

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF AQUA ) CAUSE NO. 45308 U  
INDIANA, INC. FOR A NEW SCHEDULE OF RATES )  
AND CHARGES ) APPROVED: MAR 11 2020

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ORDER OF THE COMMISSION

**Presiding Officers:**

**Sarah E. Freeman, Commissioner**

**David E. Veleta, Senior Administrative Law Judge**

On October 18, 2019, the White Oak Wastewater Division of Aqua Indiana, Inc. (“Applicant” or “White Oak”) filed its application with the Indiana Utility Regulatory Commission (“Commission”) for a small utility rate change (the “Application”) pursuant to the provisions of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. On November 6, 2019, the Water and Wastewater Division of the Indiana Utility Regulatory Commission (“Commission”) issued a Memorandum finding that the Application was complete. On January 16, 2020, as required by 170 IAC § 14-1-4(a), the Indiana Office of Utility Consumer Counselor (“OUCC”) filed a report in regard to the proposed rate change, which recommended the Commission approve an overall rate increase of 35.72% to be implemented in two phases. On February 13, 2020, the Presiding Officers issued a Docket Entry requesting a response from Applicant. On February 14, 2020, Applicant filed its response to the Docket Entry.

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

1. **Jurisdiction.** Applicant is a “public utility” as defined in Ind. Code § 8-1-2-1. The Commission has jurisdiction over the ratemaking treatment in accordance with Ind. Code § 8-1-2-42. Therefore, the Commission has jurisdiction over Applicant.
2. **Applicant’s Characteristics.** Applicant is an Indiana for-profit corporation and provides wastewater utility service to approximately 41 residential and three commercial customers in Liberty Township of Crawford County, Indiana.
3. **Test Period.** Applicant’s proposed test year is April 1, 2018 through March 31, 2019.
4. **Relief Requested.** Applicant is proposing a two-phase rate increase, increasing revenues by \$4,838 (20.0%) in Phase I and \$3,802 (12.96%) in Phase II. The two-phase increase is being proposed to reduce rate shock to White Oak customers. A residential customer’s rates would increase from \$45 per month to \$54 per month (Phase I), and to \$61 per month (Phase II). Phase I will allow Applicant’s rates to be slightly above break-even levels, and Phase II rates will allow Applicant an approximate 3.4% return on rate base. Applicant is requesting that any

proposed adjustment be treated as a reduction to Applicant's justifiable rates (\$72). Applicant is asking to implement Phase I rates as soon as practical and its Phase II rates on January 1, 2021.

5. **OUCC Report.** The OUCC Report was prepared by Utility Analysts Carla Sullivan and Carl Seals. In response to the Application, the OUCC accepts White Oak's proposal to limit its revenue increase to \$8,640, an increase of approximately 35.72% implemented in two phases. Nonetheless, specific issues raised by the OUCC Report are addressed below.

A. **Rate Base.** Applicant proposed the Commission find it has an original cost rate base of \$107,974, including \$2,213 of working capital. The OUCC recommended that the Commission find that Applicant has an original cost rate base of \$108,447, including \$2,510 of working capital. The OUCC stated that the difference is related in part to the determination of Applicant's working capital investment to be included in rate base. This is partly due to the differences in various pro forma operating expenses proposed by each party and partly due to inclusion of certain operating expenses in the calculation, including payroll taxes and rate case expense. The remaining difference in rate base is associated with accumulated depreciation. The OUCC explains that Applicant has more in asset retirements than it has recorded in accumulated depreciation expense. Thus, accumulated depreciation has a debit balance of \$88, which is added to utility plant in service rather than being subtracted as proposed by Applicant.

B. **Weighted Cost of Capital.** Applicant proposed a weighted cost of capital of 7.365%, which is based on a 9.8% cost of equity and a 4.93% cost of debt. Applicant's proposal is based on its parent company's capital structure, which consists of 50.0% equity and 50.0% long-term debt as of March 31, 2019. The OUCC indicated it did not agree with Applicant's proposed cost of equity, but accepted it because the requested rate increase (35.72%) was less than the calculated rate increase (59.73%) and therefore the cost of equity does not have an effect on the rates to be approved. As such, the OUCC accepted Applicant's proposed weighted cost of capital.

C. **Operating Revenues.** Applicant proposed a test year customer growth adjustment for both its residential and commercial customer classes to reflect a full year of revenue from each customer connected to its system as of March 31, 2019. As of March 31, 2019, Applicant had 41 residential customers. Annualizing the revenue from 41 residential customers yields pro forma wastewater revenue of \$22,138, which is an increase of \$1,027 over test year residential revenues. Applicant also had three commercial customers as of March 31, 2019. Annualizing the revenue from these three commercial customers yields pro forma wastewater revenue of \$1,802, a decrease of \$3 from test year commercial revenues. Applicant proposed pro forma operating revenues at present rates of \$24,190, which is an increase of \$1,024 over test year operating revenues of \$23,166. The OUCC accepted Applicant's proposed revenue adjustments.

