FILED July 29, 2022 INDIANA UTILITY REGULATORY COMMISSION

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)	
THERETO; AUTHORITY TO RECOVER)	CAUSE NO. 45651
CERTAIN COSTS INCURRED IN)	
CONNECTION WITH CAUSE NOS. 44724, 45342)	
AND 45389; AUTHORITY TO RECOVER)	APPROVED:
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)	

ORDER OF THE COMMISSION

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

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On December 7, 2021, Community Utilities of Indiana, Inc. ("Petitioner" 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 associated relief under Ind. Code §§ 8-1-2-61 and 8-1-2-42.7. On December 7, 2021, CUII also filed its case-in-chief, workpapers, and information required by the minimum standard filing requirements ("MSFRs") set forth at 170 IAC 1-5-1 *et seq.* CUII's case-in-chief included testimony, attachments, and workpapers from the following witnesses:

- Steven M. Lubertozzi, President of CUII;
- Shawn M. Elicegui, EVP, Risk and Corporate Secretary for Corix Infrastructure, Inc.;
- Loren Grosvenor, State Operations Manager for CUII;
- Andrew Dickson, Senior Financial Analyst for CUII;
- Robert A. Guttormsen, Financial Planning and Analysis Manager for CUII; and
- James Kilbane, Finance and Analysis Manager for Corix.

On December 22, 2021, the Indiana Office of Utility Consumer Counselor ("OUCC") filed a Notice of Non-Compliance with the MSFRs. On January 14, 2022, Petitioner filed its response and supplemental MSFRs.

On January 21, 2022, Petitioner filed its response to the Commission's Docket Entry dated December 16, 2021, regarding approval of a procedural schedule, as agreed to by the parties. On February 15, 2022, the Commission issued a Docket Entry establishing the procedural schedule.

On January 28, 2022, Petitioner filed notification that the direct testimony of Mr. Guttormsen would be adopted by Mr. Dickson.

A Petition to Intervene was filed by Lakes of the Four Seasons Property Owners' Association ("LOFS") on February 15, 2022. LOFS is a property owners' association that represents the residents within Lakes of the Four Seasons Subdivision, and the residents and the association are water and wastewater customers of Petitioner. The Petition to Intervene was granted without objection on February 23, 2022.

On April 12, 2022, a field hearing was held in this Cause in Boone Grove High School, 260 South 500 West, Valparaiso, IN 46385, commencing on April 12, 2022. All parties appeared and participated in the hearing.

On April 21, 2022, the OUCC filed an agreed upon request for the modification of the procedural schedule to allow a two-day extension of time for the OUCC and LOFS to file their cases-in-chief. Subsequently, on April 28, 2022, the OUCC filed the testimony and attachments of the following witnesses:

- Margaret A. Stull, Chief Technical Advisor in the Water/Wastewater Division;
- James T. Parks, Senior Analyst in the Water/Wastewater Division;
- Carl N. Seals, Assistant Director in the Water/Wastewater Division; and
- Scott A. Bell, Director of Water/Wastewater Division.

LOFS filed the testimony and attachments of the following witnesses on the same day:

- Robert Holden, Senior Vice President and Head of Wastewater Group at Wessler Engineering;
- Rick Cleveland, Community Manager of LOFS; and
- Gary M. VerDouw, CEO of VerDouw Regulatory Services LLC.

On May 26, 2022, Petitioner filed an unopposed motion for extension of time to allow one additional day to file its rebuttal testimony. The Commission granted the motion, and Petitioner filed its rebuttal testimony on May 27, 2022, which included testimony and attachments of Mr. Lubertozzi, Mr. Grosvenor, Mr. Kilbane, Mr. Dickson, and three additional witnesses from the engineering firm Baxter & Woodman, Inc. ("Baxter & Woodman"):

- Amanda Streicher, Assistant Wastewater Department Manager, Costa Rica Wastewater Department Manager, and Engineer;
- Carl Fischer, Wastewater Technical Director; and
- Sean O'Dell, Executive Vice President at Baxter & Woodman.

The Commission conducted a two-day public evidentiary hearing beginning on June 28, 2022, at 9:30a.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 presented and the applicable law, the Commission now finds:

1. <u>Notice and Jurisdiction</u>. Notice of the filing of the Petition was given and published by Petitioner, as required by law. Notice was given by Petitioner to its customers summarizing the nature and extent of the proposed changes in its rates and charges for water and wastewater services. Notice of the hearing in this case was given and published by the Commission as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a). Pursuant to Ind. Code §§ 8-1-2-42 and -42.7, the Commission has jurisdiction over Petitioner and Petitioner's rates and charges for utility service.

2. <u>Petitioner's Organization and Business</u>. Petitioner is a public utility incorporated under the laws of Indiana with its principal office address located at 500 W. Monroe, Suite 3600, Chicago, IL 60661. CUII was created in 2015 in order 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. Those subsidiaries were Twin Lakes Utilities, Inc., Water Service Company of Indiana, Inc., and Indiana Water Service, Inc. 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. Petitioner renders such water and wastewater utility service by means of 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. <u>Existing Rates</u>. 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 CUII. 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. <u>Relief Requested</u>. 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. <u>Test Year and Rate Base Cut-Off</u>. As authorized by Ind. Code § 8-1-2-42.7(d)(1), Petitioner proposed a forward-looking test period using projected data, for the twelve-month period ending September 30, 2023. Petitioner proposed Phase I rates to be effective on or about October 1, 2022, and Phase II to be made effective on or about October 1, 2023.

6. <u>Rate Base</u>.

A. <u>Water</u>.

1. <u>Uncontested Issues</u>. In Petitioner's case-in-chief, Petitioner indicated that it completed certain ongoing improvements to its watermains and service lines. Mr. Grosvenor noted that the 2022 Twin Lakes watermain and service line replacement project will include replacement of watermain and service lines on Wallhaven Court and service lines on Hidden Valley Drive. Pet. Exh. No. 3, p. 20. Mr. Grosvenor testified that the areas for replacement were identified by reviewing historical watermain and service line breaks and provided a historical watermain and service line breaks and provided a historical watermain and service line breaks and provided a historical watermain and service line break map as Attachment LG-3 to his testimony. *Id.* Mr. Grosvenor noted that CUII worked with Commonwealth Engineers ("Commonwealth"), a consulting engineering firm, to develop a cost estimate for the project. *Id.*

In all, CUII will have invested approximately \$786,877 (updated to \$831,025 in rebuttal) in watermain and service line replacements through its 2020/2021 Twin Lakes watermain and

service line replacement project and estimated investing \$445,952 in 2022 (updated to \$507,281 in rebuttal) and \$274,289 in 2023 (updated to \$521,086 in rebuttal). *Id.* at 16.

Mr. Grosvenor also testified that CUII needs to replace watermains on the IWSI system. *Id.* at 21. CUII experiences a significant number of watermain breaks on that system, and Mr. Grosvenor testified that it is imperative that CUII devote attention to that system now that the worst performing watermains on the Twin Lakes system have largely been addressed. *Id.* Accordingly, CUII anticipated investing approximately \$800,523 (\$940,931 per rebuttal) in 2022 (rebuttal completion date is now in 2023) and \$492,419 in 2023 for water main replacements on the IWSI system. *Id.* at 16.

Mr. Grosvenor also indicated that CUII had nearly completed the design, installation, and connection of two new water wells (Well #12 and Well #13) within the Twin Lakes system. *Id.* at 25. Mr. Grosvenor indicated that the production capacity of the wells serving the water treatment plant had declined significantly. *Id.* Mr. Grosvenor indicated that several well rehabilitation procedures were conducted in spring and summer of 2018 to try and improve the yield, but these attempts were unsuccessful. *Id.* Accordingly, CUII made the decision to construct the two new wells and anticipates that the total investment will be \$351,157 (\$346,486 in rebuttal, with \$340,425 already capitalized). *Id.* at 16.

No party opposed the necessity of the watermain or service line replacement projects or the installation of new Well #12 and Well #13. We note that CUII agreed with OUCC's proposal to remove \$340,425 in forecasted costs associated with the Wells #12 and #13 capital projects that have already been capitalized, and we note that CUII included \$6,061 to complete landscaping. Pet. Exh. No. 4-R, p. 3. We find that CUII's investment in watermain and service line replacements is necessary in order for it to continue to provide adequate and reliable service and minimize breaks and interruptions of service to customers. Moreover, CUII's investments are consistent with the performance metrics we established in Cause No. 44724. Likewise, new Well #12 and Well #13 are necessary in order for these projects as proposed in Petitioner's case-in-chief.

We also take note that Petitioner and the OUCC appear to be in agreement with respect to accumulated depreciation methodology and working capital methodology, although their calculations differ as their rate base recommendations differ. In addition, these parties are in agreement on the treatment of contributions in aid of construction ("CIAC") and net plant acquisition adjustment ("PAA").

2. <u>Twin Lakes Iron Filter Improvement Project.</u>

a. <u>Petitioner's Evidence</u>. Mr. 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. Pet. Exh. No. 3 at 16-17. Mr. Grosvenor testified that the estimated cost of the Twin Lakes WTP Iron Filter is \$2,288,765 (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. *Id*.

b. <u>OUCC's Evidence</u>. OUCC witness Stull testified that CUII's proposed costs for this project exceed the amount preapproved by the Commission in Cause No. 45342 by \$276,410 (\$2,355,816 - \$2,079,406), and according to CUII's "Pro forma Capital Investment Workpaper," \$195,601 of costs are unexplained by the Company. OUCC Exh. No. 1, p. 21. 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. *Id.* 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. *Id.*

Petitioner's Rebuttal. CUII witness Dickson testified that he c. disagreed with Ms. Stull's exclusion of the \$195,601. Pet. Exh. No. 4, p. 11. He testified 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 AFDUC already incurred, and generally does not create an accurate comparison of specific preapproved costs that have (or have not) been exceeded. Id. at 11. Mr. Dickson testified 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, the Company did include for recovery costs incurred related to seeking preapproval in Cause No. 45342, and the Company only included a return "of," not a return "on," over the course of three years (Attachment AD_R04, workpaper wp-k). Id. He testified that AFUDC and Cap time were included in the direct case forecast of \$2,355,816. Id. 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. Id. at 11-12. Mr. Dickson testified that Ms. Stull did not make a determination regarding the reasonableness of CUII's captime or AFUDC, instead only removing the portion that she believed to be unexplained. Id. Mr. Dickson testified that all of the captime and AFUDC have been prudently incurred, or will be (in the case of future captime and AFUDC). Id. Mr. Dickson testified that CUII's total project variance compared to what was approved by the Commission is 1.76% - a feat for a project of this size. Id.

Mr.	Dickson	summarized	his	testimony	on	this	issue	in	the	foll	owing	chart:
											()	

Expenditure Type	Cost to-date	Future Outlay	Total	Cause 45342	Difference	Prudent AFUDC and Captime Forecast
Captime	\$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

Id. at 12.

Mr. Dickson testified that the only amount in need of explanation is \$36,562 in costs incurred in the construction and engineering phases of this project above and beyond the preapproved amount. *Id.* 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). Pet. Exh. No. 3-R, p. 38. Mr. Grosvenor also testified 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. *Id.* Mr. Grosvenor testified that these costs are necessarily and prudently incurred as a part of the pre-approved Iron Filter Improvements project and are needed to complete the project. *Id.* at 37.

d. <u>Commission Discussion and Findings</u>. In Cause No. 45342, we found that the South Filter was beyond its useful life and its failure "would be catastrophic."¹ Accordingly, the Commission approved CUII's request for preapproval expenditures for the project up to \$2,079,406, which excluded AFUDC, Cap Time and regulatory costs. The Commission also stated that "*[e]xpenditures associated with AFUDC, Cap Time, and regulatory costs are also approved to the extent reasonable*, which shall be determined in CUII's next rate case. Once any of the Proposed Improvements are in service, the associated expenditure as approved may be included in rate base for ratemaking purposes in CUII's subsequent rate proceedings."²

In this case, Mr. Dickson testified that \$172,796 of the amount Ms. Stull proposed to exclude is for AFUDC and Cap Time, which was preapproved in Cause No. 45342. Specifically, Mr. Dickson testified that:

The total capitalized time for this project is forecasted to be \$50,553, with \$49,791 already incurred. The AFUDC incurred to-date is \$79,532, with an additional \$42,712 included to culminate the project.

Pet. Exh. No. 7-R at 12. No party suggested that the CUII's calculation of AFUDC was incorrect or unreasonable, and no party suggested that CUII's incurrence of captime was incorrect or unreasonable. Therefore, AFUDC and captime, the majority of which is included in the amount OUCC witness Stull contested, already was approved in Cause No. 45342 as reasonable expenditures for AFUDC and captime, and we find it is appropriately included in Petitioner's rate base in this proceeding.

As to the remaining \$36,562, Mr. Grosvenor testified that approximately \$8,500 of the cost increase was to obtain gas service from NIPSCO. Pet. Exh. No. 3-R, p. 38. In addition, two more mixing station pipe stand supports were deemed necessary at a cost of approximately \$3,300. *Id.* CUII also incurred approximately \$4,700 for potholing service to identify well discharge locations. Finally, approximately \$16,000 was for engineering to move the chemical building to a more accessible location that did not require transmission pipe to be moved. *Id.* Accordingly, the evidence reflects that the additional \$16,000 of engineering costs actually reduced the overall cost of the project.

We find that the minimal additional costs incurred by CUII for completion of the necessary iron filter improvement project were fully explained, are reasonable, and were prudently incurred.

¹ Order in Cause No. 45342, p. 10.

² *Id.* at 13.

Accordingly, in accordance with our Order in Cause No. 45342, we approve the inclusion of \$2,288,765 in rate base in connection with the iron filtration improvement project.

3. <u>AMI Meters</u>.

a. <u>Petitioner's Evidence</u>. Mr. Grosvenor testified that CUII plans to replace customer meters in all three of CUII's water systems. Pet. Exh. No. 3, p. 16. He testified that Automatic Meter Reading ("AMR") meters will be used for all meter replacements. *Id.* Mr. Grosvenor testified that customer meter replacements began in 2021, and CUII estimates 1,564 meters replaced in 2021, and about 1,653 meters replaced in 2022. Mr. Grosvenor testified that before 2021, all meters in CUII's systems were MasterMeter AMR meters; however, these meters began to fail on a widespread scale in 2020 and 2021. *Id.* at 17. Mr. Grosvenor testified that meters need to be replaced so that CUII can continue to collect accurate water usage readings from customers. *Id.* 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. *Id.* He testified that the cost estimate for 2022 includes direct purchase of materials and capitalized time, which is estimated at 1 hour per meter replacement. *Id.*

b. <u>OUCC's Evidence</u>. OUCC witness Seals expressed concern that the proposed meter replacement program appears to be a response to poor planning and execution of prior meter replacements. Pub. Exh. No. 3, p. 3. 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: "Petitioner 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." *Id.* Mr. Seals testified that this is not a normal replacement cycle for a water meter. *Id.* He testified that, according to 170 Ind. Admin. Code 6-1-10, 5/8-inch meters are to be tested or replaced every ten years or 100,000 cubic feet registered. *Id.* Mr. Seals also indicated uncertainty as to whether estimated meter reads actually indicate the meter is failing: "[T]he 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." *Id.* at 5.

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. *Id.* at 6. Mr. Seals testified that Neptune is a well-established, widely-used meter manufacturer. *Id.*

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. *Id.* 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. *Id.* at 7.

c. <u>LOFS' Evidence</u>. Mr. Cleveland and Mr. Holden both testified that they disagree with an increase in rates for the replacement of AMR meters. LOFS Exh. No. 1, p. 9; LOFS Exh. No. 3, p. 12-13. 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. LOFS Exh. No. 3, p. 12-13. 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. LOFS Exh. No. 1, p. 9. Mr. Holden and Mr. Cleveland recommend the Commission reject CUII's request for recovery of AMR costs for these reasons.

d. <u>Petitioner's Rebuttal</u>. In response to Mr. Seals' 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. Pet. Exh. No. 3-R, p. 40. Mr. Grosvenor testified that CUII is replacing meters that are failing. *Id.* at 41. 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. *Id.* 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. *Id.* Mr. Grosvenor provided a cost comparison of sending a meter back for repair (\$252.44) and replacing the meter (\$231.25). *Id.* at 41-42.

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. *Id.* at 42.

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. *Id.* Mr. Grosvenor 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. *Id.* at 45.

e. <u>Commission Discussion and Findings</u>. As reflected above, OUCC witness Seals did not recommend the exclusion or disallowance of meter replacement costs incurred or to be incurred by CUII. To the contrary, OUCC Witness Seals testified with regard to the manufacturer of the replacement meters, that "Neptune is a well-established, widely-used meter manufacturer" and that by replacing meters across the Corix companies CUII can obtain "a 10%-15% discount on market value and annual pricing certainty." OUCC witness Seals suggested that when meters were failing prematurely, "the utility should have sought compensation, replacement or technical assistance from the manufacturer." Public's Exh. No. 3 at p. 4. LOFS witness Holden, on the other hand, recommended "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." LOFS Exh. No. 1 at 4. Petitioner presented evidence showing that CUII's meters are failing on a widespread basis before the end of their warranty period. Accordingly, Petitioner has implemented a program to replace these meters with a new meter from a reputable manufacturer as the meters fail. Petitioner's Witness Grosvenor testified that CUII confirms the meter is not working before CUII replaces it. Mr. Grosvenor testified that before CUII removes the meter, "we test it to ensure that it has malfunctioned, as opposed to being the result of some other issue." Pet. Exh. 3-R at 40.

The main objection to the inclusion of the cost of the new meters in rate base was the contention made by the OUCC and LOFS that CUII should have availed itself to the manufacturer's warranty before replacing the meters. The evidence, however, reflects that CUII has thoughtfully considered alternatives to replacing meters upon their failure, including sending the meter back for repairs under the warranty and replacing the meter. In fact, CUII presented evidence showing that replacing the meters is the cost-saving alternative. Mr. Grosvenor presented the following data showing that the cost of sending a meter back for repair is higher than the cost of replacing the meter. The cost of sending the meter back under the warranty is:

1 hour of labor ⁵⁴ to remove meter =	\$45.82
1 hour of labor to disassemble and ship =	\$45.82
Shipping meter head for warranty =	\$10.90
1 hour of labor to reassemble and ship for testing=	\$45.82
Shipping meter for testing round trip =	\$30.26
Cost to test meter=	\$28.00
1 hour of labor to reinstall meter ⁵⁵ =	\$45.82
Grand total=	\$252.44

Pet. Exh. No. 3-R at 42. In comparison, the cost of purchasing and installing a new meter is \$231.25. *Id.*

Moreover, even if the cost of purchasing and installing a new meter were not less expensive than sending the meter back for a replacement under the warranty, it still would not make sense to repair the meters at this point in their service life. The evidence reflects that most of the meters on CUII's system that have been replaced are near the end of their warranty period. Accordingly, replacement minimizes the inconvenience to customers. Furthermore, purchasing the meters in bulk with CUII's parent corporation takes advantage of cost savings through bulk purchasing and provides operational benefits.

Accordingly, we approve the proposed inclusion of meters and meter replacement cost in rate base as proposed by Petitioner.

f. <u>Other Capitalized Costs</u>. The OUCC claims CUII included in its water system rate base certain capitalized costs for filter media replacement, vehicle registrations, large meter testing, a south filter evaluation, etc., and the OUCC recommended excluding \$18,297 of these capitalized costs on the basis that they should have been recorded as operating expenses. Pub. Ex. No. 1, p. 22; *see* OUCC Attachment MAS-2. In rebuttal, Mr. Dickson explained why capitalization of the filter media replacement costs was appropriate. Pet. Exh. No. 4-R, pp. 11-12. He testified that the North Filter Rehabilitation included the replacement of

strainers, which required the removal of the filter's media to be able to perform that replacement. Id. at 16. Because the strainer replacement could not be performed without the removal of the filter's media, the removal of that media is part of the investment that CUII made in the process of that replacement. Id. Mr. Dickson also explained why rate base need not be adjusted for the vehicle registrations. He testified that these items had already been reclassified, resulting in a net zero impact to CUII's utility plant in service from these items, making any further adjustment is unnecessary, as these vehicle registrations were not included in the utility plant in service numbers CUII has provided. Id. at 16; Attachment AD-R02. We find that CUII's capitalization of costs related to its filter media replacement is reasonable and should be included in CUII's water system rate base, because the replacement could not be accomplished without removal of the filter's media. Related to this, we also find that the accumulated depreciation associated with this item should not be removed from rate base. We also find that CUII's water rate base need not be adjusted to reflect the vehicle registrations, because CUII's reclassification effectively removed these items from the Company's water rate base. CUII has agreed to an adjustment of \$8,906 for the removal of costs for large meter testing and the south filter evaluation from CUII's utility plant in service, with an associated adjustment to accumulated depreciation of \$506 (Attachment AD-R02).

B. <u>Wastewater</u>.

Program ("SCIP").

1. <u>Uncontested Issues</u>. At the outset, we take note that Petitioner and the OUCC appear to be in agreement with respect to accumulated depreciation methodology and working capital methodology, although their calculations differ as their rate base recommendations differ. In addition, these parties are in agreement on the treatment of CIAC and the treatment of a wastewater acquisition adjustment.

2. Inflow and Infiltration ("I&I") and Sewer Capital Improvement

a. <u>Petitioner's Evidence</u>. Mr. Lubertozzi 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. Pet. Exh. No. 1, p. 11. He described that CUII was directed to provide detailed plans to measurably improve performance in these three key aspects through the use to primary components: a comprehensive I&I program and a multi-faceted program to decrease incidences of discolored water. *Id.* Mr. Lubertozzi testified that CUII has continued to focus on a comprehensive I&I removal program, consisting of both assessment and corrective action. *Id.* at 13.

He explained CUII's determination 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. *Id.* at 14. Mr. Lubertozzi 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 defect 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. *Id.* at 36-37.

Mr. Grosvenor testified that CUII has made improvements to its wastewater system over the past several years by implementing the Sewer Capital Improvement Projects ("SCIP"). Pet. Exh. No. 3, p. 13. 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. Id. Mr. Grosvenor testified that this includes identifying work regarding the reduction of I&I and any other issues. Id. 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. Id. 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. Id. 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. Id. Mr. Grosvenor stated that CUII will continue to inspect and televise sewer mains, inspect manholes, smoke sewers, and repair defects. Id. Mr. Grosvenor testified that, due to the COVID-19 pandemic, home inspections were discontinued in 2020, but CUII anticipates resuming in 2022. *Id.* at 14.

Mr. Grosvenor testified that, since its last rate case, CUII has completed several capital projects that are now in service. *Id.* 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. *Id.* Mr. Grosvenor testified that in Water Service Corporation ("WSC"), SCIP included CIPP lining of approximately 720 LF of sewer main in 2018. *Id.* 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. *Id.* at 15-16.

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. *Id.* at 18. 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. *Id.* Mr. Grosvenor testified that timely remediation of defects reduces the risk of sudden failures of sewer mains and manholes, which can cause sewer overflows. *Id.*

Mr. Grosvenor testified that, in 2022 and 2023, CUII plans to focus on I&I reduction one basin at a time. *Id.* at 19. He stated that CUII has already repairs 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. *Id.* Mr. Grosvenor testified that to accomplish this, each year, CUII will focus on one basin and make all repairs necessary to eliminate I&I. *Id.* 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. *Id.*

Regarding cost estimates, Mr. Grosvenor testified that SCIP projects have been reoccurring, so costs from year-to-year are fairly consistent. *Id.* at 18. 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. *Id.* 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. *Id.* at 19. 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. *Id.* at 15-16. 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. <u>OUCC's Evidence</u>. OUCC witness Parks testified that CUII should 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 in accordance with the Commission's directives from Cause Nos. 44724 and 45389. Pub. Exh. No. 2, p. 51. He stated that it appears CUII still does not have a comprehensive I&I program. *Id*. at 2.

Mr. Parks testified that CUII should focus on its collection system to find and remove excessive I&I, rather than pursuing lower priority capital projects. *Id.* at 2. He stated that CUII has historically chosen not to find and remove excessive I&I, which has resulted in downstream SSOs and basement backups during significant rain events. *Id.* at 19.

Mr. Parks testified that CUII has not yet installed flow meters on the influent sewers upstream of the WWTP, as recommended by the OUCC. *Id.* at 38. He testified that he still believes CUII should add the meters and pressure gauges, which are relatively low cost and would greatly assist CUII in tracking flows and in locating and removing areas with excessive I&I in its collection system and help assess lift station and forcemain performance issues and the effectiveness of I&I removal efforts. *Id.* at 38.

Regarding CUII's plan to focus on I&I reduction one basin at a time, Mr. Parks testified that CUII did not provide testimony about which basin has the worst I&I or justifications for its approach to focus on one basin at a time rather than finding and repairing the worst I&I sources regardless of basin location. *Id.* at 53. Mr. Parks testified that this appears as if CUII is seeking to change its long-term approach for I&I removal. *Id.* Mr. Parks testified that CUII has not provided an estimate of the total I&I volume, or taken action to determine the level of I&I in its system. *Id.* at 62. Mr. Parks stated that CUII still does not have a Collection System Master Plan or a comprehensive I&I program. *Id.* at 53.

