ORIGINAL

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

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| **PETITION OF THE DEPARTMENT OF WATER WORKS OF THE CITY OF MICHIGAN CITY, INDIANA FOR AUTHORITY TO INCREASE RATES AND CHARGES AND ISSUE BONDS FOR CAPITAL IMPROVEMENTS TO ITS WATER WORKS** | ) | **CAUSE NO. 44538** |
| | | **APPROVED:** MAY 27 2015 |

# ORDER OF THE COMMISSION

**Presiding Officers:**
**David E. Ziegner, Commissioner**
**David E. Veleta, Administrative Law Judge**

On September 24, 2014, the Department of Water Works of the City of Michigan City, Indiana ("Michigan City"), filed with the Indiana Utility Regulatory Commission ("Commission") a Verified Petition ("Petition") requesting authority to adjust its existing rates and charges and issue long-term debt. Included with its Petition, Michigan City prefiled the Direct Testimony and Exhibits of Stanley S. Diamond, Randall E. Russell, and Scott A. Miller.

On December 30, 2014, the Indiana Department of Corrections ("DOC") filed its Petition to Intervene, which was granted by docket entry on January 12, 2015. On January 21, 2015, the DOC prefiled the direct testimony and Exhibits of Theodore J. Sommer. On the same day, the Office of Utility Consumer Counselor ("OUCC") prefiled the testimony and exhibits of Richard J. Corey, James T. Parks, Edward R. Kaufman, and Jerome D. Mierzwa.

On February 16, 2015, Michigan City and the OUCC filed their Joint Stipulation and Settlement Agreement ("Settlement Agreement") with supporting schedules.

A public evidentiary hearing was conducted in this Cause on March 16, 2015, at 1:30 p.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Michigan City, the OUCC, and the DOC, offered their respective testimony and exhibits, which were admitted into the record without objection. No members of the public attended or attempted to participate in the evidentiary hearing.

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

1. **Notice and Jurisdiction.** Notice of the time and place of the hearings conducted by the Commission in this Cause was given as required by law. Michigan City is a

municipally owned utility, subject to the Commission's jurisdiction as defined in Indiana Code § 8-1-2-1(h). Michigan City seeks approval to changes in its rates and charges pursuant to Indiana Code §§ 8-1-2-42 and 8-1.5-3-8. Accordingly, the Commission has jurisdiction over Michigan City and the subject matter of the Petition.

2. **Michigan City's Characteristics.** Michigan City operates, manages, and controls a municipal water system that is owned by the City of Michigan City, Indiana ("City"). Michigan City furnishes water to the public in and around the City's municipal limits, and collects rates and charges for the use of, and service rendered by, the water system.

Michigan City serves approximately 12,760 customers in and around the City, including providing service to three other utilities: the Village of Michiana, Michigan, the Town of Long Beach, Indiana, and New Buffalo Township, Michigan. Michigan City also serves customers in Pottawatomie Park, Trail Creek, the Town of Pines, Beverly Shores, and Duneland Beach Association, all of which are located in Indiana. Michigan City obtains its raw water via two intakes which draw water from Lake Michigan. Michigan City's facilities include a treatment plant with a capacity of 20 million gallons per day ("MGD"), two elevated storage tanks with a capacity of one million gallons, a three million gallon ground storage facility, 210 miles of water main, 3,115 distribution valves, and 1,330 fire hydrants with valves.

3. **Existing Rates, Test Year, and Relief Requested.** Michigan City's existing rates and charges were established in a Final Order issued by the Commission on March 31, 2004, in Cause No. 42517. Michigan City seeks approval in this matter to adjust its rates and charges based on a test year ending December 31, 2013, and adjusted for changes which are fixed, known, measurable, and occurring within twelve months. Michigan City proposes in its direct case to increase its rates and charges based on a cost of service study ("COSS") that was completed by H.J. Umbaugh & Associates ("Umbaugh"). In addition to requesting an adjustment to its rates, Michigan City seeks authority to issue up to $8,645,000 in water utility revenue bonds ("2015 Bonds"). Michigan City proposes to use the proceeds from the 2015 Bonds to finance improvements to its water facilities.

4. **Michigan City's Prefiled Direct Testimony and Exhibits.** Michigan City's Superintendent, Randall E. Russell, described Michigan City's physical assets, the need for the COSS, and the relief requested by Michigan City in this Cause. Michigan City's Certified Public Accountant and financial consultant, Scott A. Miller, testified regarding the rates and charges necessary to meet the financial needs of the utility, the results of the COSS, as well as the financial aspects associated with the proposed issuance of the 2015 Bonds. Michigan City's professional engineer and technical witness in this Cause, Stanley S. Diamond, described the capital improvements that were needed to ensure that Michigan City continued to provide safe and efficient service.

Mr. Russell described Michigan City's existing waterworks production, treatment, transmission, and distribution facilities. Mr. Russell explained that Michigan City was seeking authority to issue up to $8,645,000 in bonds to finance capital improvements to its

system. In addition, Mr. Russell explained that it had been 10 years since Michigan City had last been approved to adjust its rates. Since then, Michigan City has experienced increases to labor wages, power costs, employees' benefits, health insurance premiums, and property and liability insurance. Due to these increases in expenses, Mr. Russell testified that Michigan City is unable to meet its statutory revenue requirement and an increase to its rates and charges is necessary. Mr. Russell testified that it had been 20 years since Michigan City had performed a COSS. Since the time of its last COSS, Mr. Russell explained that the dynamics of Michigan City's customer base has significantly changed. By way of example, he pointed to the fact that Michigan City is now serving Long Beach as a sale for resale customer and is serving the Town of Pines, Indiana and Beverly Shores, Indiana, as an extension of its own system. In light of these changes, Michigan City engaged Umbaugh to prepare a COSS in connection with the proposed increase in its rates and charges.

Mr. Russell next described the capital improvements to be financed with the 2015 Bonds. Mr. Russell stated that the capital improvements are from Michigan City's Water System Master Plan prepared by Wessler Engineering ("Wessler"). According to Mr. Russell, the projects included improvements to the water plant, cleaning, and extension of the 42-inch Lake Michigan West intake line and crib, installing a 12-inch water main extension on U.S. 20, installing a 16-inch water main on Grand Beach Road, installing a 12-inch water main on Shady Oak Drive, and replacing and relocating water lines in Pottawatomie Park (collectively, "Capital Projects"). Mr. Russell testified that the total estimated construction cost of the Capital Projects is $6,991,000, and the construction costs for the Capital Projects, together with the engineering costs and costs incidental to the issuance of the 2015 Bonds, is estimated at $8,645,000. Mr. Russell explained in detail each of the projects and their benefit to Michigan City and its customers. Mr. Russell stated that Michigan City did not have sufficient funds on hand to cover the costs of the Capital Projects without the issuance of the 2015 Bonds and the rate adjustment requested in this Cause.

Mr. Diamond testified that he had provided consulting engineering services to Michigan City since 1991, which included the provision of expert testimony in Michigan City's last rate case, Cause No. 42517. Mr. Diamond described and provided cost estimates for the Capital Projects and identified additional projects that should be completed by Michigan City.

Mr. Diamond also described the master planning process Michigan City follows when determining and prioritizing proposed improvements. He stated that Michigan City periodically goes through the master planning process during which it reviews the condition and performance of its water production, treatment, storage, and distribution facilities. Furthermore, Mr. Diamond opined that Michigan City identifies the replacements, modifications, and additions needed to serve its customers. He stated that he participated in the previous master plan completed in 1991, the updates to the master plan in 1998 and 2006, and the most recent master plan in 2013. After completing the master plans, Mr. Diamond described how Michigan City held a series of work sessions with its consulting engineers to review and prioritize the necessary capital improvements for the waterworks system. Based upon these work sessions, advice from the engineers, and the findings in the master plan,

Michigan City prioritized the Capital Projects for which it seeks approval for financing in this Cause.

Mr. Diamond further explained his role in the completion of the COSS. He stated that he provided input on the allocation factors used to allocate net utility plant in service and the operation and maintenance expenses. He also testified that Wessler reviewed and suggested adjustments to the capacity factors used to allocate the annual sales to the customer classes identified in the COSS. Mr. Diamond then explained the process by which Wessler made the allocations and how the allocation factors were determined.

Mr. Scott A. Miller presented testimony and exhibits supporting Michigan City's proposal to adjust its rates and charges and incur long-term debt. He stated that he had reviewed the Petition in this case and that it accurately stated the facts and Michigan City's intentions. He also testified that his accounting firm had been retained to assist Michigan City and its consulting engineers with the development of the COSS to be used as a basis to make recommendations for changes in Michigan City's present schedule of rates and charges. Mr. Miller reduced his recommendations to writing in the form of a written accounting report which was prefiled with his testimony and organized into six sections.

The first section of the accounting report contained a letter describing the accounting services provided to Michigan City. The letter explained that the report was created for submission to the Commission and was to be used for that purpose only.

The second section contained Michigan City's *pro forma* financial information. In this section, Mr. Miller presented Michigan City's estimated cost for the Capital Projects and funding, the amortization schedule for the 2015 Bonds, a schedule of proposed combined debt service, the *pro forma* operation and maintenance expense, a capital improvement plan for improvements to be completed from 2014 to 2018, and the *pro forma* annual revenue requirements and annual revenues. This second section showed that Michigan City's total annual net revenue requirement is $7,816,103. This section also showed that the normalized annual revenues would need to increase by $2,121,934 per year in order for Michigan City to meet its revenue requirements.

In the third section, Mr. Miller calculated Michigan City's rates based on the cost of serving each class of customers. Mr. Miller presented a comparison of the present and proposed monthly bills at selected usage amounts and a schedule of the proposed rates and charges. For Michigan City to achieve the fully allocated cost-based targets compared to test year revenues, Mr. Miller's report showed that average residential and small commercial revenues would need to be increased by 37.91% and 44.18%, respectively; industrial and wholesale revenues would need to be increased by 69.89%; institutional revenues should be increased by 60.42%; and fire protection revenues should decrease by 24.59%. In this section, Mr. Miller also presented a schedule reflecting Michigan City's proposal to increase the tap or service connection fee, shut-off and/or turn-on fees, meter test and reseal of meter charges, and charge for checking customer's private plumbing.

The fourth section of the accounting report contained the calculations of public fire protection charge and the fifth section contained the calculation of certain non-recurring charges.

The sixth section of the accounting report presented certain supplemental financial data for Michigan City. Specifically, this section included a comparative statement of net position, comparative statement of income, expenses and changes in net position, comparative statement of cash flows, a schedule showing the minimum account balances required, and a schedule of average annual additions to utility plant and depreciation expense. In addition, Mr. Miller set forth schedules showing the outstanding indebtedness of the utility, along with amortization schedules.

5. **OUCC's Testimony and Exhibits.** Mr. Corey, the OUCC's accounting witness, submitted testimony and exhibits responding to the accounting aspects of Michigan City's case. In his testimony and exhibits, Mr. Corey proposed a $31,048 adjustment to operating expenses, and he incorporated a $61,811 downward adjustment to debt service based on the recommendation from fellow OUCC witness Mr. Kaufman. Mr. Corey indicated that Michigan City's total revenue requirement should be reduced from $8,060,068 to $7,967,209. Mr. Corey also recommended an upward adjustment to *pro forma* revenues for late fees. He reasoned that because Michigan City's late fees are based on a percentage of the water rates, Michigan City should see an increase in its late fee revenues in an amount proportional to the rate increase proposed in this case. The amount of this adjustment was $33,529. As a result of the adjustments, Mr. Corey recommended that Michigan City's proposed rate increase be decreased from 37.27% to 35.33%. Mr. Corey recommended that Michigan City be allowed to update its tap fee, shut-off request fee, turn-on request fee, plumbing check fee, meter test charge, and other service charges as presented in the COSS.

Mr. Parks, the OUCC's engineering and operations witness, discussed Michigan City's water system and the need for the Capital Projects. Mr. Parks testified that Michigan City anticipated an increase in average daily water usage over the next 20 years from 5.8 MGD to 7.5 MGD but that the water demand assumptions were not documented. He stated that Michigan City's existing water production facilities and distribution system can easily supply the projected flows without facility expansion. Proposed Capital Projects are for enhancements or rehabilitation of existing facilities to extend their service lives, improve water quality, or increase system reliability. Distribution system projects should improve water delivery, pressures, and flows to the service territory particularly where growth is occurring in the outlying areas. Michigan City is not currently increasing the water treatment plant capacity or adding additional treatment.

Mr. Parks also testified that since 2003 Michigan City has had average water losses of 15.4% of pumped flows. Peak water losses have not exceeded 20% and levels of non-revenue water have stayed consistent over the last decade. Mr. Parks proposed that Michigan City undertake a long-term program to identify, reduce, and manage its water losses. As part of this process, he suggested that Michigan City perform annual top down water audits and periodic bottom up water audits.

Mr. Parks detailed each of the proposed Capital Projects and opined that such projects were reasonable, necessary, and should be completed.

Mr. Parks testified that Michigan City had 3,115 valves in its system ranging in size from two to thirty inches. This total did not include an additional 1,330 fire hydrant valves. Mr. Parks stated that Michigan City appears to have accessible and good information regarding its valves, but suggested that Michigan City could improve its existing valve operation program by transitioning from the current paper-based system to a computerized valve database relying upon a global positioning system ("GPS"). Mr. Parks also recommended that Michigan City establish target frequencies for exercising general system valves and critical valves.

Mr. Kaufman, the OUCC's financial witness, recommended approval of Michigan City's proposed debt issuance, subject to certain adjustments and reporting requirements that were intended to address his concerns. Mr. Kaufman's concerns can be summarized as follows: (i) the estimated interest rates used by Mr. Miller in the revenue requirements was higher than should be anticipated; (ii) Michigan City should notify the Commission if it used funds from the debt service reserve; (iii) an extended delay in issuing the 2015 Bonds after approval of the new rates (which included an amount for payment on such bonds) would result in a windfall to Michigan City; and (iv) the need for the filing of a true-up.

