated normalized pro-forma adjustments for residential and commercial revenue by \$617 and \$2,951 respectively or \$3,568 total.

B. **Expense Adjustments.**

(1) **Pump Maintenance Expense.** Petitioner made an adjustment of \$1,044 for periodic pump maintenance expense. The OUCC argued this expense does not relate to maintenance expense, but consists of the total replacement cost of the pumps amortized over a five year period and was already included in the test year calculations. Therefore, the OUCC recommended exclusion of the \$1,044 maintenance expense.

(2) **Disallowed Expenses.** The OUCC argued that \$450 should be removed from test year operating expenses for amounts that were paid to board members for meetings that the board members did not attend. The OUCC also argued that \$534 should be eliminated from the test year for the cost of the utility's Christmas dinner for its employees. Therefore, the OUCC recommended exclusion of these expenses totaling \$984.

(3) **President's Compensation Expenses.** The OUCC noted in their Report that at the end of the test year Petitioner's Board of Directors reduced the compensation package of their President. The President's compensation for services was reduced by \$3,000 and

the travel stipend was reduced by \$1,500 annually. Therefore, the OUCC recommended exclusion of these expenses totaling \$4,500.

(4) **Payroll Tax Expense.** The OUCC noted that the Petitioner did not carry over its adjustment number 10 for Payroll Taxes from Schedule 6(h) to Schedule 4. The OUCC recommended an exclusion of the expense of \$317.

(5) **Purchased Power Expenses.** The OUCC argues that Petitioner's Purchased Power Expense adjustment multiplies the cost per bill by an incorrect number of additional monthly bills for the test year. The OUCC recommended an increase of \$18 for the test year.

(6) **Consultant Expense.** Petitioner engaged the services of a consultant to prepare a water tracker 30-day filing at a cost of \$1,254. The OUCC noted that Petitioner has been averaging about one water tracking request every three years. Therefore, the OUCC recommended the costs of the consultant be amortized over a three year period. The adjustment would result in an \$836 expense decrease.

### C. **Recommendations.**

(1) **Leak Reduction.** The OUCC Report notes that Petitioner's system consists of PVC mains that were installed in the 1960's and are in need of improvements. The OUCC also noted that the older PVC is susceptible to breakage and leaks. The OUCC points out that Southern Monroe's water loss appears high, with 25% in 2007, 27% in 2008, and 32% in 2009. The OUCC recommended the Commission require Southern Monroe to proceed with leak reduction activities and begin annual reporting to the Commission and the OUCC regarding plans developed and work completed.

(2) **Capital Improvements.** In its Report, the OUCC noted that the last Preliminary Engineering Report ("PER") completed for Southern Monroe in October of 2000 indicated a number of mains are undersized. The OUCC also noted that Petitioner has asked Midwest Engineers to update the 2000 PER. The OUCC Report indicates that improvements are needed to ensure Southern Monroe continues to provide safe and reliable service to the public. The OUCC recommended that the Commission require Southern Monroe to provide the OUCC a copy of the PER when it is updated. It also recommended that the Commission require Petitioner to begin preparation of another rate case within eighteen (18) months of the final order in this proceeding in order to obtain approval of a capital improvement plan and associated financing.

6. **Southern Monroe's Response.** Considering the adjustments, the OUCC's Report recommended the Commission grant Petitioner an increase in rates of 16.89% compared with the 17.88% increase Southern Monroe requested in its application. On January 28, 2011, Southern Monroe submitted a letter to the Commission indicating that they accept the OUCC's recommendations.

7. **Revenue Requirements.** Petitioner originally proposed a net revenue requirement of \$143,187 or 17.88% across-the-board increase in rates. The OUCC proposed a net revenue requirement of \$135,292 or 16.89% increase in rates. The table below provides a comparison of the two parties' proposed revenue requirements.

