

ORIGINAL

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

**STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION**

**APPLICATION OF VAN BUREN WATER, INC. FOR)
 AUTHORITY TO INCREASE RATES AND) CAUSE NO. 46185 U
 CHARGES THROUGH THE SMALL UTILITY)
 PROCEDURE AND A REQUEST FOR FINANCING) APPROVED: MAY 28 2025
 AUTHORITY PURSUANT TO IND. CODE § 8-1-2-)
 61.5 AND 170 IAC 14-1-1 ET SEQ.)**

ORDER OF THE COMMISSION

Presiding Officers:

Sarah E. Freeman, Commissioner

Kristin E. Kresge, Administrative Law Judge

On January 13, 2025, Van Buren Water, Inc. (“Van Buren” or “Applicant”) filed a Small Utility Rate Application (“Application”) with the Indiana Utility Regulatory Commission (“Commission”) under Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. Van Buren filed proof of publication on January 28, 2025.

On February 3, 2025, the Commission’s Water and Wastewater Division (“Division”) issued a Memorandum indicating that the Application was complete. On February 18, 2025, Van Buren provided additional information in response to questions from Commission Staff.

On April 14, 2025, as required by 170 IAC 14-1-4(a), the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report making certain recommendations.

Based upon the applicable law and the evidence of record, the Commission now finds:

1. Commission Jurisdiction and Notice. Van Buren 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. Van Buren published legal notice of filing this small utility rate case as required by 170 IAC 14-1-2(b). The Application satisfies the requirement of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. Therefore, the Commission has jurisdiction over Van Buren and the subject matter of this proceeding and may issue an Order based upon the information filed pursuant to 170 IAC 14-1-6.

2. Field Hearing. Under Ind. Code § 8-1-2-61.5, a formal public hearing is not required in rate cases involving small utilities with fewer than 8,000 customers unless a hearing is requested by at least ten customers, a public or municipal corporation, or the OUCC. On February 13, 2025, the OUCC filed a Motion requesting the Commission hold a public field hearing. The Motion was granted, and a public field hearing was held on April 2, 2025, at 6:00 p.m. at the Monroe Convention Center – Olcott Young Room, 302 South College Avenue, Bloomington, Indiana. Due, legal, and timely notice of the field hearing was given and published as required by law.

3. Applicant's Characteristics. Van Buren is a public utility organized and existing as a not-for-profit corporation that owns and operates a water distribution system in Monroe and Greene Counties, Indiana. Van Buren provides water utility service to approximately 2,471 residential customers and 21 commercial customers. Since the utility does not have a treatment plant, Van Buren purchases its potable water from the City of Bloomington, Indiana. Van Buren operates two water storage tanks, two booster stations, and approximately 105 miles of main.

4. Test Period. The test period selected for determining Van Buren's revenues and expenses reasonably incurred in providing water utility service to its customers includes the 12 months ending December 31, 2023. With adjustments for changes that are fixed, known, and measurable, the Commission finds this test period is sufficiently representative of Van Buren's normal operations to provide reliable data for ratemaking purposes.

5. Background and Relief Requested. The Commission approved Van Buren's current rates and charges on August 26, 2015, in Cause No. 44566 U.

In this Cause, Van Buren requested a new schedule of rates and charges for water service that would result in a 38.79% rate increase, or \$358,169 of additional revenues for operational costs and capital improvements. Applicant also seeks financing authority of \$310,000 to be used for the repair of the Mt. Zion and Rockport Road Water Lines, and retroactive approval of existing debt for a water tower. The revenue requirements include proposed extensions and replacements ("E&R") of \$246,573, operating expenses of \$1,035,676, working capital of \$10,010, debt service of \$52,647, and no debt service reserve, resulting in total revenue requirements of \$1,344,906. Applicant's proposed total revenue requirement would result in an increase of Van Buren's operating revenue from \$987,274 to \$1,345,443.

6. OUC's Report. The OUC proposed a rate increase of 33.76%, or \$316,515 of additional revenue for Van Buren, which is \$41,654 less than the proposal in the Application.

The OUC accepted Van Buren's proposed residential and commercial water sales adjustments to normalize customer growth during the test year, adjustments to salaries and wages, periodic maintenance, and E&R.

The OUC included an additional adjustment to increase revenues by \$9,728 for a customer refund provided to a commercial customer during the test year. The OUC also increased test year revenues by \$17,535 based on its recommendation that Applicant's tap fee be increased by \$835 to cover its current cost to connect new customers. The OUC reclassified \$19,600 of interest income from other operating revenues to below-the-line income.