In light of his concerns, Mr. Kaufman recommended that the Commission authorize Michigan City to: (i) issue up to $8,645,000 in long-term debt at a maximum average annual interest rate of six percent; (ii) include $299,573 in its revenue requirement for principal and interest payments on the 2015 Bonds; (iii) temporarily reserve funds collected in its rates for the payments on the 2015 Bonds if it does not issue the proposed debt within two months after it has filed a revised tariff; (iv) file a true-up report with the Commission explaining the final terms of the 2015 Bonds, including an amortization schedule, the amount of debt service reserve, and all issuance costs; and (v) provide a report to the Commission and OUCC if spends any funds from its debt service reserves for any other reason than to make the last payment on its 2015 Bonds.

Mr. Mierzwa, the OUCC's cost of service witness, addressed Michigan City's COSS and rate design proposal. Although Mr. Mierzwa testified that he had some minor concerns with the COSS prepared by Michigan City witness Mr. Miller, he opined that the COSS generally provides a reasonable basis upon which to distribute to the various customer classes the increase in rates authorized by the Commission in this proceeding. Mr. Mierzwa testified that his concerns with Michigan City's COSS relate to the allocation of purchased power expenses, bad debt expense, and laboratory equipment investment and expenses. In support of his concerns, Mr. Mierzwa pointed to the Commission's findings in Cause No. 43645. Mr. Mierzwa stated, however, that he is not proposing to modify the COSS at this point. He stated that class cost allocation and rate design is not an exact science and adjusting the COSS to address his concerns would not materially affect the results.

Mr. Mierzwa stated that he generally agreed with Michigan City's proposed distribution of the requested revenue, except for Michigan City's proposal to decrease the rates for private fire protection service. He stated that he did not believe it was reasonable to decrease the rates of any customer class when overall, significant increases in rates are proposed. Mr. Mierzwa recommended that the current private fire rates be maintained. Rather than decreasing the private fire protection rates (by $247,471 as proposed in the COSS), Michigan City should assign or credit the $247,471 to all customer classes in proportion to the indicated cost of service.

**6. Department of Corrections' Testimony and Exhibits.** Mr. Sommer, a Certified Public Accountant with London Witte Group, testified that the DOC has what it considers a good relationship with Michigan City and desires to continue to have a good relationship; however, it wanted assurance that it is charged only what could be considered its fair share of a properly derived COSS. Given the 60% increase proposed to the annual bill of DOC's Michigan City facility, Mr. Sommer recommended the DOC intervene in this proceeding to review the responses to data requests propounded by the OUCC and the COSS proposed by Michigan City's financial expert, Mr. Miller. Mr. Sommer testified that as long as the total revenue requirements proposed by Michigan City are found to be reasonable, then the share of costs allocated to the DOC appears to be consistent with the results of the COSS.

**7. Settlement Agreement.** On February 16, 2015, Michigan City and the OUCC ("Settling Parties") filed a Settlement Agreement which settled all the issues between the Settling Parties. Pursuant to the Settlement Agreement, Michigan City agreed to the OUCC's proposed adjustment to Michigan City's revenue requirement for late fee revenues, fire protection revenues, purchased power expense, disallowed expenses, and proposed debt service. Based on the terms of the Settlement Agreement, Michigan City should be authorized to increase its rates and charges for water service to reflect a total net revenue requirement in the amount of $7,759,242, resulting in an annual increase of $2,028,646 or 35.4% over Michigan City's current revenues at existing rates. Michigan City and the OUCC also agreed that Michigan City should be authorized to update its tap fee, shut-off request fee, turn-on request fee, plumbing check fee, meter test service charge, and other charges as listed in the COSS.

The Settling Parties stipulated and agreed that Michigan City should be authorized to issue the 2015 Bonds in an amount not to exceed $8,645,000 at a net average interest rate not to exceed six percent per annum. For purposes of determining Michigan City's revenue requirement, the Settling Parties agreed to include $299,618 for the principal and interest payments on the 2015 Bonds, subject to true-up, which amount is based on an average assumed interest rate of approximately 3.28% and the amortization schedules contained in Exhibit A attached to the Settlement Agreement. The Settling Parties agreed that within 30 days after closing on the 2015 Bonds, Michigan City would file a true-up report describing the final terms of the 2015 Bonds, the amount of the debt service reserve, the final issuance costs, and an amortization schedule for the 2015 Bonds. The Settlement Agreement further provides that the OUCC shall have 14 calendar days in which to object to the true-up report. If there is no objection to the true-up report and the annual payment on the 2015 Bonds differs

from the originally estimated $299,618, Michigan City shall file with the Commission a revised tariff adjusting the rates to include the final amount of annual principal and interest payments on the 2015 Bonds. If, as a result of the actual terms of the financing, the Settling Parties agree the cost of debt is less than $299,618 per annum, Michigan City need not file a revised tariff if the OUCC states in writing that it considers the difference to be immaterial for purposes of revising Michigan City's rates. If, as a result of the actual terms of the financing, the Settling Parties agree the cost of debt is more than $299,618 per annum, Michigan City may, in its sole discretion, elect not to file a revised tariff reflecting the higher principal and interest payment for the 2015 Bonds.

The Settling Parties also agreed that Michigan City may expeditiously file a new tariff after issuance of a Commission Order in this Cause approving an adjustment to Michigan City's rates. If Michigan City does not issue the 2015 Bonds within two months after the filing of the new tariff, it agrees to temporarily reserve the funds collected in rates for the 2015 Bonds and use those funds to offset the amount it eventually borrows. The Settlement Agreement further provides that if Michigan City spends any of the funds from its debt service reserve for any reason other than to make the last payment on the 2015 Bonds, Michigan City will provide a report to the Commission and OUCC consistent with the reporting requirements set forth in the Settlement Agreement. Finally, Michigan City agrees to consider implementing a long-term water revenue control program, a practice of periodic top down and bottom up water audits, an active leak detection program, a program establishing targets for exercising critical and non-critical valves, and a program to improve its valve maintenance and exercise program by transitioning to a system based on GPS.

**8. Commission Discussion and Findings.** Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition*, 664 N.E.2d at 406.

Further, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this cause sufficiently supports the conclusions that the Settlement Agreement is reasonable, just, and consistent with the purpose of Indiana Code chapter 8-1-2, and that such agreement serves the public interest.

Upon review of the substantial and uncontroverted evidence of record, we find the terms of the Settlement Agreement are supported by the evidence and represent a reasonable resolution of the issues presented to the Commission. The Commission furthers finds that the terms of the Settlement Agreement are reasonable, and the approval of the Settlement Agreement to be in the public interest. Therefore, the Commission finds the Settlement Agreement should be approved in its entirety.

Consistent with the evidence of record and the terms of the Settlement Agreement approved herein, the Commission specifically finds:

A. Michigan City's Authorized Rates. Based upon the evidence, the Commission finds that Michigan City's current rates and charges, which provide annual adjusted rate revenues of $4,583,253, are insufficient to satisfy Michigan City's annual *pro forma* net revenue requirement of $7,759,242, inclusive of additional Utility Receipts Tax. The Commission further finds that Michigan City shall be authorized to increase its rates and charges for water service, across-the-board, to produce annual revenues of $7,759,242, an increase of $2,028,646 in annual revenues, representing a 35.4% increase in current rates.

Michigan City's net revenue requirements are itemized below:

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| Operations and Maintenance | $ 4,327,225 |
| Taxes Other than Income | 72,982 |
| Extensions and Replacements | 1,275,199 |
| Working Capital | - |
| Payment in Lieu of Taxes | 706,579 |
| Debt Service: Current Bonds | 1,186,740 |
| Debt Service: 2015 Bonds | 299,618 |
| Debt Service Reserve | 172,900 |
| Total Revenue Requirements | 8,041,243 |
| Less: Interest Income | 15,688 |
| Other Revenues | 224,454 |
| Pottawattamie Park Debt Service Surcharge | 70,260 |
| Add: Additional Utility Receipts Tax | 28,401 |
| Net Revenue Requirements | 7,759,242 |
| Less: Revenues at Current Rates | 4,583,253 |
| Other Revenues at Current Rates | 1,147,343 |
| Net Revenue Increase Required | $ 2,028,646 |
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| Recommended Percentage Increase | 35.40% |

B. Michigan City's Financing.

i. Borrowing Authority. The Commission finds Michigan City's request to issue long-term debt to fund capital improvements and pay for certain operation and maintenance expenses is reasonable and necessary in order for Michigan City to provide adequate and efficient water service. Therefore, Michigan City is authorized to issue long-term debt not to exceed $8,645,000 in principal amount at an interest rate not to exceed 6.0%.

ii. True-Up. Consistent with the Settlement Agreement, we find that Michigan City shall file a true-up report with the Commission under this Cause and serve a copy thereof on the parties of record within 30 days of closing on its issuance of long-term debt. The true-up report shall provide the following: the final terms of the 2015 Bonds, which state the amount of the debt service reserve and disclose the final issuance costs, including an amortization schedule for the 2015 Bonds, the rate impact of any difference, and related tariffs.

C. Use of Settlement Agreement. The Parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 Ind. PUC LEXIS 459, at *19-22 (IURC March 19, 1997).

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

1. The Joint Stipulation and Settlement Agreement, a copy of which is attached hereto as Exhibit 1, is approved and the terms and conditions thereof are incorporated herein as part of this Order. Michigan City shall comply with the provisions of the Joint Stipulation and Settlement Agreement.

2. Michigan City is authorized to increase its rates and charges, including the tap fee, shut-off request fee, turn-on request fee, plumbing check fee, and meter test service charge as provided in this Order.

3. Michigan City is authorized to issue long-term debt as provided in this Order.

4. Michigan City shall make a true-up filing with the Commission within 30 days after closing on the 2015 Bonds to reflect the final terms of the 2015 Bonds, the amount of the debt service reserve, final issuance costs, and an amortization schedule for the underlying debt.

5. Within 30 days of this Order, Michigan City shall file new schedules of rates and charges, consistent with this Order, with the Commission's Water/Sewer Division. New

rates and charges shall be effective on filing and after approval of the schedules by the Water/Sewer Division.

6. In accordance with Indiana Code § 8-1-2-70, Michigan City shall pay within 20 days from the date of this Order, and prior to placing into effect the rates approved herein, the following itemized charges, as well as any additional charges which were or may be incurred in connection with this Cause.

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| Commission Charges: | $ 4,590.58 |
| OUCC Charges: | $15,177.62 |
| Legal Advertising Charges: | $ 190.37 |
| Total: | $19,958.57 |

Michigan City shall pay all charges into the Commission public utility fund account described in Indiana Code § 8-1-6-2, through the Secretary of the Commission.

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

**STEPHAN, HUSTON, AND WEBER CONCUR; MAYS-MEDLEY AND ZIEGNER ABSENT:**

**APPROVED:** MAY 27 2015

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

Brenda A. Howe

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

**Exhibit 1**

BEFORE THE

INDIANA UTILITY REGULATORY COMMISSION

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|---|---|---|
| **PETITION OF THE DEPARTMENT OF WATER WORKS OF THE CITY OF MICHIGAN CITY, INDIANA FOR AUTHORITY TO INCREASE RATES AND CHARGES AND ISSUE BONDS FOR CAPITAL IMPROVEMENTS TO ITS WATER WORKS** | ) ) ) ) ) ) | **CAUSE NO. 44538** |

## JOINT STIPULATION AND SETTLEMENT AGREEMENT

This Joint Stipulation and Settlement Agreement ("Settlement Agreement") is entered into this 16th day of February, 2015, by and between the Department of Waterworks of Michigan City, Indiana ("Michigan City"), and the Office of Utility Consumer Counselor ("OUCC"), who stipulate and agree for purposes of settling all matters in this Cause that the terms and conditions set forth below represent a fair and reasonable resolution of all issues in this Cause, subject to their incorporation in a final Indiana Utility Regulatory Commission ("Commission") Order without modification or the addition of further conditions that may be unacceptable to either party. If the Commission does not approve the Settlement Agreement in its entirety and incorporate the conclusions herein in its final Order, the entire Settlement Agreement shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Settling Parties (as defined below).

### Terms and Conditions of Settlement Agreement

1. **Requested Relief.** On September 24, 2014, Michigan City initiated this Cause by filing a Verified Petition with the Commission requesting authority to increase its rates and charges and issue bonds to fund capital improvements to its waterworks.

2. **Prefiled Evidence of Parties**. In support of its Petition, Michigan City filed the Prefiled Testimony and Exhibits of Stanley S. Diamond, P. E., Scott A. Miller, CPA, and Randall E. Russell on September 24, 2014. On January 21, 2015, the OUCC prefiled the Testimony and Exhibits of Richard J. Corey, James T. Parks, Edward R. Kaufman, and Jerome D. Mierzwa. An Intervenor, the Indiana Department of Correction ("DOC"), also prefiled the Testimony of Theodore J. Sommer on January 21, 2015.

3. **Settlement**. Through analysis, discussion, and negotiation, as aided by their respective technical staff and experts, Michigan City and the OUCC ("Settling Parties") agree on the terms and conditions as described herein that resolve all issues between them in this Cause. Attached to the Settlement Agreement as Exhibit A is an accounting report ("Report") that reflects the agreed upon revenue requirement, cost of service analysis, final rates and charges, and estimated amortization schedule for Michigan City's outstanding and proposed indebtedness.

4. **Revenue Requirement, Rates, and Charges**. The Settling Parties agree that Michigan City should be authorized to increase its rates and charges for water service to reflect ongoing net revenue requirements in the amount of $7,759,242, resulting in an annual increase of $2,028,646 or 35.40% over Michigan City's current revenues at existing rates.

5. **Operation and Maintenance Adjustments**. After review and examination, Michigan City has agreed to the OUCC's proposed adjustments for late fee revenues, fire protection revenues, purchased power expense, disallowed expenses, and proposed debt service.

6. **Non-Recurring Charges**. The Settling Parties agree that Michigan City should be authorized to update its tap fee, shut-off request fee, turn-on request fee, plumbing check fee, and meter test service charge. The agreed upon amount for each fee is set forth in the attached Exhibit A.