OUCC witness 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.³ Pub. Exh. No. 1, p. 31. The OUCC recommends the level of costs incurred for its 2021 Twin Lake SCIP as reasonable

³ SCIP is referred to as Comprehensive I/I Program in rate base summary tables below.

cost. *Id.* In other words, the OUCC recommended that CUII's investment in wastewater main improvements be limited to \$197,610 annually. See Schedule 7S, p. 1. 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. *Id.* Mr. 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. *Id.*

c. <u>LOFS' Evidence</u>. LOFS witness 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. LOFS Exh. No. 1, p. 4. 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. *Id*. at 10. He testified that CUII has yet to move beyond "plans to investigate and identify" the worst performing basins. *Id*. at 12. LOFS witness Holden testified that I&I has been an issue for decades. LOFS Exh. No. 3, p. 5. He stated that CUII lacks a coordinated effort to identify where I&I is and how to address it. *Id*. at 3. 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. *Id*.

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. LOFS Exh. No. 1, p. 11. 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. *Id*.

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. *Id.* at 13. Mr. Cleveland stated that backups and discharges remain a significant problem for LOFS residents. *Id.*; Attachment RC-2. 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. LOFS Exh. No. 3, p. 7-8. 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) in order to identify areas in most need of repairs; and made repairs based on televising and engineer recommendations, including a main repair and replacement of the Company-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. *Id.* at 8.

d. <u>Petitioner's Rebuttal</u>. In response to the OUCC and LOFS' criticisms of CUII's I&I program, CUII witness Grosvenor reiterated that CUII 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. Pet. Exh. No. 3-R, p. 29. Mr. Grosvenor testified that once repairs are made to that basin, CUII will move to the next worst performing basin. *Id*. 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. *Id*.

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. Pet. Exh. No. 10-R. at 12. He testified that a typical I&I program includes a phased approach to achieve best results. *Id.* at 11. 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. *Id.* at 11-12. 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. *Id.* at 12. 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. *Id.*

Mr. O'Dell testified that CUII has focused its I&I program on assessment and corrective action, and has taken action 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. *Id.* at 12-13. Mr. O'Dell testified that in 2018, a flow monitoring study was completed, which helps CUII target the worst I&I basins. *Id.* at 13. 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. *Id.* at 14. He testified that CUII will focus on one basin and make necessary repairs to reduce I&I. *Id.* 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. *Id.* at 14.

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. *Id.* at 13. 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. *Id.* at 13. 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. *Id.* 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. *Id.* 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. *Id.* at 13-14.

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). *Id.* at 14. 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

Attachment SO-R1. 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. *Id*. at 14-15. Mr. O'Dell testified that he believes CUII has a comprehensive I&I removal program that meets the standards identified by Mr. Holden. *Id*. 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. *Id*. at 16.

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. *Id.* 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. *Id.* Mr. O'Dell testified that capital improvements at a WWTP often go hand-in-hand with I&I removal efforts and should not be halted in this case because of I&I. *Id.* at 17. 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. *Id.*

As to the OUCC's recommendation that costs of the SCIP program be disallowed, Mr. Grosvenor testified 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).⁴ See Attachment LG-R2. Mr. Lubertozzi 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. Pet.

⁴ Mr. Dickson's rebuttal testimony includes the figure inclusive of captime and AFUDC as \$2,619,271. Pet. Exh. No. 4-R at 4.

Exh. No. 1-R, p. 19. Mr. Lubertozzi testified that CUII will then determine what is the most reasonable "least cost" approach to eliminate basement backups and SSOs. *Id.*

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. Pet. Exh. No. 3-R, p. 50. 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. Id. 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. Id. at 51. 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. Id. He testified that the number of verified residential water discoloration complaints annually has remained low. Id. 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 on the whole, 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. <u>Commission Discussion and Findings</u>.

Petitioner's I&I Program. As the Commission has (i) discussed in its previous orders, CUII has faced many challenges related to its I&I, specifically related to SSOs, manhole overflows, and drinking water discoloration. In CUII's last rate case, we ordered CUII to develop and implement a comprehensive I&I program and a multi-faceted program to decrease incidences of discolored water, both focused on achieving the following goals: (a) to decrease total incidences of wastewater backups in homes, (b) to decrease total incidences of manhole overflows, and (c) to decrease total complaints of discoloration of drinking water ("Three Key Aspects"). Cause No. 44724, p. 76 (IURC Jan. 24, 2018). The Commission further required that these program plans needed to include descriptions of the activities, measurable outcomes, cost-benefit analyses, and timelines. Additionally, the Commission stated that "Petitioner shall propose capital investments that require Commission approvals and suggested timetables for the filings and approvals. For proposed significant capital investments, Petitioner shall provide proper documentation of engineering studies and detailed competitive bids from contractors to support Petitioner's proposals." Id. In Cause No. 45389, we did not approve the projects CUII proposed in that proceeding because, at that time, in our view CUII had not presented evidence demonstrating it had made a "meaningful attempt to date to achieve I&I removal as set forth in the 44724 Order." Cause No. 45389, p. 13-16 (May 5, 2021).

In this proceeding, however, the evidence of record demonstrates that CUII has taken meaningful action towards reducing its I&I. Mr. O'Dell and Mr. Grosvenor testified that CUII has taken many steps, including flow monitoring, sanitary sewers televising, manhole inspection, smoke testing, dyed water testing, private lateral inspections, and home inspections, and more. As Mr. O'Dell persuasively testified, I&I remediation is a multi-year, ongoing effort, and the evidence demonstrated that CUII has been, and remains, engaged in such a program. Mr. O'Dell testified that work is underway by Baxter & Woodman to address Basin 10, which has been identified as

CUII's worst performing basin in regards to I&I. With the exception of night flow inspections, which CUII has not completed because of staffing and safety concerns, CUII has implemented all the components of a comprehensive I&I program, even as described by LOFS witness Holden in Cause No. 45389. All these actions by CUII are indicative of a utility that has a comprehensive I&I program. LOFS' characterization of these CUII's efforts as only planning to investigate and identify or failing to meaningfully address I&I are not supported by the evidence. Furthermore, Petitioner's performance metrics reports filed in Cause No. 44724 and summarized in Mr. Grosvenor's testimony indicate that CUII has made meaningful and measurable progress toward many of its objectives in having an I&I program.

The record reflects that CUII has taken a serious approach in addressing I&I and we encourage CUII to continue making strides in mitigating the impact of I&I. To that end, we encourage CUII to continue its progress in implementing a "one basin at a time" approach to reducing I&I. We further find that the "one basin at a time" approach that CUII is undertaking is appropriate and reasonably designed to systematically reduce excess I&I from its system. As discussed elsewhere, we also believe that the continuous nature of I&I remediation should not serve as an impediment to CUII making other necessary improvements to its system, such as the WWTP improvements, particularly where the proposed capital improvements work hand-in-hand with I&I remediation efforts.

(ii) <u>OUCC's Proposed Disallowance of SCIP Costs</u>. Notwithstanding the concerns raised by the OUCC and LOFS in this proceeding and prior proceedings regarding I&I, the OUCC recommends that CUII's investment in wastewater main improvements in the Twin Lakes system be limited to \$197,610 annually. We find that adoption of such a recommendation would substantially impair Petitioner's ability to effectively mitigate the impacts of I&I on its system and would be inconsistent with our directives in prior Orders. In Cause No. 44724, we ordered CUII to put more efforts into I&I reduction and the SCIP program is the mechanism through which it addresses those directives. Specifically, in Cause No. 44724, we found:

> Petitioner shall 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. The I&I program shall specifically address how Petitioner will decrease inflow of rain and storm water into the wastewater system by working with LOFS to eliminate improperly installed residential sump pumps and roof downspouts and illegally connected drains. The I&I program shall also utilize Petitioner's comprehensive asset program to decrease infiltration of groundwater into the wastewater system through leaky joints, cracked pipelines, and deteriorated manholes.

Order in Cause No. 44724 at 76. We reiterated these findings in Cause No. 45389 and found "that CUII should prioritize its I&I program." Order in Cause No. 45389 at 13.

In this case, CUII has presented evidence that it intends to prioritize its I&I program. The manner in which Petitioner will do that, as described above, is to focus on "one basin at a time."

CUII will investigate and identify its worst performing basins with respect to I&I and eliminate all known defects. Once the repairs are made to that basin, CUII will move to the next worst performing basin. Mr. Grosvenor testified that he expects significant work to begin in summer 2022 to correct defects in Basin 10. CUII has received an engineer's Technical Memorandum and cost for the repairs to just Basin 10 in the amount of \$2.5 million (not including forecasted captime and AFUDC). In other words, the cost just to correct the known defects in Basin 10 is effectively double the estimated SCIP costs included in Petitioner's case-in-chief—and more than three times what the OUCC proposes to limit CUII's spending to. Despite the contents of the Technical Memorandum with respect to Basin 10, CUII has maintained its forecasts from its direct case. However, the Technical Memorandum's costs for Basin 10 reflect the reasonableness of the forecasts included in CUII's revenue requirement request. Accordingly, adoption of the OUCC's recommendation would prevent CUII from making the type of real progress in reducing I&I that the Commission has directed CUII to make in Cause Nos. 44724 and 45389.

As indicated above, we encourage CUII to continue its I&I remediation efforts in the future. Accordingly, we approve CUII's proposal to include in rate base investments in the Twin Lakes SCIP for 2021 of \$150,663 and \$521,086 for each of 2022 and 2023. *Id.* at 15-16. We also approve inclusion in rate base of amounts up to the uncontested investment levels for SCIP in the WSCI system of \$26,523 in 2021 and \$44,999 for 2022 and 2023.

3. <u>Lateral Replacements</u>.

a. <u>Petitioner's Evidence</u>. 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) are in need of replacement. Pet. Exh. No. 3, p. 22. 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. *Id.* at 23. 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. *Id.* 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. *Id.* at 24. Mr. Grosvenor stated that CUII plans to complete as many lateral replacements as possible within the estimate for each year. *Id*; see Attachment LG-5.

Mr. Grosvenor testified that the Company would prefer to replace laterals on both the Company-side and property owner-side at the same time, which would allow for replacement in a more cost-effective and efficient manner than requiring individual property owners to identify contractors and complete the replacements on their own. *Id.* at 23.

b. <u>OUCC's Evidence</u>. Mr. Parks recommended the Commission disallow CUII's proposed sewer lateral replacement program in its entirety, given the number of unquantified costs, the impact on customer rates, ownership issues, and other higher CUII priorities for sewer repairs. Pub. Exh. No. 2, p. 3. He testified that CUII wants to replace the company-side and the customer-side of the lateral at the same time, and seeks to include the total cost in rate base. *Id.* at 58. He also testified that CUII responded to a LOFS data request, saying it

seeks only to replace the utility side of the lateral, while requiring the customer to pay for repairs or replacements on the customer's side of the lateral. *Id.* at 61.

Mr. Parks testified that CUII has not presented evidence indicating how many customer laterals are defective, how many can be repaired, or how many will have to be replaced in their entirety. *Id.* at 61. Mr. Parks testified that CUII has not stated how much I&I originates from defective customer laterals, nor has it stated how it will track success of the lateral replacement project. *Id.* at 62. Mr. Parks also testified that CUII's estimated costs are likely low based on his experience with other capital projects and projects the cost would be about \$3 million. *Id.* at 65.

c. <u>LOFS's Evidence</u>. 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. LOFS Exh. No. 1, p. 3-4. 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. *Id.* at 14. Mr. Cleveland stated this proposal is unfair to customers that have already paid to repair or replace their own laterals. *Id.* 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. LOFS Exh. No. 3, p. 13. Mr. Holden also testified that because the laterals are privately owned, CUII cannot force entry to perform the work. *Id.* Mr. Holden testified that lateral connections on private property should remain the property of homeowners. *Id.*

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. LOFS Exh. No. 1, p. 14. 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. *Id.* 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. *Id.*

d. <u>Petitioner's Rebuttal</u>. In response to Mr. Parks' recommendation that the lateral replacements be disallowed, Mr. Grosvenor testified that doing so would be handcuffing CUII from dealing with I&I in upcoming years and would result in CUII not even able to attempt to find and replace laterals contributing to I&I on its system. Pet. Exh. No. 3-R, p. 25. Regarding Mr. Parks' 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. *Id*. 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. *Id*.

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. *Id.* at 26. Mr. Grosvenor testified that, in response to LOFS Data Request No. 1.07, CUII stated, "CUII is only replacing laterals on the Companyowned side of the main." *Id.* 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. *Id.* 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. *Id.*

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. *Id.*; Pet. Exh. No. 1-R at 2.

e. <u>Commission Discussion and Findings</u>. CUII presented evidence that investigations have identified that sewer laterals (CUII side and property owner side) contribute to I&I in the Twin Lakes sewer system. CUII estimates that approximately 10% of the sewer laterals in the system are in need of replacement. The Company has lateral televising data from inspections and has identified between 8% to 12% of laterals may need replacement. This indicates that system-wide, a replacement percentage of 10% may be appropriate, leading to a total of approximately 315 laterals to be replaced. CUII estimated lateral replacement cost of \$342,092 in 2022, and \$358,967 for 2023.

OUCC witness Parks' recommended that the Commission "disallow CUII's proposed sewer lateral replacement program in its entirety" because it had not identified the addresses where laterals would be repaired. However, the sewer lateral replacement program is an important component of CUII's efforts to address I&I on the system. Mr. Grosvenor noted that, lateral repair or replacement is likely to become an ongoing cost as the collection system, including the laterals, continues to age. In fact, RJN Group, Inc. examined ninety laterals on CUII's system during a 2018 Sanitary Sewer Evaluation Study and found that forty had defects. Accordingly, disallowing costs associated with the lateral replacement program would effectively handcuff CUII's ability to address I&I on its system.

Mr. Parks inconsistently suggested that the CUII's estimates for the cost of replacing laterals may be too low. While inflation may impact the number of replacements that CUII can complete at the cost it has requested to be included in rate base in this proceeding, we cannot conclude that increasing prices are a basis to forego necessary work that will reduce I&I on the system,

Mr. Parks also suggested there was confusion as to whether CUII intended to replace all or part of the lateral. CUII clarified that it is proposing to replace only the Company-owned side of the lateral—the cost of which is proposed to be included in rate base—while working with the customer, potentially with the support of LOFS Property Owners' Association, to have the customer replace its own portion of the lateral simultaneously to save cost and increase efficiency. CUII will not become the owner of the customer-owned portion of the lateral, nor will the cost of replacing the customer-owned portion be included in CUII's rate base. Notably, LOFS indicated that it was willing to seek approval from its Board to require homeowners to fix their portion of the lateral as a condition to selling their home, so long as CUII commits to notifying the customer when such repairs are necessary. We encourage CUII to work collaboratively with LOFS to notify customers and encourage customers to make necessary lateral repairs so that both the customer and CUII portion of the lateral can be replaced simultaneously. Based on the foregoing 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 case-in-chief. We find Petitioner's proposed lateral replacements reasonable and in the public interest, and an important component of CUII's I&I program. Moreover, we note that in its rebuttal testimony, Petitioner provided the cost of replacing just the laterals in its worst performing basin – Basin 10. Attachment LG-R2. That attachment shows that the Basin 10 lateral repair costs alone is approximately \$1 million, which further supports Petitioner's estimated lateral repair and replacement cost.

4. <u>Lift Station L Forcemain.</u>

a. <u>Petitioner's Evidence</u>. CUII witness 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. Pet. Exh. No. 3, p. 24. 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 8inch in diameter. *Id.* Mr. Grosvenor testified that CUII hired Baxter & Woodman to analyze the benefits of replacing the 8-inch PVC section and/or cleaning the forcemain. *Id.*; see Attachment LG-6. Mr. Grosvenor testified that, based on this analysis, CUII decided that replacing the 8-inch section of the forcemain would enable CUII to improve the pumping capacity of Lift Station L. *Id.* He also stated that removing the 8-inch section would provide CUII the ability to effectively clean (pig) the forcemain in the future. *Id.*

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. *Id.* at 24.

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. *Id.* at 25. 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. *Id.*

b. <u>OUCC's Evidence</u>. Mr. Parks recommended that the requested costs for the Lift Station L Project be disallowed. Pub. Exh. No. 2, p. 67. He testified that CUII did not sufficiently prove a loss of capacity in the Lift Station L force main due to the existing 8-inch forcemain segment, or that there is any operational need to increase the forcemain capacity. *Id.* at 51. He argued that CUII should install flow meters on the influent sewers upstream from the WWTP. *Id.* at 49. Mr. Parks also testified that CUII does not have record drawings showing the actual construction of Lift Station L. *Id.* at 40. Additionally, Mr. Parks testified that Lift Station L has had a hydraulic bottleneck since 2003, and that the lift station was designed for more homes than are currently connected. *Id.* at 41. He stated that Lift Station L actually has pump capacities significantly above CUII's estimated capacities. *Id.* at 44.

c. <u>Petitioner's Rebuttal</u>. In response, CUII witness O'Dell testified that Lift Station L does have a maintenance and capacity issue due to the 8-inch bottleneck segment in Lift Station L's force main. Pet. Exh. No. 10-R, p. 4. Mr. O'Dell testified that the reduction in pipe size from a 12-inch diameter pipe to an 8-inch diameter pipe restricts the flow and limits the system to pump at an 8-inch diameter capacity only. *Id.* 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. *Id.* He explained that the reduction in pipe diameter in situations like this makes the force main cost prohibitive to clean, evaluate, and rehabilitate. *Id.* 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. *Id.*

In response to Mr. Parks' 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. *Id.* at 5. 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 8-inch bottleneck. *Id.*

In response to Mr. Parks' testimony that CUII lacked record drawings, Mr. O'Dell testified that the information CUII provided Baxter & Woodman was adequate and typical. *Id.* 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. *Id.* at 6.

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. *Id.* 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. *Id.*

Mr. O'Dell testified that Mr. Parks' 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. *Id.* at 7. Mr. O'Dell testified that the pumps were improved in 2003 and 2017, but since those dates, capacity has not increased. *Id.* 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 in an attempt to maximize its useful life. *Id.* Mr. O'Dell testified that the and inspected. *Id.*

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. *Id.* at 9. Mr. O'Dell testified that the project is needed to clean and optimize the operation of Lift Station L, and replacement of the 8-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. *Id.* 10.

d. <u>Commission Discussion and Findings</u>. The evidence of record indicates that the Lift Station L forcemain bottleneck replacement would improve the pumping capacity of Lift Station L and extend its useful life by permitting CUII to effectively and efficiently clean the force main, pumps, and pumping station. As Mr. O'Dell explained on cross-examination, soft pigging is not recommended for an aged forcemain such as the one at issue here. Once the bottleneck is resolved, Petitioner will be able to clean the forcemain in a manner appropriate for the age of the forcemain. We reject the OUCC's proposal to require installation of flow meters, which would add additional, unnecessary cost without resolving the underlying issues associated with the bottleneck. Petitioner's proposed \$438,848 associated with the Lift Station L forcemain is approved for inclusion in rate base.

5. Lift Station C Generator.

a. <u>Petitioner's Evidence</u>. 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. Pet. Exh. No. 3, p. 22. Mr. Grosvenor testified that the current trailer-mounted generator is located in an area visible to many homes and the golf course. *Id.* 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. *Id.*

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. *Id.* The project is anticipated to begin November 1, 2022. *Id.* at 15.

b. <u>OUCC's Evidence</u>. OUCC witness Parks testified that Petitioner has failed to show why the Lift Station C generator project is necessary. Pub. Exh. No. 2, p. 3. He recommends that CUII provide a fence with shrubs or plant shrubs as a visual barrier to minimize the public's view of the existing generator. *Id.* at 3.

c. <u>Petitioner's Rebuttal</u>. 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. Pet. Exh. No. 3-R, p. 30. Mr. 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. *Id*. at 31. 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. *Id*.

d. <u>Commission Discussion and Findings</u>. No party objected to the reasonableness of the cost of the proposed permanent generator. Instead, the OUCC recommended that CUII continue to operate the temporary generator and surround it with shrubs.

The evidence of record, however, demonstrates that replacement of the Lift Station C generator is both needed operationally and has been supported by the community. We agree with CUII Witness Grosvenor that continuing to power a lift station with a temporary trailer mounted generator in perpetuity does not make operational sense. The evidence also reflects that a permanent generator would provide an automatic transfer switch (ATS), the lack of which creates safety concerns for not only staffing (who must physically go out and transfer power and start the generator), but also surrounding residents with the exposed power cords and plugs. Moreover, the impacted community has requested that CUII remove the trailer-mounted generator. Lift Station C is located in an area visible to many homes and the golf course.

The OUCC's recommendation would only delay the resolution of the foregoing issues and perpetuate the safety concerns identified by CUII. Accordingly, we find that the project is reasonable and necessary and that the cost of the project should be included in rate base.

C. <u>Headworks/Chemical Building.</u>

Petitioner's Evidence. CUII witness Grosvenor testified to the need 1. for the new Headworks building, stating that the headworks hydraulic capacity is inadequate and leads to surcharges in the collection system. Pet. Exh. No. 3, p. 26. 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. Id. Mr. Grosvenor testified that rags and other debris can clog or damage pipes, pumps, rotors, and other WWTP equipment. Id. 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. Id. 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 extent the useful life of the equipment. Id. 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. Id. at 26-27.

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. *Id.* at 27. Mr. Grosvenor testified that the offices are proposed to replace the office space the Company currently rents, which includes three offices and a conference room that can seat eight people. *Id.*

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. *Id.* 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. *Id.* at 27-28.

Mr. Grosvenor testified in his direct testimony that the cost CUII is proposing in rate base is \$2,296,298. *Id.* at 16. 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. *Id.* at 28. He testified that the total cost for the Headworks building includes: (i) the estimated cost of the facility at a 90% opinion of the probable cost multiplied by an inflation factor of 1.2; (ii) an additional 10% for engineering cost; and (iii) IDC and Cap Time costs. *Id.* 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). *Id.* Mr. Grosvenor testified that only the costs included in rate base will be costs actually expended to construct the Headworks. *Id.*

2. <u>OUCC's Evidence</u>. OUCC witness Parks testified that the Headworks project does not help locate or reduce I&I and therefore should not be approved. Pub. Exh. No. 2, p. 5. He testified 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. *Id.* at 66-67. Mr. Parks testified that CUII's case-in-chief provides insufficient information for its request to build a Headworks, meaning the OUCC cannot analyze the project design and its status. *Id.* at 7. Mr. Parks testified 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. *Id.* at 8.

Mr. Parks testified that the 14.0 mgd peak hourly flow is too large due to influent flow meter inaccuracies during high flows caused by surcharging of the Parshall Flume. *Id.* at 11. Mr. Parks testified that CUII's water usage is declining, approximately 30% over 20 years. *Id.*

Mr. Parks recommends that the Commission disallow the \$2,296,298 for the Headworks project. *Id.* at 66. He also testified that CUII's cost estimate is unsupported and probably low, as it is missing components such as site work, site piping, the Influent Junction Chamber, and the Grit Collector. *Id.* at 14. Mr. Parks stated that the Twin Lakes WWTP has never had automated mechanical screens, but previously had two bar racks and a comminutor in an uncovered concrete comminutor structure. *Id.* at 18. Mr. Parks testified that CUII removed the comminutor in July 2013. *Id.* at 20. Mr. Parks testified that a comminutor, also known as a grinder, shreds rather than removed smaller solids that pass through a bar rack, for the purpose of preventing clogged or damaged downstream pips and equipment while minimizing floating solids on aeration basins, clarifiers, and other treatment tanks. *Id.* 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. *Id.*

Mr. Parks testified that a far less costly alternative would be to reinstall a comminutor to address screenings and prevent potential WWTP hydraulic back-ups. *Id.* at 67. He testified that the American Suburban Utilities' ("ASU") 3.0 MGD Carriage Estates WWTP has dual 4,600 gpm (6.6 MGD) comminutor, which cost about \$30,000 each. *Id.* at 23. Mr. Parks testified that IDEM renewed the Twin Lakes WWTP National Pollutant Discharge Elimination System ("NPDES") permit in 2018, which noted a bar screen and comminutor. *Id.*

Mr. Parks testified that CUII provided no evidence that the Headworks are the cause of basement backups or SSOs. *Id.* at 24. Mr. Parks recommends the Commission disallow the

Headworks project because CUII has not adequately described what it plans to construct; not identified the design capacities; failed to justify the projects' need; not supported its estimated costs; and not identified alternatives or performed a life cycle cost benefit analysis. *Id.* at 26.

Regarding the proposed Chemical and Office Building, Mr. Parks testified that the current manner in which CUII stores chemical feed equipment, alum chemical, and metering equipment is not at all problematic, which reduces the necessity of a new Chemical Building. *Id.* at 31. Mr. Park 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. *Id.* at 32.

He testified that he believes the Office Building is a lower priority project due to CUII's ability to rent spaces in the community. *Id.* Mr. Parks testified that CUII's case-in-chief includes only a \$500,000 high-level estimate of the Office/Chemical Building without any details. *Id.* at 29. Mr. Parks recommends that the Commission disallow the cost of the project in its entirety, and urges CUII to focus on removing I&I from its system as opposed to lower priority capital projects like new offices.

3. LOFS 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. LOFS Exh. No. 1, p. 10. He testified that CUII has not provided enough certainty for its proposed Headworks project to allow for LOFS' engineers to adequately evaluate the proposed costs. Id. 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. Id. at 10-11. 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. Id. at 11. Mr. 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. LOFS Exh. No. 3, p. 16. He testified that facilities of similar size are typically designed without a redundant automated screen and without automated influent gates. Id. at 9-10. 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. LOFS Exh. No. 3, p. 16. 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. *Id.* at 11. 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. *Id.* He recommends that CUII have separate structures, which will likely result in a safer and more cost-effective solution for CUII. *Id.* at 11-12.