D. **Operating Expenses.** Applicant proposed adjustments to the following operating expenses: (1) \$126 increase to salaries and wages to reflect a 3% wage increase; (2) a \$1,000 increase to reflect the amortization of rate case expense over three years; (3) a \$29 increase to IURC fees; (4) a \$409 increase to depreciation expense; (5) \$604 increase to property tax expense; (6) \$14 increase to utility receipts tax expense; and (7) a \$228 decrease to income tax expense. In total, White Oak proposes a \$1,954 increase to test year operating expenses of \$24,826, yielding pro forma operating expenses of \$26,780. The OUCC accepts Applicant's proposed

adjustments to salaries and wages, rate case expense, and utility receipts tax expense. But the OUCC proposes its own operating expense adjustments for depreciation expense, IURC fees, property taxes, and income taxes.

1). Depreciation Expense. Applicant proposed a \$409 increase and pro forma depreciation expense of \$2,646. The OUCC proposed a \$372 increase and pro forma depreciation expense of \$2,609.

2). IURC Fee. Applicant proposed a \$29 increase and pro forma IURC fee expense of \$46. The OUCC proposed a \$14 increase and pro forma IURC fee expense of \$31.

3). Property Tax Expense. Test year property tax expense was \$231. While Applicant proposes a \$604 increase to test year property tax expense, the OUCC proposed a \$449 increase to test year property tax expense.

4). Income Tax Expense. Applicant proposed a \$9 increase to state income tax expense and a \$237 decrease to federal income tax expense. The OUCC proposed a \$40 increase to state income tax expense and a \$195 decrease to federal income tax expense.

**E. System Development Charge**. The OUCC accepted Applicant's proposed system development charge of \$800.

**F. Additional Non-Recurring Charges**. Applicant requested authority to add the following non-recurring charges to its tariff: (1) a \$175 tap inspection fee, (2) an \$800 shut-off valve installation fee, (3) a \$32 reconnection fee, and (4) a \$34 return check charge.

Applicant proposed a tap inspection fee of \$175 based on one hour of inspection time, one hour of office time, and two hours of travel time. The OUCC argued that the proposed tap inspection fee is higher than similar fees charged in other Aqua Indiana service territories.

The OUCC recommended approval of Applicant's proposed shut-off valve installation fee, reconnection fee, and returned check fee.

**6. Commission Discussion and Findings**. The OUCC accepted Applicant's proposed rate increase and phase-in of rates. The OUCC also accepted Applicant's proposed SDC and non-recurring charges except for the Tap Inspection Fee. The OUCC recommended Applicant's proposed Tap Inspection Fee should be the same amount as the Aboite system. However, it does not appear that there is a Tap Inspection Fee for the Aboite system in Applicant's current tariff. Instead, an Inspection Fee is shown for the Aboite system for line inspections. Applicant has provided support justifying the \$175 fee. Thus, we find Applicant's proposed Tap Inspection Fee should be approved.

In response to the Commission's Docket Entry, Applicant indicated a Reconnection Fee of \$800 be applied where Aqua Indiana installed a shut-off valve. All customers with a previously installed shut of valve should be subject to a \$35 Reconnection Fee. Applicant also indicated it would include in its White Oak Division tariff specific language from Section F of its Aboite

Wastewater Division tariff regarding the reconnection fees, but omit all verbiage related to the "General Metered Rate." The Commission finds the Reconnection Fees of \$800 and \$35 are reasonable and approve them. In addition, we find the language regarding the reconnection fees as explained above should be included in the White Oak Division of Applicant's tariff.

Based on the support submitted by Applicant, we find that Applicant's proposed two-phase increase is reasonable and in the public interest. Furthermore, Applicant's proposed non-recurring charges, with the changes indicated above, are approved.


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

1. Applicant is authorized to increase its rates and charges by \$8,640 or 35.72% in two phases as described above.
2. Applicant's proposed non-recurring charges are approved.
3. Prior to implementing Phase 1 rates authorized herein, Applicant shall file the applicable tariff schedules under this Cause for approval by the Commission's Water and Wastewater Division. Applicant shall file its Phase 2 tariff prior to January 1, 2021. Phase 2 rates will be effective on that date if approved by the Commission's Water and Wastewater Division.
4. This Order shall be effective on and after the date of its approval.

**HUSTON, KREVDA, OBER AND ZIEGNER CONCUR; FREEMAN ABSENT:**

**APPROVED:**      MAR 11 2020

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

  
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Mary M. Becerra  
Secretary of the Commission