7. **Authority to Issue Debt and Impact on Initial Rates**. The Settling Parties agree that Michigan City should be authorized to issue long-term debt ("2015 Bonds") in a principal amount of approximately $8,645,000 at a net average annual interest rate not to exceed six percent (6%) per annum. For purposes of determining Michigan City's revenue requirement (and calculating its initial rates), the parties agree to include an amount of $299,618 for the 2015 Bonds subject to true-up, which amount is based on an average assumed interest rate of approximately 3.28% and the amortization schedules contained in the Report.

8. **Filing of True Up Report and Revision of Tariff**. Within thirty (30) days after closing on the 2015 Bonds, Michigan City shall file in this Cause a true-up report describing the final terms of the 2015 Bonds, stating the amount of the debt service reserve, disclosing the final issuance costs, and including an amortization schedule for the 2015 Bonds. The OUCC shall have fourteen (14) calendar days in which to object to the true-up report. If there is no objection to the true-up report and the annual payment on the 2015 Bonds differs from the originally estimated $299,618, Michigan City shall file with the IURC a revised tariff adjusting the rates to include the final amount of annual principal and interest payments on the 2015 Bonds. However, if, as a result of the actual terms of the financing, the settling parties agree the cost of debt is less than $299,618 per annum, Michigan City need not file a revised tariff if the OUCC states in writing that it considers the difference to be immaterial for purposes of revising Michigan City's rates. In such case, Michigan City shall file the OUCC's written statement to the extent it has not already been filed by the OUCC. If, as a result of the actual terms of the financing, the settling parties agree the cost of debt is more than $299,618 per annum, Michigan City may, in its sole discretion, elect not to file a revised tariff reflecting the higher principal and interest payment for the 2015 Bonds.

9. **Filing of Tariff and Delay in Issuance of Debt**. The Settling Parties agree that Michigan City may expeditiously file a new tariff after issuance of a Commission Order in this Cause approving an adjustment to Michigan City's rates. If Michigan City does not issue the 2015 Bonds within two months after the filing of the new tariff, Michigan City should temporarily reserve the funds collected in rates for the 2015 Bonds and use those funds to offset the amount it eventually borrows.

10. **Expenditures from Debt Service Reserves**. If Michigan City spends any of the funds from its Debt Service Reserve for any reason other than to make the last payment on the underlying debt, Michigan City will provide a report to the Commission and OUCC within five (5) business days after such expenditure that states: (i) how much Michigan City spent from its Debt Service Reserve; (ii) why and on what it spent the funds from its Debt Service Reserve; (iii) a cite to, and a quote from, any applicable loan documents that allow Michigan City to spend funds from its Debt Service Reserve; (iv) how Michigan City plans to replenish its Debt Service Reserve; and (v) any cost cutting activities Michigan City has implemented to forestall spending funds from its Debt Service Reserve.

11. **Ongoing Operational Practices**. Before its next rate case, Michigan City agrees to implement or consider implementing the following: (i) a long-term non-revenue water control program; (ii) a practice of periodic top down and bottom up water audits; (iii) an active leak detection program; (iv) established targets for frequencies for exercising critical and non-critical valves; and (v) a program to improve its valve maintenance and exercise program by transitioning its current paper-based valve books and drawings to a computerized data base that is linked to GIS and based on a global positioning system.

12. **Admissibility and Sufficiency of Evidence**. The Settling Parties hereby stipulate that the prefiled testimony and exhibits of Michigan City and the OUCC should be admitted into the record without objection or cross examination by either party. The Settling Parties agree that such evidence constitutes substantial evidence sufficient to support the Settlement Agreement and provides an adequate evidentiary basis upon which the Commission can make all findings of fact and conclusions of law necessary for the approval of this Settlement Agreement as filed.

13. **Non-Precedential Effect of Settlement**. The Settling Parties agree that the facts in this Cause are unique and all issues presented are fact specific. Therefore, the Settlement Agreement shall not constitute nor be cited as precedent by any person or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission or any court of competent jurisdiction. This Settlement Agreement is solely the result of compromise in the settlement process, except as provided herein, is without prejudice to and shall not constitute a waiver of any position that either party may take with respect to any issue in any future regulatory or non-regulatory proceeding.

14. **Authority to Execute**. The undersigned have represented and agreed that they are fully authorized to execute the Settlement Agreement on behalf of the designated parties, who will hereafter be bound thereby.

15. **Approval of Settlement Agreement in its Entirety**. As a condition of this settlement, the Settling Parties specifically agree that if the Commission does not approve this Joint Stipulation and Settlement Agreement in its entirety and incorporate it into the Final Order as provided above, the entire Settlement Agreement shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Settling Parties. The Settling Parties further agree that if the Commission does not issue a Final Order in the form that reflects the

Agreement described herein, the matter should proceed to be heard by the Commission as if no settlement had been reached unless otherwise agreed to by the Settling Parties in a writing that is filed with the Commission.

16. **Proposed Order**. The Settling Parties agree to work together in preparing a mutually acceptable proposed order that the Settling Parties agree to file with the Commission on or before March 6, 2015.

**DEPARTMENT OF WATER WORKS OF MICHIGAN CITY, INDIANA ("MICHIGAN CITY")**

Dennis H. Otten, Atty. No. 21039-49
J. Christopher Janak, Atty. No. 18499-49
BOSE MCKINNEY & EVANS LLP
111 Monument Circle, Suite 2700
Indianapolis, IN 46204
Phone: (317) 684-5000
Fax: (317) 684-5173

**INDIANA OFFICE OF THE UTILITY CONSUMER COUNSELOR ("OUCC")**

Daniel M. Le Vay, Atty. No. 22184-49
Deputy Consumer Counselor
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
115 West Washington Street
Suite 1500 South
Indianapolis, IN 46204
Phone: (317) 232-2494
Fax: (317) 232-5923

DT1.2717025.v8

# Exhibit A

UMBAUGH

H. J. Umbaugh & Associates
Certified Public Accountants, LLP
8365 Keystone Crossing
Suite 300
Indianapolis, IN 46240-2687
Phone: 317-465-1500
Fax: 317-465-1550
www.umbaugh.com

February 12, 2015

Board of Directors
Department of Water Works
City of Michigan City
P.O. Box 888
Michigan City, Indiana 46361

The attached schedules are a supplement to our Accounting Report (Petitioner's Exhibit SAM-2) dated September 24, 2014. We have not updated the supplemental financial data included in that report. Accordingly, all disclaimers of opinion, comments and disclosures included in the Accounting Report are applicable hereto.

Umbaugh

DEPARTMENT OF WATER WORKS
Michigan City, Indiana

PRO FORMA FINANCIAL INFORMATION

DEPARTMENT OF WATER WORKS
**City of Michigan City, Indiana**

## SCHEDULE OF ESTIMATED PROJECT COSTS AND FUNDING
**(Per consulting engineer)**

ESTIMATED PROJECT COSTS:

Construction Costs:

| | |
|---|---|
| Cleaning and Extension of West 42" Lake Intake Line | $2,245,000 |
| Phase IV Plant Improvements - Switch Gear Upgrade, Basin Rehab, Residuals Tank Rehab, B.S. Chlorine Feed System and Install Mixing Device in the Pahs Road Tank | 3,016,000 |
| Water Main Extension on US 20 | 345,000 |
| Michiana Michigan Connection Mains | 555,000 |
| Pottawattamie Park Project | 830,000 |
| Total Estimated Construction Costs | 6,991,000 |

Non-Construction Costs:

| | |
|---|---|
| Engineering design | 793,000 |
| Construction administration and inspection | 667,000 |
| Legal and financial advising | 83,500 |
| Underwriters discount | 86,400 |
| Other cost of issuance | 24,100 |
| Total Estimated Non-Construction Costs | 1,654,000 |
| Total Estimated Project Costs | $8,645,000 |

ESTIMATED PROJECT FUNDING:

| | |
|---|---|
| Proposed Waterworks Revenue Bonds of 2015 | $8,645,000 |
| Total Estimated Project Funding | $8,645,000 |

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

SCHEDULE OF AMORTIZATION OF $8,645,000 PRINCIPAL AMOUNT OF
PROPOSED WATERWORKS REVENUE BONDS, SERIES 2015
Assumes principal and interest payable semiannually, March 1st and September 1st.
Assumes bonds are dated September 30, 2015.
Assumes interest rates as indicated.

| Payment Date | Principal Balance | Assumed Interest Rates* | Debt Service | | | Bond Year Total |
|---|---|---|---|---|---|---|
| | | | Principal | Interest | Total | |
| | (-In $1,000's-) | (%) | (-In $1,000's-) | (---------- In Dollars---------- | | ) |
| 03/01/16 | $8,645 | 1.15 | $10 | $117,651.02 | $127,651.02 | $127,651.02 |
| 09/01/16 | 8,635 | 1.15 | 10 | 140,188.75 | 150,188.75 | |
| 03/01/17 | 8,625 | 1.50 | 10 | 140,131.25 | 150,131.25 | 300,320.00 |
| 09/01/17 | 8,615 | 1.50 | 10 | 140,056.25 | 150,056.25 | |
| 03/01/18 | 8,605 | 1.85 | 10 | 139,981.25 | 149,981.25 | 300,037.50 |
| 09/01/18 | 8,595 | 1.85 | 10 | 139,888.75 | 149,888.75 | |
| 03/01/19 | 8,585 | 2.20 | 10 | 139,796.25 | 149,796.25 | 299,685.00 |
| 09/01/19 | 8,575 | 2.20 | 10 | 139,686.25 | 149,686.25 | |
| 03/01/20 | 8,565 | 2.45 | 10 | 139,576.25 | 149,576.25 | 299,262.50 |
| 09/01/20 | 8,555 | 2.45 | 10 | 139,453.75 | 149,453.75 | |
| 03/01/21 | 8,545 | 2.70 | 10 | 139,331.25 | 149,331.25 | 298,785.00 |
| 09/01/21 | 8,535 | 2.70 | 10 | 139,196.25 | 149,196.25 | |
| 03/01/22 | 8,525 | 2.90 | 10 | 139,061.25 | 149,061.25 | 298,257.50 |
| 09/01/22 | 8,515 | 2.90 | 535 | 138,916.25 | 673,916.25 | |
| 03/01/23 | 7,980 | 3.05 | 545 | 131,158.75 | 676,158.75 | 1,350,075.00 |
| 09/01/23 | 7,435 | 3.05 | 555 | 122,847.50 | 677,847.50 | |
| 03/01/24 | 6,880 | 3.15 | 565 | 114,383.75 | 679,383.75 | 1,357,231.25 |
| 09/01/24 | 6,315 | 3.15 | 575 | 105,485.00 | 680,485.00 | |
| 03/01/25 | 5,740 | 3.25 | 590 | 96,428.75 | 686,428.75 | 1,366,913.75 |
| 09/01/25 | 5,150 | 3.25 | 600 | 86,841.25 | 686,841.25 | |
| 03/01/26 | 4,550 | 3.30 | 610 | 77,091.25 | 687,091.25 | 1,373,932.50 |
| 09/01/26 | 3,940 | 3.30 | 625 | 67,026.25 | 692,026.25 | |
| 03/01/27 | 3,315 | 3.35 | 635 | 56,713.75 | 691,713.75 | 1,383,740.00 |
| 09/01/27 | 2,680 | 3.35 | 650 | 46,077.50 | 696,077.50 | |
| 03/01/28 | 2,030 | 3.45 | 665 | 35,190.00 | 700,190.00 | 1,396,267.50 |
| 09/01/28 | 1,365 | 3.45 | 675 | 23,718.75 | 698,718.75 | |
| 03/01/29 | 690 | 3.50 | 690 | 12,075.00 | 702,075.00 | 1,400,793.75 |
| | Totals | | $8,645 | $2,907,952.27 | $11,552,952.27 | $11,552,952.27 |

*Assumes the MMD A scale plus 100 basis points, rounded, as of July 23, 2014.

Average annual debt service for the five bond years ending March 1, 2021. $299,618.00

(See Accountants' Report)

**DEPARTMENT OF WATER WORKS**
**City of Michigan City, Indiana**

## SCHEDULE OF PROPOSED COMBINED DEBT SERVICE

| Payment Date | Outstanding 2014 Bonds | Proposed 2015 Bonds | Total | Bond Year Total |
|---|---|---|---|---|
| 9/1/2014 | $592,230.00 | | $592,230.00 | |
| 3/1/2015 | 594,600.00 | | 594,600.00 | $1,186,830.00 |
| 9/1/2015 | 594,650.00 | | 594,650.00 | |
| 3/1/2016 | 589,650.00 | $127,651.02 | 717,301.02 | 1,311,951.02 |
| 9/1/2016 | 594,650.00 | 150,188.75 | 744,838.75 | |
| 3/1/2017 | 594,550.00 | 150,131.25 | 744,681.25 | 1,489,520.00 |
| 9/1/2017 | 594,400.00 | 150,056.25 | 744,456.25 | |
| 3/1/2018 | 594,200.00 | 149,981.25 | 744,181.25 | 1,488,637.50 |
| 9/1/2018 | 593,950.00 | 149,888.75 | 743,838.75 | |
| 3/1/2019 | 593,650.00 | 149,796.25 | 743,446.25 | 1,487,285.00 |
| 9/1/2019 | 590,625.00 | 149,686.25 | 740,311.25 | |
| 3/1/2020 | 592,525.00 | 149,576.25 | 742,101.25 | 1,482,412.50 |
| 9/1/2020 | 594,275.00 | 149,453.75 | 743,728.75 | |
| 3/1/2021 | 590,875.00 | 149,331.25 | 740,206.25 | 1,483,935.00 |
| 9/1/2021 | 592,400.00 | 149,196.25 | 741,596.25 | |
| 3/1/2022 | 593,775.00 | 149,061.25 | 742,836.25 | 1,484,432.50 |
| 9/1/2022 | | 673,916.25 | 673,916.25 | |
| 3/1/2023 | | 676,158.75 | 676,158.75 | 1,350,075.00 |
| 9/1/2023 | | 677,847.50 | 677,847.50 | |
| 3/1/2024 | | 679,383.75 | 679,383.75 | 1,357,231.25 |
| 9/1/2024 | | 680,485.00 | 680,485.00 | |
| 3/1/2025 | | 686,428.75 | 686,428.75 | 1,366,913.75 |
| 9/1/2025 | | 686,841.25 | 686,841.25 | |
| 3/1/2026 | | 687,091.25 | 687,091.25 | 1,373,932.50 |
| 9/1/2026 | | 692,026.25 | 692,026.25 | |
| 3/1/2027 | | 691,713.75 | 691,713.75 | 1,383,740.00 |
| 9/1/2027 | | 696,077.50 | 696,077.50 | |
| 3/1/2028 | | 700,190.00 | 700,190.00 | 1,396,267.50 |
| 9/1/2028 | | 698,718.75 | 698,718.75 | |
| 3/1/2029 | | 702,075.00 | 702,075.00 | 1,400,793.75 |
| Totals | $9,491,005.00 | $11,552,952.27 | $21,043,957.27 | $21,043,957.27 |