4. <u>Petitioner's Rebuttal</u>. CUII witness 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 is proposing a new proposed design-build of a Headworks/Chemical Building without the originally proposed office space. A detailed list of Headworks/Chemical Building design components are included in Attachment AS-R1. Ms.

Streicher testified that the proposed Chemical/Office Building was a project carried over from Petitioner's WWTP Expansion Project proposed in Cause No. 45389, and that Baxter & Woodman was repurposing the design for that facility as this proceeding was ongoing. Pet. Exh. No. 9-R, pp. 4-5. She testified that the decision was made, partially in response to the testimony of the other parties in this case, to remove the office space from the Design-Build proposal. *Id.* Ms. Streicher testified that this approach addresses the two most pressing needs, as suggested by Mr. Holden: (i) creating a separate space for chemical storage; and (ii) completing the long overdue Headworks project. *Id.* Ms. Streicher stated that although the need for the office spaces still exists, the priority is the Headworks and the Chemical Building. *Id.* She testified that the final structure includes a Headworks/Chemical Building combined in a single structure with an associated electrical room. *Id.* Mr. Grosvenor testified that the new facility is expected to be placed in service before September 2023. Pet. Exh. No. 3-R at 4.

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 (aluminum sulfate) to remove phosphorous from the process water. Pet. Exh. No. 9-R at 6. She testified 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. *Id.* 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. *Id.* She stated that HVAC is necessary to protect equipment from freeze potential, and to help control humidity and maintain appropriate working conditions, and that all these are included in the proposed design. Ms. Streicher stated that the design addresses the concerns of Mr. Holden by eliminating interconnection between spaces. *Id.*

Ms. Streicher testified that she disagrees with Mr. Parks' assertion that the garage could be a permanent solution for chemical storage. *Id.* at 14. 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. *Id.* Ms. Streicher testified that she designed the current space with a temporary permit, and that a permanent facility was intended with the WWTP expansion project denied in Cause No. 45389. *Id.*; Transcript G-47, lines 9-11. 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 costs on the equipment. Pet. Exh. No. 9-R, p. 14. Ms. Streicher testified that, since the expansion project did not move forward, a more permanent solution is necessary for the chemical storage so that CUII can use its garage facilities as intended. Tr. G-48, lines 9-12.

Ms. Streicher testified that she agrees with the testimony of Mr. Holden, who testifies to the health concerns of human contact or proximity to alum. Pet. Exh. No. 9-R, p. 15. She attached a material safety data sheet for aluminum sulfates in liquid form as Attachment AS-R3, which directs seeking medical attention if any exposure or contact has occurred. Ms. Streicher testified that that storage recommendations from the supplier CUII uses for its alum suggest keeping the material in a dry, cool, and well-ventilated place, and away from other materials, which is not the current condition of the chemical stored in the garage. *Id.* at 16. Ms. Streicher testified that she

does not agree that IDEM would allow CUII to permanently store chemicals in its garage. *Id.* at 16.

Regarding the Headworks portion of the facility, Mr. Fischer testified that the revised design 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; chemical feed room; and Parshall Flume flow meter. Pet. Exh. No. 8-R, p. 7-8. 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. Id. at 8. 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. Id. 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 is designed that way to keep the offline screen clean and reduce its wear and tear. Id. at 38. 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. Mr. Fischer testified that the manually-cleaned screens will only be used when one of the two new mechanically-cleaned screens is out of service. Id. at 8.

Mr. Fischer testified that the existing screen has a capacity of 7 mgd, and this is undersized because the predicted peak hourly flow is estimated to be about 14 mgd. *Id.* at 36. 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. *Id.* at 37. Mr. Fischer testified that the 14.0 mgd design peak hourly capacity is appropriate, based on analyses done by other engineers retained by CUII. *Id.* at 12. Mr. Fischer described the engineers' analyses and testified that it is prudent to size the Headworks for worst case conditions, for which 14.0 mgd would be appropriate. *Id.* at 14. 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; he testified that the revised plan will be appropriate for a plant of its size. *Id.* at 39.

Regarding Mr. Parks' 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. *Id.* at 14. He testified 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. *Id.* Mr. Fischer also testified 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. *Id.* at 18.

Mr. Grosvenor testified to the importance of a headworks at a wastewater treatment plant because of its role in removing or reducing debris and grit from the effluent coming into the treatment plant. Pet. Exh. No. 3-R, p. 3. Mr. Grosvenor testified that for headworks that do not have automatic screens, the screen must be continuously manually cleaned or "raked," otherwise they become clogged or blinded, which leads to surcharging and ultimately, SSOs or basement

backups. *Id.* Mr. Grosvenor testified that when a blinded screen is cleaned, surcharges at the WWTP can occur due to a sudden rush of wastewater. *Id.* Mr. Grosvenor stated that automatic screens, conversely, allow a continuous and uniform flow into the treatment process. *Id.* Mr. Grosvenor described the operational difference between an automated bar screen as compared to a manual screen, which he describes as "night and day." *Id.* at 4. Mr. Grosvenor's testimony included pictures of the current Headworks facility, and he testified to the substantial risk staff are exposed to during storm events when bar screens are most likely to become plugged. *Id.* at 5-6. Mr. Grosvenor testified that automated bar screens not only make cleaning easier, but they also improve the flow conditions at the wastewater treatment plant and are more efficient, safer, and less prone to result in surcharge events. *Id.*

Mr. Fischer testified that the large solids in wastewater, including rags, tampons, condoms, so-called "flushable" wipes, and other solid materials, can plug and interfere with the treatment process. Pet. Exh. No. 8-R, p. 4. 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, also known as the "First Flush." *Id.* Mr. Fischer testified that if these large solids are not removed initially when they enter the WWTP, they can cause havoc on the treatment system by plugging pipes, pumps, and nozzles; accumulating on submerged cables, guide rails, and motors; and take up space that is needed for treatment in tanks. *Id.* 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 coming into contact with bacteria-laden raw sewage and sludge. *Id.* at 5. Mr. Grosvenor testified that the plugs in CUII's system can be as large or larger than a desk, and referred to them as "fatbergs." Tr. C-34, lines 3-14.

Mr. Fischer testified that Mr. Parks' 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. Pet. Exh. No. 8-R, p. 22. Mr. Fischer stated 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. *Id.* at 22. Mr. Fischer testified that the 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. *Id.* at 22-23. Mr. Grosvenor testified that historically, smaller plants have been able to rely on manual bar screens to catch debris, but over the last 10-15 years, there has been a significant increase in the amount of disposable wipes in the waste stream, which increases the amount of cleaning needed for the screens to not become blinded. *Id.* at 16.

In response to Mr. Parks' testimony that the Twin Lakes WWTP has never had automated mechanical screens, Mr. Grosvenor testified that that fact does not mean the utility should forever operate as it has in the past. *Id.* at 15. He testified that manual screens require manual cleaning, particularly during rain and storm events. *Id.* 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. *Id.* Mr. Grosvenor testified that manual raking is a safety concern, particularly when operators have to 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. *Id.* at 22.

Regarding Mr. Parks' 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 and can no longer rely on cheap labor to deal with the plugging and other problems. Id. at 24. Mr. Fischer testified that the WWTP in Twin Lakes is permitted with capacity at 1.1 mgd, so Mr. Parks' testimony that the comminutors are typically used at smaller WWTPs (less than 1.0 mgd) like Twin Lakes is incorrect. Id. at 25. Mr. Fischer testified that the use of comminutors at treatment facilities is not common anymore because in many cases, comminutors simply do not work. Id. at 27. Mr. Fischer stated that even when the comminutor is cutting up rags and other solids, the cut-up solids still cause problems downstream by agglomerating and reweaving themselves. Id. at 27. Mr. Fischer testified that in his 40+ years of experience, he and his counterpart wastewater treatment engineers do not use comminutors in headworks designs. Id. He testified that he recommends screens that remove the material so that solids do not cause any problems in downstream treatment processes. Id. at 27-28. Mr. Fischer testified that he did not agree with Mr. Parks' recommendation to re-install a comminutor and that doing so would be poor engineering practice. Id. at 28, 34.

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 its denial in Cause No. 45389. *Id.* at 10. Mr. Grosvenor testified 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/Chemical Building under a Design-Build project delivery method was \$4,031,300 (exclusive of captime and 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' estimate for a headwork alone. Pet. Exh. No. 9-R at 5. In response to Mr. Parks statement that CUII's original estimate was missing components such as site work, site piping, the Influent Junction Chamber, and the Grit Collector, Ms. Streicher testified that the Grit Collector was able to be eliminated, but CUII did include an Influent Junction Chamber and other improvements, including: a new Influent Junction Chamber for constructability and by-pass considerations; a new Flow Splitter Structure with capacity for a future 4th 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. Id. at 9. 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/Chemical Building. Id. Ms. Streicher agreed with Mr. Parks' 20% inflation factor, and testified that the current inflation rate averages to about 1% per month of inflation. Tr. G-46, line 6. She testified that the Building Cost Index identified an annual inflation rate for 2022 of 15.3%, and recent article have shown an 8.5% inflation rate for the Construction Cost Indices in 2022, which averages to 11.9% for 2022. Pet. Exh. No. 9-R at 10. Ms. Streicher testified 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. Id. Ms. Streicher testified that the project delivery method recommended is Design-Build, which is more advantageous than bidding a large, combined project for a variety of reasons that she describes. Id. at 12.Ms. Streicher testified that the current Headworks/Chemical Building price is being held firm until September 25, 2022. Id.
Mr. Grosvenor testified that, while there is no way to attribute a particular SSO or basement backup to the surcharges at the Headworks system directly, it is his opinion that backups at the Headworks have been a contributing factor. Pet. Exh. No. 3-R at 17-18. Mr. Grosvenor stated 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 inevitably leads to SSOs and likely basement backups, even though the Headworks may not have been identified as the direct cause of the issue. *Id.* at 18. Mr. Grosvenor testified that this situation will continue without automatic screens. *Id.*

Mr. Grosvenor disagreed with Mr. Parks' criticism that CUII has not justified the need for the Headworks project—he stated that a new Headworks has been consistently identified as a crucial need going back at least two cases before the Commission and was discussed at length in both of those cases. *Id.* at 6. Mr. Grosvenor testified that in Cause No. 45389, LOFS witness Holden agreed that the Headworks improvements is a "pressing need." *Id.* at 8. Mr. Fischer testified that the Headworks is a crucial component of the system and should not be neglected, and that CUII's current Headworks facility is beyond its useful life without upgrades and has insufficient capacity. Pet. Exh. No. 8-R at 25.

Ms. Streicher testified that unlike what Mr. Parks suggests, the Headworks/Chemical Building should not be considered a lower priority project because of the hazards identified, and separating maintenance activities and storage of heavy machinery/equipment should be an immediate priority. Pet. Exh. No. 9-R at 17. Ms. Streicher testified that CUII's I&I improvement projects are unrelated and do not negate the need for the Headworks/Chemical Building. *Id.* Mr. Grosvenor testified that the need for the Headworks continues to grow—the current Headworks hydraulic capacity continues to be inadequate, leading to surcharging, basement backups, and SSOs, and rags and debris continue to plague the treatment process, causing blockages and unnecessary wear on pumps and mechanical components. Pet. Exh. No. 3-R, p. 11. He 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 rags that should have been removed through proper screening. *Id.* at 17-18. Mr. Grosvenor testified that the pressing need for the Headworks is why CUII has continued to press forward with continuing the project. *Id.* at 11.

5. <u>Commission Discussion and Findings</u>.

a. <u>Background Regarding Headworks</u>. As it proposed in its last rate case (Cause No. 44724) and its preapproval proceeding (Cause No. 45389), CUII is proposing to replace its historic outdoor Headworks, which relies on manual bar screens, with a new Headworks/Chemical facility that is fully enclosed and includes automated bar screens. In Cause No. 44724, Petitioner's former Vice President of Operations for the Midwest and Mid-Atlantic Regions testified:

> A new structure will be added to the head of the plant which will employ the use of a mechanical step screen to remove the nonbiodegradable solids from the wastewater. It will also have a grit removal system to remove sand-like debris from the wastewater before it enters the plant. The removal of these two types of solids

will allow for more efficient solids removal and reduce future. A new structure will be added to the head of the plant which will employ the use of a mechanical step screen to remove the nonbiodegradable solids from the wastewater. It will also have a grit removal system to remove sand-like debris from the wastewater before it enters the plant. The removal of these two types of solids will allow for more efficient solids removal and reduce future maintenance requirements within the WWTP along with aiding in the reduction of potential blockages and backups within the plant. Finally, the entire headworks structure will be covered with a building, enhancing the previous efforts to reduce sewer odors emitting from the headworks structure. The building will be equipped with fresh air intakes, use of the existing odor-scrubbing carbon media air filter(s), and will be heated within the building during the winter months.

Cause No. 44724, Pet. Exh. No. 3, p. 11.

Ultimately, in order to address other pressing needs of the system, CUII elected to delay the project and remove it from rate base in Cause No. 44724. CUII proposed the second iteration of the headworks project in Cause No. 45389, in which it sought preapproval of the expansion of its wastewater treatment plant. CUII's former Director of Engineering & Asset Management testified:

The headworks hydraulic capacity is inadequate and leads to surcharging of the collection system. Basement backups in customers' houses have been observed due to inadequate headworks capacity....

Rags and other debris can clog or damage pipes, pumps, rotors, and other equipment within wastewater treatment plants. Automated mechanical headworks are typical of other facilities of similar size. An automated screen removes the need for manual racking by operators and reduces the potential for screen blinding during peak flow events that occur aside from normal working hours. . . . Bid alternates for the headworks are discussed later in this testimony. The headworks building is necessary to protect the headworks equipment. Automated mechanical screens have moving parts and water lines that are susceptible to freezing. Housing the headworks indoors should also extend the life of the equipment by reducing deterioration of the metal structure and degradation of the moving parts. The Company discussed outdoor installations of headworks with two other utilities with a similar arrangement. Both utilities identified operational challenges during winter. The headworks building will house the electrical and controls equipment for the headworks, as well as ancillary equipment such as the automated sampler. Due to the corrosive nature of gas from raw wastewater,

headworks buildings are typically constructed of masonry materials rather than metal or wood. Additional ventilation and electrical safety requirements were implemented due to the explosion potential of gas from raw wastewater.

Cause No. 45389, Pet. Exh. No. 2, p. 12, 49.

In Cause No. 45389, LOFS witness Holden categorized the Headworks improvements as a "pressing need" but suggested the project could be completed for a lower cost. Cause No. 45389, LOFS Exh. No. 2, p. 23. Mr. Holden testified:

The revised headworks can be constructed to accommodate the influent flows without the need for the influent pump station. The addition of the pump station is intended to provide a higher water surface elevations in the oxidation ditch and proposed clarifiers. The result will be increased capital and operational costs. The construction cost associated with this unnecessary portion of the project is: \$1,012,000.

Id. at 20. Therefore, in Cause No. 45389, Mr. Holden recommended that the Commission "reduce the pre-approval for" the project by that amount. *Id.* at 21.

In our May 5, 2021 Order in Cause No. 45389, we rejected CUII's proposed wastewater expansion project and declined "to carve individual projects out" of CUII's proposed wastewater treatment expansion project. 45389 Order, p. 15. We, however, noted that our denial of the preapproval of the cost for the project did not preclude CUII from constructing components of the project and seeking to include those components into rate base in a rate case. Nor did our Order in Cause No. 45389 preclude CUII from seeking approval of a Headworks project in this case. Accordingly, in this case, CUII presented what LOFS characterized as the third iteration of the Headworks facility to be constructed in 2023. CUII tasked Baxter & Woodman with redesign of the project to be independent of the wastewater treatment plant proposed in Cause No. 45389. Given the timing of the Order in Cause No. 45389 and the fact that the Headworks was not to be constructed until 2023, the redesign was still ongoing at the time Petitioner filed its case-in-chief in this case. The iteration of the Headworks project that Baxter & Woodman designed for this proceeding is similar to that presented in Cause No. 45389, but also addresses another need of the system—the need for a dedicated space to store chemicals.

As further discussed below, the Headworks continues to be a critical need of the system and we do not believe it is prudent for CUII to continue delaying the project.

b. <u>Continued Necessity of Headworks</u>. The evidence in this case is clear that the current Headworks facility is beyond its useful life without upgrades and creates significant operational and safety risks. Pet. Exh. 3-R at 33. The evidence reflects the following:

- The current headworks hydraulic capacity continues to be inadequate and leads to surcharging of the collection system and basement back-ups and SSOs. Pet. Exh. 3-R at 11.
- The Headworks continues to plague the treatment process with rags and debris causing blockages and unnecessary wear on pumps and other mechanical components. *Id.*
- There is a safety issue with employees having to rake the bar screen manually. Mr. Grosvenor noted that there are times when the manual raking process must occur when an operator is alone in the dark of night and in rainy conditions, which makes him concerned for operators' health, wellness, and safety. *Id.* at 22. Mr. Grosvenor stated that without an upgrade to the headworks, he is concerned that CUII will be taking an unnecessary risk that could lead to an injury of one of the operators.
- These safety and workload issues result in a high rate of employee turnover. Tr. at C-36.
- Currently, CUII must "take extreme measures to continue to stay in compliance to have a properly operated treatment plant." *Id*.
- Even still, the current Headworks is causing 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. Pet. Exh. No. Redirect 1, p. 5 (emphasis added).
- The headworks has odor issues as a result of the deteriorating plywood covering. Tr. at B-28.
- CUII has to rebuild the plywood structure repeatedly due to deterioration. *Id.*
- The inclusion of a dedicated chemical storage room as part of the Headworks has substantial benefits, including:
 - The Chemical Building will create a permanent storage location for chemicals and ensure that CUII will be in compliance 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. At the time of the temporary design, the WWTP expansion project presented in Cause No. 45389 was still under design, and a dedicated space was proposed for the chemical storage. Pet. Exh. 9-R at 14.

- 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. *Id*.
- The storage of alum in the garage poses a safety risk for employees, as reflected in the safety sheet provided as Petitioner's Exh. 9-R; Attachment AS-R3. LOFS witness Holden agrees: "[a]lum can cause irritation, burns, and respiratory issues. If inhaled, alum may cause headaches, nausea, and respiratory irritations." LOFS Exh. No. 3, p. 11.
- On a permanent basis, there is no way for employees to avoid this safety risk because "[t]hey no longer have space to maintain their equipment...or their pumps, vehicles, or storage of those such items." Tr. G-48, lines 1-3.
- There is no way to close off the current space in the garage because "[y]ou would need to completely close off the entire alum feed system, [including] the tote, the chemical feed skid, as well as the emergency eye wash and shower stations." Tr. G-44, lines 1-7.

As noted above, in Cause No. 45389, the LOFS's witness identified upgrading the headworks a pressing system need.

In this case, OUCC witness Parks proposed for the first time that Petitioner reinstall a comminutor the Headworks. The evidence of record, however, persuades us that a comminutor will not resolve the problems at the Headworks. Petitioner's witness Fischer testified that over the course of his 47 years' experience, the use of comminutors at treatment facilities is not common anymore and has been replaced by better screening processes. Mr. Fischer explained, "Even if, in the rare case when the comminutor does work and it cuts up the rags and other large solids in the influent wastewater, the cut-up solids still cause problems downstream [because] the solids will agglomerate and re-weave themselves into large stringy masses, which clog pumps, pipes, and nozzles." Pet. Exh. 8-R at 27. Mr. Grosvenor further described this phenomenon:

So the comminutor is essentially a set of grinding wheels that grind any papers, plastics, solids, and allows everything along with that trash to pass through into the aeration process. Due to the mixing of aeration, it binds those solids back together creating what we call rag balls the size of this desk, and there are aeration basins creating quite a capacity issue in each aeration restricting process, you know, and then also plugging our pipes as those balls of rags pass through into clarifiers, into return pipes, through return pumps creating a lot of issues there.

Tr. at C-34.

Based on the evidence of record, we find the Headworks/Chemical Building Project is necessary in order to continue to provide adequate and reliable service to its customers. The

evidence of record shows that replacement of the Headworks has been a long-standing need of the system and disapproval of the project would continue to place both the system and CUII employees at risk.

c. <u>Petitioner has a Firm Cost Estimate for the Project</u>. As part of the process of updating the design of the headworks, a proposed design was reviewed as a Design-Build project delivery method. Pet. Exh. No. 9-R, p. 5. The cost of the combined Headworks/Chemical Building under a Design-Build project delivery method is \$4,031,300.00, which is higher than the estimate for the Chemical Building and Headworks presented by Mr. Grosvenor (\$2.8 million) in CUII's case-in-chief, but is consistent with Mr. Parks' estimate for a headworks alone based on the data presented by CUII in Cause No. 45389. *Id*. The price for the Design-Build Project is firm through September 25, 2022. *Id*. at 10.

Mr. Grosvenor noted that the cost of the headworks has continued to increase year-overyear. Pet. Exh. No. 3-R, p. 20. When CUII first proposed the project in Cause No. 44724, CUII estimated that the project would cost approximately \$1.2 million. In Cause No. 45389, CUII estimated the project would cost more than \$2.0 million. Now the estimated cost of the combined Headworks and Chemical Storage building is \$4,031,300, or \$4,232,735 with the inclusion of captime and AFUDC. It is clear that further delaying the project is simply going to cost the Company and its customers more. As further discussed below, Petitioner has agreed to mitigate the impact of the cost of the project on customers by only including approximately \$2.8 million in rates at this time.

The OUCC and LOFS questioned the use of the Design-Build approach. However, CUII presented evidence that using a Design-Build approach can result in savings, particularly in the current economic environment. Mr. Grosvenor testified:

- Q. And when you do that, when you just go design-build and you omit bidding, you miss out on the opportunity to see if there is lower cost contractors that could do your project; correct?
- A. I don't necessarily agree with that,
- Q. You don't think that it's -- you're more likely to get a lower cost if you bid something out?
- A. We have seen cost savings on design-build projects in other states, and we believe that that's a good alternative to the process of design-bid, and due to the lack of bids that we are receiving in this economy is making that competitive bid that you're referring to non-existent.

Tr. at C-29.

We believe, given the current inflationary pressures in the construction industry, that using the Design-Build approach is appropriate in this instance. Further delay in moving forward with the Headworks and Chemical Building is likely to simply increase costs. Petitioner's Witness Streicher noted that "[t]he Building Cost Index (BCI) identified an annual inflation rate for 2022 of 15.3%." Pet. Exh. 8-R at 10.

Moreover, as discussed below, the Commission and the other parties will have an opportunity to review the final cost of the project in a subsequent proceeding.

d. <u>Petitioner is Assuming Some Risk and is Effectively Phasing</u> in the Increase Associated with this Project.

Because Baxter & Woodman was completing the plans for the Headworks while this proceeding was pending, Petitioner originally estimated that the total cost of the Headworks would be approximately \$2.3 million and the total cost of the Chemical Building would be approximately \$500,000. Pet. Exh. No. 3, p. 16. Notwithstanding that the cost of the facility will exceed this amount by more than \$1 million, Petitioner is only seeking to include the estimates it originally provided in rate base, assuming the project is in service by September 30, 2023. Petitioner's witness Lubertozzi testified:

Due to the importance of the Headworks and Chemical Building, and recognizing that this is the Company's third attempt at updating this unsafe working environment and moving to an automated screening process, CUII has only included in its rebuttal position the amount estimated in our direct case, which was \$2,296,298 for the headworks project, and \$527,559 for the chemical building, which includes AFUDC and capitalized time for both projects. CUII will seek recovery of any incremental costs above the \$2,823,857 in a future IURC proceeding.

Pet. Exh. 1-R 18-19.

The impact of the foregoing approach, assuming the Headworks is placed in service before September 30, 2023, would be to phase in the impact of the project on customer rates. We believe this approach benefits customers.

e. <u>Conclusion.</u>

For all of the reasons set forth above, we believe the Headworks project should be approved. We, therefore, authorize CUII to include in rate base the up to \$2,823,857 for the Headworks/Chemical Building Project. CUII may seek to include the remainder of the cost of the project in a future proceeding.

D. <u>Acquisition Adjustment</u>.

CUII included in its case-in-chief an acquisition adjustment relating to wastewater plant. The OUCC disputed the inclusion of such acquisition adjustment in wastewater rate base, and in rebuttal testimony, the CUII agreed with the OUCC that such acquisition adjustment should not be included in rate base. Pub. Exh. No. 1, p. 71; Pet. Exh. No. 4-R, p. 42. Accordingly, such acquisition adjustment should not be included in CUII's wastewater rate base in this case.