The OUC did not agree with Van Buren's adjustments to system delivery expense, payroll tax expense, working capital revenue requirement, and debt service. The OUC explains that system delivery expenses capture the variable operating expenses, which include purchased water, purchased power, and postage, related to increases or decreases in the amount of water sold to customers. The OUC explained that while Applicant adjusted these expenses for its residential customer growth, no adjustments were made for its test year decrease in commercial customers. The OUC also rejected Van Buren's proposed \$5,864 increase for payroll tax expense explaining

that Applicant failed to deduct test year payroll tax expense from its adjustment. The OUCC proposed an adjustment to remove \$3,332 for a flush hydrant that should have been capitalized. Regarding working capital, the OUCC explained that Van Buren did not include all cash on hand in its calculation and, therefore, overstated its net working capital need. The OUCC also explained why it believed Applicant’s proposed debt service is understated and should be \$67,600. The OUCC recommended approval of Applicant’s proposed financing, subject to true-up, as well as the funding for a loan Applicant obtained for its water tower. However, the OUCC does not support retroactive approval for the water tower loan.

7. Consumer Comments. The OUCC received several consumer comments, which generally opposed Van Buren’s proposed rate increase, citing, among other things, the amount of rate increase, inflation, and the resulting financial strain on customers.

8. Commission Discussion and Findings.

A. Rates and Revenue Requirements. 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 adjustment amounts are based on known recurring expenses, updated to include changes that are fixed, known, measurable, and expected to occur within 12 months of the end of the test year. A comparison of Van Buren’s and the OUCC’s proposed revenue requirements is shown in the chart below:

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>OUCC More (Less)</u>
Operating Expenses	\$ 1,035,676	\$ 1,016,404	\$ (19,272)
Extensions and Replacements	246,573	246,573	-
Working Capital	10,010	-	(10,010)
Debt Service	52,647	67,600	14,953
Debt Service Reserve	-	-	-
Total Revenue Requirements	1,344,906	1,330,577	(14,329)
Revenue Requirement Offsets:			
Interest Income	(19,600)	(19,600)	-
Tap Fees	(30,765)	(48,300)	(17,535)
Reconnections	(3,450)	(3,450)	-
Late Fees	(4,496)	-	4,496
Other Revenues	(5,623)	(5,623)	-
Net Revenue Requirements	1,280,972	1,253,604	(27,368)
Less: Revenues at current rates subject to increase	(923,340)	(937,564)	(14,224)
Net Revenue Increase Required	357,632	316,040	(41,592)
Add: Additional IURC Fees	537	475	(62)
Recommended Increase	<u>\$ 358,169</u>	<u>\$ 316,515</u>	<u>\$ (41,654)</u>
Recommended Percentage Increase	<u>38.79%</u>	<u>33.76%</u>	<u>-5.03%</u>

In its Application, Applicant requested a new schedule of rates and charges for water service resulting in a 38.79% rate increase or \$358,169 of additional revenues associated with increased operational costs and capital improvements. The OUCC, in its Report, recommended a 33.76% rate increase or a \$316,515 increase in operating revenues on an across-the-board basis.

Based on the evidence of record and as discussed further below, we find that an across-the-board rate increase of 33.76% for an annual revenue increase of \$316,515 is reasonable and in the public interest, and therefore, is approved.

B. Pro Forma Present Rate Revenue and Revenue Requirement Offsets.

OUCC witness Stull recommended a \$17,472 increase to Van Buren's \$977,465 test year operating revenue, resulting in pro forma operating revenue of \$994,937.

1. Test Year Revenue Normalization. Ms. Stull accepted Van Buren's \$5,330 increase to normalize test year residential revenue and its \$15,121 decrease to normalize test year commercial revenue. We accept Applicant's net revenue decrease of \$9,791.

2. Commercial Customer Refund. The OUCC proposed an increase of \$9,728 associated with a refund to Taylor Concrete related to a prior year but recorded during the test year. Ms. Stull explained that rates are based on expected operating revenues and expenses the utility will experience going forward. Money returned to a customer does not represent a reduction to operating revenues that are expected to occur each year going forward. We agree and approve the OUCC's adjustment.

3. Other Revenues and Revenue Requirement Offsets. OUCC witness Stull explains that Van Buren incorrectly included \$19,600 of interest income in its other operating revenues. The OUCC reclassified interest income to be below-the-line as an offset to Applicant's revenue requirement. Thus, the Commission finds the \$19,600 should be reflected as below-the-line, interest income.