Average annual debt service for the five bond years ending March 1, 2021. $1,486,358.00

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

PRO FORMA OPERATION AND MAINTENANCE EXPENSE
(For explanation of references, see pages 8 - 11)

| | 12 Months Ended 12/31/13 (Unaudited) | Adjustments | Reference | Pro Forma |
|---|---|---|---|---|
| Source of Supply: | | | | |
| Salaries and wages | $268,882 | $16,877 | (1) | $285,759 |
| Purchased power | 261,009 | 0 | (4) | 261,009 |
| Materials and supplies | 24,728 | | | 24,728 |
| Contractual services - other | 257,631 | 46,363 | (8) | 303,994 |
| Miscellaneous | 16,153 | | | 16,153 |
| Sub-totals | 828,403 | 63,240 | | 891,643 |
| Water Treatment: | | | | |
| Salaries and wages | 270,330 | 16,968 | (1) | 287,298 |
| Purchased power | 71,026 | 0 | (4) | 71,026 |
| Materials and supplies | 21,455 | | | 21,455 |
| Chemicals | 129,059 | | | 129,059 |
| Contractual services - testing | 23,726 | | | 23,726 |
| Contractual services - other | 148,401 | | | 148,401 |
| Miscellaneous | 209,731 | | | 209,731 |
| Sub-totals | 873,728 | 16,968 | | 890,696 |
| Transmission and Distribution: | | | | |
| Salaries and wages | 718,469 | (24,904) | (1) | 693,565 |
| Purchased power | 47,501 | 0 | (4) | 47,501 |
| Materials and supplies | 93,053 | | | 93,053 |
| Transportation | 109,463 | | | 109,463 |
| Contractual services - other | 16,950 | | | 16,950 |
| Miscellaneous | 10,827 | | | 10,827 |
| Sub-totals | $996,263 | ($24,904) | | $971,359 |

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

PRO FORMA OPERATION AND MAINTENANCE EXPENSE
(For explanation of references, see pages 8 - 11)

| | 12 Months Ended 12/31/13 (Unaudited) | Adjustments | Reference | Pro Forma |
|---|---|---|---|---|
| Customer Accounts: | | | | |
| Salaries and wages | $243,955 | $15,312 | (1) | $259,267 |
| Materials and supplies | 83,184 | | | 83,184 |
| Contractual services - other | 7,144 | | | 7,144 |
| Bad debt expense | 9,600 | | | 9,600 |
| Miscellaneous | 39 | | | 39 |
| Sub-totals | 343,922 | 15,312 | | 359,234 |
| Administrative: | | | | |
| Salaries and wages | 149,227 | 14,718 | (1) | 163,945 |
| Salaries and wages - officers | 85,264 | | | 85,264 |
| Employee benefits | 551,357 | 38,023 | (3) | 589,380 |
| FICA | 139,937 | 1,213 | (2) | 141,150 |
| Purchased power | 9,162 | 0 | (4) | 9,162 |
| Materials and supplies | 24,936 | | | 24,936 |
| Contractual services - accounting | 5,703 | | | 5,703 |
| Contractual services - legal | 5,569 | | | 5,569 |
| Contractual services - management fee | 630 | | | 630 |
| Contractual services - other | 107,965 | (84,093) | (6),(7) | 23,872 |
| Insurance - vehicles | 9,664 | | | 9,664 |
| Insurance - property | 22,064 | 10,713 | (5) | 32,777 |
| Insurance - workers compensation | 31,086 | 6,024 | (5) | 37,110 |
| Insurance - liability | 21,847 | | | 21,847 |
| Promotional | 3,746 | | | 3,746 |
| Miscellaneous | 59,538 | | | 59,538 |
| Sub-totals | 1,227,695 | (13,402) | | 1,214,293 |
| Total Operation and Maintenance Expenses | $4,270,011 | $57,214 | | $4,327,225 |

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

## PRO FORMA OPERATION AND MAINTENANCE EXPENSE

### Adjustment (1) - Payroll

To adjust test year salaries and wages to reflect pro forma staffing levels and pro forma pay rates, per utility management.

| | Pro Forma Salaries and Wages | Less Capitalized Labor | Pro Forma Expense | Test Year Expense | Adjustment |
|---|---|---|---|---|---|
| Source of Supply | $285,759 | - | $285,759 | $268,882 | $16,877 |
| Water Treatment | 287,298 | - | 287,298 | 270,330 | 16,968 |
| Transmission and Distribution | 763,565 | ($70,000) | 693,565 | 718,469 | (24,904) |
| Customer Accounts | 259,267 | - | 259,267 | 243,955 | 15,312 |
| Administrative | 249,209 | - | 249,209 | 234,491 | 14,718 |
| Totals | $1,845,098 | ($70,000) | $1,775,098 | $1,736,127 | $38,971 |

### Adjustment (2) - FICA

To adjust test year FICA expense for pro forma salaries and wages.

| | |
|---|---|
| Pro forma salaries and wages | $1,845,098 |
| Times 7.65% | 7.65% |
| Sub-total | 141,150 |
| Less test year expense | (139,937) |
| Adjustment | $1,213 |

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

PRO FORMA OPERATION AND MAINTENANCE EXPENSE

Adjustment (3) - Health Insurance

To adjust test year employee benefits for the most recent monthly health insurance premium, per utility management.

| | | |
|---|---|---|
| Monthly health insurance premium | $48,739 | |
| Monthly disability insurance premium | 376 | |
| Subtotal | | $49,115 |
| Times 12 months | | 12 |
| Annual insurance premium | | 589,380 |
| Less test year expense | | (551,357) |
| Adjustment | | $38,023 |

Adjustment (4) - Purchased Power

To adjust test year purchased power to reflect estimated increase, per utility management.

| | Pro Forma | Test Year | Adjustment |
|---|---|---|---|
| Source of Supply | $261,009 | $261,009 | $0 |
| Water Treatment | 71,026 | 71,026 | - |
| Transmission and Distribution | 47,501 | 47,501 | - |
| Administrative | 9,162 | 9,162 | - |
| Totals | $388,698 | $388,698 | $0 |

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

PRO FORMA OPERATION AND MAINTENANCE EXPENSE

Adjustment (5) - General Insurance

To adjust test year vehicle, liability and comprehensive insurance expense to reflect the current premium, per utility management.

| | Pro Forma | Test Year | Adjustment |
|---|---|---|---|
| Insurance - liability, property and vehicles | $64,288 | $53,575 | $10,713 |
| Insurance - workers compensation | 37,110 | 31,086 | 6,024 |
| Totals | $101,398 | $84,661 | $16,737 |

Adjustment (6) - Rate Case Expense

To adjust test year for periodic rate case expense.

| | |
|---|---|
| Rate case expense | $165,000 |
| Amortized over 5 years | 5 |
| Subtotal | 33,000 |
| Less test year expense | (53,347) |
| Adjustment | ($20,347) |

Adjustment (7) - Non-recurring Expenses

To adjust test year for non-recurring expenses.

| | |
|---|---|
| Utility master plan expenses | ($60,000) |
| Dissallowed expenses (no rate payer benefit) | (3,746) |
| Adjustment | ($63,746) |

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

PRO FORMA OPERATION AND MAINTENANCE EXPENSE

Adjustment (8) - Periodic Maintenance

To adjust test year expenses for periodic maintenance requirements, per utility management.

| | | | |
|---|---|---|---|
| A. | Biannual inspection and cleaning of two intake structures | | |
| | Clean and maintain intakes | $79,109 | |
| | Amortized over 2 years | 2 | |
| | Adjustment | | $39,555 |
| B. | Painting of three elevated storage tanks | | |
| | Tank 1 - estimated cost (1 MG elevated) | $230,000 | |
| | Amortized | 15 | |
| | Annual Requirement | | $15,333 |
| | Tank 2 - estimated cost (1 MG elevated) | 120,000 | |
| | Amortized | 15 | |
| | Annual Requirement | | 8,000 |
| | Tank 3 - estimated cost (100,0000 gallon elevated) | 100,000 | |
| | Amortized | 15 | |
| | Annual Requirement | | 6,667 |
| | Adjustment | | $30,000 |
| C. | Chlorine scrubber maintenance - estimated cost | $30,185 | |
| | Amortized | 5 | |
| | Adjustment | | $6,037 |
| D. | Intake pump maintenance - estimated cost | $138,000 | |
| | Amortized | 7 | |
| | Annual Requirement | | $19,714 |
| | Less test year expense | | (48,943) |
| | Adjustment | | ($29,229) |

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

PROPOSED CAPITAL IMPROVEMENT PLAN
(Per Utility Officials)

| Description | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|---|
| **Filter Plant** | | | | | | |
| Backwash residuals thickener rehab work | | $140,000 | | | | $140,000 |
| Corrosion control chemical system | | | $200,000 | | | 200,000 |
| Replace HVAC pneumatic controls NPB | | | | $130,000 | | 130,000 |
| Pipe gallery additional heating | | | | | $80,000 | 80,000 |
| **Distribution** | | | | | | |
| U.S. 20 and Ohio St. | $410,000 | | | | | 410,000 |
| Southwind Dr., Kieffer Road north of Westwind Drive | | | 130,000 | | | 130,000 |
| Monroe St., Carroll Ave., Woodland to Tank | | | 680,000 | | | 680,000 |
| U.S. 20, Pahs Road, Johnson Rd. | | | 975,000 | 975,000 | | 1,950,000 |
| C.R. 400 N, County Lind Road, Hitchcock St. | | | | 1,870,000 | 1,870,000 | 3,740,000 |
| U.S. 12 and IN-212 Intersection | | | | | 650,000 | 650,000 |
| Capitalized payroll and benefits | 70,000 | 70,000 | 70,000 | 70,000 | 70,000 | 350,000 |
| **Booster Stations** | | | | | | |
| Chlorine facility at Beverly Shores booster station | 100,000 | | | | | 100,000 |
| Chlorine and ammonia facilities at Pahs Road booster station | | 220,000 | | | | 220,000 |
| West booster station land acquisition | | 180,000 | | | | 180,000 |
| East booster station land acquisition | | 90,000 | | | | 90,000 |
| **Main Office** | | | | | | |
| New bill printer | 5,000 | | | | | 5,000 |
| Upgrade mapping to GIS | 65,000 | | | | | 65,000 |
| Printing plotter | 5,000 | | | | | 5,000 |
| Upgrade telephone system | 30,000 | | | | | 30,000 |
| Replace air conditioning | 80,000 | | | | | 80,000 |
| **Vehicle and Equipment Replacement** | | | | | | |
| Pickup truck | 30,000 | 30,000 | 30,000 | | | 90,000 |
| SUV | | | 30,000 | | | 30,000 |
| Dump Truck | 80,000 | | | | | 80,000 |
| Service Truck | | 40,000 | | | | 40,000 |
| Submersable electrical 4" pump | 10,000 | | | | | 10,000 |
| CAT excavator | | 175,000 | | | | 175,000 |
| Total proposed capital improvements | $885,000 | $945,000 | $2,115,000 | $3,045,000 | $2,670,000 | 9,660,000 |
| Amortized over five years | | | | | | 5 |
| Annual Requirement | | | | | | $1,932,000 |

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

PRO FORMA ANNUAL REVENUE REQUIREMENTS AND ANNUAL REVENUES
(See explanation of references on page 14)

| Revenue Requirements: | Test Year | Change | Ref. | Pro Forma |
|---|---|---|---|---|
| Operation and maintenance | $4,270,011 | $57,214 | (1) | $4,327,225 |
| Utility receipts tax | 64,449 | 8,533 | (2) | 72,982 |
| Payment in lieu of taxes | 441,844 | 264,735 | (3) | 706,579 |
| Debt service | | | | |
| Current Bonds | 1,210,471 | (23,731) | (4) | 1,186,740 |
| Proposed Bonds | - | 299,618 | (5) | 299,618 |
| Debt service reserve | - | 172,900 | (6) | 172,900 |
| Replacements and improvements | 1,530,914 | (255,715) | (7) | 1,275,199 |
| Sub-total | 7,517,689 | 523,554 | | 8,041,243 |
| Less interest income | (15,688) | - | (8) | (15,688) |
| Less other revenues | (224,454) | - | (8) | (224,454) |
| Less Pottawattamie Park Debt Service Surcharge | - | (70,260) | (9) | (70,260) |
| Add additional Utility Receipts Tax | | | (10) | 28,401 |
| Total Net Revenue Requirements | $7,277,547 | $453,294 | | $7,759,242 |
| Annual Revenues: | | | | |
| Retail water sales | $4,583,253 | - | (8) | $4,583,253 |
| Fire protection | 718,129 | - | (11) | 718,129 |
| Sales for resale | 395,685 | - | (8) | 395,685 |
| Penalties | 33,529 | - | (8) | 33,529 |
| Total Annual Revenues | $5,730,596 | $ - | | $5,730,596 |
| Total Additional Revenues Required | | | | $2,028,646 |

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

PRO FORMA ANNUAL REVENUE REQUIREMENTS AND ANNUAL REVENUES
(Explanation of References)

(1) See pro forma operation and maintenance expenses, pages 6 - 11.