E. <u>Working Capital</u>.

CUII calculated working capital based upon the FERC 45-day methodology. Pet. Exh. No. 4, Attachment AD-3, wp-i. The OUCC agreed with the methodology but objected to the inclusion of certain prepaid items in the working capital calculation—specifically, items such as property taxes and the public utility fee that are paid in arrears. Pub. Exh. No. 1 at 25. In rebuttal, CUII witness 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. Pet. Exh. No. 4-R at 15. He noted, however, a formula reference error that would understate CUII's taxes other than income taxes in the OUCC's working capital calculation, which he corrected. *Id.* We agree with the OUCC's removal of these items which are paid in arrears from the calculation of working capital, and with Mr. Dickson's correction of the reference error in the OUCC's working capital calculation. Petitioner's working capital requirements are, therefore, as follows:

Total Water Working Capital Requirement					
		Phase I 9/30/2022		Phase II 9/30/2023	
Maintena	ance Expenses	1,104,932	\$	1,241,821	
General Expenses		1,025,452		1,081,754	
Taxes Other Than Income		143,238		163,375	
Less:	Purchased Water/Sewer	372,914		342,654	
	Purchased Power	80,006		81,197	
	Real Estate/Property Tax	81,799		92,790	
	IURC Fees	3,281		5,622	
Total		1,735,621		1,964,689	
Times:	45/360 day factor	12.5%		12.5%	
Working Capital Requirement		216,953		245,586	

Total Sewer Working Capital Requirement					
		Phase I 9/30/2022		Phase II 9/30/2023	
Maintena	ance Expenses	1,062,274	\$	1,105,106	
General Expenses		693,046		730,289	
Taxes Other Than Income		88,721		105,498	
Less:	Purchased Water/Sewer	0		0	
	Purchased Power	205,298		208,076	
	Real Estate/Property Tax	47,166		57,935	
	IURC Fees	3,194		4,713	
Total		1,588,382		1,670,169	
Times:	45/360 day factor	12.5%		12.5%	
Working Capital Requirement		198,548		208,771	

F. <u>Other Capitalized Costs</u>

The OUCC claims that CUII included in its wastewater system rate base certain capitalized costs for items such as jetting, televising, smoke testing sewer mains, rain barrels, etc. The OUCC recommended excluding \$157, 225 of these capitalized costs on the basis that they should have been recorded as operating expenses. Pub. Exh. No. 1 at 29-30; OUCC Attachment MAS-2. In rebuttal, Mr. Dickson objected to the OUCC's position on several of these items-specifically, items that are deferred maintenance (originally recorded as CWIP in CUII's old accounting system, and then reclassified to deferred maintenance). Pet. Exh. No. 4-R at 16-17. He explained that these CWIP balances are not a component of utility plant in service, therefore no adjustment to wastewater rate base is needed. Id. at 17; see Attachment AD-R-02. In addition, Mr. Dickson objected to the removal of expenses for the WWTP Boundary Survey because those expenses were previously reclassified to a Basin Study project. Id. at 17. The allocation of vehicle registrations to wastewater also have 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. Id. We find that the deferred maintenance items booked as CWIP 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 make adjustments to wastewater rate base. Finally, we find that the rain barrels CUII has made available to the LOFS community are appropriately capitalized as a cost-effective means of addressing I&I, which continues to be a focus of CUII, the OUCC, LOFS, and the Commission. Related to this issue, we also find that accumulated depreciation associated with the rain barrels should not be removed from the Company's wastewater rate base. CUII has agreed to the removal of costs for a 2018 lift station study and 2018 improvement plan, totaling \$10,672, with an associated adjustment to accumulated depreciation of \$694.

G. Original Cost of CUII's Rate Base.

Based on the evidence presented in this case, and the findings discussed above, we find that the net original cost of CUII's water utility rate base used and useful for the benefit of the public is forecasted to be \$13,583,565 at September 30, 2022, and \$16,716,413 at September 30, 2023, as detailed below. We find that the net original cost of CUII's wastewater or sewer utility rate base used and useful for the benefit of the public is forecasted to be \$7,485,452 at September 30, 2022, and \$12,236,847 at September 30, 2023, as detailed below. Note that CUII proposed, and no party disputed, that its net original rate base should be used as the fair value rate base in this case. Accordingly, for purposes of this case, we find that Petitioner's fair value rate base is the same as its original cost rate base.

Water Original Cost Rate Base			
	Phase I	Phase II	
	9/30/2022	9/30/2023	
Gross Plant In Service at 09/30/2021	\$ 15,990,535	\$ 15,990,535	
Adjustment: disallowed plant	(8,906)	(8,906)	
TLUI - Well #12 and #13	6.061	6.061	
TLUI - Iron Filter Replacement	2.288.765	2.288.765	
TLUI - Watermain/service line replacement (2020/2021)	831.025	831.025	
Indiana 2021 AMR Replacements	498.311	498.311	
Indiana AMR Replacements - 2022		390,588	
TLUI - 2022 Watermain/service line replacement		507,281	
IWSI - 2022 Watermain Replacement		940,931	
Indiana AMR Replacements - 2023		427,325	
TLUI - 2023 Watermain/service line replacement		274,289	
IWSI - 2023 Watermain Replacement		492,419	
General Plant Additions	432,730	826,200	
Capitalized Time from General Plant Additions	30,134	61,172	
Computer Additions	69,352	73,850	
Vehicle Additions	_	42,179	
Less:			
Retirements from General Plant Additions	69,131	138,262	
TLUI - Well #12 and #13 Retirement	2,348	2,348	
TLUI - Iron Filter Replacement Retirement	854,017	854,017	
TLUI - Watermain/service line replacement (2020/2021) Retirement	82,731	82,731	
Indiana 2021 AMR Replacements Retirement	427,445	427,445	
Indiana AMR Replacements - 2022 Retirement		335,042	
TLUI - 2022 Watermain/service line replacement Retirement		50,501	
IWSI - 2022 Watermain Replacement Retirement		93,672	
Indiana AMR Replacements - 2023 Retirement		366,554	
TLUI - 2023 Watermain/service line replacement Retirement		27,306	
IWSI - 2023 Watermain Replacement Retirement		49,022	
Gross Utility Plant in Service	18,702,336	21,215,127	
Less:	2 826 156	2 826 156	
Patiromenta	(1 425 671)	(2 426 808)	
A divetments disallowed plant	(1,455,671)	(2,420,696)	
Depreciation Evances	374 366 [2]	(300)	
Postatement of Vahieles and Computers	(726 277)	(726,277)	
A dyanasa in Aid of Construction	(726,377)	(726,377)	
Contributions In Aid of Construction Not	0,020 2,268,446 [b]	2 254 211	
Nat Utility Plant in Construction, Net	2,208,446 [D]	2,234,211	
Net Othry Plant in Service	14,379,896	17,473,528	
Add:			
Cash Working Capital	216,953 [c]	245,586	
Less:			
Accumulated Deferred Income Taxes	723,082 [d]	719,742	
Customer Deposits	28,964	28,964	
Net Plant Acquisition Adjustment	261,239 [e]	253,994	
Total Original Cost Rate Base	\$ 13,583,565	\$ 16,716,413	

[a] Depreciation expense has been calculated using the Commission's composite rate for water of 2.00%

[b] Net CIAC is uncontested - CUII's rebuttal position is reflected here for each phase.

[c] Working capital is calculated based on pro forma expenses for each phase.

 [d] Accumulated Deferred income taxes have been adjusted to reflect the difference between tax depreciation and book depreciation of gross plant in service through September 2023.

[e] Net Plant Acquisition Adjustment is uncontested - CUII's rebuttal position is reflected here for each phase.

Sewer Original Cost Rate Base

	 Phase I 9/30/2022	_	Phase II 9/30/2023
Gross Plant In Service at 09/30/2021	\$ 20,319,424	-	\$ 20,319,424
Adjustment: disallowed plant	(10,672)		(10,672)
WSC - 2020 Comprehensive I/I Program (SCIP)	18,844		18,844
TLUI - 2021 Comprehjensive I/I Program (SCIP)	150,663		150,663
WSCI - 2022 Comprehensive I/I Program (SCIP)	44,879		44,879
TLUI - Lift Station C Generator			110,475
TLUI - Lift Station L Forcemain Replacement			438,848
WSCI - 2023 Comprehensive I/I Program (SCIP)			44,999
TLUI - 2022 Comprehensive I/I Program (SCIP)			521,086
TLUI - 2022 Lateral Replacement			342,092
TLUI - 2023 Comprehensive I/I Program (SCIP)			521,086
TLUI - 2023 Lateral Replacement			358,967
TLUI - Combined Headworks and Chemical Building			4,232,735
General Plant Additions	238,700		403,973
Capitalized Time from General Plant Additions	13,578		27,563
Computer Additions	45,744		48,711
Vehicle Additions	-		27,821
Less:			
CUII's accepted risk, TLUI - Combined Headworks and Chemical Building			1,408,878
Retirements from General Plant Additions	45,598		91,196
TLUI - Lift Station L Forcemain Replacement Retirement			204,236
TLUI - Combined Headworks and Chemical Building Retirement			253,641
TLUI - 2022 Lateral Replacement Retirement			60,842
TLUI - 2023 Lateral Replacement Retirement		_	63,843
Gross Utility Plant in Service	20,775,562		25,518,856
Less:			
Accumulated Depreciation at 09/30/2021	8,721,479		8,721,479
Retirements	(45,598)		(673,758)
Adjustment: disallowed plant	(694)		(694)
Depreciation Expense	516,521	[a]	1,151,471
Restatement of Vehicles and Computers	(473,651)		(473,651)
Advances in Aid of Construction	3,974		3,974
Contributions In Aid of Construction, Net	 3,766,115	[b]	3,765,981
Net Utility Plant in Service	8,287,415		13,024,054
Add:			
Cash Working Capital	198,548	[c]	208,771
Less:			
Accumulated Deferred Income Taxes	981,408	[d]	976,874
Customer Deposits	19,104		19,104
Net Plant Acquisition Adjustment	 -	[e]	-
Total Original Cost Rate Base	\$ 7,485,452	_	\$ 12,236,847

[a] Depreciation expense has been calculated using the Commission's composite rate for sewer of 2.50%

[b] Net CIAC is uncontested - CUII's rebuttal position is reflected here for each phase.

[c] Working capital is calculated based on pro forma expenses for each phase.

[d] Accumulated Deferred income taxes have been adjusted to reflect the difference between tax depreciation and book depreciation of gross plant in service through September 2023.

[e] Net Plant Acquisition Adjustment is uncontested - CUII's rebuttal position is reflected here for each phase.

7. <u>Capital Structure and Rate of Return</u>.

A. <u>Capital Structure</u>.

CUII's proposed capital structure for ratemaking purposes is 49.2% debt and 50.8% equity. Mr. Lubertozzi testified that this capital structure is based on CUII's parent company's actual capital structure as of September 30, 2021, and it is a reasonable capital structure for a utility. Pet. Exh. No. 1 at 22. No party opposed CUII's proposed capital structure. We find this capital structure to be reasonable and appropriate for setting rates in this case.

B. <u>Cost of Debt</u>.

CUII proposed cost of debt for ratemaking purposes is 5.01%. Mr. Lubertozzi testified that this cost of debt is based on CUII's parent company's actual cost of long-term debt as of September 30, 2021. Pet. Exh. No. 1 at 22. No party opposed CUII's proposed cost of debt. We find this cost of debt to be reasonable and appropriate for setting rates in this case.

C. <u>Cost of Equity</u>.

Mr. Lubertozzi testified that customer interests are best served when the authorized rate of return on rate base is neither higher nor lower than the overall cost of capital. Pet. Exh. No. 1 at 22. With respect to the cost of common equity, Mr. Lubertozzi testified that the Company engaged a cost of common equity expert to determine a fair and equitable return on equity ("ROE"). *Id.* at 21. However, before filing this case, CUII reached out to the OUCC and LOFS to see if they would be interested in negotiating the ROE for this case before the cost of equity expert expended much in the way of hours and fees. *Id.* CUII and the OUCC mutually agreed to a return on equity of 9.50% for CUII in this case, along with cost of equity expert consulting fees capped at \$10,000 (a significant savings in rate case expense, according to Mr. Lubertozzi). *Id.* The LOFS is not a party to the agreement, but Mr. Lubertozzi testified that LOFS indicated to CUII that it will not object to or contest the agreement. *Id.*; see Attachment SML-3 for a copy of the ROE Settlement Agreement entered into by CUII and the OUCC. Pet. Exh. No. 1 at 21.

With respect to the agreed upon 9.50% ROE, Mr. Lubertozzi 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 CUII. Pet. Exh. No. 1 at 21. 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. Further, a recent Indiana natural gas utility rate case order authorized a 9.80% ROE (*see* Final Order in Cause No. 45468 (IURC Nov. 17, 2021)); and two recent water utility rate case orders reflected authorized returns on equity of 9.80%. *See* Final Orders in Cause Nos. 45416-U (IURC Feb. 17, 2021) and 45142 (IURC June 26, 2019). Pet. Exh. No. 1 at 22-23.

No party opposed a return on equity of 9.50% for CUII in this case. We find this return on equity to be reasonable and appropriate for setting rates in this case.

D. <u>Fair Rate of Return</u>.

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	49.2%	5.01%	2.46%
Common Equity	50.8%	9.50%	4.83%
	100%		7.29%

8. **Operating Revenues.**

A. <u>CUII's Case-in-Chief Evidence.</u>

CUII witness 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. Pet. Exh. No. 4 at 23. He explained that CUII used data from its base period (twelve 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. Pet. Exh. 4 at 23. 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. *Id*.

1. <u>Normalization of Bill Counts.</u> 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. Pet. Exh. No. 4 at 23.

2. <u>Consumption Decline Adjustment</u>. 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. Pet. Exh. No. 4 at 23.

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. Pet. Exh. No. 4 at 24. 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%

Id. at 24.

Mr. Dickson explained that data from 2009 to 2021 is used to assess the annual level of consumption per customer. Pet. Exh. No. 4 at 24. 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. *Id.* This average change is used as CUII's forecast for consumption decline in its test year. *Id.* 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. *Id.* 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. *Id.* at 24-25.

3. <u>Customer Growth Adjustment.</u> Mr. Dickson testified that the Company 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. Pet. Exh. No. 4 at 25. Consequently, he concluded, it is reasonable to use the normalized Base Period customer count to forecast sales and revenues. *Id*.

4. <u>Miscellaneous Revenues.</u> 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. Pet. Exh. No. 4 at 25.

B. <u>OUCC's and LOFS's Evidence.</u>

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.

1. <u>Declining Consumption Adjustment.</u> With respect to CUII's declining consumption adjustment, the OUCC accepted the Company's calculations based on immateriality. Pub. Exh. No. 1 at 35. LOFS witness VerDouw, however, objected to both the consumption decline adjustment and the customer growth assumption. LOFS Exh. No. 2 at 18-22. 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. *Id.* at 18-19. According to Mr. VerDouw, his analysis for the years 2019-2021 showed no decrease in residential water consumption. *Id.* at 20. Accordingly, he recommended that no consumption decline adjustment be adopted. *Id.* at 18-22.

2. <u>Customer Growth Adjustments.</u> With respect to CUII's customer growth assumption, the OUCC accepted the Company's calculations based on immateriality. Pub. Exh. No. 1 at 35. With regard to 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. LOFS Exh. No. 2 at 23-24. He stated that the truck stop customer has obtained an IDEM sanitary discharge approval, and therefore must be ready to move on the project. *Id*.

C. <u>CUII's Rebuttal Evidence.</u>

Declining Consumption Adjustment. In rebuttal, Mr. Dickson 1. testified that CUII has experienced persistent consumption decline, in spite of 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. Pet. Exh. No. 4-R at 19. He noted that increasing temperatures and decreasing precipitation would typically encourage additional outdoor usage in those months, not a decline in consumption. Id. 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. Id. 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. Id. Accordingly, despite conditions that are typically correlated with increased water usage (i.e., hot temperatures, lower precipitation), CUII continued to experience declining consumption. Id. at 21. 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). Id. Mr. Dickson reiterated that CUII has used the exact same methodology that the IURC has previously approved for determining its level of consumption decline. Id.

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). Pet. Exh. No. 4-R at 21. Thus, he concluded, Mr. VerDouw's 2021 average usage is skewed high by the available data. *Id.* 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. *Id.* 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." *Id.* at 22. 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. *Id.* 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. *Id.*

2. <u>Customer Growth Adjustment.</u> With regard to 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." Pet. Exh. No. 4-R at 23. He testified that this specific site has been under construction for approximately 3 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. *Id.* Mr. Dickson also noted that Mr. VerDouw has assumed a 4-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. *Id.* Yet in cross-examination, LOFS presented Mr. Dickson with an exhibit showing a 3-inch meter (*see* LOFS C-X Exh. 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." Pet. Exh. No. 4-R at 23.

D. <u>Commission Discussion and Findings.</u>

The parties are in agreement concerning 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 the Company's customer growth assumption and its proposed declining consumption adjustment. Intervenor LOFS, however, contests CUII's position on declining consumption and customer growth.

1. <u>Declining Consumption Adjustment.</u> The 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 take into account 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.

2. <u>Customer Growth Adjustment.</u> 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. 3. <u>Pro Forma Present Rate Operating Revenues.</u> Based on the above, the Commission finds Petitioner's *pro forma* water and wastewater revenues at present rates for the 12 months ended September 30, 2023, are \$2,535,302 and \$2,474,002, respectively.

9. <u>Operating Expenses</u>.

A. <u>CUII's Case-in-Chief Evidence.</u>

Mr. Dickson testified about the Test Period forecast for O&M expenses, as well as supported certain pro forma adjustments made to Test Period O&M expenses. Pet. Exh. No. 4 at 31-32; Attachment AD-1, Schedule B. With respect to the forecast, he testified that forecasted Test Period O&M expenses were developed based on information obtained from various areas of the Company, using a bottom-up approach. Pet. Exh. No. 4 at 30. He explained that CUII's proportionate share of the shared and corporate O&M expenses are directly assigned or allocated from the service company to CUII and are also derived using the same bottom-up approach. Id. CUII witnesses Dickson and Elicegui testified that the allocated share is derived by the application of appropriate allocations based on the service company allocation factors (Equivalent Residential or "ERC" counts for each cost type), in accordance with the CUII/WSC service agreement. Id.; Pet. Exh. No. 2 at 8. Mr. Dickson testified that CUII primarily uses a 3% inflation assumption where better information is not available for its O&M expenses. Pet. Exh. No. 4 at 30. He stated that CUII has assumed a "return to normal" for most of its operating expenses, after COVID-19 policies impacted actual costs in the base period for costs such as travel. Id. For labor-related expenses, he stated that the budget used the projected annual labor cost rate increases to budget test period union and non-union employee labor expense. Id. at 31.

1. <u>Payroll and Benefits Expense.</u> Mr. Dickson (Guttormsen) testified about the Test Period payroll and benefits costs. Pet. Exh. No. 5, p. 3. He explained that payroll costs are increasing, driven by several factors, including:

- the promotion of its seven current field technicians to operator level positions by 2023, necessary to maintain an effective operational workforce to ensure that CUII is able to continue to supply safe and reliable water and wastewater service;
- leadership wages, related to promotions in the Company's finance department;
- operations headcount, specifically 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;
- 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.

Id. at 4-7.

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. *Id.* at 7.

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. *Id.* at 8. 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. *Id.* at 8. 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. *Id.* at 9. 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 the Company's per paycheck match. *Id.* Finally, he stated that payroll taxes are forecasted by employee using current FICA, FUTA, and SUTA percentages and thresholds. *Id.*

Mr. Grosvenor testified specifically about CUII's Operations Staff and the importance of paying competitive wages and benefits in order to attract and retain qualified employees. Pet. Exh. No. 3 at 7. He first described the various duties of the CUII Operations Staff, as follows:

- They collect and test water samples at the various entry points of and within the water distribution system on a daily basis;
- They collect and run process sampling for the wastewater system.
- They are responsible for the operation and maintenance of the water and wastewater treatment plants, and complete necessary equipment repairs.
- They are responsible for submitting complete and accurate monthly reports to the IDEM and for maintaining compliance with all applicable local, state, and federal regulations.
- They operate and maintain the distribution and collection systems, order and safely store and identify necessary chemicals, complete field activities, respond to customer inquiries, and collect water meter readings on a monthly basis at all locations.

Id. at 6.

Mr. Grosvenor next testified that including himself, the CUII Operations Staff consists of only eight full-time employees, as follows:

- CUII has one Lead Operator responsible for managing and operating the WWTP and water treatment plant. The Lead Operator supervises and performs tasks necessary for the safe and reliable operation of WWTP. The Lead Operator also is responsible for maintaining plant compliance with Environmental Protection Agency ("EPA") standards and water regulations. CUII's goal is to have two Lead Operators, one that is primarily responsible for wastewater and another primarily responsible for water, with both must being competent and trained with respect to the operation of both plants so they can cover each other. CUII is down to one Lead Operator at the present time. *Id.* at 6-7.
- CUII currently employs six field technicians. Field Technicians are responsible for water meter reading to facilitate customer billing and for performing minor meter and/or system maintenance. In addition, Field Technicians act as liaisons between the customers and customer service personnel for problem/complaint resolution. Field Technicians also assist with maintaining mechanical, electrical, and piping systems for area wastewater facilities and collection systems. Once new Field Technicians are on staff, CUII trains them and works to get them certified as Operators. *Id.* at 7.

Mr. Grosvenor emphasized the need for CUII to hire additional staff. *Id.* He testified that CUII has experienced significant turnover largely due to the competitive job market. *Id.* He stated that CUII has lost multiple experienced plant Operators to higher paying opportunities. *Id.* To ensure CUII can continue providing adequate and reliable service, he testified that CUII needs to replace those employees and compensate them at competitive levels. *Id.* He stated that CUII currently has four open positions that it is seeking to fill:

- Another Lead Operator that will share responsibility for maintaining plant compliance with EPA standards and water regulations in addition to assisting with training of personnel and leading work crews.
- A Water-Wastewater Operator I who, under direct supervision, will be responsible for performing routine tasks related to the operation of water and/or wastewater treatment facilities. The Water-Wastewater Operator I will assist the Lead Operator with maintaining plant compliance and ensure plant safety and sanitary requirements.
- An Operation Apprentice, who will be a high school student enrolled in a work study program that will shadow licensed operators to learn about the career opportunities that exist within the Water-Wastewater industry. In addition to shadowing staff on a variety of tasks, students participating in the apprentice program may perform a range of non-skilled tasks such as data entry and some routine maintenance functions.

• A Field Technician to read water meters to facilitate customer billing, identify water meter equipment problems, and perform minor water meter and/or system maintenance. This Field Technician would be hired with the expectation that they would become an Operator to provide needed assistance at the plant.

Id. at 8.

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. *Id.* at 9. He noted that the Lead Operator that left most recently specifically stated in his exit interview that CUII needs to raise wages in order to stay competitive. *Id.* 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. *Id.* This lack of experience creates difficulties in training new employees and helping get them certified. *Id.* 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. *Id.*

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

2. Corporate Cost Allocations. Mr. Elicegui and Mr. Dickson (Guttormsen) supported the corporate cost allocations in the Test Period. Pet. Exh. No. 2 at 6; Pet. Exh. No. 5 at 17. Mr. Elicegui explained how corporate administrative and general support services (the "corporate support services") are provided to the Company so that it can fulfill its statutory obligation to provide water and sewer service to Indiana residents. Pet. Exh. No. 2 at 3-4. He testified about how the costs associated with providing the corporate support services are allocated among Corix's operating subsidiaries, using a Tier 1 allocation (based on a Modified Massachusetts formula) and a Tier 2 allocation (based on ERCs). Id. at 7-8. He testified that the corporate support services are necessary for the continued operation of the Company and that the corporate support service costs are reasonable. Id. at 8. In support of his testimony about the reasonableness and necessity of the corporate cost allocations, he included information showing that other utility holding companies provide similar services, and he included a comparison of Corix's corporate costs to other utilities' corporate costs demonstrating that Corix's corporate costs are below the utility average. Id. at 8-10. Mr. Dickson noted that, because the computer depreciation expense that flows through the Company's corporate cost allocation model is being recalculated for CUII's restatement of short-lived assets, that expense was removed from corporate costs so as to not be double counted in CUII's proposed revenue requirement. Pet. Exh. No. 5 at 17.

3. <u>Purchased Water Expense</u>. Mr. Dickson testified that the level of purchased water expense is forecasted, by month, based on respective levels of forecasted purchased water and forecasted purchased water rates. Pet. Exh. No. 4 at 32. Forecasted purchased water rates of \$2.96 per thousand gallons in the test period were based on current charges from CUII's supplier, Indiana American Water Co., of \$2.79 and an anticipated increase of 3% per year. *Id.* Forecasted purchased water volumes were calculated based CUII's base year purchased

volumes, reduced by the consumption decline for the Indiana Water Service, Inc. percentage of 1.82%. *Id.*; Attachment AD-3, "Purchased Water Forecast."

4. <u>Electric Power Costs</u>. Mr. Dickson testified that electric power costs were forecasted, by month, based on the historical levels of electric power costs, using the latest nine years of vendor invoicing. Pet. Exh. No. 4 at 33. Service costs for the 12 months ending May 31, 2021, were used as a base for CUII's forecast, and an average annual growth rate from the historical periods was applied to all forecast periods. CUII assumed that the seasonality present in its historical data will continue. *Id*.

5. <u>Maintenance and Repair Expense</u>. Mr. Dickson testified that maintenance and repair expenses are forecasted based on analysis of historical data and estimated needs of Operations. Pet. Exh. No. 4 at 34. Maintenance and Repair expenses are broken down into the following categories: deferred maintenance; sewer rodding; sludge hauling; other plant and system maintenance; and other maintenance and repairs expense. *Id.* at 34-35.