Ms. Stull also explained that Van Buren's current tap fee of \$1,465 was authorized in a 2015 30-day filing. Costs have increased significantly since 2015, and Van Buren's tap fee no longer covers the cost of connecting a new customer to its system. The OUCC recommends Applicant's tap fee increase from \$1,465 to \$2,300. Based on Van Buren's accounting treatment of its tap fee revenues and costs, when a tap fee does not recover all the costs incurred, any excess costs are included in the revenue requirement and included in the rates paid by all customers. Based on the proposed increased tap fee, the OUCC recommended an increase of \$17,535 to cover the costs incurred for the 21 connections made during the test year. The Commission accepts and finds as reasonable the OUCC's \$17,535 increase to operating revenue.

C. Operating Expenses. Ms. Stull recommended a \$22,538 increase to Van Buren's \$993,866 test year operating expense (excluding depreciation expense), resulting in pro forma operating expense of \$1,016,404. In reaching this conclusion, Ms. Stull accepted Van Buren's proposed increase to salaries and wages and the increase to tank maintenance contract. She did not agree with Van Buren's system delivery adjustments to increase purchased water by \$2,288, purchased power by \$73, and postage by \$105. Ms. Stull also did not accept Van Buren's

proposed increase of \$5,864 for payroll tax expense. She also recommended an additional pro forma expense adjustments for the capitalization of a flush hydrant. The Commission finds Van Buren's adjustments agreed to by the OUCC are reasonable and accepts them.

1. System Delivery Adjustment. Ms. Stull explains that a system delivery adjustment captures the increase or decrease in variable operating expenses related to an increase or decrease in the amount of water sold or processed and the number of customer billings. Variable costs for Van Buren consists of purchased water, purchased power, and postage. Ms. Stull explained that Van Buren captured the system delivery expenses associated with its proposed residential customer growth adjustment. However, Van Buren did not capture the effects on system delivery expense associated with its decrease in commercial customer operating revenues. Accordingly, the OUCC recommended a decrease in purchased water of \$7,802, a decrease in purchased power of \$261, and an increase in postage expense of \$52. We agree and find the OUCC's proposed system delivery adjustments to be reasonable and shall be approved.

2. Payroll Taxes. Van Buren proposed an increase of \$5,864 in test year payroll tax expense. The OUCC explained that Van Buren's payroll tax expense adjustment assumed there were no payroll tax expenses recorded during the test year. However, \$5,463 of payroll tax expense was recorded during the test year. To determine the proper adjustment, Van Buren's pro forma payroll tax should be reduced by the amount of test year payroll tax expense of \$5,463, resulting in an increase of \$401. We find the OUCC's adjustment is reasonable and approve it.

3. Materials and Supplies. Ms. Stull proposed a reduction to test year operating expense to capitalize the cost of a flush hydrant that was replaced during the test year. Ms. Stull explained that on September 11, 2023, Van Buren purchased a flush hydrant, including appurtenances, from Utility Supply at a total cost of \$3,332. She recommends this cost be removed from operating expense and capitalized as an addition to Van Buren's utility plant in service. We agree the OUCC's recommendation to capitalize \$3,332 associated with the flush hydrant Applicant purchased during the test year is appropriate and approve it.

4. Commission Fee. The Commission accepts the OUCC's \$475 expense increase based on the current Commission fee rate of \$.0015 times the net revenue increase required of \$316,040, which is associated with the overall 33.76% rate increase approved herein.

D. Financing Authority, Debt Service, and Debt Service Reserve. Van Buren requested authority to borrow \$315,000 to repair its Mt. Zion and Rockport Road Water lines. However, after discussions with Van Buren regarding a discrepancy between two schedules in its Application, Van Buren clarified that its request is for \$310,000. The anticipated terms are for 15 years at 7% interest with no required debt service reserve. Van Buren also requests retroactive approval of an existing \$465,000 loan, which closed on July 12, 2021, and was used to finance a water tower.

Based on the evidence, the Commission approves the \$310,000 debt authority and approves annual debt service of \$67,600 and no debt service reserve. We remind Van Buren that Ind. Code §§ 8-1-2-78 and -79 requires a utility to secure authority for financing before the transaction is completed and we fully expect Van Buren to make every effort in the future to comply with this requirement. The Commission declines to retroactively approve the existing loan of \$465,000, which closed on July 12, 2021.