(2) To adjust test year Indiana Utility Receipts Tax expense for pro forma expense as follows:

| | |
|---|---|
| Revenues subject to tax: | |
| Residential and commercial | $3,410,344 |
| Industrial and governmental | 1,172,909 |
| Fire protection | 372,784 |
| Penalties | 33,529 |
| Other | 224,454 |
| Sub-total | 5,214,020 |
| Less exemption | (1,000) |
| Sub-total | 5,213,020 |
| Times 1.4% | 1.40% |
| Sub-total | $72,982 |

(3) Assumes payment in lieu of taxes calculated below:

| | |
|---|---|
| Utility plant in service | $63,851,246 |
| Less accumulated depreciation | (16,594,755) |
| Net assessed value | 47,256,491 |
| Times corporate tax rate (2014 budget order) (per $100) | 1.4952 |
| Total | $706,579 |

(4) To provide an allowance for the average annual debt service on the Department's outstanding indebtedness for bond years ending March 1, 2017 through March 1, 2021. See page 49.

(5) To provide an allowance for the average annual debt service on the utility's proposed indebtedness for bond years ending March 1, 2017 through March 1, 2021. See page 4.

(6) The current debt service reserve is satisfied with a debt service reserve surety policy. The reserve on the proposed bonds is assumed to be funded over a 5 year period.

(7) To provide an allowance for replacements and improvements equal to annual depreciation expense, see page 48.

(8) Assumed at test year amounts.

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

PRO FORMA ANNUAL REVENUE REQUIREMENTS AND ANNUAL REVENUES
(Explanation of References)

(9) Average annual change in proposed debt service due to Pottawattamie Park project to be collected directly from Pottawattamie Park customers as calculated below:

| | | |
|---|---|---|
| ( A ) Additional debt service requirement due to project | $1,307,709 | |
| Add additional debt service reserve requirement due to project | 97,500 | |
| Total revenues to be recovered by surcharge | | $1,405,209 |
| Divide by repayment period | | 20 |
| Annual revenue requirements to be recovered by project surcharge | | $70,260 |

| | Costs | Allocation |
|---|---|---|
| ( B ) Project costs for main construction | $635,956 | 77% |
| Add project costs due to properties requiring new service lines | 192,500 | 23% |
| Totals | $828,456 | 100% |

| | | |
|---|---|---|
| ( C ) Debt service cost (A) times component allocation (B) for mains | $54,100 | |
| Divide by total project customers served | 112 | |
| Divide by monthly billing factor | 12 | |
| Monthly debt service charge (all customers) (rounded) | | $40.50 |
| Debt service cost (A) times component allocation (B) for service lines | $16,160 | |
| Divide by new service line customers served | 54 | |
| Divide by monthly billing factor | 12 | |
| Supplemental debt service charge (customers with new service lines) (rounded) | | $24.75 |

(10) To provide for additional utility receipts tax on the increased revenues resulting from the proposed rate adjustment.

(11) Normalized to reflect actual cash receipts in lieu of accrued revenue.

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
Michigan City, Indiana

# COST OF SERVICE STUDY

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

CONSUMER STUDY SUMMARY
(12 Months Ended 12/31/2013)

| | | Service Charge | | | | | |
|---|---|---|---|---|---|---|---|
| | | Number of Bills | Times Rate | Revenues | First 4,500 CF Block Usage | Next 25,500 CF Block Usage | Over 30,000 CF Block Usage |
| | | | | | (---------- 100s Cubic feet---------- ) | | |
| 5/8 | inch meter | 140,468 | $5.58 | $783,811 | 758,822 | 15,038 | 760 |
| 3/4 | inch meter | 1,153 | 6.20 | 7,149 | 10,947 | 768 | 241 |
| 1 | inch meter | 5,176 | 7.80 | 40,373 | 50,987 | 13,213 | 18 |
| 1 1/2 | inch meter | 2,529 | 9.88 | 24,987 | 60,647 | 39,549 | 4,246 |
| 2 | inch meter | 3,441 | 15.78 | 54,299 | 102,878 | 125,608 | 44,578 |
| 3 | inch meter | 511 | 58.97 | 30,134 | 16,726 | 40,548 | 37,426 |
| 4 | inch meter | 203 | 74.91 | 15,207 | 7,693 | 21,444 | 31,035 |
| 6 | inch meter | 243 | 111.56 | 27,109 | 8,768 | 37,748 | 270,551 |
| 8 | inch meter | 60 | 154.60 | 9,276 | 2,144 | 11,621 | 529,754 |
| 12 | inch meter | 12 | 255.01 | 3,060 | 540 | 3,060 | 175,914 |
| Sub-totals | | | | | 1,020,152 | 308,597 | 1,094,523 |
| Totals | | | | | 1,020,152 | 308,597 | 1,094,523 |
| Times rate | | | | | $2.01 | $1.55 | $1.31 |
| Test Year Totals | | 153,796 | | $995,405 | $2,050,506 | $478,325. | $1,433,825 |
| Total Bills | | | | | | | 153,796 |
| Total Usage | | | | | | | 2,423,272 |
| Total Usage Revenues | | | | | | | $4,958,061 |
| Adjustments | | | | | | | 70 |
| Total Fire Protection | | | | | | | 718,129 |
| Total Calculated Revenues | | | | | | | $5,676,260 |
| Total Control Revenues Less Payment in Lieu of Tax Deduction | | | | | | | $5,694,169 |
| Variance | | | | | | | ($17,909) |
| Percentage | | | | | | | -0.31% |

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

SUMMARY OF FIRE PROTECTION CONSUMER STUDY

| Private Fire Protection | Per Annum | Number of Hydrants | Total Billed Private Hydrants |
|---|---|---|---|
| Private Hydrant - per hydrant -per annum | $666.23 | 292 | $194,539 |

Private Sprinklers - Per Annum

| Sprinkler Size | Per Annum | Number of Sprinklers | Billed Private Sprinklers |
|---|---|---|---|
| 1 inch connection | $7.58 | 1 | $8 |
| 2 inch connection | 42.64 | 6 | 256 |
| 3 inch connection | 117.96 | 2 | 236 |
| 4 inch connection | 242.27 | 20 | 4,845 |
| 6 inch connection | 666.23 | 61 | 40,640 |
| 8 inch connection | 1,367.52 | 55 | 75,214 |
| 10 inch connection | 2,390.78 | 3 | 7,172 |
| 12 inch connection | 3,769.45 | 14 | 52,772 |
| Total Private Sprinklers | | 162 | $181,143 |

Public Fire Protection Surcharge

| Meter Size | Monthly Surcharge | Number of Bills | Total Billed Fire Protection |
|---|---|---|---|
| 5/8 | $1.91 | 140,466 | $268,290 |
| 3/4 | 2.09 | 1,153 | 2,410 |
| 1" | 2.67 | 5,176 | 13,820 |
| 1 1/2" | 3.43 | 2,529 | 8,674 |
| 2 | 5.52 | 3,441 | 18,994 |
| 3 | 20.96 | 511 | 10,711 |
| 4 | 26.67 | 203 | 5,414 |
| 6 | 40.01 | 243 | 9,722 |
| 8 | 55.25 | 60 | 3,315 |
| 12 | 91.42 | 12 | 1,097 |
| Total Public Fire Protection Surcharge | | 153,794 | $342,447 |
| Total Test Year Fire Protection | | | $718,129 |

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

CALCULATION OF TEST YEAR EQUIVALENT METERS
(Based upon test year service charge billings)

| Cost of service customer class | | Normalized Annual Bills | Average Connections | Equivalency Factor | Equivalent Meters and Services |
|---|---|---|---|---|---|
| Residential | | | | | |
| 5/8 | inch meter | 133,964 | 11,164 | 1.0 | 11,164 |
| 3/4 | inch meter | 825 | 69 | 1.5 | 104 |
| 1 | inch meter | 2,321 | 193 | 2.5 | 483 |
| 1 1/2 | inch meter | 1,037 | 86 | 5.0 | 430 |
| 2 | inch meter | 1,051 | 88 | 8.0 | 704 |
| 3 | inch meter | 44 | 4 | 15.0 | 60 |
| 4 | inch meter | 48 | 4 | 25.0 | 100 |
| 6 | inch meter | 24 | 2 | 50.0 | 100 |
| Sub-totals | | 139,314 | 11,610 | | 13,145 |
| Commercial | | | | | |
| 5/8 | inch meter | 6,100 | 508 | 1.0 | 508 |
| 3/4 | inch meter | 285 | 24 | 1.5 | 36 |
| 1 | inch meter | 1,791 | 149 | 2.5 | 373 |
| 1 1/2 | inch meter | 1,040 | 87 | 5.0 | 435 |
| 2 | inch meter | 1,555 | 130 | 8.0 | 1,040 |
| 3 | inch meter | 390 | 33 | 15.0 | 495 |
| 4 | inch meter | 106 | 9 | 25.0 | 225 |
| 6 | inch meter | 104 | 9 | 50.0 | 450 |
| 8 | inch meter | 12 | 1 | 80.0 | 80 |
| Sub-totals | | 11,383 | 950 | | 3,642 |
| Industrial | | | | | |
| 5/8 | inch meter | 270 | 23 | 1.0 | 23 |
| 3/4 | inch meter | 43 | 4 | 1.5 | 6 |
| 1 | inch meter | 234 | 20 | 2.5 | 50 |
| 1 1/2 | inch meter | 83 | 7 | 5.0 | 35 |
| 2 | inch meter | 389 | 32 | 8.0 | 256 |
| 3 | inch meter | 53 | 4 | 15.0 | 60 |
| 4 | inch meter | 48 | 4 | 25.0 | 100 |
| 6 | inch meter | 67 | 6 | 50.0 | 300 |
| 8 | inch meter | 12 | 1 | 80.0 | 80 |
| Sub-totals | | 1,199 | 101 | | 910 |
| Institutional | | | | | |
| 5/8 | inch meter | 8 | 1 | 1.0 | 1 |
| 3 | inch meter | 12 | 1 | 15.0 | 15 |
| 6 | inch meter | 24 | 2 | 50.0 | 100 |
| 8 | inch meter | 12 | 1 | 80.0 | 80 |
| Sub-totals | | 56 | 5 | | 196 |
| Wholesale | | | | | |
| 6 | inch meter | 24 | 2 | 50.0 | 100 |
| 8 | inch meter | 36 | 3 | 80.0 | 240 |
| Sub-totals | | 60 | 5 | | 340 |
| Lawn Meters | | | | | |
| 5/8 | inch meter | 126 | 11 | 1.0 | 11 |
| 1 | inch meter | 830 | 69 | 2.5 | 173 |
| 1 1/2 | inch meter | 369 | 31 | 5.0 | 155 |
| 2 | inch meter | 446 | 37 | 8.0 | 296 |
| 3 | inch meter | 12 | 1 | 15.0 | 15 |
| 4 | inch meter | 1 | - | 25.0 | - |
| Sub-totals | | 1,784 | 149 | | 650 |
| Total metered water billings | | 153,796 | 12,815 | | 18,883 |

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

CALCULATION OF TEST YEAR EQUIVALENT METERS
(Based upon test year billings)

| Fire Protection | Number of Connections | Equivalency Factor (1) | Equivalent Fire Connections |
|---|---|---|---|
| Private sprinklers | | | |
| 1 inch fire line | 1 | 1.000 | 1.0 |
| 2 inch fire line | 6 | 6.190 | 37.1 |
| 3 inch fire line | 2 | 17.980 | 36.0 |
| 4 inch fire line | 20 | 38.320 | 766.4 |
| 6 inch fire line | 61 | 111.310 | 6,789.9 |
| 8 inch fire line | 55 | 237.210 | 13,046.6 |
| 10 inch fire line | 3 | 426.580 | 1,279.7 |
| 12 inch fire line | 14 | 689.040 | 9,646.6 |
| Private hydrants | 292 | 111.310 | 32,502.5 |
| Public hydrants (2) | 1,330 | 111.310 | 148,042.3 |
| Totals | 1,784 | | 212,148.1 |

(1) Per M1 ed. 6, page 146.
(2) Per utility management.

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

TEST YEAR UNITS OF SERVICE
Base-Extra Capacity Method

| Customer Class | Base | | Maximum Day | | | Maximum Hour | | | Customer | | Equivalent Fire Connections |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Normalized Annual Sales (1) | Average Day (2) | Capacity Factor (3) % | Total Capacity | Extra Capacity (4) (2) | Capacity Factor (3) % | Total Capacity (2) | Extra Capacity (5) (2) | Equivalent Connections | Bills | |
| Residential | 1,034,685.0 | 2,834.8 | 330 | 9,354.8 | 6,520.0 | 495 | 14,032.3 | 4,677.5 | 13,795 | 141,098 | |
| Commercial | 450,414.0 | 1,234.0 | 250 | 3,085.0 | 1,851.0 | 500 | 6,170.0 | 3,085.0 | 3,642 | 11,383 | |
| Industrial and Wholesale | 672,902.0 | 1,843.6 | 255 | 4,701.2 | 2,857.6 | 385 | 7,097.9 | 2,396.7 | 1,250 | 1,259 | |
| Institutional | 265,271.0 | 726.8 | 220 | 1,599.0 | 872.2 | 330 | 2,398.4 | 799.4 | 196 | 56 | |
| Fire Protection | | | | 1,280.0 | 1,280.0 * | | 7,680.0 * | 6,400.0 | | | 212,148 |
| Totals | 2,423,272.0 | 6,639.2 | | 20,020.0 | 13,380.8 | | 37,378.6 | 17,358.6 | 18,883 | 153,796 | 212,148 |

(1) 100's of cubic feet.
(2) 100's of cubic feet per day.
(3) Calculated based on test year usage data.
(4) Capacity in excess of average day usage.
(5) Capacity in excess of maximum day demand.

*Based on estimated fire requirement of 4,000 gallons per minute for a 4 hour duration.