6. <u>Maintenance Testing Expense</u>. Mr. Dickson testified that maintenance testing costs are forecasted based on the historical level of testing expense that CUII has incurred, after the application of 3% inflation. *Id.* at 35. He stated that testing expense is forecasted using the annual average cost between periods 2010 to 2019. *Id.*

7. <u>Meter Reading Expense</u>. Mr. Dickson testified that, as a result of the Company's installation of automated meters, no meter readings costs are necessary to forecast. *Id.*

8. <u>Chemical Costs</u>. Mr. Dickson testified that chemical costs are forecasted, by month, based on chemical needs identified by Operations staff on a monthly basis. *Id.* The forecast is based on analysis completed by Operations, which includes estimated chemical costs per unit, by chemical type. *Id.* at 36. The estimated chemical costs per unit are determined by review of costs in current invoices from CUII's chemical suppliers. *Id.* An estimated number of units, which is based on historical seasonal needs and forecasted changes for modified operations, of each chemical type is then used in combination with the cost per unit to determine forecasted chemical expense for each system. Lastly, CUII applies an inflation factor of 4%. *Id.*; Attachment AD-3, "Chemicals Forecast."

9. <u>Transportation Expense</u>. Mr. Dickson testified that transportation expenses are forecasted based on analysis of historical data and estimated needs across all departments for auto repairs. Pet. Exh. No. 4 at 36. Fuel projections are created using national fuel prices and analysis of the average gallons required for CUII. *Id.* Transportation expenses are broken down into the following categories: fuel; auto repairs; and other transportation expenses. *Id.* at 36-37.

10. <u>Operating Expense Charged to Plant</u>. Mr. Dickson testified that operating expense charged to plant is forecasted based on anticipated capital investments from Operations. *Id.* at 37. Operating expenses charged to plant, otherwise referred to a capitalized time or cap time, is calculated based on the following components: capital project cap time and capital additions/replacements cap time. *Id*.

11. <u>Outside Services Expense</u>. Mr. Dickson testified that outside service expenses are forecasted based on analysis of historical data and estimated needs across all departments. *Id.* at 37-38. This results in the approximate \$10,000 in outside service expenses CUII expects to incur on a recurring basis for engineering and other outside services. *Id.*

12. <u>Office Supplies and Other Office Expenses</u>. Mr. Dickson testified that office supplies and other office expenses are forecasted based on analysis of historical data and estimated needs across all departments. *Id.* at 38-39. Office supplies and other office expenses are broken down into the following categories: office expense; billing and customer service; and information technology. *Id.*

13. <u>Rent Expense</u>. Mr. Dickson testified that rent expense is forecasted based on an analysis current and anticipated lease obligations. *Id.* at 39. The increase in rent expense is driven by the new lease agreement that has been put in place near the end of CUII's base year. *Id.*

14. <u>Office Utility Expenses</u>. Mr. Dickson testified that office utility expenses are forecasted based on analysis of historical data and estimated needs across all departments. *Id*. CUII expects a normal level of office utility expense in its test year, based on historical trends, with modest increases for inflation. *Id*. at 40.

15. <u>Miscellaneous Expenses</u>. Mr. Dickson testified that miscellaneous expenses are forecasted based on analysis of historical data and estimated needs across all departments. *Id*. Miscellaneous costs are broken down into the following categories: travel; other miscellaneous costs such as membership dues, bank service charges, and training expense. *Id*.

16. <u>Property Tax Expense</u>. Mr. Dickson testified that CUII's forecasted property taxes are based on the most recent historical property tax data. *Id*. It is then adjusted based on projected property tax rates and forecasted plant in service. Other taxes are calculated in the financial model based on current tax rates, such as those for payroll taxes and utility taxes. *Id*. CUII has included the public utility fee rate in its calculation of utility taxes. *Id*.; Attachment AD-3, wp-o.

17. <u>Income Tax Expense</u>. Mr. Dickson testified that CUII's tax department provided the appropriate state and federal income tax rates and the amortization of investment tax credit ("ITC"). Pet. Exh. No. 4 at 41. The income tax expense was derived in the Company'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. *Id.* at 42; Attachment AD-3, wp-g.

18. <u>Other Income and Expense</u>. Mr. Dickson testified that "other income and expense" is derived from a combination of sources. Pet. Exh. No. 4 at 43. Interest during construction, interest expense, and other income are the primary components. *Id.* Interest during construction has been eliminated for ratemaking purposes, and no other income is included in CUII's forecast periods (the Linking Period or Test Period). *Id.* Thus, CUII's Other Income and Expense is derived from interest expense in the forecasted periods. *Id.* Interest expense was obtained from CUII's long-term debt balances and short-and long-term interest rates for the Test

Period forecast. *Id.* at 44. To forecast interest expense, the ending rate base in each year (linking period, test period) is multiplied by the existing debt ratio to forecast the share of rate base that CUII will finance with debt. *Id.* Subsequently, this 49.2% of rate base is multiplied by the previously identified cost of debt, providing a normalized level of interest expense for CUII's rate base funded by debt. *Id.*

19. <u>Uncollectible Expense</u>. Mr. Dickson testified that uncollectible accounts were forecasted by recalculating the statewide percentage of uncollectible amounts to service revenues in the Base Period year, and then applying that percentage to Test Period forecasted service revenues. *Id.* at 25. He testified that the statewide percentage of uncollectible expense to service revenue is 1.21% for water and 1.20% for sewer. *Id.*

20. <u>COVID-19 Deferrals</u>. Mr. Dickson (Guttormsen) testified concerning the Company's COVID-19 deferrals. He explained that, throughout COVID-19, CUII has deferred certain costs incurred as a result of the pandemic. Pet. Exh. No. 5 at 13. Specific categories include legal fees, customer communication expense, and foregone late payment and reconnection charges. *Id.* He stated that forecasted COVID costs are based on the actual per month costs to date in Indiana. *Id.* He testified that the Company is proposing to amortize COVID costs over three years beginning on October 1, 2022; the first day of the rate effective period and future test year. *Id.* He stated that CUII has not included any COVID costs in rate base and exclusively proposes to recover a return of, not on, costs incurred. *Id.* He testified that the deferred costs were prudently and necessarily incurred. *Id.* at 14. *See* Attachment RG-4.

21. <u>Insurance Expense</u>. Mr. Dickson (Guttormsen) testified that forecasted insurance costs are driven by actual policies and expected rates and premiums then directly assigned to Indiana using relevant allocators for general liability insurance, workers compensation insurance, auto insurance, property insurance, general liability, and other insurance. Pet. Exh. No. 5 at 11-12. He testified that insurance rate increases were mainly driven by market related factors. *Id.* at 12. He stated that across all policy lines, insurance premiums were substantially up year-over-year; however, he noted that Corix policy renewals beat industry averages for premium rate increases. *Id.*

22. Depreciation Expense. Mr. Dickson (Guttormsen) testified concerning forecast depreciation expense. He testified that CUII 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. Pet. Exh. No. 5 at 10. He explained that, in Petitioner's last rate case, Cause No. 44724, the Commission directed Petitioner to use the composite rates of 2% for water plant and 2.5% for sewer plant. Id. Based on the Commission's findings in Cause No. 44724, CUII is applying the same approach in this proceeding. Id. Mr. Dickson testified that the composite depreciation rates were determined as follows: CUII multiplies the composite depreciation rates by forecasted gross plant in service to calculate depreciation and amortization expense; forecasted projects, general capital spending, and capitalized time are all included in the calculation of annualized depreciation and amortization. Id. He stated that increases in depreciation expense from Cause No. 44724 to the base year in this case, 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. Id. Adjustments were made to reflect CUII'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. *Id.* at 11. These short-lived assets are held on affiliate books such as CUII's service company, WSC and depreciated over approximately eight years and five years for computers and vehicles, respectively. *Id.* He noted 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 CUII cannot adjust the depreciation rates for assets which are not held on its books. *Id.* Accordingly, CUII recommended that the Company again be allowed to reestablish plant values for these short-lived assets which are still in service but have no book value, as was approved in Cause No. 44724. *Id.*

23. <u>Accumulated Deferred Income Taxes</u>. Mr. Dickson (Guttormsen) testified concerning accumulated deferred income tax ("ADIT")—the difference between book and tax depreciation for Petitioner's depreciable plant. *Id.* at 14. He explained that in this case, ADIT balances have been adjusted to reflect normalized prorated projected differences in book and tax depreciation for the September 30, 2022, and September 30, 2023, test years using actual and planned capital spending and CIAC inputs, as well as both tax and book depreciation rates. *Id.* at 14-15. He testified that when a projected test period is used to determine a utility's revenue requirement, the IRC requires ADIT related to accumulated depreciation to be deducted from rate base and calculated using a proration formula, which is factored into the end of the future test year balance. *Id.* at 15. Proration is the functional equivalent of a weighted average. *Id.* He stated that this proration calculation is reflected in CUII's ADIT calculations for this case. *Id.* He further stated that CUII has included the impact of the Tax Cuts and Jobs Act into its ADIT calculations for this case, consistent with the Commission's Order in Cause No. 45032 20. *Id.* at 16.

24. <u>Pro Forma Adjustments to Test Period Operating Expense</u>. Mr. Dickson testified that CUII made *pro forma* adjustments to Test Period operating expenses in the following areas to better reflect the operational needs of CUII: amortization of the preapproval engineering costs, amortization of the preapproval legal fees, rate case expense amortization, *pro forma* levels of legal fees for CUII's rate adjustment mechanisms, annualization of salaries and benefits expenses, and amortization of CUII's COVID-19 deferrals. Pet. Exh. No. 4 at 13.

Water and Wastewater Preapproval Engineering and Legal Costs. 25. Mr. Lubertozzi testified that the Company has included the costs incurred to litigate Cause No. 45342 (\$176,144), as a deferred O&M expense amortized over three years. Pet. Exh. No. 1 at 14. With respect to Cause No. 45389, Mr. Lubertozzi testified that the Company 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 forty years, which is consistent with the Company's wastewater depreciation rate. Id. at 15. Additionally, the Company has included the legal costs incurred to litigate Cause No. 45389 (\$258,319) as a deferred O&M expense amortized over three years. Id. Similarly, Mr. Dickson testified that 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 3-year period, respectively. Id. at 11-12. Mr. Dickson stated that the 40-year life matches the authorized depreciation life of CUII's sewer assets (2.5% annual depreciation) and the 3-year period is more reflective of the expected duration between rate cases. Id. at 14-15. He testified that recovery of these costs will make CUII's shareholders whole, over time, for the engineering and legal costs that 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. *Id.* at 15-16.

Mr. Lubertozzi testified that the engineering costs relate to both the Collection System Improvement Projects ("CSIP") and the Wastewater Treatment Plant Projects ("WTPP"). Pet. Exh. No. 1 at 15. When interest during construction and capitalized time are included, the Company incurred \$367,000 related to the CSIP and \$1,233,000 related to the WTPP. Id. Before interest during construction and capitalized time, a total of approximately \$318,525 was spent for engineering and design of the CSIP. Id. at 16. The \$318,525 includes costs related to utility locates and geotechnical engineering to supplement the design efforts, and engineering. Id. at 15. The engineering included design of upgrades at three lift stations (LS B, LS C, LS D) and construction of new forcemain for all three lift stations. Id. Permitting efforts were initiated during design. Id. Complete plans, specifications, and bidding documents were prepared. Id. Bids were solicited for the project. These bids were used in the pre-approval process. Id. Before interest during construction and capitalized time, a total of approximately \$1,100,289 was spent for engineering and design of the WWTP. Id. at 16. 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. Id. 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. Id. Permitting efforts were initiated during design. Id. Complete plans, specifications, and bidding documents were prepared. Id. Bids were solicited for the project. These bids were used in the pre-approval process. Id.

Mr. Lubertozzi explained that the Company incurred these costs in response to the Commission's Order in Cause No. 44724. *Id.* In Cause No. 44724, the Commission found, among other items, that CUII was required 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. *Id.* The Commission provided additional guidance on page 76 in Cause No. 44724:

Additionally, Petitioner shall propose capital investments that require Commission approvals and suggested timetables for the filings and approvals. For proposed significant capital investments, Petitioner shall provide proper documentation of engineering studies and detailed competitive bids from contractors to support Petitioner's proposals.

Mr. Lubertozzi stated that in CUII's view, these engineering costs were incurred in compliance with Commission directives and as such, they should be eligible for recovery in this rate case. *Id.* at 17.

26. <u>Rate Case Expense</u>. Mr. Dickson testified that CUII proposes recover of its rate case expense with a life of three years because this better reflects the time in

between rate cases that CUII has historically had, and reflects CUII's most current estimate for the costs it will incur for this case. Pet. Exh. No. 4 at 15. CUII witness Kilbane testified that CUII's total forecasted rate case expense for this proceeding at the time of initial filing was \$353,213, which included (i) approximately \$300,000 in legal expenses; (ii) \$32,500 in Minimum Standard Filing Requirements ("MSFR") preparation support; (iii) \$10,000 in ROE analysis support; (iv) \$6,459 for travel expenses associated with the case; and (v) \$4,254 estimated for customer notifications related to the rate case. Pet. Exh. No. 6 at 2; see Attachment JK-1. Mr. Kilbane testified that CUII recommends a three-year amortization period, which reflects the period of time CUII's intends to file another rate case. *Id.* at 5.

27. <u>Regulatory Expense</u>. Mr. Dickson testified that CUII has identified an annual level of expense related to its rate adjustment mechanisms (DSIC, SSIC, and WT), related to the legal fees required to complete those filings. Pet. Exh. No. 5 at 15. CUII will be making investments that will be eligible for recovery through its DSIC and SSIC mechanisms, and anticipates modifications to its purchased water rate that will necessitate filing of its WT mechanism as well. *Id*. CUII's expected annual level of expense for these filings has been included in this *pro forma* adjustment. *Id*.

28. <u>Payroll and Benefits Expense</u>. Mr. Dickson testified that CUII has made a *pro forma* adjustment to normalize its salaries and benefits expenses. *Id*. This adjustment produces an annual level of the change that CUII expects to occur for these expenses. *Id*.; Attachment AD-3, wp-b. He testified that this adjustment will help ensure that CUII does not build a case that results in a known and measurable gap in its allowed return shortly after receiving an order for this case. *Id*. at 16.

B. <u>OUCC's Evidence</u>.

The OUCC took issue with the following operating expenses included in CUII's case-inchief: maintenance salaries and wages; general salaries and wage expense; vice president of business development position; capitalized labor; purchased water expense; chemical expense; outside services expense; COVID-19 costs; wastewater pre-approval engineering costs; preapproval legal costs; rate case expense; regulatory expense; plant acquisition adjustment amortization expense; and utility receipt tax expense. *See* Pub. Exh. No. 1. The OUCC also disagreed with the amounts of expense in the following areas, based upon its objections to certain of the employee positions and salary levels and based upon its objections to certain utility capital projects, but did not oppose CUII's calculation methodologies: pension and employee benefits expense; depreciation expense for both water and wastewater operations; taxes other than income; payroll taxes; property taxes; income tax expense.

1. <u>Payroll and Benefits Expense</u>. With regard to general salaries and wages, OUCC witness Stull disagreed with the inclusion of expenses associated with a vice president of external affairs and business development. Pub. Exh. No. 1 at 62. She testified that the Commission has previously found that business development costs should be borne by shareholders rather than customers. *Id.* She further stated there is no guarantee of growth or that any of the benefits put forth by the Company will occur. *Id.* Additionally, she testified that growth benefits shareholders as much or more than customers. *Id.* Finally, she stated that the benefits of such a position sound very much like the benefits customers are already supposed to be receiving

through the shared services provided by WSC. *Id.* She concluded that this position will provide no benefit to customers and should not be included in operating expense. *Id.*

With regard to maintenance salaries and wages expense, Ms. Stull disagreed with the wage increases proposed by the Company, as well as the increase in head count proposed by the Company. Ms. Stull testified that the Company's testimony on the number of additional maintenance employees it plans to hire is not consistent. Id. at 39. More specifically, Ms. Stuff noted that the Company is proposing to hire two new operations employees - an Operator II and an apprentice. Id. But the Company's testimony also indicated it has four open positions currently and is seeking to hire another lead operator, a Water-Wastewater Operator I, an operations apprentice, and a field technician. Id. Ms. Stull also took issue with the level of wage increases to be included in forecasted salaries and wages. Id. at 39-40. She testified that she did not consider the wage increases proposed by the Company to be reasonable or necessary, given that the Company is proposing a 50% raise for its maintenance employees. Id. at 40. Additionally, she testified she did not accept the increase in head count proposed by the Company, based on the fact that in her view the Company's case-in-chief testimony does not support the hiring of two additional employees. Id. Additionally, Ms. Stull noted that it does not appear that the Company decreased its overtime assumptions based on the addition of two new employees. Id. Further, Ms. Stull testified that she did not accept the Company's proposal to promote all of its field technicians, based on the fact that there is no indication that the job duties for these positions will be changing or that employees being promoted from field technician to operator will shoulder the duties or responsibilities. Id. at 41.

Ms. Stull also disagreed with the Company's proposed capitalized labor expense. *Id.* at 42. Her capitalized labor recommendation uses a capitalized time rate based on her recommended salary and wage expense. *Id.*

2. <u>Purchased Water Expense</u>. Ms. Stull took issue with the Company's proposed purchased water expense. *Id.* at 44. She testified that she did not agree with the Company's forecasted purchased water volumes, and she did not agree with the proposal to apply an inflation factor to the rates it is charged for purchased water. *Id.* With regard to the inflation rate, she stated it is not necessary to forecast purchased water rate increases because the Company has the ability to file a purchased water tracker. *Id.* at 45. She noted that forecasting purchased water price increases could allow the Company to recover these price increases twice. *Id.* at 46. She proposed to include the Indiana American DSIC-13 rate increase in this rate case, and proposed that the Company be precluded from filing a water tracker to track the DSIC 13 increase. *Id.* With regard to the Company's forecasted purchased water volumes, Ms. Stull stated that it is difficult to reconcile the fact that the Company has proposed a declining consumption adjustment for operating revenues while simultaneously proposing forecasted purchased water volumes should be consistent with the water revenue assumptions. *Id.* at 46.

3. <u>Chemical Expense</u>. With regard to the level of chemical expense, Ms. Stull testified that she accepted the Company's forecasted chemical expense, except for the amount forecasted for alum. *Id.* at 47. She accepted the Company's price and inflation assumptions for alum, but disagreed with its usage assumptions based on her review of the Company's monthly reports of operations. *Id.* 4. <u>COVID-19 Deferrals</u>. With regard to outside services expense, Ms. Stull recommended the Commission limit the COVID–19 costs to be recovered as a regulatory asset to actual costs incurred from March 2020 through October 2020. *Id.* at 51. She stated that the Commission authorized utilities to use regulatory accounting only from March 2020 through October 12, 2020, when the Commission's moratorium on charging late fees expired, pursuant to the Commission's August 25, 2020 Order in Cause No. 45380. *Id.* Accordingly, she recommended that the Company be permitted to recover waives reconnection charges and waived late payment charges only up to and through October 2020. *Id.* She also recommended that the Company be permitted to recover costs incurred for customer communication and legal costs incurred to file monthly reports to the Commission in Cause No. 45380. *Id.* at 52.

5. <u>Preapproval Engineering and Legal Costs</u>. With regard to preapproval costs, Ms. Stull did not accept the Company's proposed recovery of either legal or engineering costs. *Id.* at 55-59. She noted that in Cause No. 45389, the Commission did not approve recovery of those costs. *Id.* at 55. Instead, the Commission stated that "the incurrence of such regulatory costs may be reasonable and may be include for consideration as O&M expenses in CUII's next rate case." *Id.* She also stated that there is no precedent for utilities to recover past legal expenses for proceedings that sought pre-approval for construction, especially if the projects were denied by the Commission. *Id.* at 57. Further, she stated that the purpose of pre-approval filings 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. *Id.* With regard to the 45389 engineering costs, 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. *Id.* at 59. Additionally, she stated that the Commission did not direct the Company to incur these costs. *Id.*

6. <u>Rate Case Expense.</u> Ms. Stull accepted CUII's estimated legal fees and customer notice expense. *Id.* at 66. She testified, however, that she disagreed with CUII's estimated travel costs and with the outside consultant fees related to preparing the filings made in accordance with the MSFRs by ScottMadden consultants. *Id.* at 67. Specifically, Ms. Stull recommends that travel costs be reduced from \$6,459 to \$4,553, based on the fact that CUII has one less internal witness in its case-in-chief (due to the adoption of Mr. Guttormsen's testimony by Mr. Dickson) and based on the fact that, since the ROE has been settled among the parties, an outside ROE witness will not need to travel to the hearings. *Id.* at 66-67. Additionally, Ms. Stull recommended elimination of the outside consultant MSFR costs. It is her opinion that the work was not necessary or prudent, given the deficiencies in the MSFRs. *Id.* Ms. Stull also recommended a five-year amortization period, rather than the three-year period proposed by CUII, to minimize any potential for over-recovery. *Id.* at 67-68.

7. <u>Regulatory Expense</u>. Ms. Stull also took issue with the level of regulatory expense proposed by the Company for annual costs of filing water capital trackers. *Id.* at 68. The basis for her position is she did not accept the Company's assumptions regarding either the frequency with which it will file these cases or the costs it projects. *Id.* She noted that the Company files its own water trackers rather than using a consultant or law firm, and that the Company has only filed one water tracker since its last rate case. *Id.* at 69. She recommended that no regulatory expense be included in operating expense. *Id.* at 68.

8. <u>Plant Acquisition Adjustment</u>. With regard to amortization expense for plant acquisition adjustments, Ms. Stull testified that the adjustment the Company proposed has been reflected backwards – that is, it should be a negative number not a positive number. *Id.* at 71.

9. <u>Property Tax Expense</u>. With regard to property tax expense, Ms. Stull testified that the amount of property tax expense included in rates should be consistent with the rate base included in each phase. *Id.* at 74. Accordingly, she stated that the Company's inclusion of Phase II property tax expense in Phase I rates is incorrect. *Id.*

10. <u>Utility Receipts Tax Expense</u>. With regard to utility receipts tax expense, Ms. Stull noted that as of July 1, 2022, the Indiana utility receipts tax has been repealed. Accordingly, she stated this expense should be removed from the Company's proposed revenue requirement.

11. <u>Public Utility Fee</u>. With regard to the Company's proposed IURC fee rate, Ms. Stull testified that she used the current IURC fee rate rather than the rate proposed by the Company. *Id.* at 75-76.

C. <u>LOFS's Evidence</u>.

With respect to uncollectible expense, LOFS witness VerDouw testified that in his view, CUII's recent level of uncollectible expense should decrease, because the recent level of expense took place during the COVID-19 pandemic. LOFS Exh. No. 2 at 25. Mr. VerDouw recommended using the uncollectible percentage (0.45%) from CUII's last rate case (Cause No. 44724) instead. *Id.* LOSF witnesses VerDouw and Holden testified that CUII's engineering costs incurred in connection with the wastewater preapproval case (Cause No. 45389) should be disallowed because the projects were not approved. *Id.* at 34; LOFS Exh. No. 3 at 6-7. In addition, Mr. VerDouw testified that the Commission should scrutinize the legal costs incurred by CUII in both Cause Nos. 45389 and 45342 and only allow recovery of appropriate costs. LOFS Exh. No. 2 at 35. Finally, LOFS witness VerDouw also testified that the allocated corporate shared services costs seemed excessive, but deferred to the OUCC on this issue (and the OUCC did not object to these costs). Id. at 31.

D. <u>CUII's Rebuttal Evidence</u>.

In rebuttal testimony, Mr. Dickson testified that CUII agrees with, or is willing not to oppose, the following OUCC and LOFS positions:

- Reduction to test year wastewater chemical expense to \$116,829, from CUII's originally forecasted level of \$135,385;
- Inclusion of excess ADIT amortization (-\$24,119; \$14,734 water, \$9,385 sewer);
- Correction to the sign of the amortization expense related to plant acquisition adjustments in its revenue requirement; and
- Removal of an inflation assumption in CUII's purchased water forecast.

Pet. Exh. No. 4-R at 3. Mr. Dickson's rebuttal testimony included a correction to Phase II depreciation expense, as well as corrections to CUII's wastewater preapproval engineering and legal expenses. *Id.* at 42-43.

1. <u>Payroll and Benefits Expense</u>. With regard to maintenance salaries and wages, Mr. Dickson testified that CUII has struggled with retention of employees historically, and has open positions at present that are emblematic of the tightness of the labor market in which CUII participates. *Id.* at 23. 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. *Id.* at 23-24. At the evidentiary hearing, he updated his testimony and clarified that CUII had two open positions – operator II and operations apprentice.

Mr. Dickson explained that CUII's expectation for its current field technicians is that they obtain licenses in order to advance to the level of experience and expertise needed to perform more complicated processes without supervision. Id. at 24. 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. Id. According to Mr. Dickson, this is not just an expectation, but a necessity for CUII staff to achieve the level of competency required by the forecasted promotion, in order for CUII to continue to provide adequate services to customers. Id. CUII's customers benefit from a well-trained staff. Id. at 29. He noted that all existing field technicians are expected to complete requisite training in order to perform independent of direct supervision. Id. 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. Id. 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. Id. With additional turnover, the process starts over - education and promotion are required by CUII to maintain and retain an adequate workforce. Id.