E. Condition on Debt Authority. OUCC witness Dellinger proposed Applicant be required to file a compliance filing within 30 days of closing its debt issuance that includes the precise interest rates and borrowing amount to determine the exact debt service. He recommended the report should include a revised tariff, amortization schedule, and a calculation of the rate impact in a form similar to the OUCC's schedules to the best of Applicant's ability. The OUCC should have 21 days to challenge Applicant proposed true-up. Applicant should similarly have 21 days to file a response to the OUCC. Thereafter, the Commission should resolve any issue raised through a process it deems appropriate.

Mr. Dellinger explained that if the new debt is not issued within 60 days of the issuance of this Order, an amount of \$2,786 should be placed in a restricted account monthly and used to reduce the ultimate borrowing. If the borrowing does not take place within two years of this Order, the amount in the restricted account should be refunded to ratepayers and the tariff adjusted to remove the debt service revenue requirement.

The Commission directs Van Buren to file the true-up report Mr. Dellinger proposed under this Cause within 30 days of closing on its long-term debt issuance and include the following information: the terms of the new loan, the actual balance borrowed, a revised tariff, amortization schedule and a calculation of the rate impact in a form similar to the OUCC's schedules. However, the true-up need not be implemented if both parties state in writing to the Commission that the increase or decrease indicated by the report need not occur. The Commission further finds that if the foregoing borrowing authority is not used within 60 days from the date this Order is approved, Applicant shall set aside in a restricted account the monthly debt service approved for its proposed borrowing. If the borrowing authority is not used within two years from the date this Order is approved, the authority will expire and the funds placed in a restricted account for the proposed financing shall be refunded to ratepayers and the tariff adjusted to remove the debt service revenue requirement.

F. Extensions and Replacements. Van Buren included E&R of \$739,720 over three years, or \$246,573 annually. OUCC witness Bell provided more detail associated with Van Buren's capital improvement plan included on Schedule 7 of its Application. He explained that the proposed main replacements on Mt. Zion Road and Rockport Road, the meter replacements, flush hydrant replacements, and excavations of service connections to comply with the Environmental Protection Agency's Lead and Copper Rule Revisions are projects that are reasonable and prudent. Mr. Bell recommends the Commission approve Van Buren's requested E&R. Based on the evidence presented, the Commission finds the parties' recommendation for E&R to be reasonable and approves it.

G. Working Capital. Van Buren calculated a \$30,029 net working capital deficit, which it proposed to recover over a three-year period of \$10,010 annually. The OUCC explained that Van Buren did not include all cash-on-hand in its calculation and, therefore, overstated its net working capital need. Based on a review of Van Buren's checking and savings accounts, excluding the portion of restricted funds in Van Buren's savings account, the OUCC explained that Van Buren had enough cash available to meet its working capital needs. Thus, the Commission finds that no additional funds should be provided for working capital.

H. Tap Fee. As mentioned above, Van Buren's current tap fee of \$1,465 was authorized in a 2015 30-day filing. Costs have increased significantly since 2015, and Van Buren's tap fee no longer covers the cost of connecting a new customer to its system. In response to discovery, Van Buren provided a detailed breakout of the material costs and labor costs associated with a tap fee connection. The OUCC recommended Applicant's tap fee increase from \$1,465 to \$2,300. We find Van Buren has sufficiently supported its average cost per residential connection and the tap fee should be increased to \$2,300.

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

1. Van Buren is authorized to increase its monthly recurring rates and charges by 33.76% for an annual net revenue increase of \$316,515.
2. Van Buren is authorized to increase its tap fee to \$2,300 per residential connection.
3. Applicant's request for approval to borrow \$310,000 is approved as set forth herein.
4. Prior to implementing the rates and charges authorized in this Order, Van Buren shall file new rate schedules under this Cause for approval by the Commission's Water and Wastewater Division. Such rates shall be effective on and after the Order date, subject to Division review and agreement with the amounts reflected.
5. Applicant shall file a compliance filing within 30 days of loan closing under this Cause, with a copy concurrently served upon the OUCC, and the parties shall be afforded the opportunity to timely respond to such filing as authorized in this Cause. Applicant shall include in this compliance filing: the terms of the new loan, the actual balance borrowed, a revised tariff, amortization schedule, and a calculation of the rate impact in a form similar to the OUCC's schedule.
6. This Order shall be effective on and after the date of its approval.

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

APPROVED: MAY 28 2025

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

**Dana Kosco
Secretary of the Commission**