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

ALLOCATION OF UTILITY PLANT TO FUNCTIONAL COST COMPONENTS
Base-Extra Capacity Method

| | Total | Base | Extra Capacity: Maximum Day | Extra Capacity: Maximum Hour | Customer Meters and Services | Direct Fire Protection Service | Percentage Allocations: BAS | MXD | MXH | CUS | FP | Ref. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Source of Supply Plant: | | | | | | | | | | | | |
| Intakes | $7,373,430 | $4,033,266 | $3,340,164 | | | | 54.70% | 45.30% | | | | (1) |
| Supply Mains | 7,217 | 3,948 | 3,269 | | | | 54.70% | 45.30% | | | | (1) |
| Equipment | 136,716 | 74,784 | 61,932 | | | | 54.70% | 45.30% | | | | (1) |
| Structures and Improvements | 10,102,660 | 5,526,155 | 4,576,505 | | | | 54.70% | 45.30% | | | | (1) |
| Land | 6,324 | 6,324 | | | | | 100.00% | | | | | (2) |
| Transmission and Distribution: | | | | | | | | | | | | |
| Operating Equipment | 365,253 | 199,793 | 165,460 | | | | 54.70% | 45.30% | | | | (1) |
| Hydrants | 646,627 | | | | | $646,627 | | | | | 100.00% | (3) |
| Meters | 3,732,763 | | | | $3,732,763 | | | | | 100.00% | | (4) |
| Taps | 2,870,742 | | | | 2,870,742 | | | | | 100.00% | | (4) |
| Distribution Mains | 21,946,034 | 10,709,664 | 8,844,252 | $2,392,118 | | | 48.80% | 40.30% | 10.90% | | | (5) |
| Distribution Reservoirs | 2,799,287 | 279,929 | | 1,959,501 | | 559,857 | 10.00% | | 70.00% | | 20.00% | (6) |
| Pumping Equipment | 441,875 | 197,518 | 163,052 | 43,746 | | 37,559 | 44.70% | 36.90% | 9.90% | | 8.50% | (7) |
| Structures and Improvements | 1,279,760 | 624,523 | 515,743 | 139,494 | | | 48.80% | 40.30% | 10.90% | | | (5) |
| Land | 67,890 | 6,789 | | 61,101 | | | 10.00% | | 90.00% | | | (8) |
| Treatment | | | | | | | | | | | | |
| Equipment | 430,361 | 235,407 | 194,954 | | | | 54.70% | 45.30% | | | | (1) |
| Laboratory Equipment | 51,268 | 28,044 | 23,224 | | | | 54.70% | 45.30% | | | | (1) |
| Wash Water Tank | 27,024 | 14,782 | 12,242 | | | | 54.70% | 45.30% | | | | (1) |
| Structures and Improvements | 9,824,936 | 5,374,240 | 4,450,696 | | | | 54.70% | 45.30% | | | | (1) |
| Land | 9,577 | 9,577 | | | | | 100.00% | | | | | (2) |
| General Plant | | | | | | | | | | | | |
| Communication Equipment | 33,726 | 14,835 | 12,135 | 2,496 | 3,585 | 675 | 43.99% | 35.98% | 7.40% | 10.63% | 2.00% | (9) |
| Tools, Shop and Garage Equipment | 200,999 | 88,420 | 72,319 | 14,874 | 21,366 | 4,020 | 43.99% | 35.98% | 7.40% | 10.63% | 2.00% | (9) |
| Office Furniture | 290,112 | 127,621 | 104,381 | 21,469 | 30,839 | 5,802 | 43.99% | 35.98% | 7.40% | 10.63% | 2.00% | (9) |
| Structures and Improvements | 464,225 | 204,212 | 167,028 | 34,353 | 49,347 | 9,285 | 43.99% | 35.98% | 7.40% | 10.63% | 2.00% | (9) |
| Land and Land Rights | 7,500 | 3,300 | 2,698 | 555 | 797 | 150 | 43.99% | 35.98% | 7.40% | 10.63% | 2.00% | (9) |
| Transportation Equipment | 734,940 | 323,299 | 264,431 | 54,387 | 78,124 | 14,699 | 43.99% | 35.98% | 7.40% | 10.63% | 2.00% | (9) |
| Less Accumulated Depreciation | (16,594,755) | (7,300,033) | (5,970,793) | (1,228,012) | (1,764,022) | (331,895) | 43.99% | 35.98% | 7.40% | 10.63% | 2.00% | (9) |
| Net Utility Plant in Service | $47,256,491 | $20,786,397 | $17,003,692 | $3,496,082 | $5,023,541 | $946,779 | 43.99% | 35.98% | 7.40% | 10.63% | 2.00% | |

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

ALLOCATION OF UTILITY PLANT TO FUNCTIONAL COST COMPONENTS
Base-Extra Capacity Method

(1) Allocated 54.7% to base and 45.3% to max day per consulting engineer.

(2) Allocated 100% to base.

(3) Allocated 100% to direct fire protection.

(4) Allocated 100% to customer meters and services.

(5) Allocated 48.8% to base, 40.3% to max day and 10.9% to max hour per consulting engineer.

(6) Allocated 10% to base, 70% to maximum hour and 20% to fire protection per consulting engineer.

(7) Allocated 44.7% to base, 36.9% to maximum hour, 9.9% to max hour and 8.5% to fire protection per consulting engineer.

(8) Allocated 10% to base and 90% to maximum hour.

(9) Allocated pro rata to all other allocable utility plant.

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

ALLOCATION OF PRO FORMA OPERATION AND MAINTENANCE EXPENSES
TO FUNCTIONAL COST COMPONENTS
Base-Extra Capacity Method

| | Pro Forma Expense | Base | Extra Capacity: Maximum Day | Extra Capacity: Maximum Hour | Customer Class: Meters and Services | Customer Class: Billing and Collecting | Direct Fire Protection Service | Percentage Allocation: BAS | MXD | MXH | MET | BILL | FP | Ref. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Source of supply | | | | | | | | | | | | | | |
| Salaries and wages | $285,759 | $156,310 | $129,449 | | | | | 54.70% | 45.30% | | | | | (1) |
| Purchased power | 261,009 | 142,772 | 118,237 | | | | | 54.70% | 45.30% | | | | | (1) |
| Materials and supplies | 24,728 | 13,526 | 11,202 | | | | | 54.70% | 45.30% | | | | | (1) |
| Contractual services - other | 303,994 | 166,285 | 137,709 | | | | | 54.70% | 45.30% | | | | | (1) |
| Miscellaneous | 16,153 | 8,836 | 7,317 | | | | | 54.70% | 45.30% | | | | | (1) |
| Water Treatment | | | | | | | | | | | | | | |
| Salaries and wages | 287,298 | 157,152 | 130,146 | | | | | 54.70% | 45.30% | | | | | (1) |
| Purchased power | 71,026 | 38,851 | 32,175 | | | | | 54.70% | 45.30% | | | | | (1) |
| Materials and supplies | 21,455 | 11,736 | 9,719 | | | | | 54.70% | 45.30% | | | | | (1) |
| Chemicals | 129,059 | 129,059 | | | | | | 100.00% | | | | | | (2) |
| Contractual services - testing | 23,726 | 12,978 | 10,748 | | | | | 54.70% | 45.30% | | | | | (1) |
| Contractual services - other | 148,401 | 81,175 | 67,226 | | | | | 54.70% | 45.30% | | | | | (1) |
| Miscellaneous | 209,731 | 114,723 | 95,008 | | | | | 54.70% | 45.30% | | | | | (1) |
| Transmission and distribution operations | | | | | | | | | | | | | | |
| Salaries and wages | 661,241 | 232,691 | 187,594 | $89,003 | $127,884 | | $24,069 | 35.19% | 28.37% | 13.46% | 19.34% | | 3.64% | (3) |
| Purchased power | 47,501 | 16,715 | 13,476 | 6,394 | 9,187 | | 1,729 | 35.19% | 28.37% | 13.46% | 19.34% | | 3.64% | (3) |
| Materials and supplies | 93,053 | 32,746 | 26,399 | 12,525 | 17,996 | | 3,387 | 35.19% | 28.37% | 13.46% | 19.34% | | 3.64% | (3) |
| Transportation | 109,463 | 38,520 | 31,055 | 14,734 | 21,170 | | 3,984 | 35.19% | 28.37% | 13.46% | 19.34% | | 3.64% | (3) |
| Contractual services - other | 16,950 | 5,965 | 4,809 | 2,281 | 3,278 | | 617 | 35.19% | 28.37% | 13.46% | 19.34% | | 3.64% | (3) |
| Miscellaneous | 10,827 | 3,810 | 3,072 | 1,457 | 2,094 | | 394 | 35.19% | 28.37% | 13.46% | 19.34% | | 3.64% | (3) |
| Customer accounts | | | | | | | | | | | | | | |
| Salaries and wages | 259,267 | | | | | $259,267 | | | | | | 100.00% | | (4) |
| Materials and supplies | 83,184 | | | | | 83,184 | | | | | | 100.00% | | (4) |
| Contractual services - other | 7,144 | | | | | 7,144 | | | | | | 100.00% | | (4) |
| Bad debt expense | 9,600 | | | | | 9,600 | | | | | | 100.00% | | (4) |
| Miscellaneous | 39 | | | | | 39 | | | | | | 100.00% | | (4) |
| Administrative | | | | | | | | | | | | | | |
| Salaries and wages | 220,293 | 86,795 | 71,287 | 10,398 | 14,517 | 34,476 | 2,820 | 39.40% | 32.36% | 4.72% | 6.59% | 15.65% | 1.28% | (5) |
| Salaries and wages allocated to billing and collecting | 61,240 | | | | | 61,240 | | | | | | 100.00% | | (4) |
| Employee benefits | 589,380 | 232,216 | 190,723 | 27,819 | 38,840 | 92,238 | 7,544 | 39.40% | 32.36% | 4.72% | 6.59% | 15.65% | 1.28% | (5) |
| FICA | 141,150 | 52,126 | 42,698 | 8,187 | 11,730 | 24,193 | 2,216 | 36.93% | 30.25% | 5.80% | 8.31% | 17.14% | 1.57% | (7) |
| Purchased power | 9,162 | 3,610 | 2,965 | 432 | 604 | 1,434 | 117 | 39.40% | 32.36% | 4.72% | 6.59% | 15.65% | 1.28% | (5) |
| Materials and supplies | 24,936 | 9,826 | 8,069 | 1,177 | 1,643 | 3,902 | 319 | 39.40% | 32.36% | 4.72% | 6.59% | 15.65% | 1.28% | (5) |
| Contractual services | 35,774 | 14,094 | 11,576 | 1,689 | 2,358 | 5,599 | 458 | 39.40% | 32.36% | 4.72% | 6.59% | 15.65% | 1.28% | (5) |
| Insurance | 101,398 | 44,606 | 36,483 | 7,503 | 5,389 | 5,389 | 2,028 | 43.99% | 35.98% | 7.40% | 5.32% | 5.32% | 2.00% | (6) |
| Promotional | 3,746 | 1,476 | 1,212 | 177 | 247 | 586 | 48 | 39.40% | 32.36% | 4.72% | 6.59% | 15.65% | 1.28% | (5) |
| Utility receipts tax | 101,383 | 39,945 | 32,808 | 4,785 | 6,681 | 15,866 | 1,298 | 39.40% | 32.36% | 4.72% | 6.59% | 15.65% | 1.28% | (5) |
| Miscellaneous | 59,538 | 23,458 | 19,266 | 2,810 | 3,924 | 9,318 | 762 | 39.40% | 32.36% | 4.72% | 6.59% | 15.65% | 1.28% | (5) |
| Total operating expenses | 4,428,608 | 1,872,002 | 1,432,428 | 191,371 | 267,542 | 613,475 | 51,790 | | | | | | | |
| Payment in lieu of taxes | 706,579 | 310,823 | 254,227 | 52,287 | 37,555 | 37,555 | 14,132 | 43.99% | 35.98% | 7.40% | 5.32% | 5.32% | 2.00% | (6) |
| Less interest income | (15,688) | (6,632) | (5,073) | (678) | (948) | (2,173) | (184) | 42.28% | 32.34% | 4.32% | 6.04% | 13.85% | 1.17% | (8) |
| Less penalties | (33,529) | (14,177) | (10,843) | (1,448) | (2,025) | (4,644) | (392) | 42.28% | 32.34% | 4.32% | 6.04% | 13.85% | 1.17% | (8) |
| Less miscellaneous revenues | (224,454) | (94,900) | (72,588) | (9,696) | (13,557) | (31,087) | (2,626) | 42.28% | 32.34% | 4.32% | 6.04% | 13.85% | 1.17% | (8) |
| Total net operating expenses | $4,861,516 | $2,067,116 | $1,598,151 | $231,836 | $288,567 | $613,126 | $62,720 | 42.51% | 32.87% | 4.77% | 5.94% | 12.61% | 1.29% | |

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

ALLOCATION OF PRO FORMA OPERATION AND MAINTENANCE EXPENSES
TO FUNCTIONAL COST COMPONENTS
Base-Extra Capacity Method

(1) Allocated 54.7% to base and 45.3% to max day per consulting engineer.

(2) Allocated 100% to base.

(3) Allocated pro rata based on the allocation of total transmission and distribution plant.

| | Transmission and Distribution Plant | % |
|---|---|---|
| Average day demand | $12,018,216 | 35.19% |
| Maximum day excess capacity | 9,688,507 | 28.37% |
| Maximum hour excess capacity | 4,595,960 | 13.46% |
| Meters and services | 6,603,505 | 19.34% |
| Direct fire protection | 1,244,043 | 3.64% |
| Totals | $34,150,231 | 100.00% |

(4) Allocated 100% to billing and collection.

(5) Allocated in ratio to all other functionalized expenses exclusive of utilities and chemicals.

(6) Allocated pro rata based upon utility plant.

(7) Allocated pro rata based upon total payroll.

(8) Allocated pro rata based on total functionalized cash operating expenses.