Mr. Grosvenor also took issue with the OUCC's objection to the promotion of its field technicians. Pet. Exh. No. 3-R at 32. He characterized the OUCC's position as an apparent effort to save money at the expense of offering safe and reliable service. *Id.* 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. *Id.* He stressed that certified operators are critical to this process. *Id.* Right now, he stated CUII has six field technicians who have shown commitment to the utility and a desire to learn. *Id.* 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. *Id.*

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. *Id.* He noted that his direct testimony included both the job description of a Wastewater Operator I and the job description of a Field Technician. *Id.* Further, he testified that a Wastewater Operator must be licensed through a program overseen by the IDEM. Licensed operators are able

to perform preventative maintenance, inspections, cleaning, repairs and long-range system upgrades at the wastewater treatment plant. *Id.* at 32-33. 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. *Id.* at 33. He testified that having more licensed Operators will take significant burdens off of himself and the Lead Operators, who cannot be available everywhere and at all times of the day. *Id.* 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. *Id.*

Mr. Grosvenor explained that being a Field Technician is generally viewed a step to becoming an Operator. *Id.* 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. *Id.* Further, he stated that in recruiting Field Technicians, CUII advises them that CUII will support them in being trained and licensed to become Operators. *Id.* 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. *Id.*

Additionally, Mr. Grosvenor reiterated that CUII is facing an unprecedented level of turnover. *Id.* 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. *Id.* at 33-34. 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. *Id.* at 34.

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

With regard to the two new operations staff positions, Mr. Grosvenor disagreed with the OUCC's position that these positions are not necessary. *Id.* at 35. He testified that CUII is operating at a low staffing level, and it is imperative to add staff. *Id.* As indicated above, CUII has eight operations employees. *Id.* However, this does not translate to eight available qualified team members available at all times. *Id.* As a practical matter, due to the rapid turnover, there are always new employees who must be trained. *Id.* 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. *Id.* at 36. In addition, CUII has to work around employee PTO and other time off. *Id.* Simply put, according to Mr. Grosvenor, CUII is operating at minimal staffing levels and needs to make additions to more effectively operate the system. *Id.*

Mr. Grosvenor noted that CUII has recently replaced the recently vacated Lead Operator position by promoting an existing employee. *Id.* This means, CUII now is short two Operators, or

Field Technicians, depending on the type of applicants. He stated that the Company plans to hire an apprentice that it could transition to a full-time permanent job. *Id*. He testified that the thought behind the apprenticeship program is that the Company is seeing a lack of applicants with experience in this field, and it wants to promote interest from the younger generation in the trades. *Id*. In Mr. Grosvenor's view, it is crucial that CUII fill its open operations staff positions in the immediate future. *Id*.

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. Pet. Exh. No. 4-R at 24-25. This pay guidance is based on data from the AWWA Compensation Study. *Id.* at 25. Mr. Dickson stated that, not only is the AWWA's study credible, it allows CUII to consistently benchmark itself with a trusted source. *Id.*

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. *Id.* 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. *Id.* 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 in close proximity to Gary and the greater Chicago area. *Id.* at 25-26.

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. Pet. Exh. No. 3-R at 34. 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. *Id.* at 34-35. He stated that the Lead Operator that left most recently specifically stated in his exit interview that CUII needs to raise wages in order to stay competitive. *Id.* at 35.

Mr. Dickson noted a modification to its overtime assumptions to reflect an on-call pay change that was instituted in February 2022. Pet. Exh. No. 4-R at 26. 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. *Id*. 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. *Id*. 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 are capable of performing the work that running water and sewer utilities demand of their operations staff. *Id*. A corresponding decrease has been instituted to CUII's overtime rate to remove on-call pay from the calculation and address it separately. *Id*.

Mr. Dickson emphasized that CUII is seriously understaffed. *Id.* 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. *Id.* at 26-27. 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. *Id.* at 27. 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. *Id.*

Mr. Grosvenor added further color to CUII's employee turnover problem, in the form of a spreadsheet showing the employees that have left the Company since 2016. Pet. Exh. No. 4-R, Attachment LG-R3. The individuals shown are full-time employees, exclusive of part-time employees and interns. *Id.* at 35. Over the course of that period, 22 employees left CUII, which amounts to approximately four per year. *Id.* This is a significant number for a utility the size of CUII, that currently has only eight full-time employees. *Id.* This means that every year, CUII is losing half of its qualified workforce. *Id.* In Mr. Grosvenor's opinion, this is not an ideal way to operate a utility. *Id.* He concluded that increasing wages is absolutely necessary if CUII is going to be able to attract and retain a qualified workforce. *Id.*

With regard to general salaries and wages, Mr. Dickson testified that CUII has not filled the Senior Financial Analyst, Project Manager, or VP of Business Development positions. Pet. Exh. No. 4-R at 28. Further, the Director of Engineering and Asset Management and Regional Director of FP&A positions are vacant. *Id.* He testified that CUII looks to fill all five of these positions in 2022. *Id.* Mr. Dickson noted that even at full employment of current positions, CUII remained understaffed. *Id.* at 29. 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. *Id.* He testified that the elimination of these positions only serves to worsen existing struggles CUII is experiencing with retention. *Id.* 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. *Id.*

With regard to the position of Vice President of Business Development, Mr. Lubertozzi 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. Pet. Exh. No 1-R at 17; Pet. Exh. No. 4-R at 30. The quality and quantity of acquisitions is directly related to the amount of time that CUII can invest in pursuing investments. Pet. Exh. No. 4-R at 30. 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. *Id.* 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. *Id.* The addition of the VP BD will ensure a robust pursuit of development opportunities that benefit CUII's customers. *Id.* Contrary to the OUCC's concern, Mr. Lubertozzi testified that this position will not involve lobbying. Pet. Exh. No 1-R at 17.

2. <u>Preapproval Engineering and Legal Expenses</u>. Mr. Lubertozzi testified in rebuttal about the unique history behind CUII's incurrence of these engineering and legal expenses. Pet Exh. No. 1-R, at 5. He explained that, in CUII's last rate case (Cause No. 44724), the Commission directed CUII to develop a system improvement plan ("SIP") to address two wastewater goals:⁵ (1) decrease the total number of incidences of wastewater backups in homes; and (2) decrease the total number of incidences of manhole overflows. *Id*. The Commission directed that this SIP be supported with detailed plans, including descriptions of the activities, measurable outcomes, cost-benefit analyses, and timelines. *Id*. Additionally, the Commission directed that CUII propose capital investments that require Commission approvals and suggested timetables for the filings and approvals. *Id*. Further, for proposed significant capital investments, the Commission directed that CUII provide proper documentation of engineering studies and detailed competitive bids from contractors to support its proposals. *Id*.

Mr. Lubertozzi testified that in response to this directive, CUII developed the proposed CSIP and the proposed wastewater treatment plant improvement plan (WWTPIP), which were included as part of the SIP presented to the Commission in Cause No. 45389. Pet Exh. No. 1-R, at 6. Mr. Lubertozzi stated that in order to meet the detailed requirements set out by the Commission in the 44724 Order, CUII had to engage outside engineering assistance. *Id.* RHMG was selected as the design engineer for the CSIP. *Id.* The design kick-off meeting was held on February 1, 2019. *Id.* Baxter & Woodman was selected as the design engineer for the WWTPIP, and the design kick-off meeting was held on February 4, 2019. *Id.* This outside engineering assistance cost CUII \$1,418,814 in direct engineering and associated costs (i.e., before cap time and interest), \$1,073,256 for Baxter & Woodman and \$299,304 for RHMG. *Id.* With cap time and interest during construction, the total engineering costs are \$1,599,811. *Id.*

Mr. Lubertozzi emphasized that, beginning in 2018, and continuing through Cause No. 45389 pre-approval proceeding, CUII regularly communicated with and updated the OUCC, LOFS, and the Commission with respect to its proposals for meeting the requirements of the Commission's order in Cause No. 44724, including the proposed projects, the estimated costs of such projects, the schedule for such projects, the competitive bidding processes for the projects, the retention of engineering design firms to assist with the development of the projects, the costs being incurred, and more. Pet. Exh. No. 1-R, at 6. Mr. Lubertozzi gave numerous examples of this regular communication and reporting:

• In its Q2 2018 filing with the Commission entitled "Recommended System Improvement Plan," dated July 31, 2018, CUII first presented to the Commission and the parties its draft System Improvement Plan. In this plan, among other things, CUII outlined the proposed projects along with their estimated costs and schedule. Included in this filing were the engineering studies used to develop the proposal and detailed competitive bids from contractors. The competitive bids and engineering proposals included a proposal from RHMG Engineers, Inc., which we ultimately as the design engineer for the CSIP. *See* Attachment SL-R1; Pet Exh. No. 1-R, at 6-7.

⁵ Plus one water goal, to decrease discolored drinking water complaints. See Order in Cause No. 44724, at 76.

- In August 2018, CUII submitted to the Commission and parties a technical conference agenda, for a technical conference that was held on August 15, 2018. As the agenda reflects, discussed at the technical conference was the recommended implementation of the System Improvement Plan. Included with the agenda was a list of the proposed projects, including estimated costs and schedule. *See* Attachment SL-R2; Pet Exh. No. 1-R, at 7.
- The minutes from the August 2018 technical conference, filed with the Commission and parties on December 3, 2018, discuss the proposed expansion of the wastewater collection system and the headworks project, among other items. These minutes also reflect that CUII had worked with qualified engineering firms to generate, evaluate and select alternatives that would address the key aspects of service quality identified in the Commission's 44724 Order. *See* Attachment SL-R3; Pet Exh. No. 1-R, at 7.
- In a docket entry dated August 22, 2018 (which noted that it did not constitute preapproval of the proposed capital investments), the Commission Staff provided written recommendations regarding CUII's proposed System Improvement Plan. These comments included a recommendation to continue to evolve CUII's capital planning efforts as better information becomes available through CUII's asset management program, and a recommendation to provide a status update with each of CUII's quarterly reports to the Commission. *See* Attachment SL-R4. CUII followed this recommendation and provided status updates in each quarterly report filed thereafter. Pet Exh. No. 1-R, at 7.
- In October 2018, CUII filed with the Commission an update to its recommended System Improvement Plan. This update included a list of projects along with estimated costs and proposed schedule. This update also discussed CUII's proposal to expand its wastewater collection system, specifically force mains, lift station upgrades, and expansion of gravity sewers. This update discussed the proposed expansion of the central wastewater treatment plant, including the headworks project, associated SCADA and electrical improvements, etc. *See* Attachment SL-R5; Pet Exh. No. 1-R, at 7.
- In November 2018, CUII filed with the Commission an agenda, proposals summary, and budget and schedule chart for the technical conference scheduled for December 4, 2018. Among the agenda items were Evaluation and Planned Improvements of Wastewater Treatment System engineering bid review and selection process. Also included on the agenda was Cost and Schedule of Projects and Programs timing and cost modifications, and timeline and considerations for filing and approval of projects under Indiana Code 8-1-2-23. See Attachment SL-R6; Pet Exh. No. 1-R, at 7.
- On March 28, 2019, CUII submitted another agenda, proposals summary and budget and schedule chart for an upcoming technical conference (scheduled for April 2, 2019). See Attachment SL-R7. On April 9, 2019, CUII submitted minutes from the April 2019 technical conference. See Attachment SL-R8. These minutes

reflect, among other things, that RHMG was picked for the design for the collection system expansion project, and that they had started the flow monitoring a few weeks prior. Further, the minutes indicate that 50 percent of the engineering design was expected by July 2019, with the final design expected in November,2019 and bidding in January 2020. The minutes also reflect that CUII had engaged Baxter & Woodman to complete the evaluation and planned improvements of the wastewater treatment system, and that CUII planned to bid the project in March or April of 2020. Pet Exh. No. 1-R, at 8.

- Minutes from the October 2019 technical conference, filed with the Commission on November 12, 2019, indicate that the October 2019 technical conference focused on the wastewater treatment plant expansion and the collection system improvement project. *See* Attachment SL-R9. The minutes also reflect that CUII had recently held its 60 percent design meetings and that the engineers were at that point close to 65 percent or 70 percent design. Regarding the collection system improvement project, the minutes reflect that CUII indicated that 90 percent design was expected in October/November of 2019 with the final design planned for November 2019. These minutes also reflect that in a call held on October 25, 2019, it was expressed to CUII that the LOFS had "grave concerns" regarding these two wastewater projects. After hearing this, parties decided that in an effort to move to a more collaborative approach, the parties would meet outside of the technical conferences to discuss the wastewater treatment plant expansion project and the collection system improvement project. Pet Exh. No. 1-R, at 8.
- In April of 2020, CUII submitted an updated project estimated cost and schedule chart to the Commission for, among other things, the wastewater treatment plant expansion project and the wastewater collection system project. *See* Attachment SL-R10. Additionally, updated project estimated cost and schedule charts were filed with the Commission in July of 2020 and October of 2020. *See* Attachments SL-R11 and SL-R12. These budget updates reflected costs that had been incurred, were being incurred, and projected to incur for these and other projects. Pet Exh. No. 1-R, at 8.

Mr. Lubertozzi testified that in June of 2020, these two projects were presented to the Commission in Cause No. 45389, a construction pre-approval case. Pet Exh. No. 1-R, at 8. He noted that while it was CUII's decision to present the projects in a pre-approval case, the Commission made clear in its 44724 Order that the projects were required to be proposed to the Commission in some type of proceeding for its approval, accompanied by engineering studies and competitive bids. *Id.* at 8-9.

In summary, Mr. Lubertozzi concluded, the history behind these engineering costs demonstrates that: (1) in Cause No. 44724 the Commission directed CUII to prepare the SIP; (2) CUII could not have complied with the Commission's Order 44724 requirements without the outside engineering costs it incurred; (3) beginning in 2018 and continuing up until and throughout the 45389 pre-approval proceeding, CUII frequently informed OUCC, LOFS, and Commission Staff about the engineering costs it was incurring, as well as the CSIP and the WWTPIP – and CUII relied upon this history in incurring the engineering costs. Pet Exh. No. 1-R, at 9. For these
reasons, he stated, CUII continues to believe that recovery of these engineering costs in rates is reasonable and should be authorized. *Id*.

In rebuttal testimony, Mr. Dickson testified that CUII has updated its workpaper wp-k in Attachment AD-R04 to reflect the most up-to-date level of costs incurred in association with each initiative: \$367,089 in costs are associated with engineering for the collection system project, and \$1,232,722 in association with the wastewater treatment plant project. Pet Exh. No. 4-R, at 39. CUII maintains that it should be allowed recovery of these expenses, over the course of 40 years, with the legal costs incurred (\$176,144 in association with the iron filter replacement project, \$125,924 in association with the collection system project, and \$132,395 in association with the wastewater treatment plant project. *Id*.

3. Purchased Water Expense. With regard to purchased water volumes, Mr. Dickson disagreed with Ms. Stull's forecast, but generally acknowledged that Ms. Stull's approach is reasonable. Pet Exh. No. 4-R, at 31. He explained that CUII originally used invoices paid in the base period to identify purchased water used in its base period. Id. However, he noted, the actual service period on those bills can differ. Id. at 31-32. He stated that Ms. Stull's efforts use CUII's bills to identify the service periods in which water purchased occurred. Id. at 32. He testified that CUII has taken this a step further in identifying the service period and usage of bills since 2016. Id. He stated that calendar year 2021 is the lowest level of usage that CUII has experienced in this time period, at 118,103 kilogallons, with as much as 133,720 kilogallons used in a calendar year (2017). Id. He stated that this is attributable to not only declining consumption, but also improvements to unaccounted for water (UFW) losses; as can be seen in CUII's 2020 annual report, CUII's 2020 UFW percentage was 14.2%, which was reduced to 10.8% in 2021. Id. Based on this analysis, Mr. Dickson agreed with Ms. Stull that CUII's original purchased water volume forecast is too high - producing a linear equation to represent CUII's purchased water volume trends from 2016 through 2021, one would estimate a 2021 purchased volume of 120,138 kilogallons. Id. This is approximately 2,000 kilogallons above CUII's actual usage in 2021, according to the service period of January 7, 2021, through January 5, 2022, of 118,103 kilogallons. Id. Mr. Dickson testified that, to normalize the variable and reset the trend to normal levels, CUII's new forecast starts with a 'base period' (this period is actually calendar year 2021) volume estimation of 120,138. Id. Applying CUII's IWSI consumption decline assumption of 1.82% for two years results in a test year forecasted volume of 115,816 kilogallons. Id. at 33. He stated that CUII has assumed an annual decrease of 1.82% annually, which is the same 1.82% that Ms. Stull identifies in her testimony for IWSI (CUII's only purchased water system), and which CUII applied in its direct case forecast for 2023. Id. Mr. Dickson testified that with a test year forecasted usage of 115,816 kilogallons, CUII forecasts a test year level of purchased water expense of \$342,654. Id. He noted that this excludes all inflationary assumptions that were included in CUII's direct case position, and represents a difference of only \$5,139 from Ms. Stull's position (\$337,515). Id.

Mr. Dickson also agreed that using the most current rates that CUII experiences from Indiana American ("IA") is the appropriate foundation for its forecast, and that CUII will have opportunity to recover changes in those rates through its water tracker. Pet Exh. No. 4-R, at 34. However, this specific rate referenced by Ms. Stull, IA's DSIC-13, was recently put into effect by IA, and CUII has not yet filed a water tracker for this charge. *Id*. CUII should not be barred from filing a water tracker to recover this change in purchased water costs between now and when

CUII's rates from this case go into effect. *Id.* However, CUII agrees that, should no further changes to the rates it experiences from IA be realized between now and the effective date of rates from this rate case, that CUII's water tracker should be set to zero. *Id.* This recommendation fully removes the potential for any double recovery, and does not preclude CUII from using its water tracker as it was intended; to make CUII whole for changes in purchased water expense between rate cases. *Id.*

4. <u>COVID-19 Deferrals</u>. With regard to COVID-19 costs, Mr. Dickson testified that he did not disagree with Ms. Stull's recalculation of foregone late payment charges, with her inclusion of Direct – Customer Communication costs (\$3,171), Forgone reconnection charges (\$63), or Direct – Legal Costs (\$4,176). CUII has updated its Direct – Legal costs for an invoice recognized in December 2021, but paid in July 2021, of \$352 also associated with these COVID-19 efforts. Pet. Exh. No. 4-R, at 34.

CUII does disagree, however, on the relevant time period during which foregone late payment charges should be recoverable. Ms. Stull limits this to March 2020 through October 2020. Pet Exh. No. 4-R, at 35. However, CUII recognized in October 2020 that the pandemic was far from over, and that customers would still benefit from the foregoing of late payment charges. Not until August 8, 2021, did CUII begin assessing late payment charges. *Id.* Thus, CUII includes the additional \$50,916.47 in foregone late payment fees for that period (October 2020 through August 2021) that the OUCC has not. *Id.*

With regard to an appropriate amortization period for the deferred COVID-19 costs, Mr. Dickson testified that five-year period is too long, because CUII expects to continue making investments in its systems in Indiana, thus its ability to earn its authorized return will atrophy. Pet Exh. No. 4-R, at 35. He stated that CUII's proposed life of three years is far more likely to represent the life of the rates being set in this case. *Id*.

5. <u>Uncollectible Expense</u>. With regard to LOFS's position that bad debt expense should be reduced because of the pandemic, Mr. Dickson testified that CUII will likely continue to experience the level of bad debt it has forecasted, and may ultimately recognize a higher level with the increase of rates. Pet Exh. No. 4-R, at 36. CUII has not identified the price elasticity of demand for its services, but it is unlikely that its bad debt rate will decrease with the necessary increase in service rates that CUII has proposed in this case, as CUII does not expect a sudden change in demand for services. *Id*. The impact of increased rates is more likely to be an elevated level of bad debt, if any change at all. *Id*. CUII has forecasted no change from its base period, which is consistent with the methodology used in Cause No. 44724, and has been approved by the IURC. *Id*.

6. <u>Regulatory Expense</u>. With regard to regulatory expense, Mr. Dickson testified that CUII has historically experienced frequent changes in rates from Indiana American. Pet. Exh. No. 4-R, at 36. He stated that CUII 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 CUII is expected to file a water tracker within 30 days. *Id.* Mr. Dickson testified that CUII's forecast of two water tracker filings per year is thus conservative and reasonable, given the historical frequency of rate changes that it has

experienced. *Id*. To correct Ms. Stull's testimony, Mr. Dickson noted that CUII has forecasted only \$2,500 in costs per water tracker filing, not \$5,000. *Id*.

Mr. Dickson also testified that while CUII files its own water trackers, it still requires the use of a minimal amount of outside legal counsel assistance. Pet Exh. No. 4-R, at 37. He stated that this assistance helps CUII 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. *Id*.

Mr. Dickson also stated that, Ms. Stull has also, rightfully so, pointed out that CUII's cost inflation factor on its purchased water could result in double-recovery should CUII have need to file a water tracker. Pet Exh. No. 4-R, at 37. He noted that CUII has agreed with this argument, but should not be impeded from filing the necessary water trackers to recover purchased water costs not reflected in this case. *Id.* 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 CUII's purchased water cost: either CUII 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. *Id.* at 37-38. CUII has agreed that the best path forward is the elimination of its cost escalation in purchased water costs, but asserts that regulatory expense for water trackers must be included for the rate changes CUII will experience. *Id.* at 38.

While Ms. Stull further disputes CUII's forecast of one DSIC and one SSIC filing per year, citing the lack of such filings since CUII's last rate case (Cause 44724), Mr. Dickson testified that CUII has specific SCIP (sewer capital improvement project) and watermain replacement projects scheduled for each year, which have been alluded to throughout testimony. Pet Exh. No. 4-R, at 38. These projects generally involve activity recoverable through these DSIC and SSIC mechanisms, and he stated that CUII intends to seek recovery of those projects through these mechanisms to reduce the frequency for full rate cases and their associated rate case expense. Id. 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 CUII must file rate cases, which are an order of magnitude larger than CUII's forecasted regulatory costs for these mechanisms. Id. Finally, Mr. Dickson testified that CUII's estimation of costs related to these filings has been provided by its legal counsel, whose experience with such filings has driven its estimation. Id. CUII 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 CUII (and ultimately, CUII customers) relative to alternatives, at a cost of \$25,000 per year (two water tracker filings at \$2,500 each, one DSIC filing at \$10,000, and one SSIC filing at \$10,000). Id. at 38-39.

7. <u>Rate Case Expense.</u> In rebuttal, Mr. Kilbane provided at updated estimate of CUII's rate case expense of \$401,513, which reflects the cost of additional rebuttal witnesses added to this case (which Mr. Dickson updated to \$400,280 at the evidentiary hearing). Pet. Exh. No. 7-R, p. 3. Mr. Kilbane also stated that Ms. Stull's characterization of the MSFR deficiencies was overstated, and that the consultant fees for the MSFRs were reasonable. *Id.* at 4. Mr. Kilbane testified that costs to correct any MSFR deficiencies were not billed to CUII by ScottMadden and therefore will not be passed on to customers. *Id.* Mr. Kilbane further testified that CUII's proposed three-year amortization period should be approved because it best aligns with

the Company's expected timeframe between general rate cases and avoids unnecessary compounding of rate case expenses in customer rates. *Id.* at 5. Mr. Kilbane testified that the delay between the last rate case and the current rate case is due to the Company's preapproval cases and the COVID-19 pandemic. *Id.* He testified that three-years is consistent with the Company's planned filing schedule and other utilities' recently approved amortization periods. *Id.* at 5-6.

8. <u>Taxes Other Than Income Taxes.</u> Mr. Dickson disagreed with Ms. Stull's position that CUII made an error including Phase II levels of "taxes other than income taxes" in its Phase I revenue requirement. Pet Exh. No. 4-R, at 43. He testified that CUII is entitled to a fully forecasted level of TOTI for the 12 months ending September 30, 2023, in Phase I rates. *Id.* He noted that this is part and parcel of future test year methodology where CUII's phase I rates are based on income statement costs for a future test year. *Id.* He pointed out that Ms. Stull herself stated, "the test year is the ending point in time upon which the determination of net operating income at present rates is made. In this case, the test year is the twelve-month period ending September 30, 2023." *Id.* He testified that net operating income includes TOTI, depreciation, and other elements that are determined by the ultimate investment that CUII makes before the end of its September 30, 2023 test year. *Id.* He testified that this is part and parcel of the future test year methodology. *Id.*

Mr. Dickson pointed out that Ms. Stull's workpaper (OUCC Schedule 6, Adjustment No. 14) 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. Pet Exh. No. 4-R, at 44. 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. *Id*.

Mr. Dickson noted that Ms. Stull agrees with the methodology for calculating payroll taxes, and that CUII has applied this methodology to its rebuttal level of salaries and wage expense, which is the only cause for difference between the OUCC's and CUII's positions. Pet Exh. No. 4-R, at 44.

Mr. Dickson agreed with Ms. Stull's modifications to remove the utility receipts tax and adjust the IURC fee rate. Pet Exh. No. 4-R, at 44. He stated that CUII has updated its calculation of taxes other than income taxes to reflect the removal of utility receipts tax and update the IURC fee rate to that recommended by Ms. Stull. *Id*.

9. <u>Income Tax Expense</u>. Mr. Dickson testified that CUII has updated its income tax calculations using the same methodology, accepted by Ms. Stull, to reflect CUII's rebuttal revenue and expense items. Pet Exh. No. 4-R, at 45. There are otherwise no changes to its calculation of income taxes.

E. <u>Commission Discussion and Analysis</u>.

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) purchased water expense; (3) COVID-19 deferrals; (4) engineering and legal costs incurred in connection

with Cause No. 45389 (CUII's wastewater preapproval case); (5) rate case expense; (6) regulatory expense; (7) uncollectible expense; and (8) taxes other than income taxes. The evidence indicates that the parties are in agreement with respect to chemical expense, excess ADIT, plant acquisition adjustment, utility receipts tax, and the public utility fee. And while there are differences in the parties' calculations of depreciation expense and income taxes, those differences stem from differences in rate base and overall expense levels, rather than differences in methodology. Finally, it is unclear whether the OUCC opposes recovery of the legal fees incurred in connection with the water preapproval proceeding, Cause No. 45342; the OUCC's testimony mentions these costs only in passing.