|                                                     | Per<br>Petitioner<br>(A) | Per<br>OUCC<br>(B) |
|-----------------------------------------------------|--------------------------|--------------------|
| <u>Revenue Requirements:</u>                        |                          |                    |
| Extensions and Replacements                         | \$ 209,954               | \$ 209,954         |
| Operation & Maintenance Exp.                        | 810,483                  | 802,802            |
| Taxes Other Than Income                             | 9,971                    | 9,971              |
| Total Revenue Requirements                          | 1,030,408                | 1,022,727          |
| Less: Interest Income                               | 38,031                   | 38,031             |
| Net Revenue Requirements                            | 992,377                  | 984,696            |
| Less: Revenues at Current Rates subject to increase | 800,821                  | 801,026            |
| Other revenues at current rates                     | 48,539                   | 48,539             |
| Revenue Increase Required                           | 143,017                  | 135,131            |
| Add: Additional IURC Fee                            | 170                      | 161                |
| Recommended Increase                                | <u>\$ 143,187</u>        | <u>\$ 135,292</u>  |
| Recommended Percentage Increase                     | <u>17.88%</u>            | <u>16.89%</u>      |

**8. Calculation of Rate Increase.** The percentage rate increase required is calculated by taking the revenue increase required and dividing it by the total revenues subject to increase. Although the Petitioner originally proposed a 17.88% increase, it accepted the OUCC's proposed overall increase of 16.89%. The Commission finds the amounts proposed by the OUCC to be reasonable and supported by the evidence.

**9. Commission Findings.** The evidence of record indicates that the Parties have provided the Commission with sufficient information to determine that the public's interest can best be served by accepting Petitioner's small utility filing, as modified by the OUCC's adjustments and recommendations which Petitioner has accepted. Therefore, based on the evidence presented, the Commission finds that an across-the-board rate increase of 16.89% or \$135,292 should be approved for Petitioner.

**10. Effect on Rates.** An average customer using 5,000 gallons of water per month will experience a monthly bill increase from \$23.97 to \$28.02 per month.

**11. Water Tracking Adjustment.** Petitioner currently has a purchased water tracking mechanism in place equal to \$1.49 per 1,000 gallons of water. This mechanism allows Petitioner to adjust their rates for water distribution to reflect rates for purchased water. This factor is made up of eight separate tracking adjustments that were approved over a period of time beginning September 9, 1987, with the Commission approving the most recent tracking factor of \$0.31 on March 2, 2011. Typically, the water tracking adjustment factor is set to zero after a rate case because the higher cost related to purchased water is reflected in the utility's base rates. However, in this instance, the purchased water costs associated with the most recently approved \$0.31 tracking factor have not been reflected in Petitioner's base rates because Petitioner's test year does

not reflect water purchases at the higher rate nor was a pro forma adjustment calculated to increase test year purchased water for the higher rate. Therefore, the \$0.31 water tracking adjustment shall remain in effect and the Commission authorizes Petitioner to continue to assess this charge. However, all other previously approved water tracking adjustments shall be set to zero.

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

1. Consistent with the above findings, Southern Monroe Water Corporation is hereby authorized to increase its rates and charges by \$135,292 annually, which represents a 16.89% across-the-board increase in its water service rates and charges. Further, Southern Monroe Water Corporation is authorized to continue assessment of the \$0.31 water tracking factor that was approved by the Commission on March 2, 2011.

2. Prior to placing into effect the rates and charges approved herein, Southern Monroe Water Corporation shall file with the Commission's Water/Sewer Division a schedule of rates and charges in a manner consistent with this Order and the Commission's rules. Such rates and charges will become effective for all water service usage upon approval thereof by the Water/Sewer Division of the Commission and shall cancel all prior rates and charges.

3. Southern Monroe Water Corporation shall proceed with leak reduction activities. In addition, Southern Monroe Water Corporation shall file a report annually with the Commission and Office of Utility Consumer Counselor summarizing any plans developed or work completed in regards to leak reduction activities.

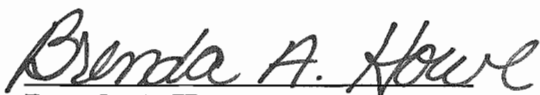
4. Southern Monroe Water Corporation shall have its Preliminary Engineering Report from 2000 updated and file a rate case, based on the updated Preliminary Engineering Report, within 18 months of this Order. The rate case should include a long term capital plan to improve Southern Monroe Water Corporation's water system.

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

**ATTERHOLT, BENNETT, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:**

**APPROVED:** MAY 11 2011

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



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