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

UNIT COSTS OF SERVICE
(Test Year Ended 12/31/2013)

| | Net Pro Forma Revenue Requirements | Allocable To All Customers | | | | | | Ref |
|---|---|---|---|---|---|---|---|---|
| | | Base | Extra Capacity | | Customer Costs | | Direct Fire Protection Service | |
| | | | Maximum Day | Maximum Hour | Meters and Services | Billing and Collection | | |
| | | (100's of cubic feet) | | | Equiv. Meters | Bills | Equiv Connections | |
| Units of Service | | | | | | | | |
| Total system | | 2,423,272.0 | 13,380.8 | 17,358.6 | 18,883 | 153,796 | 212,148 | (1) |
| Pro Forma Cost of Service | | | | | | | | |
| Net operation and maintenance expense and payment in lieu of taxes | $4,861,516 | $2,067,116 | $1,598,151 | $231,836 | $288,567 | $613,126 | $62,720 | (2) |
| Debt service | 1,420,973 | 625,087 | 511,266 | 105,152 | 151,049 | | 28,419 | (3) |
| Debt service reserve | 168,025 | 73,914 | 60,455 | 12,434 | 17,861 | | 3,361 | (3) |
| Depreciation | 1,275,199 | 560,959 | 458,817 | 94,365 | 135,554 | | 25,504 | (4) |
| Net cost of service | $7,725,713 | $3,327,076 | $2,628,689 | $443,787 | $593,031 | $613,126 | $120,004 | |
| Total unit cost of service | | $1.3730 | $196.4523 | $25.5658 | $31.4055 | $3.9866 | $0.5657 | |

(1) As presented on pages 18 - 20.
(2) See pages 23 and 24.
(3) Allocated in ratio to plant values, see page 21. Amounts shown net of allocated debt service and reserve requirements related to the proposed Pottawattamie Park project, see pages 13 - 15.
(4) Allocated in ratio to plant values, see page 21.

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

COST OF SERVICE ALLOCATED TO CUSTOMER CLASS
(Test Year Ended 12/31/2013)

| | Total Costs of Service | Allocable To All Customers | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Extra Capacity | | Customer Costs | | Direct Fire Protection Service |
| | | Base | Maximum Day | Maximum Hour | Meters and Services | Billing and Collection | |
| | | (--------100's of Cubic Feet--------) | | | Equiv. Meters | Bills | Equiv Connections |
| Unit Costs of Service (1) | | $1.3730 | $196.4523 | $25.5658 | $31.4055 | $3.9866 | $0.5657 |
| Allocated Costs of Service | | | | | | | |
| Residential: | | | | | | | |
| Units of service (2) | | 1,034,685.0 | 6,520.0 | 4,677.5 | 13,795 | 141,098 | |
| Cost | $3,719,673 | $1,384,471 | $1,248,269 | $116,545 | $422,201 | $548,187 | |
| Commercial: | | | | | | | |
| Units of service (2) | | 450,414.0 | 1,851.0 | 3,085.0 | 3,642 | 11,383 | |
| Cost | 1,189,529 | $602,600 | $354,371 | $76,858 | $111,470 | $44,230 | |
| Industrial and Wholesale | | | | | | | |
| Units of service (2) | | 672,902.0 | 2,857.6 | 2,396.7 | 1,250 | 1,259 | |
| Cost | 1,550,318 | $900,373 | $547,086 | $59,718 | $38,250 | $4,891 | |
| Institutional | | | | | | | |
| Units of service (2) | | 265,271.0 | 872.2 | 799.4 | 196 | 56 | |
| Cost | 548,064 | $354,937 | $166,990 | $19,924 | $5,990 | $223 | |
| Fire Protection: | | | | | | | |
| Units of service | | | 1,280.0 | 6,400.0 | | | 212,148 |
| Cost | 718,129 | | $337,472 | $219,596 | | | $161,061 |
| Total allocated cost of service | $7,725,713 | $3,242,381 | $2,654,188 | $492,641 | $577,911 | $597,531 | $161,061 |

(1) See page 25.
(2) See page 20.

(See Accountants' Report)

**DEPARTMENT OF WATER WORKS**
**City of Michigan City, Indiana**

## CALCULATION OF PROPOSED MONTHLY SERVICE CHARGES

| Meter Size | 5/8 inch Equivalency Factor | Meter Cost Per Equiv. Unit (1) | Meter Cost Per Unit | Billing Cost Per Unit (2) | Total | Rounded |
|---|---|---|---|---|---|---|
| 5/8 inch meter | 1.0 | $2.5504 | $2.5504 | $3.8852 | $6.4356 | $6.45 |
| 3/4 inch meter | 1.5 | 2.5504 | 3.8256 | 3.8852 | 7.7108 | 7.70 |
| 1 inch meter | 2.5 | 2.5504 | 6.3760 | 3.8852 | 10.2612 | 10.25 |
| 1 1/4 inch meter | 4.0 | 2.5504 | 10.2016 | 3.8852 | 14.0868 | 14.10 |
| 1 1/2 inch meter | 5.0 | 2.5504 | 12.7520 | 3.8852 | 16.6372 | 16.65 |
| 2 inch meter | 8.0 | 2.5504 | 20.4032 | 3.8852 | 24.2884 | 24.30 |
| 3 inch meter | 15.0 | 2.5504 | 38.2560 | 3.8852 | 42.1412 | 42.15 |
| 4 inch meter | 25.0 | 2.5504 | 63.7600 | 3.8852 | 67.6452 | 67.65 |
| 6 inch meter | 50.0 | 2.5504 | 127.5200 | 3.8852 | 131.4052 | 131.40 |
| 8 inch meter | 80.0 | 2.5504 | 204.0320 | 3.8852 | 207.9172 | 207.90 |
| 10 inch meter | 115.0 | 2.5504 | 293.2960 | 3.8852 | 297.1812 | 297.20 |
| 12 inch meter | 215.0 | 2.5504 | 548.3360 | 3.8852 | 552.2212 | 552.20 |

(1) Calculated as follows:

| | |
|---|---|
| Annual charge per equivalent meter (page 26) | $30.6048 |
| Divided by 12 months | 12 |
| Monthly charge per equivalent meter | $2.5504 |

(2) Calculated from information shown on page 26.

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

ALLOCATION OF FIRE SERVICE COSTS TO PUBLIC AND PRIVATE FIRE SERVICE
(Base-Extra Capacity Method)

| | Number of Services | Demand Factor | Equivalent Connections | Percentage Allocation | Allocation | Total Fire Protection |
|---|---|---|---|---|---|---|
| Public Fire Service | | | | | | |
| Total Public Hydrants | 1,330 | 111.31 | 148,042 | 69.78% | $388,736 | $388,736 |
| Direct Fire Protection | | | | | | 161,061 |
| Total Public Fire Protection | | | | | | 549,797 |
| Private Fire Service | | | | | | |
| Size of Connections | | | | | | |
| 1 inch connection | 1 | 1.00 | 1 | | | |
| 2 inch connection | 6 | 6.19 | 37 | | | |
| 3 inch connection | 2 | 17.98 | 36 | | | |
| 4 inch connection | 20 | 38.32 | 766 | | | |
| 6 inch connection | 61 | 111.31 | 6,790 | | | |
| 8 inch connection | 55 | 237.21 | 13,047 | | | |
| 10 inch connection | 3 | 426.58 | 1,280 | | | |
| 12 inch connection | 14 | 689.04 | 9,647 | | | |
| Private hydrants | 292 | 111.31 | 32,502 | | | |
| Sub-total | 454 | | 64,106 | 30.22% | 168,332 | |
| Total Private Fire Protection | | | | | | 168,332 |
| Total | 1,784 | | 212,148 | 100.00% | $557,068 | $718,129 |

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
**City of Michigan City, Indiana**

## CALCULATION OF FIRE PROTECTION CHARGES BASED UPON ALLOCATED COST OF SERVICE

Automatic Sprinkler Charges:

| Size of Connection | Equivalency Ratio* | Rate per Equivalent Connection | Adjusted Rates |
|---|---|---|---|
| 1 inch connection | 1.00 | $2.65 | $2.65 |
| 2 inch connection | 6.19 | 2.65 | 16.40 |
| 3 inch connection | 17.98 | 2.65 | 47.65 |
| 4 inch connection | 38.32 | 2.65 | 101.55 |
| 6 inch connection | 111.31 | 2.65 | 294.97 |
| 8 inch connection | 237.21 | 2.65 | 628.61 |
| 10 inch connection | 426.58 | 2.65 | 1,130.44 |
| 12 inch connection | 689.04 | 2.65 | 1,825.96 |
| Private hydrants | 111.31 | 2.65 | 294.97 |

* Per M1 Sixth Edition, page 146.

Fire Hydrants

| | |
|---|---|
| Total costs to be recovered from private fire protection, see page 28. | $168,332 |
| Divide by equivalent connections, see page 28. | 64,106 |
| Annual charge per equivalent connection | $2.63 |
| Use (Rounded) | $2.65 |

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

PRO FORMA ANNUAL OPERATING REVENUE AT ADJUSTED
RATES AND CHARGES BASED UPON ALLOCATED COST OF SERVICE

| | | | Billing Determinants | | | |
|---|---|---|---|---|---|---|
| | | Percent of Use | Annual Consumption (100's of CF) | Bills | Allocated Cost of Service Rates | Pro Forma Revenue Under Adjusted Rates |
| Residential: | | | | | | |
| Service Charge: | | | | | | |
| 5/8 | inch meter | | | 134,090 | $6.45 | $864,881 |
| 3/4 | inch meter | | | 825 | 7.70 | 6,353 |
| 1 | inch meter | | | 3,151 | 10.25 | 32,298 |
| 1 1/2 | inch meter | | | 1,406 | 16.65 | 23,410 |
| 2 | inch meter | | | 1,497 | 24.30 | 36,377 |
| 3 | inch meter | | | 56 | 42.15 | 2,360 |
| 4 | inch meter | | | 49 | 67.65 | 3,315 |
| 6 | inch meter | | | 24 | 131.40 | 3,154 |
| Volume Charge Per 100 Cubic Feet: | | | | | | |
| First | 200 | 90.76% | 939,108 | | 2.72 | 2,554,374 |
| Next | 9,800 | 9.24% | 95,577 | | 2.10 | 200,712 |
| Over | 10,000 | 0.00% | - | | 1.96 | - |
| Sub-totals | | 100.00% | 1,034,685.0 | 141,098 | | 3,727,234 |
| Commercial: | | | | | | |
| Service Charge: | | | | | | |
| 5/8 | inch meter | | | 6,100 | 6.45 | 39,345 |
| 3/4 | inch meter | | | 285 | 7.70 | 2,195 |
| 1 | inch meter | | | 1,791 | 10.25 | 18,358 |
| 1 1/2 | inch meter | | | 1,040 | 16.65 | 17,316 |
| 2 | inch meter | | | 1,555 | 24.30 | 37,787 |
| 3 | inch meter | | | 390 | 42.15 | 16,439 |
| 4 | inch meter | | | 106 | 67.65 | 7,171 |
| 6 | inch meter | | | 104 | 131.40 | 13,666 |
| 8 | inch meter | | | 12 | 207.90 | 2,495 |
| Volume Charge Per 100 Cubic Feet: | | | | | | |
| First | 200 | 58.25% | 262,367.0 | | 2.72 | 713,638 |
| Next | 9,800 | 41.75% | 188,047.0 | | 2.10 | 394,899 |
| Over | 10,000 | 0.00% | - | | 1.96 | - |
| Sub-totals | | 100.00% | 450,414.0 | 11,383 | | 1,263,309 |
| Industrial: | | | | | | |
| Service Charge: | | | | | | |
| 5/8 | inch meter | | | 270 | 6.45 | 1,742 |
| 3/4 | inch meter | | | 43 | 7.70 | 331 |
| 1 | inch meter | | | 234 | 10.25 | 2,399 |
| 1 1/2 | inch meter | | | 83 | 16.65 | 1,382 |
| 2 | inch meter | | | 389 | 24.30 | 9,453 |
| 3 | inch meter | | | 53 | 42.15 | 2,234 |
| 4 | inch meter | | | 48 | 67.65 | 3,247 |
| 6 | inch meter | | | 67 | 131.40 | 8,804 |
| 8 | inch meter | | | 12 | 207.90 | 2,495 |
| Volume Charge Per 100 Cubic Feet: | | | | | | |
| Rate per 100 cubic feet | | | | | | |
| First | 200 | 13.93% | 52,963.0 | | 2.72 | 144,059 |
| Next | 9,800 | 70.17% | 266,718.0 | | 2.10 | 560,108 |
| Over | 10,000 | 15.90% | 60,434.0 | | 1.96 | 118,451 |
| Sub-totals | | 100.00% | 380,115.0 | 1,199 | | 854,705 |
| Sub-total carried forward to next page | | | | 153,680 | | $5,845,248 |

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

PRO FORMA ANNUAL OPERATING REVENUE AT ADJUSTED
RATES AND CHARGES BASED UPON ALLOCATED COST OF SERVICE

| | | Billing Determinants | | | Allocated | Pro Forma Revenue |
|---|---|---|---|---|---|---|
| | | Percent of Use | Annual Consumption (100's of CF) | Bills | Cost of Service Rates | Under Adjusted Rates |
| Sub-total carried forward from previous page | | | | | | $5,845,248 |
| Institutional | | | | | | |
| Service Charge: | | | | | | |
| 5/8 | inch meter | | | 8 | $7.70 | 62 |
| 3 | inch meter | | | 12 | 42.15 | 506 |
| 6 | inch meter | | | 24 | 131.40 | 3,154 |
| 8 | inch meter | | | 12 | 207.90 | 2,495 |
| Volume Charge Per 100 Cubic Feet: | | | | | | |
| First | 200 | 1.76% | 4,676.0 | | 2.72 | 12,719 |
| Next | 9,800 | 48.42% | 128,455.0 | | 2.10 | 269,756 |
| Over | 10,000 | 49.82% | 132,140.0 | | 1.96 | 258,994 |
| Sub-totals | | 100.00% | 265,271.0 | | | 547,686 |
| Wholesale | | | | | | |
| Service Charge: | | | | | | |
| 6 | inch meter | | | 24 | $131.40 | 3,154 |
| 8 | inch meter | | | 36 | 207.90 | 7,484 |
| Volume Charge Per 100 Cubic Feet: | | | | | | |
| First | 200 | 2.87% | 8,414.0 | | 2.72 | 22,886 |
| Next | 9,800 | 73.19% | 214,293.0 | | 2.10 | 450,015 |
| Over | 10,000 | 23.94% | 70,080.0 | | 1.96 | 137,357 |
| Sub-totals | | 100.00% | 292,787.0 | 60 | | 620,896 |
| Sub-total carried forward to next page | | | | 153,740 | | $7,013,830 |