The Commission's primary objective in every rate proceeding is to establish a level of rates and charges sufficient to permit the utility to meet its operating expenses (plus a return on investment which will compensate its investors). *See* Ind. Code § 8-1-2-4; *see also, Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 605 (1944); *L.S. Ayres & Co. v. IPALCO*, 169 Ind. App. 652, 351 N.E.2d 814, 1976 Ind.App. LEXIS 963 (Ind.Ct.App. 1976). Allowable operating costs include all types of operating expenses (*e.g.*, wages, salaries, fuel, maintenance) plus annual charges for depreciation and operating taxes. With this in mind, we address the disputed operating expense issues in this case.

1. <u>Payroll and Benefits Expense</u>. The parties' positions indicate that there are four issues in dispute with respect to payroll and benefits expense: (1) whether two unfilled operational positions operations should be reflected in rates; (2) whether promotions of field technicians should be reflected in rates; (3) whether salary increases should be reflected in rates; and (4) whether the Vice President of Business Development position should be reflected in rates.

With respect to unfilled positions, we note that no party has contested the need for or reasonableness of the unfilled positions. The two unfilled operations positions are normal operational positions for a utility such as CUII. The evidence indicates that these positions are needed, CUII is currently understaffed, and CUII is actively working to fill these positions. If the costs of these positions are not reflected in rates in this case, CUII's ongoing level of operating expense will be understated. Accordingly, the Commission finds that payroll and benefits expense in this case should include the costs of these two currently unfilled operations positions. *See Indiana Gas Co.*, 1987 Ind. PUC LEXIS 115, Cause No. 38080, p. 14 (IURC 9/18/87) (allowing labor expenses for vacant positions normal to the utility's operation).

With respect to the promotions of field technicians, Mr. Dickson's testimony made clear that it is the Company's expectation that its field technicians will be trained and promoted within two years. Further, he explained that for a utility the size of CUII, that is not just an expectation but a necessity; with a staff the size of CUII's, employees must be able to perform various duties without supervision. The Company's response to the Commission's June 23, 2022, docket entry questions (Pet. Ex. 13) indicates that promotions from field technician to operator status are guided by specific job descriptions to monitor and evaluate operators, with salary grades adjusted accordingly. We find that in this case, CUII's promotions of its field technicians to operator positions is reasonable and necessary and should be reflected in rates authorized in this case.

With respect to the salary increases for operational employees, the evidence demonstrates that CUII is experiencing serious difficulty in attracting and retaining employees in this tight labor market, and it must compete for employees against both other utilities and other non-utility companies. Further, the evidence shows that CUII's current operational salaries (which reflect pay increases recently instituted by CUII) are necessary to maintain competitive pay and benefits. The evidence indicates that, prior to these salary increases, CUII's staff were being paid below the market midpoint, based on data from the AWWA Compensation Study. Accordingly, we find that CUII's proposed salary levels are reasonable and should be reflected in rates in this case.

With respect to the cost of the position of Vice President of Business Development, the evidence indicates that this will be a regional/local position, devoted to Indiana and Illinois, and the costs of the position will be allocated accordingly. Further, the evidence shows that this position will focus on growing CUII's service territories in Indiana and Illinois, which will benefit customers and shareholders alike. Indeed, as Mr. Lubertozzi pointed out in his rebuttal testimony, given CUII's relatively small size, growth would be particularly valuable for CUII's current customer base. The evidence further indicates that this position will not be duplicative of any of Water Service Corporation's activities, and this position will not be involved in lobbying activities. For these reasons, we find that CUII's rates should reflect the appropriate allocated cost of this position.

2. <u>Preapproval Engineering and Legal Costs</u>. The dispute here centers around whether recovery of engineering and legal costs incurred by CUII in connection with the wastewater preapproval proceeding in Cause No. 45389 is reasonable, given that the Commission did not preapprove the wastewater projects proposed by the Company in that case. Here, there is no evidence that suggests the costs incurred by CUII were in any way unreasonable or imprudent. Rather, the OUCC and LOFS object to the recovery on the basis that they are connected to projects which were not approved by the Commission.

At the outset, it is important to recognize that engineering and legal costs are normal, ongoing expenses incurred by utilities, year in and year out. Some of these costs incurred undoubtedly relate to projects that are ultimately not pursued or not approved by regulators. Here, however, we are presented with a unique circumstance: CUII was directed by the Commission to prepare and present a wastewater system improvement plan and present such plan to the Commission for its approval. Specifically, in our Order in Cause No. 44724, we stated the following:

- "[B]ased on our review of the evidence, we believe Petitioner is making strides to improve service quality and Petitioner generally knows what it needs to do to continue improving service quality. However, Petitioner needs to create a master plan to decrease total incidences of wastewater backups in homes and manhole overflows"
- "Based on our consideration of the evidence, we find that Petitioner still needs to improve three key aspects of service quality and Petitioner shall develop and implement the SIP to ensure that it makes these improvements. Accordingly, we direct Petitioner to develop the SIP to achieve the following goals: (a) to decrease

total incidences of wastewater backups in homes, (b) to decrease total incidences of manhole overflows, and (c) \dots " (Emphasis added.)

- "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. The detailed plans shall include descriptions of the activities, measurable outcomes, cost-benefit analyses, and timelines. Additionally, Petitioner shall propose capital investments that require Commission approvals and suggested timetables for the filings and approvals. For proposed significant capital investments, Petitioner shall provide proper documentation of engineering studies and detailed competitive bids from contractors to support Petitioner's proposals." (Emphasis added.)
- "Petitioner shall 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. The I&I program shall specifically address how Petitioner will decrease inflow of rain and storm water into the wastewater system by working with LOFS to eliminate improperly installed residential sump pumps and roof downspouts and illegally connected drains. The I&I program shall also utilize Petitioner's comprehensive asset program to decrease infiltration of groundwater into the wastewater system through leaky joints, cracked pipelines, and deteriorated manholes. (Emphasis added.)

The evidence shows that CUII followed our directive, prepared a SIP consisting of the CSIP and the WWTPIP, regularly communicated about the status of its planning with the Commission, the OUCC, and LOFS, and presented its proposed wastewater SIP to the Commission in Cause No. 45389. The evidence further shows that CUII could not comply with this directive, including a competitive bidding process and necessary retention of engineering firms, without incurring the engineering and legal costs at issue here. The evidence shows that the Commission Staff reasonably encouraged CUII to continue with its capital plans for its wastewater SIP, and that the OUCC and LOFS raised no objection to the plans or the costs being incurred until the engineering costs were almost complete. The Commission agrees with witness Lubertozzi that, "...utility prudence should be judged on what they knew or should have known at the time decisions were made,..." (Petitioner's Exhibit 1-R, Page 11, Lines 5 - 6), and at the time the Company decided to engage a team of engineers that resulted in the capital projects presented in Cause No. 45389, the Commission had mandated that the Company "...propose capital investments that require Commission approvals..." and that the Company "...shall provide proper documentation of engineering studies and detailed competitive bids..." for the Company's proposed capital investments. (Cause No. 44724, page 76). Given these unique circumstances, we agree with CUII that recovery of its engineering and legal costs stemming from our Order in Cause No. 44724 and necessary to present its wastewater SIP in Cause No. 45389 (and its legal costs associated with Cause No. 45342), should be recovered in rates in this case. Accordingly, we authorize CUII to amortize and recover its engineering costs over a 40-year period, as proposed by the Company,

and to amortize and recover its legal costs over a 3-year period, as proposed by the Company and consistent with its expected timeframe between rate cases going forward.

3. <u>Purchased Water Expense</u>. In his rebuttal testimony, Mr. Dickson disagreed with Ms. Stull's forecast of purchased water volumes, but generally acknowledged that Ms. Stull's approach is reasonable. He provided a more detailed analysis that identified the service periods and usage of bills since 2016. Based on this analysis, Mr. Dickson agreed with Ms. Stull that CUII's original purchased water volume forecast was too high. Instead, Mr. Dickson's analysis supported using 2021 as a base period, then applying an applicable annual percentage decrease of 1.82% to capture declines in consumption. This produces a linear trend forecast for the Test Period and excludes the inflationary adjustment initially made by Mr. Dickson. With represents a difference of only \$5,139 from Ms. Stull's position (\$337,515). Notably, with this new analysis, the difference between the two parties is only approximately \$5,000. We find CUII's rebuttal analysis or purchased water expense to be reasonable and supported by substantial evidence.

We note that Mr. Dickson also agreed with Ms. Stull that using the most current rates that CUII experiences from Indiana American ("IA") is the appropriate foundation for its forecast, and that CUII will have opportunity to recover changes in those rates through its water tracker. However, he noted that this specific rate referenced by Ms. Stull, IA's DSIC-13, was recently put into effect by IA, and CUII has not yet filed a water tracker for this charge. We agree with Mr. Dickson that CUII should not be barred from filing a water tracker to recover this change in purchased water costs between now and when CUII's rates from this case go into effect. However, should no further changes to the rates it experiences from IA be realized between now and the effective date of rates from this rate case, CUII's water tracker should be set to zero. This recommendation fully removes the potential for any double recovery, and does not preclude CUII from using its water tracker to reflect changes in purchased water expense between rate cases.

COVID-19 Deferrals. The issues in dispute here are the relevant 4. time period during which foregone late payment charges should be recoverable, and an appropriate amortization period for recovery of approved COVID-19 deferred costs. The OUCC would limit recoverable foregone late payment charges to March 2020 through October 2020, on the basis that the Commission terminated its requirement that utilities forego such charges in October 2020. CUII, on the other hand, urges us to recognize the full amount of late payment charges foregone by the Company from March 2020 until early August 2021. The question presented by this dispute is, was it reasonable for CUII to continue to forego late payment charges after October 2020, until August 2021. Given the ongoing nature of the COVID-19 pandemic and the encouragement the Commission gave utilities to accommodate its customers' needs during the pandemic, we believe it was reasonable and to customers' benefit for CUII to continue to forego late payment charges until August 2021. We note that nowhere in our Orders in Cause No. 45380 did we terminate the authority for utilities to defer their foregone late payment charges. Further, in our August 12, 2020 Order in Cause No. 45380 (at pp. 4-5), we specifically recognized that the pandemic was not over, and we encouraged utilities to offer other additional customer protections. Additionally, in our June 27, 2020 Order in Cause No. 45380, Commission Ober specifically stated as follows:

... it is premature to suppose that on some date certain the recovery will be such that utilities can resume normal operations with respect

to their customers. Indeed, this Commission in its May 27 Order (at 3) noted that, it would be unreasonable to expect that the financial, health, and other hardships currently being experienced as a result of the COVID-19 pandemic would immediately disappear upon expiration of any public health declaration or disconnection moratorium.

* * *

We are beginning the warmest months of the year when utility usage increases and access to service is critical. Disconnecting essential utility service for those whose economic security has been harmed during the public health emergency is unconscionable and only adds to the already significant human cost of the COVID-19 pandemic.

(Cause No. 45380, June 29, 2020 Order, Commissioner Ober's Concurrence)

Given the ongoing nature of the pandemic and the encouragement from the Commission to utilities to continue offering relief to customers, we find that CUII should be authorized to recover its deferred foregone late payment charges through August 2021.

With regard to an appropriate amortization period for the deferred COVID-19 costs, we agree with CUII that the amortization period for recovery of its deferred COVID-19 costs should be three years, the expected life of the rates being established in this case. This will mitigate the need to "roll over" these deferrals to CUII's next rate case.

5. <u>Rate Case Expense.</u> We find Petitioner's proposed \$400,280 reasonable and approve its inclusion in rates. We acknowledge the OUCC's concern regarding the outside consultant fees and the MSFR filing, but note that the corrections completed by ScottMadden were not billed to CUII and therefore, will not be passed to customers. We approve Petitioner's proposed amortization period of three years, and as it is consistent with the Company's proposed general rate case filing time period, we find it the most appropriate length of time for recovery of these expenses.

6. <u>Regulatory Expense</u>. At issue here is the reasonableness of CUII's forecast of an annual level of legal expense related to CUII's rate adjustment mechanism (DSIC, SSIC, and WT) filings. The evidence indicates that CUII will be making investments that will be eligible for recovery through its DSIC and SSIC mechanisms, and anticipates modifications to its purchased water rate that will necessitate filing of its WT mechanism as well. Mr. Dickson supported a *pro forma* adjustment reflecting CUII's expected annual level of legal expense for these filings. The OUCC opposes the Company's *pro forma* adjustment, on the basis that it disagreed with the assumptions regarding the frequency or cost of such filings. The OUCC stated that CUII prepares and files its own trackers rather than using a law firm, and that CUII has only filed one water tracker since its last rate case. CUII countered that it has specific SCIP (sewer capital improvement) and watermain replacement projects scheduled for each year, which generally involve activity recoverable through these DSIC and SSIC mechanisms, and CUII

intends to seek recovery of those projects through these mechanisms to reduce the frequency for full rate cases and their associated rate case expense. CUII argued 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 CUII must file rate cases, which are an order of magnitude larger than CUII's forecasted regulatory costs for these mechanisms. Further, CUII noted that it will incur minimal expenses expense to consult with CUII's legal team to ensure accurate and efficient filings, and its estimates of costs related to these filings has been provided by its legal counsel, whose experience with such filings has driven its estimates. CUII 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 CUII (and ultimately, CUII customers) relative to alternatives, at a cost of \$25,000 per year (two water tracker filings at \$2,500 each, one DSIC filing at \$10,000).

The foregoing evidence indicates that CUII intends to utilize the DSIC, SSIC, and WT rate adjustment mechanisms, that it will use legal counsel to review its filings to ensure accurate and efficient filings, and that its estimates are based upon its legal counsel's estimates for such reviews. We find that the relatively minimal costs CUII has reflected in its *pro forma* adjustment for such regulatory filings are reasonable and should be approved.

7. <u>Uncollectible Expense</u>. Intervenor LOFS took the position that CUII's projected Test Period uncollectible expense is overstated, arguing that uncollectible expense should decrease as we move on from the pandemic. CUII countered that CUII will likely continue to experience the level of bad debt it has forecasted, and may ultimately recognize a higher level with the increase of rates. CUII noted that it is unlikely that its bad debt rate will decrease with the necessary increase in service rates that CUII has proposed in this case, as CUII does not expect a sudden change in demand for services. According to CUII, the impact of increased rates is more likely to be an elevated level of bad debt, if any change at all. CUII has forecasted no change from its base period, which is consistent with the methodology used and approved in Cause No. 44724.

Due to the ongoing nature of the pandemic, along with the rate increases necessitated by this Order, we find that CUII's forecast of uncollectible expense is reasonable and should be approved. At this point in time, there is no basis to conclude that uncollectible expense will decrease from the base period, particularly when CUII's rates are increasing, the pandemic is ongoing, and inflation and other economic factors are impacting our economy.

8. <u>Taxes Other Than Income Taxes</u>. CUII and OUCC disagree about whether Phase II levels of "taxes other than income taxes" (specifically, property tax expense) should be included in the Company's Phase I revenue requirements. We agree with CUII that the future test year methodology relies on test period operating expenses, not a year-by-year adjusted phase-in of test period operating expenses. A review of our recent rate orders in other future test period cases confirms 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. *See, e.g., See e.g., In re Duke Energy Ind., LLC*, Cause No. 45253 (IURC June 29, 2020); *Verified Petition of Southern Indiana Gas & Elec. Co.*, Cause No. 45447 (IURC; Oct. 6, 2021); *Petition of Indiana-American Water Co.*, Cause No. 45142 (IURC; June 26, 2019); *In re N Ind. Pub. Serv. Co.*, Cause No. 44988 (IURC; September 18, 2018). Consistent with our precedent, we find that CUII should use its Test Period operating expense for both Phase I and Phase II rates.

9. <u>Pro Forma Operating Expenses</u>. Based on the above, the Commission finds Petitioner's *pro forma* water and wastewater operating expenses for the 12 months ended September 30, 2023, adjusted to a level which fairly represents its forecasted operations, are \$2,705,056 and \$2,487,329, respectively.

10. <u>Petitioner's *Pro Forma* Net Operating Income</u>. On the basis of the decisions and findings in this Order, we find that Petitioner's *pro forma* water and wastewater (sewer) net operating income under present rates, adjusted to a level which fairly represents its forecasted operations is (\$183,080), summarized as follows:

Water Net Operating Income under Present Rates					
	Phase I 9/30/2023			Phase II 9/30/2023	
			_		
Operating Revenue	\$	2,535,302		\$	2,535,302
Operating Expenses					
Maintenance Expense		1,241,821			1,241,821
General Expense		1,111,596			1,111,596
Depreciation		374,366			424,622
Amortization of PAA		(8,537)			(8,537)
Taxes Other Than Income		163,375			163,375
Income Taxes - Federal		(133,326)			(158,770)
Income Taxes - State		(32,712)			(38,955)
Amortization of Income Tax		(1,127)			(1,127)
Amortization of Excess ADI		(14,734)			(14,734)
Amortization of CIAC		(14,235)	_		(14,235)
Total Operating Expenses		2,686,487	_		2,705,056
Net Operating Income	\$	(151,185)	_	\$	(169,754)

icon	ne under Prese	nt Rat	es	
Phase I 9/30/2023			Phase II 9/30/2023	
\$	2,474,002	\$	2,474,002	
	1,105,106		1,105,106	
	759,315		759,315	
	516,521		634,950	
	-		-	
	105,498		105,498	
	(39,123)		(86,142)	
	(9,599)		(21,136)	
	(744)		(744)	
l	(9,385)		(9,385)	
	(134)		(134)	
	2,427,456		2,487,329	
\$	46,546	\$	(13,327)	
	\$	Phase I 9/30/2023 \$ 2,474,002 1,105,106 759,315 516,521 - 105,498 (39,123) (9,599) (744) (9,385) (134) 2,427,456 \$ 46,546	Phase I 9/30/2023 9 \$ 2,474,002 \$ 1,105,106 759,315 759,315 516,521 - 105,498 (39,123) (9,599) (744) (9,385) (134) 2,427,456 \$ 46,546 \$	

When applied to the original cost rate base determined for Petitioner above, this operating income produces a return of only (0.63%), which is far below a reasonable rate of return, as established in our above findings. Accordingly, on the basis of the evidence and the foregoing determinations, we find that the water and wastewater operating income to Petitioner, under its present rates for the water and wastewater utility service rendered and to be rendered by it, is not sufficient to provide Petitioner a fair return upon the value of its water and wastewater properties used and useful for the convenience of the public for the forecasted test period and beyond. Therefore, Petitioner's current rates are unjust and unreasonable.

10. <u>**Rate Level to be Authorized**</u>. We find that a net operating income of \$2,110,217 is hereby found to be a fair return upon the value of Petitioner's water and wastewater properties used and useful and reasonably necessary for the convenience of the public. This provides a fair rate of return of approximately 7.29% which is consistent with the rate of return established in our previous findings. In order to provide such utility operating income, an increase in Petitioner's annual water and wastewater operating revenues of \$3,089,679 is required. This authorized rate

Water Net Operating Income, Authorized Increase				
	Phase I 9/30/2022			Phase II
				9/30/2023
Operating Revenue	\$	4,072,831	\$	4,405,479
Operating Expenses				
Maintenance Expense		1,241,821		1,241,821
General Expense		1,130,132		1,134,143
Depreciation		374,366		424,622
Amortization of PAA		(8,537)		(8,537)
Taxes Other Than Income		163,375		163,375
Income Taxes - Federal		170,032		210,220
Income Taxes - State		41,718		51,579
Amortization of Income Tax		(1,127)		(1,127)
Amortization of Excess ADI		(14,734)		(14,734)
Amortization of CIAC		(14,235)	_	(14,235)
Total Operating Expenses		3,082,812		3,187,127
Net Operating Income	\$	990,019	\$	1,218,352

increase will be phased in in two steps, as discussed herein. On that basis, we find that Petitioner's *pro forma* operating results will be:

Water Authorized Revenue Increase, Service Revenue % Change						
	Phase I	Phase II 9/30/2023				
	9/30/2022					
Original Cost Rate Base	\$ 13,583,565	\$ 16,716,413				
Times: Weighted Cost of Capital	7.29%	7.29%				
Net Operating Income Required for Return on Rate Base	990,019	1,218,352				
Less:						
Adjusted Net Operating Income	(151,185)	(169,754)				
Net Revenue Requirement	1,141,204	1,388,106				
Gross Revenue Conversion Factor	134.73%	134.73%				
Recommended Revenue Increase	\$ 1,537,529	\$ 1,870,176				
Recommended Percentage Increase to Service Revenues	62.12%	75.56%				

Sewer Net Operating Income, Authorized Increase						
	Phase I 9/30/2022			Phase II 9/30/2023		
			9			
Operating Revenue	\$	3,146,297	\$	3,693,504		
Operating Expenses						
Maintenance Expense		1,105,106		1,105,106		
General Expense		767,393		773,968		
Depreciation		516,521		634,950		
Amortization of PAA		-		-		
Taxes Other Than Income		105,498		105,498		
Income Taxes - Federal		93,528		154,478		
Income Taxes - State		22,948		37,902		
Amortization of Income Tax		(744)		(744)		
Amortization of Excess ADI		(9,385)		(9,385)		
Amortization of CIAC		(134)	_	(134)		
Total Operating Expenses		2,600,731		2,801,639		
Net Operating Income	\$	545,566	\$	891,865		

Sewer Authorized Revenue Increase, Servi	ce Re	evenue % Chai	nge	
	Phase I 9/30/2022		Phase II 9/30/2023	
	<i>.</i>		.	
Original Cost Rate Base	\$	7,485,452	\$	12,236,847
Times: Weighted Cost of Capital		7.29%		7.29%
Net Operating Income Required for Return on Rate Base		545,566		891,865
Less:				
Adjusted Net Operating Income		46,546		(13,327)
Net Revenue Requirement		499,020		905,192
Gross Revenue Conversion Factor		134.72%		134.72%
Recommended Revenue Increase	\$	672,295	\$	1,219,503
Recommended Percentage Increase to Service Revenues		27.83%		50.48%

We are cognizant of the fact that we are authorizing substantial water and wastewater rate increases in this Order. In reaching our decision, we have carefully balanced the Company's need for rate increases – including the reasonableness of the capital investments made or to be made by the Company, as well as the need for increases in salaries and wages and o other operating expenses – with the rate impacts of such. Although substantial, these rate increases will be phased in over two years through the rate phase in process, which should be of benefit to customers. Additionally, CUII has only included a portion – based on its initial case-in-chief estimate – of its projected Headworks project costs in this case, which should also benefit customers. And we have authorized

a new low-income rate to help the Company's most vulnerable customers afford water and wastewater utility services.

11. <u>Quality of Service</u>.

A. <u>Petitioner's Evidence.</u>

Mr. Grosvenor testified that CUII is in compliance with all applicable water quality regulations and standards. Pet. Exh. No. 3, p. 10. He testified that CUII has implemented a more vigorous and comprehensive unidirectional flushing and hydrant maintenance program, conducted on a semi-annual basis, which has resulted in a decrease in water quality issues. Id. Mr. Grosvenor stated that CUII staff routinely visit areas in the system that require additional flushing due to dead ends or areas that have inconsistent water flow in order to ensure the proper movement of water through the mains and to provide the best possible water quality. Id. Mr. Grosvenor testified that hydrant flushing was completed in 2021, and a professional hydrant inspection/repair contractor completed the annual hydrant inspections for 2021 and will do the same in 2022. Id.

Mr. Grosvenor testified that CUII has made upgrades to improve water quality, which has reduced the number of complaints regarding CUII's service. Id. at 11. Mr. Grosvenor testified that these upgrades include replacement of multiple watermain and service lines; annual well cleanings and inspections; replacement of the South filter at WTPI; upgrades to WTPI's electrical system, controls, and chemical storage; and reconfiguration of the distribution and yard piping. Id. at 10-11. Mr. Grosvenor testified that CUII has rehabilitated the pressure filters at WTP2 in March 2021 to May 2021. Id. at 11. He also testified that the water tower is scheduled for rehabilitation in 2022, which includes blasting, painting, repairs, and OSHA required updates. Id. Mr. Grosvenor testified that these significant service quality efforts undertaken in the past several years have measurably improved service quality for customers, and, as reflected in the quarterly reports filed in Cause No. 44724, customer complaints regarding water quality issues and discoloration have essentially gone down to zero. Id. at 11-12.

Mr. Lubertozzi testified that CUII representatives have held regulatory meetings with LOFS' Board of Directors every quarter from 2018-2021 concerning service quality issues. Pet. Exh. No. 1, p. 12. Mr. Lubertozzi testified that the topics discussed at these meetings typically include the following: customer communications, including Town Hall meetings; basement backups and manhole overflow; inflow reduction program; home inspections; smoke and dye testing; lateral televising; annual cleaning and televising; sewer capital investment program; Collection Systems Improvements; wastewater treatment plant expansion project; and lateral point repairs/improvements. Id. at 12-13. Mr. Lubertozzi testified that CUII has conducted one rain barrel giveaway (July 29, 2017) at CUII's offices; two Town Hall meetings (October 26, 2017, and August 29, 2018) at the LOFS clubhouse; and two customer workshops (June 4, 2019, and December 10, 2019) at the Jerry Ross Elementary School. Id. at 13. He stated that at the Town Hall meetings and customer workshops, CUII representatives were able to discuss with customers regarding I&I, water quality, customer service, customer rates, home inspections, smoke testing, and capital projects. Id.