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

PRO FORMA ANNUAL OPERATING REVENUE AT ADJUSTED
RATES AND CHARGES BASED UPON ALLOCATED COST OF SERVICE - FIRE PROTECTION

| | Percent of Use | Billing Determinants: Annual Consumption (100's of CF) | Billing Determinants: Bills | Allocated Cost of Service Rates | Pro Forma Revenue Under Adjusted Rates |
|---|---|---|---|---|---|
| Sub-total carried forward from previous page | | | | | $7,013,830 |
| Fire Protection: | | | | | |
| Public fire protection surcharge | | | | | |
| 5/8" meter | | | 140,466 | $2.42 | 339,928 |
| 3/4" meter | | | 1,153 | 3.63 | 4,185 |
| 1" meter | | | 5,176 | 6.05 | 31,315 |
| 1 1/2" meter | | | 2,529 | 12.10 | 30,601 |
| 2" meter | | | 3,441 | 19.36 | 66,618 |
| 3" meter | | | 511 | 36.30 | 18,549 |
| 4" meter | | | 203 | 60.50 | 12,282 |
| 6" meter | | | 243 | 121.00 | 29,403 |
| 8" meter | | | 60 | 193.60 | 11,616 |
| 12" meter | | | 12 | 520.30 | 6,244 |
| Sub-total | | | 153,794 | | 550,741 |
| Private sprinklers | | | | | |
| 1 inch fire line | | | 1 | 2.65 | 3 |
| 2 inch fire line | | | 6 | 16.40 | 98 |
| 3 inch fire line | | | 2 | 47.65 | 95 |
| 4 inch fire line | | | 20 | 101.55 | 2,031 |
| 6 inch fire line | | | 61 | 294.97 | 17,993 |
| 8 inch fire line | | | 55 | 628.61 | 34,574 |
| 10 inch fire line | | | 3 | 1,130.44 | 3,391 |
| 12 inch fire line | | | 14 | 1,825.96 | 25,563 |
| Private hydrants | | | 292 | 294.97 | 86,131 |
| Sub-total | | | 454 | | 169,879 |
| Total | | 2,158,001.0 | | | $7,734,450 |
| Control | | | | | $7,725,713 |
| Variance | | | | | $8,737 |
| Variance percentage | | | | | 0.11% |

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

## COMPARISON OF ALLOCATED COST OF SERVICE WITH REVENUE UNDER ADJUSTED RATES

| Customer Classification | Cost of Service | Normalized Revenue Under Existing Rates | Increase (Decrease) % | Increase (Decrease) Amount | Revenue Under Adjusted Rates | Variance Between Adjusted Revenues and Cost of Service % | Variance Between Adjusted Revenues and Cost of Service Amount |
|---|---|---|---|---|---|---|---|
| Residential | $3,719,673 | $2,797,977 | 32.94% | $921,696 | $3,727,234 | 0.20% | $7,561 |
| Commercial | 1,189,529 | 856,963 | 38.81% | 332,566 | 1,263,309 | 6.20% | 73,780 |
| Industrial and Wholesale | 1,550,318 | 948,134 | 63.51% | 602,184 | 1,475,601 | -4.82% | (74,717) |
| Institutional | 548,064 | 354,975 | 54.40% | 193,089 | 547,686 | -0.07% | (378) |
| Fire Protection | 718,129 | 718,129 | 0.00% | 0 | 720,620 | 0.35% | 2,491 |
| Totals | $7,725,713 | $5,676,178 | 36.11% | $2,049,535 | $7,734,450 | 0.11% | $8,737 |

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

A. Metered User Block Schedule

For use of and service rendered by the Waterworks system, based upon the use of water supplied by said Waterworks system.

| Monthly Water Usage per 100 Cubic Feet | | Current (1) | Proposed |
|---|---|---|---|
| First | 4,500 Cubic Feet | $2.01 | |
| Next | 25,500 Cubic Feet | 1.55 | |
| Over | 30,000 Cubic Feet | 1.31 | |
| First | 20,000 Cubic Feet | | $2.72 |
| Next | 980,000 Cubic Feet | | 2.10 |
| Over | 1,000,000 Cubic Feet | | 1.96 |

B. Service Charge

In addition to the metered user block rate, each user shall pay a monthly service charge in accordance wit the following applicable size of meter installed.

| Meter Size | Current (1) | Proposed |
|---|---|---|
| 5/8 inch meter | $5.58 | $6.45 |
| 3/4 inch meter | 6.20 | 7.70 |
| 1 inch meter | 7.80 | 10.25 |
| 1 1/4 inch meter | 8.76 | 14.10 |
| 1 1/2 inch meter | 9.88 | 16.65 |
| 2 inch meter | 15.78 | 24.30 |
| 3 inch meter | 58.97 | 42.15 |
| 4 inch meter | 74.91 | 67.65 |
| 6 inch meter | 111.56 | 131.40 |
| 8 inch meter | 154.60 | 207.90 |
| 10 inch meter | 202.43 | 297.20 |
| 12 inch meter | 255.01 | 552.20 |

C. Sales for Resale

All water supplied to the Town of Long Beach, Village of Michiana and New Buffalo Township, MI will be billed at the following rate per 100 Cubic Feet in addition to the applicable service charge in section B above.

| | | |
|---|---|---|
| First | 20,000 Cubic Feet | $2.72 |
| Next | 980,000 Cubic Feet | 2.10 |
| Over | 1,000,000 Cubic Feet | 1.96 |

(1) Per IURC Order No. 42517, approved March 31, 2004.

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

| D. Private Fire Protection | Current (1) | Proposed |
|---|---|---|
| Private Hydrant - per hydrant-per annum | $666.23 | $294.97 |
| Private Sprinklers - per annum | | |
| Sprinkler Size | | |
| 1 inch connection | $7.58 | $2.65 |
| 2 inch connection | 42.64 | 16.40 |
| 3 inch connection | 117.96 | 47.65 |
| 4 inch connection | 242.27 | 101.55 |
| 6 inch connection | 666.23 | 294.97 |
| 8 inch connection | 1,367.52 | 628.61 |
| 10 inch connection | 2,390.78 | 1,130.44 |
| 12 inch connection | 3,769.45 | 1,825.96 |

E. Public Fire Protection Surcharge

| | Monthly Surcharge | |
|---|---|---|
| Meter Size | Current (1) | Proposed |
| 5/8 inch meter | $1.91 | $2.42 |
| 3/4 inch meter | 2.09 | 3.63 |
| 1 inch meter | 2.67 | 6.05 |
| 1 1/4 inch meter | 3.17 | 9.68 |
| 1 1/2 inch meter | 3.43 | 12.10 |
| 2 inch meter | 5.52 | 19.36 |
| 3 inch meter | 20.96 | 36.30 |
| 4 inch meter | 26.67 | 60.50 |
| 6 inch meter | 40.01 | 121.00 |
| 8 inch meter | 55.25 | 193.60 |
| 12 inch meter | 91.42 | 520.30 |

F. Temporary Users

Water furnished to temporary users such as contractors, etc., shall be charged on the basis of the above metered rates as estimated by the water superintendent. When a meter is installed for such purposes, the above metered rates shall apply and the temporary user shall pay for the installation and removal of the meter.

Pottawattamie Park Debt Service Charge

| | |
|---|---|
| Monthly Debt Service Charge - All Pottawattamie Park Customers | $40.50 |
| Supplemental Debt Service Charge - Customers with New Service Lines | 24.75 |

(1) Per IURC Order No. 42517, approved March 31, 2004.

(Continued on next page)

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

(Cont'd)

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

| Nonrecurring Charges (1) | Current (1) | Proposed |
|---|---|---|
| 1" Tap or Service Connection | $1,000.00 | $1,585.00 |
| Taps over 1" up to 12" | Time and Material | |
| Shut-off and/or turn-on fee during business hours | $15.00 | $25.00 |
| Shut-off and/or turn-on fee during after business hours (Weeknights, Weekend, Holidays) | 50.00 | 75.00 |
| Deposit - 5/8", 3/4", 1" meter size, (i.e. 2" *$100 = $200, 3" * $100 = $300) | 100.00 | 100.00 |
| Late Payment Charge | 10% on first $3.00 and 3% on all over $3.00 | |
| Thawing Charges - normal business hours | 100.00 | 100.00 |
| Thawing Charges - after business hours | 125.00 | 125.00 |
| Meter Test Requested by Customer (correct) | 15.00 | 25.00 |
| Meter Test Requested by Customer (incorrect) | No charge | |
| Reseal Meter and/or by-pass valves * Deliberate destruction - first offense | 15.00 | 25.00 |
| Reseal Meter and/or by-pass valves * Second Offense | 50.00 | 100.00 |

* Plus a pro-rated amount for lost revenue as determined by the Superintendent

| | | |
|---|---|---|
| Customer Tampering with Meter | Time and Material | |
| Frozen Meter Charge | Time and Material | |
| Survey Fee for Application of Main Extension | 25.00 | Removed |
| Special Meter Reading | No Charge | |
| Bad Check Charge | 15.00 | 15.00 |
| Customer request to check private plumbing (leaky faucets, toilets) | 15.00 | 25.00 |

(1) Per IURC Approval on March 11, 2009.

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
Michigan City, Indiana

CALCULATION OF PUBLIC FIRE PROTECTION CHARGE

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

## CALCULATION OF EQUIVALENT CONNECTIONS

| Meter Size | Total Annual Bills (1) | Ratio to 5/8" Meter | Total Annual Equivalent Connections |
|---|---|---|---|
| 5/8" | 140,466 | 1.0 | 140,466.0 |
| 3/4" | 1,153 | 1.5 | 1,729.5 |
| 1" | 5,176 | 2.5 | 12,940.0 |
| 1 1/2" | 2,529 | 5.0 | 12,645.0 |
| 2" | 3,441 | 8.0 | 27,528.0 |
| 3" | 511 | 15.0 | 7,665.0 |
| 4" | 203 | 25.0 | 5,075.0 |
| 6" | 243 | 50.0 | 12,150.0 |
| 8" | 60 | 80.0 | 4,800.0 |
| 12" | 12 | 215.0 | 2,580.0 |
| Totals | 153,794 | | 227,578.5 |

(1) See page 17.

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
**City of Michigan City, Indiana**

## CALCULATION OF PROPOSED PUBLIC FIRE PROTECTION CHARGE PER EQUIVALENT CONNECTION

| | |
|---|---|
| Total fire protection revenues to be recovered (1) | $549,797 |
| Divided by total equivalent connections | 227,579 |
| Proposed monthly charge per equivalent connection | $2.42 |

(1) See page 28.

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
City of Michigan City, Indiana

## ALLOCATION OF ANNUAL PUBLIC FIRE PROTECTION REVENUE BY METER SIZE

| Meter Size | Proposed Monthly Charge Per Equivalent Connection | Equivalency Factor | Proposed Monthly Charge Per Connection | Total Number Of Annual Bills | Annual Revenues Required |
|---|---|---|---|---|---|
| 5/8" | $2.42 | 1.0 | $2.42 | 140,466 | $339,928 |
| 3/4" | 2.42 | 1.5 | 3.63 | 1,153 | 4,185 |
| 1" | 2.42 | 2.5 | 6.05 | 5,176 | 31,315 |
| 1 1/2" | 2.42 | 5.0 | 12.10 | 2,529 | 30,601 |
| 2" | 2.42 | 8.0 | 19.36 | 3,441 | 66,618 |
| 3" | 2.42 | 15.0 | 36.30 | 511 | 18,549 |
| 4" | 2.42 | 25.0 | 60.50 | 203 | 12,282 |
| 6" | 2.42 | 50.0 | 121.00 | 243 | 29,403 |
| 8" | 2.42 | 80.0 | 193.60 | 60 | 11,616 |
| 12" | 2.42 | 215.0 | 520.30 | 12 | 6,244 |
| Estimated total revenue | | | | | 550,741 |
| Annual fire protection revenue to be recovered (page 38) | | | | | 549,797 |
| Variance | | | | | $944 |

(See Accountants' Report)

DEPARTMENT OF WATER WORKS
Michigan City, Indiana

CALCULATION OF NONRECURRING CHARGES

**DEPARTMENT OF WATER WORKS**
**City of Michigan City, Indiana**

## CALCULATION OF NONRECURRING CHARGES

| | Time (min.) | | Hourly Rate ($/hr) | | Total Cost | | Requested Charge |
|---|---|---|---|---|---|---|---|
| Tap Fees: | | | | | | | |
| Clerical | | | | | | | |
| Process service request | 10 | (1) | $13.39 | (1) | $2.23 | | |
| Prepare work order and parts list | 15 | (1) | 19.35 | (1) | 4.84 | | |
| Benefits allocation | | | | | 2.83 | (2) | |
| Tap work | | | | | | | |
| Meter cost | | | | | 173.00 | (3) | |
| Other materials | | | | | 446.75 | (3) | |
| Labor | | | | | 1,138.48 | (3) | |
| Total costs | | | | | $1,768.13 | | $1,585.00 |
| Shut-Off Request, Turn-On Request, Plumbing Check, and Meter Test Service Charges: | | | | | | | |
| Clerical | | | | | | | |
| Process request | 10 | (1) | $13.39 | (1) | $2.23 | | |
| Benefits allocation | | | | | 0.89 | (2) | |
| Service work | | | | | | | |
| Milage | 3 | (1) | 0.56 | (4) | 1.68 | | |
| Labor | 44 | (3) | 21.00 | (5) | 15.40 | | |
| Benefits allocation | | | | | 6.16 | (2) | |
| Labor at after hours rate | 90 | (6) | 42.00 | (6) | 63.00 | | |
| Total costs | | | | | $26.36 | | $25.00 |
| Total cost after hours | | | | | $73.96 | | $75.00 |

(1) Estimates per utility management.
(2) Allocated employee benefits based on test year benefits and wages comparison.
(3) Historical averages provided by utility management.
(4) Assumed at current IRS milage rate.
(5) Assumed at average hourly rate for distribution and plant employees.
(6) Assumed at overtime rate (double time) with a 90 minute call out minimum.

(See Accountants' Report)