Mr. Lubertozzi testified to the other ways CUII has responded to the Commission's order in Cause No. 44724, including focusing on its I&I removal program (discussed above) and requesting preapproval of one water capital project Iron Filter Replacement Project, which was approved by the Commission in Cause No. 45342, and two wastewater projects the CSIP and the Wastewater Treatment Expansion Project ("WTEP"), which were denied by the Commission in Cause No. 45389. Id. Mr. Lubertozzi testified that the Iron Filter Replacement Project is due to be in service on or before May 31, 2022. Id. Mr. Lubertozzi testified that the capital investment projects included in this rate proceedings will provide benefits to customers with improved water quality, reduction to service disruptions due to main breaks, and reduced I&I to the WWTP. Id. at 20.

B. LOFS Evidence.

LOFS witness Cleveland testified that community members have continued to report problems with discolored and unusually hard water. LOFS Exh. No. 1, p. 7. He stated that the majority of residents who testified at the field hearing in this proceeding stated the need for a water softener in order to bathe, drink, and cook with their water. Id. Mr. Cleveland provided Attachment RC-1, which is a data request response from CUII to LOFS Data Request 1.05, which lists customer reports concerning water quality from January 1, 2020, to present. Id. Mr. Cleveland stated that the attachment shows approximately 52 total complaints, the majority of which were complaints about discoloration (31), followed by hardness (6) and sediment in the water (5). Id.

Mr. Holden testified that CUII should implement a more rigorous flushing program in problematic areas. LOFS Exh. No. 3 at 15. He testified that the key to addressing disclosed water is that the water in the stagnant area needs to be removed from the system to promote the overall "freshness" of the water. Id.

C. Petitioner's Rebuttal.

In response to Mr. Cleveland's recitation of the customer calls listed in CUII Data Request 1.05, Mr. Grosvenor testified that there were 51 calls, not 52. Pet. Exh. No. 3-R, p. 46. Mr. Grosvenor testified that he reviewed all 66 customer calls contained in LOFS Response to CUII Data Request 1.05, and that he found some discrepancies in what was categorized as a customer complaint; for example, Mr. Grosvenor testified that Mr. Cleveland included six calls in which the customer was inquiring about the hardness of the water, which Mr. Grosvenor categorizes as a customer inquiry, not a customer complaint. Id. Mr. Grosvenor testified that Mr. Cleveland also included calls in which a discolored water complaint resulted from a customer's internal plumbing or the customer's water softener, which Mr. Grosvenor stated, should not be considered a Company water quality complaint. Id.

Mr. Grosvenor provided a summary of all the customer inquiries included in CUII's response to LOFS Data Request 1.05, attached as Attachment LG-R4. Mr. Grosvenor testified that, of the 66 calls, the vast majority (23) were a result of internal plumbing issues. Id. at 47. He testified that the next leading reason for customer calls were customer inquiries (11), not complaints; and the third leading cause for calls was the result of one of CUII's contractors accidentally breaking a tap off the water main in the treatment plant, during the construction project for the Iron Filter Project causing an emergency shutdown, and resulting in eleven calls. Id. Mr. Grosvenor testified that per his review, there were only five calls that may have been actual water complaints. Id.

Mr. Grosvenor testified to the efforts CUII has taken to reduce discolored water complaints and maintain system integrity, including substantial improvements to WTP #1 (replacement of South Filter, upgrades to the plant's electrical system, controls, and chemical storage; reconfiguration of the distribution and yard piping); directional hydrant flushing, with plans to undertake system-wide directional hydrant flushing beginning in June once the WTP #1 project is complete; continuing watermain replacements for the more problematic mains on its system. Id. at 48. Mr. Grosvenor testified that CUII completed replacement of watermain and service lines on Tremont Lane, Westover Drive, and Ravenwood Drive in June 2021, which was done in coordination with LOFS' paving schedule after identifying areas with watermain breaks. Id. Mr. Grosvenor also testified that CUII plans to rehabilitate the water tower in 2022, depending upon cooperation from the cell tower provider and construction of a temporary tower. Id.

Mr. Grosvenor testified that water quality complaints have decreased as a result of these actions. Id. He testified that, in the first quarter of 2022, CUII received fourteen water quality complaints—two of which were related to the customer's water softer or internal plumbing; one complaint resulted in advising customer how to bypass water softener; eleven of the complaints were related to construction of the WTP #1 (Iron Filter Project). Id. Mr. Grosvenor testified that CUII received no water quality complaints in the fourth quarter of 2021, and only five complaints in the third quarter of 2021—four of which were related to the customer's internal plumbing or water softener, and one was related to air in the water after a shutdown of the watermain for the watermain replacement project. Id. at 49. Mr. Grosvenor testified none of these were associated with discoloration from CUII's water; and in the second quarter of 2021, CUII received no complaints. Id. Mr. Grosvenor testified that the number of complaints in the first quarter of 2022 was abnormal and a result of issues related to the construction at the water treatment plant. Id. Mr. Grosvenor testified that overall, complaints related to discolored water have decreased. Id.

Mr. Grosvenor responded to Mr. Cleveland's testimony that CUII has not completed normal maintenance and updates from the beginning, stating that CUII complete the necessary maintenance to the system, but that no amount of maintenance can allow a facility or piece of equipment to operate significantly beyond the end of its useful life, and that the vast majority of problems is due to the age of certain facilities. Id. at 50.

Regarding Mr. Cleveland's testimony that CUII should be denied rate relief due to LOFS' concerns about service quality, Mr. Grosvenor testified that contrary to Mr. Cleveland's testimony, CUII has made measurable progress in reducing I&I and improving service quality in accordance with the Commission's directives in CUII's last rate case to develop a Service Improvement Plan. Id. Mr. Grosvenor testified that since 2018, CUII has filed quarterly and annual reports under Cause No. 44724 in accordance with the Commission's order in Cause No. 44724, detailing its progress on the objectives laid out in its overall plan, and the metrics demonstrate that CUII has made meaningful progress. Id. Mr. Grosvenor testified that since 2018; course in 2019; three in 2020; and one in 2021) and manhole overflows (five manhole overflows in 2018; three in 2019, three in 2020; and one in 2021). Id. at 51. Mr. Grosvenor testified that CUII exceeded its target for percentage of manholes inspected in 2018, 2019, and 2020; and met or exceeded its target metrics for cleaning and televising sewers and system flushing. Id. He testified that the number of verified that, although the COVID-19 pandemic interrupted progress on some of its performance metrics,

on the whole, CUII has made meaningful and measurable progress in many of its objectives, as evidenced by its performance plan reports filed in Cause No. 44274. Mr. Grosvenor provided a summary of CUII's performance metrics as Attachment LG-R6, which was compiled from the quarterly reports made to the Commission in Cause No. 44724.

D. <u>Commission's Discussion and Findings</u>.

In its last rate case, Cause No. 44724, we directed CUII to develop and implement a System Improvement Plan ("SIP") focused on three key aspects of service quality for its water and wastewater systems. Those three key aspects included the following goals: (a) to decrease total incidences of wastewater backups in homes, (b) to decrease total incidences of manhole overflows, and (c) to decrease total complaints of discoloration of drinking water ("Three Key Aspects"). In that order, the Commission directed CUII to achieve these Three Key Aspects through the use of two primary components: a comprehensive I&I program (discussed separately above) and a multifaceted program to decrease incidences of discoloration of drinking water, the Commission stated the following:

Petitioner shall develop a thorough program to decrease complaints of discolored drinking water through implementation of a comprehensive asset program to prudently maintain, repair, flush, and replace Petitioner's water infrastructure. Additionally, Petitioner shall communicate with leadership and residents of LOFS regarding causes of discolored drinking water, steps Petitioner is taking to decrease complaints, and how residents can help prevent discolored water.

44724 Order, p. 77. Additionally, the Commission directed CUII to quantify and improve service quality by providing annual measurements from 2018-2022 on improvements on the Three Key Aspects.

Accordingly, Petitioner shall develop a proposed plan to measure performance on the Three Key Aspects, and Petitioner shall report on actual performance on a quarterly and annual basis ("Performance Plan"). The Performance Plan shall designate percentage goals to decrease incidences and complaints annually as compared to the previous year, and Petitioner shall define how achievement of the percentage goals will be calculated and documented. Petitioner shall file the proposed Performance Plan as a compliance filing under this Cause at least five days before the technical conference...Petitioner shall discuss the proposed Performance Plan during the technical conference, and the Commission will provide written recommendations regarding the proposed Performance Plan within ten days following the technical conference. Petitioner shall incorporate the recommendations and file a revised Performance Plan in Petitioner's next Quarterly Status Report...Thereafter, Petitioner shall implement the Performance Plan and report performance in the Quarterly Status Report.

Id.

Regarding the Quarterly Status Reports, CUII was directed to include (a) status of implementation of the SIP and updates to SIP, (b) quarterly and annual actual and target performance of Performance Plan, (c) quarterly and annual televised line-inspection information, (d) a report on complaints elevated to the Director of Customer Care and resolutions, and (e) detailed wastewater lateral and manhole repair tracking forms with customer name and address, description of incident and root cause, a copy of any report to IDEM, and an explanation of the final resolution with the customer. The requirement to file a Quarterly Status Report is in effect through December 31, 2022. Id. at 77. We further directed CUII to meet with LOFS quarterly through December 31, 2020, to discuss issues with Petitioner's water or wastewater systems and provide LOFS with filings made to IDEM related to its collection system. Additionally, meetings were to include communication regarding Petitioner's plans to implement the SIP and collaborative actions LOFS and residents can take to help improve service quality. Id. at 78.

Based on its filings under Cause No. 44724 and the testimony of its witnesses in this proceeding, we find that CUII has complied with the Commission's requirements concerning the development of a Performance Plan, with designated goals and measurable progress aimed at achieving the Three Key Aspects. Petitioner filed its proposed Performance Plan prior to the Technical Conference, which was held on August 15, 2018. Commission staff provided written feedback, which was incorporated into the Plan, and, to date, Petitioner timely has filed its quarterly and annual progress reports. Further, Mr. Lubertozzi testified that CUII has met with the OUCC and the LOFS' Board of Directors numerous times to discuss capital projects, and CUII continues to have quarterly meetings with LOFS' Board. Mr. Lubertozzi provided the dates, locations, and content of those meetings from 2018 through 2021.

Furthermore, CUII has made meaningful and measurable progress in decreasing total incidences of wastewater backups in homes, decreasing total incidences of manhole overflows, and decreasing total complaints of discoloration of drinking water as shown by the decline in complaints. Mr. Grosvenor testified that since 2018, CUII has had a decrease in wastewater backups in customer homes (four backups in 2018; one in 2019; three in 2020; and one in 2021) and manhole overflows (five manhole overflows in 2018; three in 2019, three in 2020; and one in 2021). CUII exceeded its target for percentage of manholes inspected in 2018, 2019, and 2020; and met or exceeded its target metrics for cleaning and televising sewers and system flushing. Regarding water quality complaints, CUII received no water quality complaints in the fourth quarter of 2021, and only five complaints in the third quarter of 2021-four of which, Mr. Grosvenor testified, were related to the customer's internal plumbing or water softener and one was related to air in the water after a shutdown of the watermain for the watermain replacement project. None of these complaints were associated with discoloration from CUII's water; and in the second quarter of 2021, CUII received no complaints. In the first quarter of 2022, CUII received fourteen water quality complaints—an abnormally high number of complaints that mostly resulted from a contractor mistakenly breaking a water main during the Iron Filter Replacement Project, which was unfortunate, but understandable under the circumstances. Overall, complaints related to discolored water have decreased. On the whole, CUII has made meaningful and measurable progress in many of its Performance Plan objectives, as evidenced by its performance plan reports filed in Cause No. 44274.

As directed in the final Order in Cause No. 44724, CUII shall continue its quarterly reports through December 31, 2022, unless Commission staff determine that Petitioner is not adequately implementing and maintaining its progress. The Commission also encourages CUII to continue to foster cooperation and collaboration with LOFS and the OUCC through regular meetings and community outreach.

E. <u>Estimated bills</u>.

1. LOFS Evidence. In its filing, LOFS raised the issue of estimated bill practices by CUII. LOFS witness Cleveland testified that the community is concerned with CUII's metering proposed and its estimated billing practices. LOFS Exh. No. 1 at 3. 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. *Id.* 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. *Id.* 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. *Id.*

2. <u>Petitioner's Rebuttal</u>. In response to Mr. Cleveland's contention that CUII's use of estimated billing is unauthorized, Mr. Lubertozzi testified that the Commission's rules allow the use of estimated bills for good cause. Pet. Exh. No. 1-R, p. 16. He testified that over the past two years, during the COVID-19 pandemic, CUII has made use of estimating billing in order to protect the health and safety of both employees and customers. *Id*. Mr. Lubertozzi testified that estimating bills rather than exposing employees/customers to COVID-19 during a global pandemic constitutes good cause. *Id*. On redirect examination, Mr. Lubertozzi 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. (*See* Tr., at A-56.) Regarding the 425.65 bill, Mr. Lubertozzi testified that particular customer's bill was estimated for nine months due to COVID and the fact that her meter was no longer sending read information. *Id*. at 17. 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. *Id*.

3. <u>Commission's Discussion and Findings</u>. 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.

Under this section of the IAC, a water utility is not required to seek Commission approval prior to estimating the bill of a customer if there exists good cause. We agree with Mr. Lubertozzi that the COVID-19 pandemic constituted good cause in this case as it was something beyond the control of the utility, and under these circumstances, it is reasonable for CUII to have relied on estimated bills rather than necessarily exposing CUII's customers and employees to the COVID-19 virus – particularly when most of the utility's meters are located inside customers' homes. Mr. Lubertozzi testified that the \$425.65 bill received by one of CUII's customers after nine months of estimated bill over the course of the pandemic was a true-up bill. After considering all the relevant factors, we find CUII's use of estimated billing practices during the COVID-19 pandemic was reasonable under the circumstances.

12. <u>Cost of Service</u>. CUII witness testified that the Company did not prepare a cost of service study for this case. He stated that CUII's last cost of service study was presented in its last rate case (Cause No. 44724) and is still relevant. He added that CUII has relied on the same rate design foundation to produce its rate design in this case. He testified that the only divergence from CUII'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 CUII's residential and commercial classes is included in CUII's proposed design in this case (for both water and wastewater).

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.

In rebuttal, Mr. Dickson testified that, given CUII's size, it is reasonable to balance the cost of a new cost of service study against the benefits, particularly when CUII 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., In the Matter of Gibson Water Authority,* Cause No. 45535 (IURC; Nov. 17, 2021); *Petition of Community Natural Gas Co., Inc.,* Cause No. 45214 (IURC; Dec. 18, 2019); *In re Verified Petition of Citizens Wastewater of Westfield, LLC,* Cause No. 44835 (IURC; May 31, 2017). *See also,* 170 IAC 1-5-15(d).

13. <u>Rate Design</u>.

Mr. Dickson testified that CUII's only proposed rate design change is the addition of an opt-in low-income rate for its eligible residential customers. He explained that this rate functions

within the framework of CUII's proposed across-the-board increase. No party objected to this rate design (aside from LOFS witness VerDouw's objection to the lack of a cost of service study), although both OUCC and LOFS testified in opposition to CUII's proposed low-income rate, as is discussed below.

A. Low-Income Rate.

1. <u>Petitioner's Evidence.</u> Mr. Lubertozzi testified that CUII is proposing a low-income rate in an effort to alleviate the impact of the proposed rate increase on our most vulnerable customers. Pet. Exh. No. 1, p. 25. He testified that the purpose of the program is to enable customers struggling economically to qualify for a lower rate that is applied to a base level of usage. *Id*.

Mr. Dickson testified that the proposed rate is a residential-only rate and remains neutral in regard to class revenue requirements. Pet. Exh. No. 4, p. 19. He testified that the low-income rate would be an opt-in rate for eligible residential customers (income at or below the federal poverty level), and is designed to help support a safe and healthy community within its service areas and to help mitigate affordability concerns that CUII has for its most vulnerable customers. *Id.* at 49. Mr. Dickson provided the calculations for this rate (Schedules G and H), and testified that the result is an incremental increase in cost for low-income customers that is far lower than that of the system. *Id.* at 50; Schedule K of Attachment AD-1. He testified that a low-income customer would receive an approximate 62% discount on the volumetric portion of their bills, with a corresponding 5% increase on the rate for regular residential customers (less than \$3.00 increase in the average residential water bill and less than \$3.00 increase in the average residential sewer bill. Pet. Exh. No. 4 at 52.

Mr. Dickson testified that eligible customers can opt-in to the rate by submitting an application every 12 months to CUII's third party income identified for verification of their eligibility for the rate. *Id.* at 51. He testified that annual reverification of eligibility will ensure the long-term sustainability of the rate design for low-income customers and the regular residential customers supporting it. *Id.* at 52. Mr. Dickson testified that CUII has also limited the number of gallons that are eligible to be charged at the low-income rate to the residential class average usage, which ensures that typical usage benefits from this discounted rate, but removes the discount for usage above average usage. *Id.* Mr. Dickson testified that CUII estimates 7.8% of usage in its system will be eligible for the low-income rate. *Id.*

Mr. Dickson 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). Attachment AD-2. Mr. Dickson testified that the low-income rate does not impact commercial customers. Pet. Exh. No. 4 at 50.

2. <u>OUCC's Evidence</u>. OUCC witness Bell testified that the OUCC is concerned with CUII's proposal to fund the low-income rate without financial contribution from CUII shareholders. Pub. Exh. No. 4, pp. 2-3. Mr. Bell recommended CUII fund all or a portion of the low-income rate by soliciting voluntary customer contributions, rather than making the contribution compulsory. *Id.* at 4. He testified that CUII's proposed low-income rate is contrary to Ind. Code §§ 8-1-2-0.5 and 8-1-2-46(c).

3. <u>LOFS' Evidence</u>. Mr. Cleveland testified that the community objects to CUII's proposed-low income rate because it further increases the rates for other customers. LOFS Exh No. 1, p. 16. 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. LOFS Exh. No. 2, p. 36.

4. <u>Petitioner's Rebuttal</u>. Mr. Dickson testified that CUII has developed its proposed low-income rate to help its customers who fall at or below the federal poverty level, rather than to impose any sort of penalty on regular income customers. Pet. Exh. No. 4-R, p. 46. He testified that the impact on regular rate customers will be minimal—for a regular-income CUII customer using 5,000 gallons a month, their water bill increases less than \$3.00 (\$2.80) per month as a result of the low-income rate (Phase II rates); and, a low-income customer using the same 5,000 gallons experiences a \$33.07 discount to their water bill because of the rate design that CUII has proposed. *Id*. He testified that the low-income rate design proposed by CUII shifts only \$135,412 dollars of CUII's overall Phase II revenue requirement to regular income residential customers. Mr. Dickson testified that the impact of the sewer low-income rate design is similar regular residential customers using 5,000 per month will pay less than \$3.00 (\$2.90) per month to offer their low-income peers the opportunity to save \$34.28 per month, a shifting only of \$89,084 of CUII's its revenue requirement, with the result being significant savings for low-income customers. *Id*. at 47.

5. <u>Commission's Discussion and Findings</u>. It is continuing state policy to promote utility investment in infrastructure while protecting affordability of utility service:

The general assembly declares that it is the continuing policy of the state, in cooperation with local governments and other concerned public and private organizations, to use all practicable means and measures, including financial and technical assistance, in a manner calculated to create and maintain conditions under which utilities plan for and invest in infrastructure necessary for operation and maintenance while protecting the affordability of utility services for present and future generations of Indiana citizens.

Ind. Code § 8-1-2-0.5. Furthermore, Ind. Code § 8-1-2-46(c) authorizes the Commission to allow a water or wastewater utility to establish a customer assistance program that uses state or federal infrastructure funds; or provides financial relief to residential customers who qualify for income related assistance. A customer assistance program established under this subsection that affects rates and charges for service must not be discriminatory for purposes of that chapter or any other law regulating rates and charges for service.

We note that nothing in these sections disallows the type of ratepayer contributions CUII has proposed in its low-income program, nor does it require relying on voluntary contributions as Mr. Seals seems to suggest. Further, we note that Mr. Seals testimony that CUII's shareholders are not at all contributing to the low-income assistance program is not entirely true. Mr. Lubertozzi testified that CUII is contributing financially to the low-income rate at a corporate level, specifically by paying a fee to the Salvation Army for providing low-income verification services. Tr. A-48, lines 16-24.

We find Petitioner's proposed low-income rate reasonable, in the public interest, and designed in accordance with the state policy of affordability. As Mr. Dickson described, the benefit the low-income rate provides to vulnerable is substantial compared to the relatively minor rate cost on regular rate customers.

14. <u>Tariffs</u>.

A. <u>Reconnection Charge</u>.

The only issue raised by the OUCC or LOFS with respect to CUII's proposed tariffs related to CUII's proposed increased reconnection charge.

1. <u>Petitioner's Evidence</u>. Mr. Dickson testified that CUII has updated its water reconnection charge to reflect updated costs that the Company incurs to perform those reconnections. *Id.* at 54. Attachment AD-3 provided the calculation of its update to its reconnection charge, which uses CUII's updated capitalized time rate and the most recent IRS standard mileage reimbursements. *Id.*

Attachment AD-2 provided the following language regarding the Reconnection Charge:

Customers who solely receive wastewater service will be billed the actual cost of disconnection and reconnection, the estimated cost of which will be furnished to the customer with the cut-off notice. Customers who receive water and wastewater service will be assessed a charge of \$62.62.

Attachment AD-2. This is an update from what was previously a reconnection charge of \$37.50. *Id.*

2. <u>OUCC</u>. Ms. Stull recommended a reconnection charge of \$55.00. Pub. Exh. No. 1, p. 79. Ms Stull 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 (OUCC Attachment MAS-7), which resulted in a calculation of \$56.91. Therefore, she recommended \$55.00 as a reasonable charge. *Id*.

3. LOFS. LOFS witness VerDouw testified 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). LOFS Exh. No. 2, p. 26.

4. <u>Rebuttal</u>. CUII witness Dickson, in rebuttal, maintained that CUII's capitalized overtime rate was appropriate and reiterated its proposed \$62.62 reconnection charge.

5. <u>Commission Discussion and Findings</u>. Based on the evidence of record, we find CUII's calculation of its reconnection charge reasonable and its calculation methodology appropriate. Using the 2022 updated IRS mileage rate of \$0.585, we approve the reconnection charge of \$63.37.

15. <u>Phase-In of Rates</u>.

Both CUII and the OUCC proposed 2-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. We appreciate both the Company's and the OUCC's proposals designed to ensure that rates are ultimately implemented in a full and timely manner while also ensuring that the base rates only reflect plant and property that is actually in-service and used and useful at the end of Phase 1 and at the end of Phase 2. We find that the Company should implement its Phase 1 and Phase 2 rate increases, as follows. Phase I rates should be implemented at the start of the future Test Period (October 1, 2022), or the date of this Order, whichever is later. Phase 2 rates should be implemented as of October 1, 2023. Such 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 may 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 later of October 1, 2022 or the date of this Order, CUII may implement its Phase I rates, subject to refund based upon the final outcome of the Company's Phase I rate base and capital structure compliance filings.
- No later than November 1, 2022, 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 this Order or by November 30, 2022, whichever is later, 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.
- No later than December 15, 2022, 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 the Company's Phase II rate base and capital structure compliance filings.

- 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 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.
- No later than December 15, 2023, 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.

16. <u>Confidentiality</u>.

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 shall be, and hereby 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 an annual increase to its rates and charges of \$1,870,176 which represents an increase in operating revenues of 73.77%. Said rates will produce total annual operating revenues of \$4,405,479 and, on the basis of annual operating expenses of \$3,134,739, will result in annual utility operating income \$1,218,352. Petitioner is hereby 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, including implementation of this rate increase in 2 steps as provided in this Order.

2. Petitioner shall be, and hereby 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 an annual increase to its rates and charges of \$1,219,503 which represents an increase in operating revenues of 49.29%. Said rates will produce total annual operating revenues of \$3,693,504 and, on the basis of annual operating expenses of \$2,757,961, will result in annual utility operating income \$891,865. Petitioner is hereby 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, including implementation of this rate increase in 2 steps as provided in this Order.

3. Petitioner shall be, and hereby is, authorized to recover in its retail electric rates the following deferred costs as provided in this Order: COVID-19 costs; engineering and legal costs incurred in connection with Cause No. 45389; and legal costs incurred in connection with Cause No. 45342.

4. Petitioner shall be, and hereby is, authorized to implement the rate design proposals and tariff changes as approved in this Order, including its low-income rate proposal.

5. Petitioner shall add to its meter testing tariff language informing the customer that the customer should receive the report within ten (10) days of the test and that the customer will have five (5) days to file an appeal.

6. Petitioner shall file with the Water and Wastewater Division of this Commission, appropriate tariffs using the rate design criteria specified in this Order, including the rates and charges authorized herein for Phase I and Phase II.

7. 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.

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

HUSTON, FREEMAN, KREVDA, AND ZIEGNER CONCUR:

APPROVED:

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

Dana A. Kosco Secretary of the Commission